

**Portsmouth Water Limited**  
Annual Report & Accounts 2020



**Delivering excellence**  
for our customers, our people,  
the environment and the  
communities that we serve

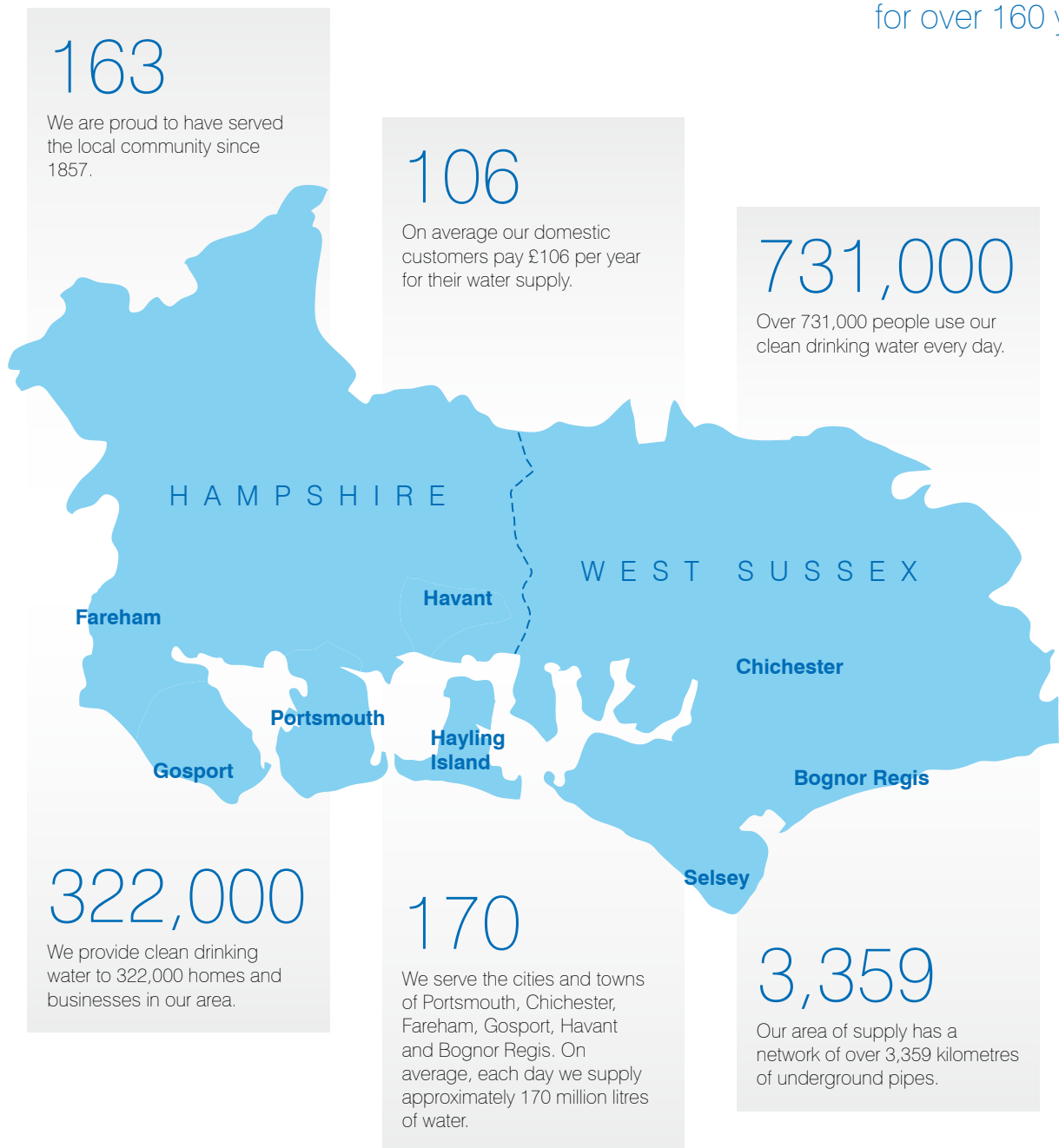


Our community team demonstrating how to use water wisely to a local Beaver Scout colony

# Portsmouth Water At A Glance



A local company  
with a proud history of  
serving our customers  
for over 160 years



## Highlights

- ▶ Lowest water bills in the industry with an average bill of £106, against an industry average of £186
- ▶ Highest SIM score for customer service in industry over AMP6
- ▶ RoSPA Order of Distinction Award winner for continuous high achievement in health and safety over sixteen years
- ▶ Conclusion of our PR19 Business Plan with Ofwat and planning for next AMP period
- ▶ Continued progress made with Havant Thicket Winter Storage Reservoir



## Turnover

£43.1m



## Cash generated from operations

£10.8m



## Capital expenditure

£19.7m



## Operating profit<sup>1</sup>

£8.1m<sup>1</sup>



## Loss before tax

£(1.3)m



<sup>1</sup>Operating profit before exceptional items relating to gain/loss on disposal of fixed assets and National Insurance costs relating to share proceeds and COVID related bad debt provision.



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Registered Office  
**PO Box 8**  
**West Street**  
**Havant**  
**Hampshire**  
**PO9 1LG**

# Chairman's Statement



**Mike Kirk**  
Chairman  
11 June 2020

I have great pleasure in presenting the Annual Report and Accounts for the final year of the 5 year PR14 regulatory cycle and my final year as Chairman. This has been a busy year with completion of the Business Plan, conclusion of the Final Regulatory Determination and delivery of key operational activities - including continued excellent customer service levels and achieving significant and sustained reductions in leakage.

This has also been a significant year of transition – to ready the business for delivery of the highly challenging 2020-2025 Business Plan and preparing for the successful delivery of a major regional water resource – Havant Thicket Winter Storage Reservoir project (HTWSR).

We are proud to deliver the best customer service in the industry whilst having the lowest household bill in the country. The Board, reflecting on the views of stakeholders, has updated the Company's "purpose" formally recognising the "community" aspect of our Company mission that had always been implicit – delivering excellence for our customers, our people, the environment and the communities that we serve. As part of this commitment we have developed the Company's Community Partnership.

## Facing the Challenges of COVID-19

Although the impacts of the COVID-19 pandemic were only just emerging as we ended the 2019/20 financial year it was clear that this would result in extensive operational challenges and adversely impact the finances of the business. As the provider of a key public service our overarching objectives are to maintain the provision of high quality water supplies to our customers whilst adhering to Government guidance.

We have acted swiftly, through our COVID-19 action plan, to implement new ways of working, with the vast majority of employees now working remotely to maintain social distancing requirements. We also suspended certain activities that could not be carried out safely. Our scale, and our committed

workforce, has allowed us to respond quickly and effectively to these emerging challenges and the same will apply when things start to return to normal.

We enter the 2020-2025 Regulatory period with limited headroom on financeability. This is likely to be reduced further as a result of the financial impact of COVID-19. This downward pressure is being mitigated by cost reductions and careful cashflow management in order to maintain compliance with our license obligations and existing covenants. This is discussed further as part of our Viability Statement and Going Concern conclusions.

I would like to take this opportunity to say how proud I am of how our people have risen to the significant challenges of the COVID-19 pandemic to ensure that we continue to deliver for customers and stakeholders.

## Our Values

Our values of Excellence, Integrity and Respect are deeply rooted and embedded in our company history and culture. We have always believed that a values-based culture empowers our people to "do the right thing" in delivering our essential services, taking care of our customers and supporting our local communities. This commitment to a values based culture is critical to our delivery of exceptional levels of customer service. I was proud to see that our 2019 staff survey showed that over 96% of people both understand what the values mean to them and believe they operate, at all times, in line with these values.

## Our Customers

We were delighted to continue our sector leading customer service performance being ranked first overall in the independent Service Incentive Mechanism (SIM) for the five year regulatory period. In addition, through the independent Institute of Customer Service, we have been awarded their prestigious 'ServiceMark'. Their annual Business Benchmarking survey gave a score of 82.7 for Portsmouth Water, which compares with their national survey results, where utilities averaged

72.1 and an all sectors an average of 77.1. This provides strong, independent evidence that our customer service rivals that across all sectors.

We have been pro-active in supporting our household customers impacted by the COVID-19 pandemic, by offering payment holidays and increasing the number of customers accessing our affordable "social tariff"; with the number of customers on this tariff increasing by over a quarter during the year to now stand at 8,400. Throughout the year we have also worked collaboratively with other utilities and support agencies to promote assistance for those with vulnerabilities – particularly important during these difficult times, including adding some 32,200 customers over the age of 70 to our Priority Services Register - this represents over 10% of our customer base.

We have also seen a strong performance in services levels with our developer customers, with the developer satisfaction survey showing 93% satisfaction. The initial pilot for the new Ofwat customer service measures for household customers "C-Mex", have also shown consistently strong performance with Portsmouth Water ranking 2nd in the industry.

## Our Communities

Supporting the local communities that we are proud to serve has been a long-term commitment for Portsmouth Water. The feedback from the extensive customer and stakeholder engagement that we undertook, through the PR19 Business Planning process, highlighted the high value placed upon this aspect. So we have strengthened our company purpose to reflect the strong community aspect of our business activities.

In parallel, the Board tasked our Young Person's Board to develop our social contract which we call the Community Partnership. This clearly establishes how we will work in partnership with our local communities and particularly how the whole process of developing and building the HTWSR project will have a community focus – in



**Updating of a Havant Thicket Winter Storage Reservoir information board**

understanding what our communities would like this resource to deliver, involving them in the process and leaving a leisure and wildlife haven as a lasting legacy for our local communities.

During the COVID-19 pandemic we have encouraged our people to support the community response through volunteering, we have developed new “home schooling” educational resources and delivered a new water supply to our local COVID-19 test centre free of charge.

**Our Infrastructure**

Over many years the Company has invested to improve the resilience of our network. A high degree of interconnectivity allows us to move water across our area of supply when needed and multiple water sources further increase resilience to enable us to manage the risk of loss of treatment works or infrastructure failures. However, we are never complacent about the importance of resilience and continue to invest in this important aspect.

This year we replaced or repaired 15km of pipes at a total cost of £4.4m. Of this 6.9km of new pipes were delivered. We have continued to focus on reducing leakage, investing £2.0m during the year to improve leakage detection. We delivered an 18% reduction in leakage during the year. We have used some highly innovative approaches including further developing our “smart network” capabilities and an innovative approach to leak detection on plastic pipes.

Through the development of the HTWSR project, we are making a significant long

term investment in the resilience and security of supply for the South East region as a whole. Essential planning and environmental mitigation work for this reservoir took place during the year with a total spend of £5m. We were also delighted that Ofwat approved the £123.6m investment for this project in our regulatory determination for the next 10 year period.

**Our People**

The commitment and dedication shown by our staff is the key reason that, as the smallest UK water company, Portsmouth Water remains one of the best all round performers. This was always going to be a busy year for our team, with the finalisation of and preparation for delivery of the PR19 Business Plan, completion of the current regulatory commitments, significant progress in the development of HTWSR and the start of the response to the COVID-19 pandemic. I would like to take this opportunity to thank our staff for all of their hard work and commitment and to say what a privilege it has been to work with them during my tenure as Independent Non-Executive Director and Independent Chairman.

The Board has also been through an extensive and rigorous process to appoint Christopher Deacon to the Board in preparation to take over the role of Chairman and work with the Company through the PR19 regulatory cycle. The Board and the senior leadership team welcome him to the business and look forward to working with Christopher to deliver the challenging 2020-2025 Business Plan – including the continued delivery of the HTWSR project – the largest single project in the

Company’s history and the first such project in the South East for nearly 50 years.

Health and Safety has been a long-standing Board commitment and I was delighted that the Company has been awarded the Order of Distinction by the Royal Society for the Prevention of Accidents for the first time. This award is given to organisations that have demonstrated consistent excellence in the area of Health & Safety for 15 years or more. The Order of Distinction Award acknowledges our achievements in the previous 15 years; winning ten Gold awards, five Presidents’ awards and an Industry Sector award. This is a tremendous achievement and a true testimony to the efforts that our people have shown to make it a safer place to work.

**Our Business**

We committed significant resources during the year to completing the PR19 regulatory business planning process. We were pleased to receive a final determination from Ofwat that included, as a separate price control, provision for the development of the £123.6m HTWSR project. This project has a 10 year price control which includes a mid-point review, to cover certain aspects such as cost of capital and a review of certain cost elements.

The final determination will result in an average bill of £102, which is 5% lower than our current bill level. We were pleased that our business plan showed we were the most efficient UK water Company and to be allowed additional headroom in TOTEX as a consequence.

I would like to take the opportunity to thank the teams from Portsmouth Water and our investor – Ancala – for their hard work and enduring support in completing this challenging regulatory review cycle.

**Our Environment**

The year began with the continuation of the dry weather trend experienced last year with below average rain fall from April to September. However, the particularly wet winter months reversed this position ending the year with significantly above average ground water levels. This means that we do not anticipate any water resources issues throughout this coming summer.

We are continuing to protect the water we have, as well as playing an important role, by developing new water resources, to support the increasing demand across the wider South East. Our work with farmers and landowners is helping them to understand the impact of fertilisers and pesticides on groundwater, and

## Chairman's Statement

through careful and continued management to reduce the need for expensive processes to be installed at water treatment works in the future.

The HTWSR project will allow us to transfer water to our neighbours, Southern Water, to allow them to supply customers in their west Hampshire zone in the event of prolonged dry weather. This means that Southern Water will take less from the environmentally sensitive rivers Test and Itchen. One of the most exciting aspects of the reservoir is the opportunity it to make a significant positive contribution to biodiversity in the area.

This year we have completed a comprehensive programme of activities on our own sites to promote biodiversity including; woodland management, the creation of bat roosts in an abandoned service reservoir and scrub clearance. In addition to this work and with the help of local communities, we have already planted over 3,000 saplings on the new HTWSR site. Through mitigation measures and the planned creation of a kilometre long wetland habitat, we are positive that the HTWSR project, when completed, will provide an overall net biodiversity gain for the area.

### Financial Results

The results for the year show an operating profit of £8.1m (2019 - £7.9m) before exceptional items.

Turnover of £43.1m (2019 - £42.2m) shows a £0.9m increase driven by a combination of new properties, increased measured demand and a modest tariff increase.

Operating costs increased by £0.8m as a result of a number of net movements, the most significant of which are as follows; higher infrastructure renewals costs £0.4m reflecting the mix of projects undertaken, higher staff costs by £0.3m, higher depreciation of £0.3m, incremental trade effluent charges of £0.2m and higher power costs of £0.1m offset by lower PR19 costs of £0.6m.

Consistent with 2018/19 an exceptional item of £2.4m (2018/19 - £2.4m) arose in relation to exceptional employer's NIC and related charges in connection with the distribution of the final tranche of sale proceeds to employees (see note 31). Net interest payable of £7.3m (2018/19 - £7.4m) fell slightly due to indexation which is based on the July RPI value of each year. In addition, a COVID-19 related bad debt provision of £1.5m has been included in exceptional items. This represents

the estimated additional exposure to bad debt as a result of the current circumstances.

The significant increase in gross capital expenditure of £19.7m (2018/19 - £14.8m) reflects, the activities explained under "Our Infrastructure" above. Within the year spend on the HTWSR Project accounted for £5m of additions as work on the project continues. £1.9m has been spent on Contact Time improvement projects at our water treatment sites in order to comply with our new disinfection policy. An additional £1.3m was spent on investing and refurbishing existing treatment works to ensure they remain reliable and resilient. A further £1.6m of costs have been incurred on the Eel screening project and creation of a second pipe crossing at the River Wallington. This is in accordance with the new Eels Regulation enforced by the Environment Agency.

### Cash Flow

Cash generated from operations of £10.8m (2019 - £9.8m) remained consistent with long term out-turn. The significant £3m increase in spend on purchase of tangible fixed assets was offset by a higher level of borrowing under the revolving credit facility of £20m (2019 - £10m), resulting in a higher level of headroom in the loan interest cover ratio.

### Gearing

Gearing has been calculated on both an adjusted and unadjusted bases to reflect the atypical cash held at the year end of £8.7m (2019 - £9.0m) in connection with the distribution of proceeds from the sale of the business (note 31).

	2019/20	2018/19
	£m	£m
Adjusted	<b>65.8%</b>	60.3%
Unadjusted	<b>71.5%</b>	66.3%

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 1.59 times (2019 - 1.54 times) remains comfortably above that required for the covenant of > 1.4 times. At 6.62% Return on Regulatory Equity (RoRE) is consistent with expected out-turn.

Following the final regulatory determination, we enter the next financial year with significantly tighter headroom in terms of financeability. This will require us to deliver material levels of cost saving and we have prepared for this during the 2019/20 financial period.

However, the full impact of the COVID-19 pandemic upon the business – and the wider economy – is unlikely to become apparent for some time.

We have already seen some impact upon the 2019/20 financial results, primarily relating to reduced Non Household revenue and a significant, incremental, bad debt provision of £1.5m. We have undertaken extensive financial modelling of different COVID-19 financial scenarios. In all cases will need to take mitigating steps to reduce the impacts we are likely to see, such as reduced revenue from commercial (non-household) customers and higher levels of bad debt from household customers. We have provided more detailed information on the impact of COVID-19 under "The issues that affect us" together with the Viability Statement and Going Concern.

In conclusion I would like to say what a pleasure it has been to work with Portsmouth Water. I wish the business and everyone within it well and I am convinced that it will rise to the new challenges of the next regulatory period. I wish Christopher Deacon every success in leading the Board in this next, exciting chapter, of Portsmouth Water's history.





Tree planting with a local school at our Havant Thicket Winter Storage Reservoir site

## Strategic Report

# Our Company Purpose

## “Delivering excellence for our customers, our people, the environment and the communities that we serve”

Our Board takes overall responsibility for developing the Company Purpose - including the strategy, objectives, values and culture that the business needs to deliver this successfully.

The Company Purpose, together with the underlying strategy and objectives, is periodically re-assessed and revised by the Board to make sure that it continues to reflect the needs of our customers and stakeholders. This took place as part of the development of the regulatory Business Plan for 2020-2025 and the longer term vision beyond that.

In developing the Business Plan and Company Purpose we undertook significant engagement activities, with both customers and wider stakeholders. The Board was closely involved in understanding the approach to, and results of, this engagement. It took overall ownership for ensuring that the results of this engagement were appropriately reflected in the Business Plan and Company Purpose together with the strategy, objectives, values and culture needed to deliver for customers and stakeholders. As a result of this we updated the underlying business objectives for the next regulatory period 2020-2025 (known as 'outcomes') as set out below;

### Our Outcomes:

**Safe, secure and reliable supply of drinking water**

**Long term resilience of supplies for our customers and to support the South East region**

**Low leakage**

**A service tailored to individual needs at an affordable price**

**An improved environment supporting biodiversity**

**Being recognised by the community as a good Corporate Citizen**

**Recognised by stakeholders as having a culture of Health & Safety through all of our activities**

The Board noted, in particular, the strong support across customers and stakeholders alike for our 'community driven' focus, particularly where we go beyond our statutory duties. Whilst Portsmouth Water has long been recognised as a business which cares about and supports our local communities we explicitly updated our Company Purpose to reflect this important aspect. In parallel our Young Persons Board was asked by the Board to develop the Portsmouth Water Community Partnership.

The Board puts great emphasis in ensuring our business has the right values and culture - which are aligned to the Company's Purpose. Indeed we recognise that our values driven approach empowers staff to 'do the right thing' and is a strong contributor to the consistently high levels of customer service we deliver. The Board also seeks the views of customers and stakeholders, with particular emphasis on independent assessments such as the Institute of Customer Service 'ServiceMark' accreditation and staff views through regular surveys. Where there is evidence of any misalignment of values and behaviours, the Board acts to correct this, through the executive team. We explain more about our Company values under 'Our People'.

## Strategic Report

# What We Do





**We use a combination of natural resources, technology and a motivated and committed workforce to supply high quality drinking water at the same time providing excellent levels of service for our customers at the lowest price in the country.**

Our principal business activity is the supply of drinking water to both domestic (household) and commercial (non-household) customers. Through the development of the Havant Thicket Winter Storage Reservoir (HTWSR), which will enable additional water supplies to our neighbour, Southern Water, we will also become a key provider of regional water supplies. Since April 2017, we no longer bill or handle non-emergency contacts from non-household customers as these retail services were opened to competition and we decided not to be a retailer to this group of consumers. The supply of water is a closely regulated industry. We talk about our regulators on page 31. Portsmouth Water operates as a water supplier under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991.

We collect water from the environment, make it safe to drink and distribute it to our customers. Our business process is broken down into four main areas and we have explained this further below.

Portsmouth Water provides water to 306,000 homes and 16,000 businesses in an area of 868km<sup>2</sup> extending from Fareham in the east of Hampshire to Littlehampton in West Sussex. Our area of supply covers the major conurbations of Portsmouth, Fareham, Gosport, Bognor Regis, Havant and Chichester. A map showing the area of distribution is set out on page 1.

The Company's water is mainly drawn from the chalk of the South Downs and is abstracted from wells, boreholes and springs. We also abstract surface water from the River Itchen. We treat this at our 21 treatment works located throughout our supply area. Further information about our water resources is set out in page 22 under "Our Environment".

			
<p><b>Water resources</b></p> <p><i>Wholesale Service</i></p>	<p><b>Water treatment</b></p> <p><i>Wholesale Service</i></p>	<p><b>Treated water distribution and supply</b></p> <p><i>Wholesale Service</i></p>	<p><b>Customer services</b></p> <p><i>Retail Service</i></p>
<p>We take water from natural springs, boreholes and rivers. We make sure that we have enough water for you to use, but taking care not to damage our environment. We invest in supporting the local environment.</p> <p>Once complete, the HTWSR will be used to store surplus winter water and enable year-round additional supplies to our neighbour, Southern Water.</p>	<p>We filter and disinfect it so that the water is safe to drink. We perform numerous quality checks in our laboratory to make sure that our water meets all of the drinking water standards. We invest in new equipment and technology to do this efficiently and effectively.</p>	<p>We move the water through our underground network of pipes to you. We continue to check the quality until it gets to your tap. We take care to repair leaks and deal with bursts quickly so that you always have water.</p>	<p>Since April 2017 we only provide retail services to our household customers. Retail activities include sending out bills, taking payments, reading meters (if you have one) and dealing with any other questions or problems that household customers have. We do our best to make sure that we get things right and say sorry, and put them right, if we don't.</p>

### The Regulatory Price Review

With the exception of non-household retail services, the water industry in England and Wales is, currently, a monopoly business. Accordingly the prices that we may charge our customers for water (and related services) are set and regulated by Ofwat, the industry's Economic Regulatory Body. The primary way that Ofwat financially regulates water companies is through a five yearly review commonly known as the "Price Review" ("PR"). Through this process companies set out in their "Business Plan" what they expect to spend on the services that we supply to our customers. This includes elements such as the cost of customer service, investment in capital schemes (fixed assets) and meeting all of the other legal and social obligations. As a result of this process Ofwat sets revenue limits for each company and this, in turn, determines the bills that customers pay.

This was the last year of the current five year regulatory period. A significant activity during 2019/20 has been the finalisation of the Business Plan for 2020 - 2025, together with preparing the business for delivery of the new, challenging, outcomes and performance levels needed to deliver this plan.

## Strategic Report

# Our Strategy

Our business Outcomes form the backbone of our strategy. As a business we align our day to day activities closely to these and monitor them using a set of key performance indicators (KPIs). Many of these KPIs also form the basis of rewards and penalties which are part of the quinquennial price review process with Ofwat (the ODIs). We monitor and manage our significant business risks against our ability to achieve the Outcomes. This report sets out our business Outcomes for the regulatory period 2015-2020. We have summarised how these elements align below;

Outcomes 2015-2020	How we are delivering
<b>OUR CUSTOMERS</b>	
<p><b>Safe secure and reliable drinking water</b></p> <p><b>High quality service</b></p> <p><b>Support the Community</b></p>	<ul style="list-style-type: none"> <li>• A comprehensive water quality testing programme in accordance with Drinking Water Inspectorate requirements</li> <li>• A dedicated catchment management programme team and activities to protect the quality of our water sources</li> <li>• Investment in schemes to improve water quality and reliability such as new UV treatment plants</li> <li>• Review of our water resources to determine whether we have sufficient water for the next 25 years</li> <li>• Careful monitoring of our mains network, a programme of mains renewals and management of bursts and leakage</li> <li>• A focus on excellent customer service including a culture of excellence</li> <li>• Treating all non-household retailers identically in accordance with our Compliance Code so that no commercial customers are disadvantaged because of the retailer they choose</li> <li>• Telephone calls are handled locally and in person</li> <li>• Supporting vulnerable customers through a number of schemes and services</li> <li>• Working closely with local schools and actively supporting local education activities</li> </ul>
<b>OUR PEOPLE</b>	
<p><b>A Health, Safety and Wellbeing Culture</b></p>	<ul style="list-style-type: none"> <li>• Driving a culture of health, safety and wellbeing in everything we do</li> <li>• Ensure the safest possible environment for employees, visitors and the general public</li> <li>• Risk assessments for employees and public safety on every job we undertake</li> <li>• Invest in our people by supporting ongoing professional development, education and training</li> </ul>
<b>OUR ENVIRONMENT</b>	
<p><b>Less water lost through leakage</b></p> <p><b>An improved environment supporting biodiversity</b></p>	<ul style="list-style-type: none"> <li>• Investment in an enhanced programme of leakage monitoring, leak detection and repair</li> <li>• Completed our agreed Biodiversity Action Plan during 2019/20</li> <li>• Promotion of water efficiency through advice to customers, water saving devices, smart metering trials and community events</li> <li>• Development of our Catchment Management team and programme</li> <li>• An active programme to promote meters to our customers and experiments in metering 'not for revenue'</li> <li>• Deliver environmental improvements required under the National Environment Programme</li> </ul>
<b>OUR BUSINESS</b>	
<p><b>A business which is financeable, provides a stable return to Shareholders and has financial resilience</b></p>	<ul style="list-style-type: none"> <li>• An effective corporate governance structure</li> <li>• Operation of effective financial processes and internal controls</li> <li>• Close monitoring of budget and out-turn performance against KPIs and key ratios (for covenants and rating agencies)</li> <li>• A sustainable dividend policy</li> </ul>

During the year the Company concluded the Business Plan for the next regulatory period 2020-2025. As a result of this the business Outcomes were updated to reflect revisions and changes in emphasis within our overall business strategy - the most significant of which relates to the development of a new regional water resource at the Havant Thicket Winter Storage Reservoir. These updated, 2020-2025 outcomes, are set out on page 8.

Key Performance Indicators (pages 12 to 13)	Risks (pages 38 to 39)
<ul style="list-style-type: none"> <li>• Water quality standards</li> <li>• Water quality contacts</li> <li>• Burst pipes</li> <li>• Interruptions to supply</li> <li>• Service Incentive Mechanism</li> <li>• Guaranteed Service Standards</li> </ul>	<ul style="list-style-type: none"> <li>• Operational</li> <li>• Water Quality</li> <li>• Business Continuity</li> <li>• IT</li> </ul>
<ul style="list-style-type: none"> <li>• RoSPA accreditation</li> <li>• Health and Safety "reportable accidents"</li> <li>• Health and Safety "total accidents"</li> <li>• Employee absence</li> <li>• Headcount</li> </ul>	<ul style="list-style-type: none"> <li>• Human Resources</li> <li>• Health and Safety</li> </ul>
<ul style="list-style-type: none"> <li>• Leakage</li> <li>• Per capita consumption</li> <li>• Temporary water usage bans</li> <li>• Biodiversity Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental</li> </ul>
<ul style="list-style-type: none"> <li>• Operating profit</li> <li>• Cash Interest Cover</li> <li>• Gearing (Net Debt: RCV)</li> <li>• Regulatory Rewards and Penalties (ODIs)</li> </ul>	<ul style="list-style-type: none"> <li>• Financial</li> <li>• Regulatory</li> <li>• Legal and Governance</li> <li>• Competition</li> <li>• IT</li> </ul>

## Strategic Report

**How We Measure Success**

KPI	Definition
<b>OUR CUSTOMERS</b>	
<b>Water quality standards (Mean Zonal Compliance) *</b> (Calendar year)	This is the average percentage pass rate of the compliance samples for the 39 standards tested. This is reported to the Drinking Water Inspectorate. This is known as Mean Zonal Compliance.
<b>Water quality contacts *</b> (Calendar year)	A measure of customer contact for taste, odour, discolouration and illness calculated as the number of contacts per 1,000 population per annum.
<b>Bursts *</b>	The number of burst mains calculated in accordance with Ofwat guidance. Defined in number of incidents per annum.
<b>Interruptions to supply *</b>	Average time of supply interruption per property (includes both planned and unplanned interruptions).
<b>Guaranteed Service Standards</b>	A scheme for our customers which puts in writing the minimum standards we aim to meet. If we fail to meet the standards we pay compensation.
<b>OUR PEOPLE</b>	
<b>RoSPA accreditation *</b>	The Company will apply for its Health and Safety accreditation annually.
<b>Health &amp; Safety Reportable accidents</b>	An absence of more than 7 days as a result of an injury at work and reportable to the HSE. (RIDDOR)
<b>Health &amp; Safety Total accidents</b>	All accidents including reportable accidents but excluding vehicle accidents.
<b>Employee absence</b>	The number of days absent from work per person.
<b>Headcount</b>	The number of staff employed by the Company.
<b>OUR ENVIRONMENT</b>	
<b>Leakage *</b>	The total level of leakage, including customer supply pipe leakage, as measured on an annual average mega litre per day (Ml/d) basis.
<b>Per Capita Consumption *</b>	The weighted average water consumption per household customer served calculated from the number of measured and unmeasured households.
<b>Temporary Usage Bans *</b>	Introduction of water restrictions in accordance with the Company's approved drought plan.
<b>OUR BUSINESS</b>	
<b>Operating Profit<sup>1</sup></b>	Financial measure in accordance with UK accounting standards being turnover less operating costs.
<b>Cash interest cover</b>	The ratio represents the number of times that adjusted cash flow covers interest payment. A detailed calculation is included in Appendix I.
<b>Gearing (Net debt: RCV)<sup>2</sup></b>	The ratio of Net Debt (loans and debentures less cash) to RCV. A detailed calculation is included in Appendix I.
<b>Return on Regulatory Equity (RoRE)<sup>3</sup></b>	The % return (and adjusted profit based measure on the equity component of RCV). The equity input is derived by applying the inverse of the gearing ratio to RCV. A detailed calculation is included in Appendix I.

**Biodiversity Action Plan**

The Company has completed its five year programme and it has been signed off by our Customer Challenge Group.

As a business we focus on a range of operational and financial key performance indicators ('KPIs') to help us assess and monitor our performance. We believe that the KPIs, summarised below, provide a balanced view of how we are performing against both our business Outcomes (2015-2020) and our overall long term business vision. These KPIs align closely to our Outcomes and cover the key areas of our business operations and activities. They also cover the range of interests of our different stakeholders. A number of the KPIs are also linked directly to financial rewards and penalties built into the Ofwat regulatory framework through the Outcome Delivery Incentive Mechanism (ODI's').

2019/20 Target	Our performance				2019/20 target met?
Financial year	2019/20	2018/19	2017/18	2016/17	pages 14 - 15
100.0% (Calendar year)	99.93%	99.96%	99.93%	99.99%	
< 0.413 contacts per 1,000 population (Calendar year)	0.395	0.438	0.549	0.665	
< 250 - 435 bursts per annum	255	347	347	298	
< 6 minutes	3 mins 22 secs	3 mins 54 secs	4 mins 7 secs	4 mins 9 secs	
< 180 payments	361	45	155	221	
Calendar year	2019	2018	2017	2016	pages 16 - 17
RoSPA awarded	Awarded	Awarded	Awarded	Awarded	
0 accidents	1	3	0	1	
< 12 accidents	5	8	6	5	
< 2.5 days	✓	✓	✓	✓	
266 staff	262	264	261	255	
Financial year	2019/20	2018/19	2017/18	2016/17	pages 20 - 25
< 29.8 MI/d	23.6 MI/d	28.1 MI/d	32.9 MI/d	30.4 MI/d	
< 144 l/h/d	153.6 l/h/d	153.2 l/h/d	147.6 l/h/d	145.1 l/h/d	
0 bans	0	0	0	0	
Financial year	2019/20	2018/19	2017/18	2016/17	pages 26 - 27
On budget	£8.1m	£7.9m	£6.4m	£5.6m	
> 1.40	1.59	1.54	2.20	1.44	
< 80%	71.5%	66.3%	63.6%	68.6%	
> 6.0%	6.62%	6.06%	7.03%	7.5%	

\* These measures are also part of the Ofwat Outcome Delivery Incentive Mechanism.

Footnote<sup>1</sup>

Operating profit before exceptional items relating to gain/loss on disposal of fixed assets and National Insurance costs relating to share proceeds and COVID related bad debt provision.

Footnote<sup>2</sup>

Adjusted to remove transaction related cash held (note 31 and Appendix 1)

Footnote<sup>3</sup>

Calculated using adjusted gearing per footnote 2

## Strategic Report

# Our Customers



We are proud to be a member of the Institute of Customer Service



### **Our Values – Doing the right thing for our customers**

Our Company values of “Excellence, Respect, Integrity” are central to delivering the best possible levels of service to our customers every day. We believe that these values create a great customer service culture and empower our people to “do the right thing” for our customers. We talk more about this under “Our People”.

We think about our customers individually but also, collectively, in the communities that we serve. As a small local company, we have long been recognised as being connected to our customers and driven by what is important to them – both our essential services and our wider social purpose. Recognising the increasing importance of having a clear social purpose, during the year we formalised this in our Community Partnership.

Although the possible impacts of the global COVID-19 pandemic, only became apparent in the final days of the current financial period, we acted quickly – maintaining our customer focus – to ensure that we maintained essential services for our local communities. We talk more about this on pages 35 to 36.

### **Customer Service Levels**

A strong service ethos is at the heart of our business. We expect to deliver high levels of customer service that stand up well not only within our industry, but also against wider comparison. We are mindful that we must not abuse our privileged position of being a monopoly supplier.

Within the water industry, customer service and experience has been measured and compared via the Service Incentive Mechanism (SIM). For the next Price Review period Ofwat have replaced SIM with the Customer Measure of Experience (C-MeX). 2019/20 was therefore a trial year for C-MeX and we are pleased to report we were ranked 2nd in the industry.

The number of complaints per 10,000 connections is 11.0. When a complaint has passed through our two-stage complaints procedure, if the customer is still dissatisfied, he or she can ask the Consumer Council for Water (CCW) to review their complaint and ultimately can take it to be reviewed under the Water Redress Scheme. During the year, no complaints were escalated to either CCW or the Water Redress Scheme.

In 2018/19 our complaints per 10,000 connections was the second lowest in the industry.

We achieve a wider service comparison through our membership of the Institute of Customer Service. The Institute has over 450 members in the United Kingdom, representing a broad cross section of sectors. In 2019, we improved our score in the Institute's customer and staff surveys such that we were awarded their prestigious ServiceMark. We are particularly pleased to note the strong trust score that customers awarded us, especially given criticisms that the industry as a whole has faced during the year.





### Affordability and Vulnerability

We have the most affordable bill in the industry, with our average bill in 2019/20 being £106, against an industry average of £186 and the next lowest to ours being £140. Customer research undertaken in the year has shown 'affordability for all' as a strong customer theme, albeit that our customers also support additional help for those customers struggling the most to pay.

Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £81.14 for the 2019/20 billing year. Numbers supported have grown from 5,200 in March 2018 to over 6,800 in March 2019 and 8,400 in March 2020.

We are investing in our people and are working hard to build relationships with outside organisations to allow us to better understand and deal empathetically with customers who are vulnerable. We are actively engaging with local authorities, housing associations, Citizen Advice Bureaux, charities and directly with vulnerable customers.

### KPI Performance

Set out on pages 12 and 13 are the key performance indicators that we use to help us manage the business. Disappointingly, we have failed to meet 4 of these measures.

### Mean Zonal Compliance

Unfortunately the Company failed to meet the mean zonal compliance (MZC) measure of water quality. The overall results of this measure were disproportionately impacted by one nickel failure as a result of a new kitchen

tap being sampled and a lead failure as a result of lead in the customer side supply pipes. Accordingly we do not feel that this is a fair representation of the Company's overall performance. We support the development of the new measure of water quality compliance, the Compliance Risk Index, as we feel that the impact of the type of failures experienced will more accurately reflect the quality of the water delivered to customers.

### Per Capita Consumption

This measures household water usage which, itself, is heavily influenced by the weather (and in particular summer usage). 2019/20 was generally a normal year in terms of rainfall and the Company fully met customer demand without imposing any restrictions such as hose-pipe bans. PCC was 153.6 l/h/d. Our target is set relative to a "normal" year and our actual performance is heavily influenced by weather.

### Reportable Accidents

During the year we had one RIDDOR "reportable" incident (an accident that has caused a person to be off work for more than 7 days). Following this we reinforced key Health and Safety messages and training. This included bulletins dealing with the incident and relevant learning points. No further incidents arose following this response.

### Guaranteed Standards Scheme

We are legally required to pay customers compensation where we do not meet the prescribed standards. This includes not responding to customer letters, not informing them that their supply may be interrupted as we work on the network and compensation if we miss an agreed appointment. In the year we incurred a significant number of payments as a result of one event relating to a burst water main.

### Non Household performance success

Performance of trading parties in the business retail market is measured against 19. Market Performance Standards (MPS) and 22. Operational Performance Standards (OPS). We made significant improvement in both MPS and OPS metrics in 2019/20. Our MPS performance was 93.8%, an improvement of 19% from 2018/19. Our OPS performance was 97.8%, an improvement of 8.6% from 2018/19.

We have also collaborated with retailers and made good progress in reducing numbers of long unread meters.

We were not subject to any Initial Performance Rectification plans during the year.

### Water Quality Contacts

This is the measure of the number of times that customers contact us with queries connected to water taste, odour, discoloration or illness. This is calculated as the number of contacts per 1,000 population served and reported annually (for the calendar year) to the Drinking Water Inspectorate. We set ourselves a challenging target of less than 0.412/1,000 population served. We showed significant improvements in relation to this challenging target and met it this year having achieved 0.395/1,000. Despite this performance we failed to meet the overall target for the average over 5 years, but still delivered a 5 year level of performance significantly better than the industry average.

### Leakage

We realise that leakage is an important priority for many customers and have invested significantly in leak detection and repair activities over recent years. As a result, we have reduced leakage to 23.6ml per day in 2019/20 a reduction of 4ml/d relative to 2018/19 and outperformed our regulatory target for 2019/20 by over 6 ml/d. We have installed new technology in our network of over 3,550km mains to help us identify and locate leaks quickly. This has resulted in us now having an industry leading level of leakage at just under 75 litres per property per day. We are well placed to continue this improvement in the next five year period, where we plan to reduce leakage by a further 20%.

### Interruptions to supply

The Company continues to have one of the best levels of performances in the industry for interruptions to supply for customers. At an average of 3 mins 22 per property, this is our best performance in the last five years and is one of the best performances in the industry. Our network has been designed so that water can be quickly fed to customers using different pipes in the event of a burst on their normal supply. This allows us to keep the impact to customers of any burst in our pipes to a minimum. We also consider carefully the impact on customers when we plan essential work. In many cases we provide temporary supplies to customers whilst we undertake work on our network. We continue to explore the use of new technology to make repairs to our network, so that customers are not impacted by any failure.

# Strategic Report

## Our People



### Investing in our future

We are firmly committed to the development of our staff such that they all have the opportunity to reach their full potential and as a result we fully support those wanting to undertake further education such as degrees, apprenticeships and relevant professional qualifications. Over 40% of our people have undertaken further formal qualifications supported by the Company.

We are also working to improve diversity of the business "bottom up", supporting the development and progression of staff in order to improve the overall diversity of our pipeline of managers and directors of the future.

### Values driven

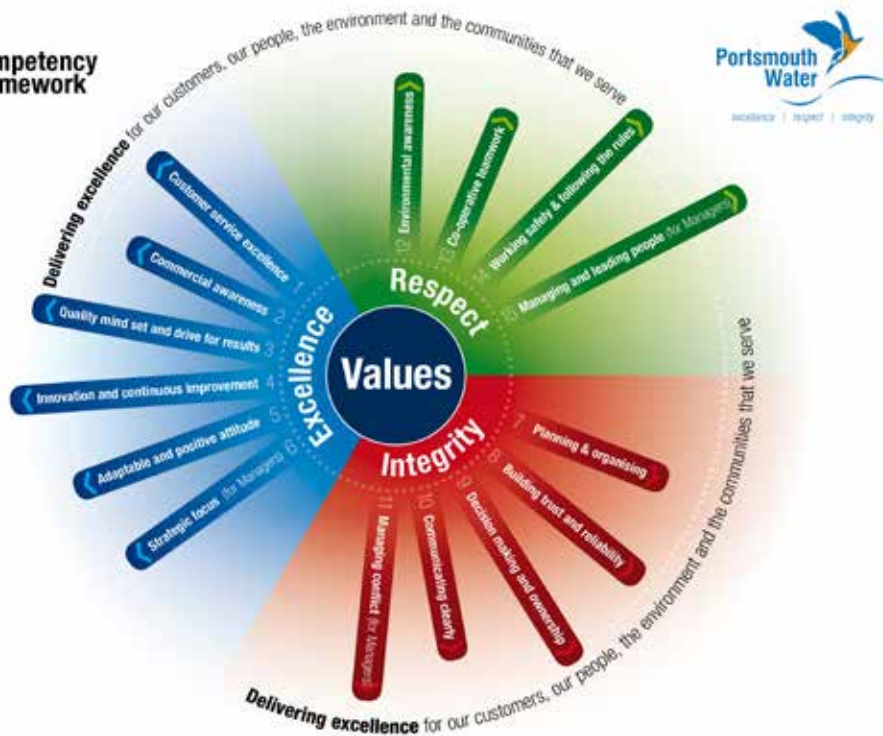
Everything we do in our Company is driven by our values;

- Excellence
- Respect
- Integrity

These are at the heart of the corporate culture and informed by our behaviours - leading from the top down. The Board supports and reinforces these values through the ways that we do business, how we deliver for customers and how we interact with our stakeholders. The Board monitors how our people "live" these values and, through the actions of the executive team, acts to address behaviours inconsistent with them.

Our staff development and appraisal system, and the competencies which are its foundation, are aligned to these values. This enables us to maintain close alignment between values and behaviours shown in the business and to encourage and reward the right behaviours. We believe that the high levels of customer performance achieved by the business evidences how we consistently apply the Company's values.

### Competency Framework



## Health and Safety Conference

2019 year saw us deliver our first ever H&S Conference for staff. The Conference focused on the theme of 'behavioural safety – good behaviours/attitude'.

The conference was:

- Attended by the majority of staff – morning and afternoon sessions held
- Built around a theme of "stay alert don't get hurt"
- Self-created "App" to engage staff during the conference – and to challenge those that attended
- Key note speaker told the story of his construction company and how he lost his two brothers and his two best friends in an accident on site. The "very powerful" story focussed on the consequences and impact post-accident rather than on the causes of the accident itself. How it impacted family, friends and has had an impact on his life still today.

Feedback from attendees included:

- "Very informative with a powerful third speaker"
- "Interesting conference covering different areas of Health and Safety, with a powerful story"
- "Very interesting and well run"
- "Very compelling listen with aim to challenge the behaviour of our own Health and Safety in the work place"
- "Powerful story with good informative information, relevant to our business"



**Health and Safety**

Health and Safety continues to be our top priority within Portsmouth Water and our focus on this area is maintained by openly sharing information on accidents and near misses inside and outside the Company, via an ongoing programme of Company-wide campaigns and initiatives and through our extensive staff training and development plans.

These actions have enabled the business to record a dramatic fall in the number of accidents over the last 10 years clearly illustrating the emphasis and priority given to Health and Safety at Portsmouth Water.

A highlight for the year was our first ever Health and Safety conference – which was based around the theme of Behavioural Safety. The conference was delivered by an impressive panel of internal and external speakers and was arranged by our very own Health and Safety Awareness Group. This is a group made up of volunteers from across the business working together to maintain high levels of Health and Safety awareness and knowledge. The conference was a resounding success with impactful presentations and very personal stories that the attendees will not forget.

We have also over the last year incorporated Wellbeing into our approach to Health and Safety. This is a very important area of evolving and developing knowledge and in future we will be promoting the wellbeing of all employees with the same vigour and determination we have shown for the mainstream Health and Safety activities.

**Mental Health and Wellbeing**

October saw us promote World Mental Health Day. The day included:

- A short video from Helen Orton (Finance Director) talking about the importance of good mental health and the impact good leadership has on this
- Circulating the Black Dog video about

depression and highlighted our “Good 2 Talk” approach to mental health and well-being

- Launching our initiative to “train up” a number of employees next year to become Mental Health and Wellbeing Champions

As stated above the event was used to launch our Mental Health & Wellbeing Champions. This was done in partnership with Havant and East Hants Mind. A number of employees received training to become Champions across the workplace. The aim was to have Champions spread across and representing all parts of the business.

The role of the Champion includes:

- Increasing basic awareness of mental health
- Providing advice on sign posting people to appropriate sources of help, either informal or professional
- Being a positive role model and helping to normalise conversations about Mental Health

**Young Persons Board**

2019 saw the formation of our very first Young Persons Board. The YPB is representative of all sections of the workforce creating a collective forum for new ideas. It is an important part of how we engage with the workforce. The YPB is self-driven and is an entity within the business in its own right. The YPB gets full support from the business in terms of time, administrative support and of course the support of the Main Board and Senior Managers.

The first task of the YPB was to develop our social contract which we call our Community Partnership pledge.

**Employee Satisfaction Survey 2019**

We believe it is very important in order to deliver our vision of “delivering excellence for our customers, our people and our environment” that our people are happy and proud to work for Portsmouth Water. As a business we are committed to ensuring we all

operate in a positive working environment so that everyone who works for Portsmouth Water feels both valued and fully understands their contribution to the business.

To help us understand how employees feel we carry out an annual employee survey. We have done this for a number of years and the results have told us a great deal in terms of whether we are 'getting it right'.

Recent results have showed as a business we have improved in this area year on year. 2019 saw the results of the survey produce very positive results with highlights such as:

- 96% are proud to work for Portsmouth Water
- 68% feel valued by the Company
- 80% are happy with their development opportunities
- 96% say they work at all times in line with our values of Excellence, Respect and Integrity

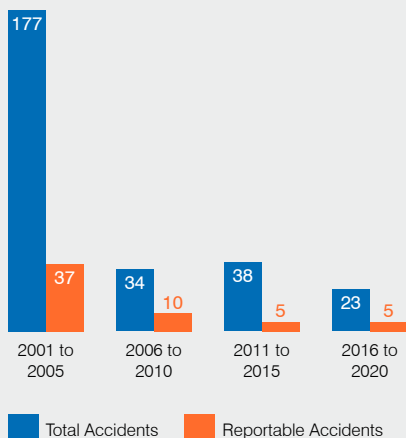


**RoSPA 2020 Order of Distinction**

We were awarded the RoSPA Order of Distinction Award for the first time. This Award is part of the RoSPA prestigious awards scheme and is given to organisations that have demonstrated consistent excellence in the area of Health & Safety for 15 years or more. The Order of Distinction Award acknowledges our achievements in the previous 15 years; winning ten Gold awards, five Presidents’ awards and an Industry Sector award. This is a tremendous achievement and a true testimony to the efforts that everyone in the Company has put in to make Portsmouth Water a safer place to work.



**Total and Reportable Accidents**



**Number of Accidents in 2019**

We measure the number of accidents through a calendar year. 2019 saw a single reportable accident for the year. A reportable accident means someone has been injured enough to be off work for over 7 days.

Overall there were five accidents during the year including the reportable accident. The graphs below show how far we have progressed in making the Company a safer place to work.

A positive measure of the impact H&S has had on our people is that, in the 2018 staff survey, 98% said they felt safe at work whilst 87% said they are more safety conscious away from the workplace as a result of the Company’s approach to Health & Safety.

## Strategic Report

## Non-regulated Business

### Development of our non-regulated Business

Revenue, generated from business activities which are not monopoly services (ie not regulated by OFWAT) has received additional focus this year, with the appointment of a new Commercial Director in July 2019. In particular, four new initiatives are now operating under contract with Portsmouth Water – all are designed to complement the services we deliver to customers in the regulated part of the business. Our focus is to identify and work with companies who uphold our values and ethos whilst providing excellent services that our customers genuinely need. Each of the four companies detailed here provide something extra for our customers. Non-regulated income currently represents a small proportion of total income at £0.2m (2019 - £0.2m).



Portsmouth Water's Network team receives regular requests for details of our underground asset maps from a range of organisations, including other utilities, developers and local councils, all of whom may be digging or operating machinery near to or above our underground pipes. This information needs to be delivered as quickly and accurately as possible to prevent damage to pipework and to reduce Health and Safety risks and hazards.

Portsmouth Water have teamed up with 'LineSearchBeforeUDig', who provide real time asset information, online via a secure portal to a wide range of different utility companies. They were chosen as our partner specifically due to their excellent customer service and because they already work with Scotia Gas Networks (SGN) and Scottish and Southern Energy Networks (SSEN) who manage the gas and power networks across the Portsmouth supply area. This means that any organisation wanting to locate underground assets can now get access to important utility asset information simultaneously for several utilities, from the same source.

This partnership improves the speed of service for customers, reduces overheads and provides for opportunity for increased revenue by providing asset data maps to other, non-utility companies who have to pay for access to the site. Initial results are encouraging with a fourfold increase in demand for asset data from previous levels of activity.



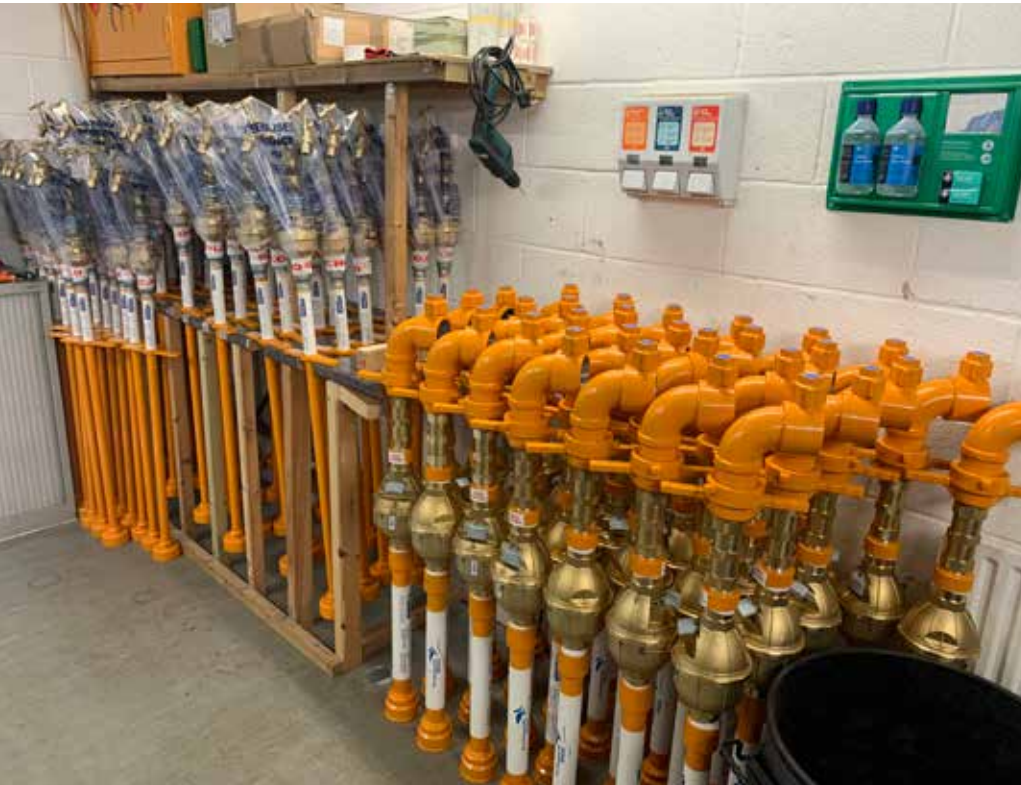
### HomeServe partnership

The majority of English and Welsh water companies already offer some form of emergency plumbing and drainage cover for their household customers. Having previously offered these services until 2006, we decided to re-enter this market, working with an established existing national provider. Following a tender process, HomeServe were chosen as the most suitable partner for Portsmouth Water.

HomeServe are entirely focussed on delivering customer satisfaction, with an excellent TrustPilot score (4.4/5) and a very good CSI customer satisfaction score (75.1). They

currently work with 13 water companies across England and Wales (Portsmouth Water is their 14th) and in the last year, their 2m customers (who hold a total of 5.4m policies) had over 1 million repairs completed for them.

The service offers an insurance backed, plumbing and drainage service that provides peace of mind and high quality repairs and maintenance for our customers. Responses from the initial marketing activity have been very positive with the first 500 of over 30,000 expected policy holders recruited in the first few months of operation.



## CON29DW DRAINAGE AND WATER ENQUIRY

An established element of all residential and commercial property conveyancing is the standard drainage and water report, requested by solicitors and used by homeowners and mortgage lenders for due diligence and to protect both from the potential of unexpected problems. It remains the sewerage undertakers' responsibility to compile and provide these reports, requesting data from water only companies, where a property is served by two different organisations.

This year has seen a new arrangement with Southern Water whereby Portsmouth, in return for a larger fee, compiles the 'water' part of the report including responses to standard enquires for each property as well as providing the necessary map showing underground assets at the property and surrounding area.

This new arrangement provides a significantly enhanced user experience as we are now able to use the knowledge we have of our network to provide clearer responses as well respond more quickly to queries, providing a better first impression to those buying property in our region – who will ultimately become our customers.

## Aquam Partnership

The provision of stand pipes is an important part of our service to gardeners, street cleaners and a host of other service based organisations who need to access to our water from a range of different locations across the area of supply, safely and hygienically. The solution is the rental of special equipment that can tap into the network at one of our 8,000 hydrant and washout locations, access water safely and capture data on the amount of water used.

Historically this activity was carried out by Portsmouth Water staff and the task of maintaining the equipment, invoicing and cash collection was all undertaken in house.

By partnering with Aquam's Water Services division, Portsmouth Water has removed this significant administrative burden and provided the opportunity for an entirely new set of standpipes to be brought into service (shown here) – each fitted with a GPRS tracker which means that data on where and when each hydrant is used is now available as well as the amount of water used to ensure timely and accurate billing.



# Strategic Report

## Our Environment

### An improved environment supporting biodiversity



**Bluebells at Hoads Hill Reservoir woodland**

The Company has made a commitment, as one of our business Outcomes, to support conservation and biodiversity. As part of the commitment to our environment we employ an Environment & Biodiversity Specialist to;

- Raise awareness within the business of environmental issues and constraints, especially when we plan new schemes, to ensure any negative impacts are avoided, minimised or mitigated
- Provide advice to the engineering teams on all aspects of environmental legislation and biodiversity
- Work with our operational teams to ensure that we manage the habitats on our own land holdings in a way that protects and where possible enhances their biodiversity potential
- Ensure that we have up to date ecological survey information for all our sites so we can protect habitats and species likely to be present
- Identify and manage projects to protect and enhance biodiversity
- Liaise with external stakeholders on related issues to meet shared objectives such as providing 'stepping stones for nature'

Two of our treatment work sites (Farlington and Itchen), are identified by our surveys as having a high conservation value. They have been designated as Sites of Importance for Nature Conservation (SINC) by Hampshire County Council.

In 2015 we appointed a specialist consultant to complete an ecological survey of 52 of our sites. A key objective of the surveys was to identify potential biodiversity enhancement projects. In 2016 the recommendations were collated and prioritised into a programme to the end of the current regulatory period. The biodiversity action plan programme was then agreed with Natural England and the Customer Challenge Group.

The following key conservation activities have been completed in 2019/20;

- Employed an experienced botanist to carry out a detailed vegetation survey and map priority habitats at 2 sites with monitoring on a further 10 sites
- Employed specialist consultants to complete invertebrate surveys at 6 high conservation value sites. Firdown Reservoir

site was particularly important and has many notable species using it. This site will be monitored and management arrangements changed if needed

- Gaps in the hedgerow were planted at Soberton Meadows, Clanfield Reservoir and Walderton WTW using native species. These projects have increased the connectivity of the habitats on site for the benefit of wildlife
- A new scrape was dug at Soberton Meadows to increase the marsh habitat on the site. A willow tree line was also laid and scrub reduced. This will help increase the available habitat on site and hopefully increase the variety of flora using the site which will be monitored each year
- Non-native trees were removed from Soberton WTW and replaced with native species such as Hazel, Hawthorn, Maple and Oak. This should increase the biodiversity across the site and add to the age diversity to trees
- Madehurst and Slindon Abandoned Reservoirs were converted into bat hibernacula. This involved giving the bats access to the underground space by adding louvre grills to upstands and adding features to the inside space to create suitable bat habitats

In addition the following projects were also completed in 2019/20;

- Volunteer staff working parties undertook conservation work at Havant Thicket along side numerous conservation workdays by other organisations, volunteer groups and local schools on the site
- Continued scrub clearance at Highwood Reservoir to keep the banks open for the benefit of wildflowers and reptiles
- Woodland thinning, coppicing and scrub management was carried out at Whiteways Lodge, Lovedean WTW, Lovedean Reservoir, Hoads Hill Reservoir, Northbrook WTW, Fort Southwick Reservoir and the Head Offices at Havant. This will allow remaining trees to have the space to mature, and increase the biodiversity at the sites
- The site at Nore Hill, Slindon is proving popular with Barn Owls and they were monitored by the local ringing group as part of the National Trust Slindon Estate

## Barn Owls

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Portsmouth Water converted a disused reservoir building in the Slindon National Trust Estate a few years ago to accommodate barn owls. Barn owls are thriving in the area due to National Trust's management of the land supported by organic farm tenants. We hope to continue to find new tenants in our reservoir each year and will work in partnership with others to further improve the habitats.



# Strategic Report

## Our Environment

### Water Resources in 2019/20

The unseasonably wet weather this year has resulted in a speedy and full recharge of our groundwater resources meaning that we are starting 2020/21 in a healthy position.

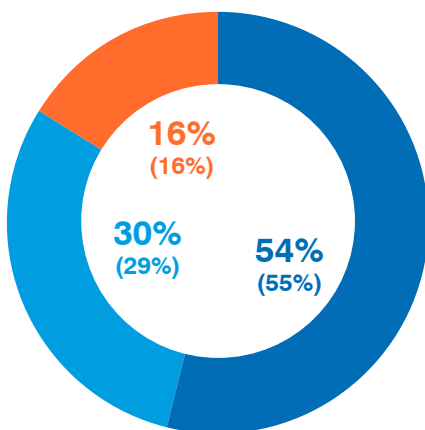
Groundwater levels are a good indicator of the water available to Portsmouth Water as we abstract the majority of our water for supply from the chalk aquifer. We therefore monitor the levels closely.

Prior to September 2019 there was a run of three slightly drier than average winter seasons which reduced our groundwater levels to within 30cms of our first drought trigger; the lowest levels since 2011. Passing this trigger would have required us to start proactively working with our customers, asking them to voluntarily use less water.

However, the end of September 2019 saw the beginning of an unseasonably wet period, with above average rainfall in most months. February was the wettest on record for England. The storms contributed to exceptionally high rainfall totals for the month across much of the country and resulted in recharge of our groundwater to levels in excess of 30m above ordnance datum; a level not seen since 2016.

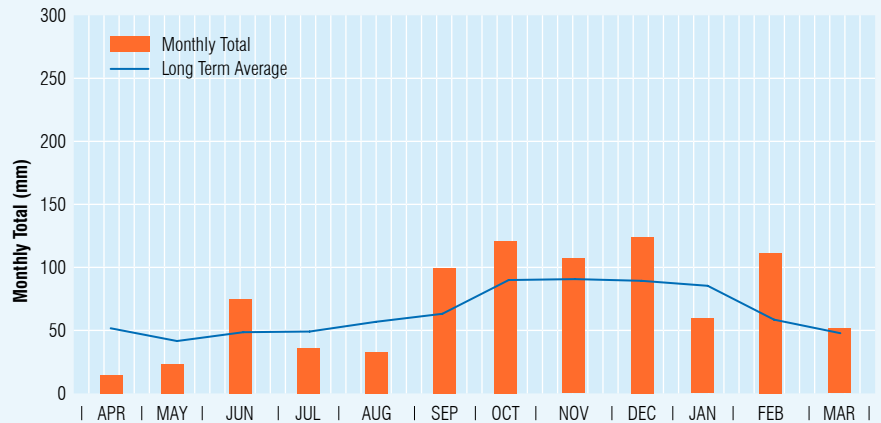
Our distribution input is the amount of water we put into our network each day and is our headline measure of water demand. Though the maximum peak summer demand was lower than recent years, we saw above average levels extending beyond August as a result of the long, dry summer. From November we have seen below average levels as a result of the wet weather and leakage management activities.

### Abstraction Sources 2019/20 (2018/19)

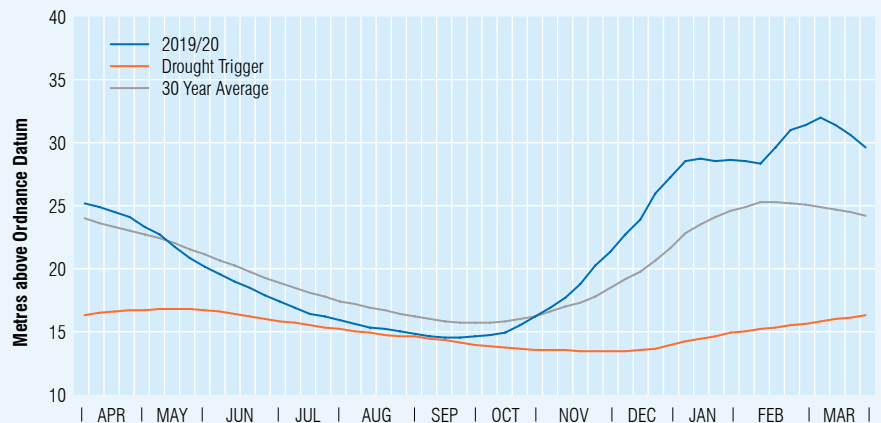


■ Boreholes ■ Springs ■ Rivers

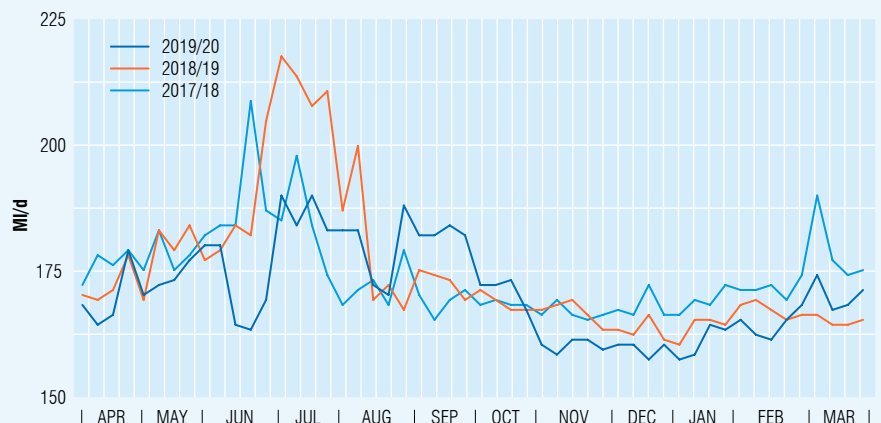
### Rainfall at Havant 2019/20



### Trends in Groundwater Levels



### Distribution Input 2019/20







**CEO's of Southern Water and Portsmouth Water signing new bulk supply agreement from the River Itchen plant**

## Strategic water supplies and planning for the future

We already provide 15MI/d to our neighbouring water company, Southern Water, to help them supply their customers in the West Sussex area. In 2019 we commissioned a further bulk supply of 15MI/d to support Southern Water's West Hampshire Area, so that they can reduce their abstractions from the precious chalk habitats of the River Test. We were pleased to help them achieve this, and did so without compromising the quality and reliability of our service to our customers.

This year we were also given the go ahead by the Secretary of State for the Environment to publish our Water Resources Management Plan 2019 (WRMP19) for the period 2020 to 2045. The WRMP seeks to assess and mitigate the strategic supply and demand

needs for the Company over the next 25 years, accounting for pressures such as climate change, population growth and various drought scenarios. This plan has been developed in direct consultation with our customers over a number of years. The key aspects in the plan are;

- The development of the new Havant Thicket Winter Storage Reservoir by 2029. This will enable further regional water supplies to Southern Water
- The roll out of an enhanced metering and water efficiency programme
- Additional leakage control for both our own and our customer's pipes
- The provision of additional water to Southern Water for West Hampshire.

We are now working on our highly ambitious WRMP24 (for 2025) which will take into account long term future ambitions and strategies from 2025 up to 2100, forming part of a wider regional resilience plan. Working regionally as Water Resources in the South East (WRSE) we are seeking to maximise the potential of regional strategic solutions to solve the pressures, that water companies all face individually, in the most efficient manner; benefiting both our customers and the environment.

All of these elements will support our strategy and ambition of being a provider of regional water resource in Hampshire.

## Water Vole habitat enhancement



Our Water Vole habitat enhancement project has made significant progress. Last year, the site underwent extensive works to improve the habitat for water voles and other wildlife. The site was very bare once the work had been completed but after less than a year the vegetation has returned and you would hardly guess any work had been undertaken.

The river banks have re-vegetated up, and the spring pond is full of crystal clear water. Plants have already recolonized the area and have grown at an amazing rate. A Water Vole Survey is planned for this season and early results have confirmed that Water Voles are in residence.

## Strategic Report

# Our Environment



**Pollution Incident in our Lovedean Catchment – Approximately 170 large cans of paint and solvent fly-tipped on Coldhill Lane that presented a significant risk of contamination to groundwater. Thankfully all removed within 24 hours by Portsmouth Water.**

### Catchment Management

A number of pollution incidents in our catchment have presented significant risks to our water quality over the past year. 174 drums containing paint, paint thinners and solvents were fly tipped at 3 different locations in the Lovedean area, close to our abstraction point.

Following a report from a local resident Portsmouth Water contacted the Environment Agency immediately and attended the site. On arrival it was observed that a number of the drums were ruptured and leaking, causing a real risk of contamination to the chalk aquifers below the surface.

The potential pollution associated with the paint and solvents posed a real risk to the water supply and so Lovedean Pumping Station was turned off immediately. It was concluded that immediate action was necessary. The weather forecast was for heavy rain, and with the potential risk of contamination, Portsmouth Water took the decision to employ specialist environmental clean up contractors that evening to start the process of removing the drums and cleaning up any contaminated land.

The quick action and removal of the pollutant lowered the risk of the incident affecting water supplies sufficiently for Lovedean borehole to return to service very quickly.

With regards to nitrate, our 'Channel Payments for Ecosystem services' project is into its third year and there are 2 trials piloting innovative ways of financially supporting farmers and landowners to alter their practices to deliver cleaner groundwater in our catchments. An additional 2 trials involving reducing fertilizer applications and applying foliar fertilizer have just commenced.

Related to this, we are also working in partnership with the Forestry Commission on ways of establishing long term relationships with farmers regarding the improvement of groundwater quality through woodland creation. We have started looking at planting over 20 hectares of woodland in our sensitive catchments to reduce nitrate pollution. All these projects will help inform the catchment management measures we will fund through our next Business Plan (2020-2025).

Our Farmers' Capital Grant Scheme – a scheme that directly assists farmers by part-funding capital items that will help reduce the risk of nitrate (and other pollutants) to groundwater has been very successful. We have been able to financially support farmers to build sprayer washdown areas with bio-beds to treat pesticide effluent and purchase precision farming equipment to optimise nitrate fertiliser applications.

We have run 3 successful equine workshops for horse owners to encourage good practice in manure management and build healthier soils.

We have continued our oil tank campaign and now offering free OFTEC inspections along with our 50% subsidy for any improvement works to make domestic heating oil installations a low risk to groundwater. We have also launched an online survey to solicit oil tank owners' views on oil storage, pollution and environmental issues so that we can encourage further uptake. The take up of this scheme has been excellent, delivering a very real reduction in the risk of groundwater contamination from oil spills and leaks across our catchments.

Oil Care Campaign launched on our website and free OFTEC tank inspections for sensitive locations available

**Portsmouth Water Catchment workshop for farmers looking at our cover crop trial in Chilgrove, West Sussex. Cover Crops can reduce pollution of groundwater by taking up excess nitrates, improving soil health and creating biodiversity.**



## Havant Thicket Winter Storage Reservoir - An important new reservoir to support the South East region's water resources

Portsmouth Water and Southern Water are collaborating on the development of a new winter storage reservoir in Hampshire. It will become a major strategic water resource for the South East, the first to be built in the region for decades.

The multi-million-pound Havant Thicket Winter Storage Reservoir (HTWSR) project was confirmed in both Companies' investment plans for 2020-25 by Ofwat and our related Water Resource Management Plans by Defra. The reservoir is scheduled to be built, filled and operational by 2029. It will provide additional water into the Portsmouth Water

network so that we can release water from elsewhere to supply up to an additional 21 Ml/d to Southern Water, even in a severe drought, with no impact on our own customers' supplies.

Once built, the reservoir and surrounding area will provide a very important green infrastructure that will achieve an overall net environmental gain, and offer recreational and educational facilities for the community.

The first stages of investigation and design are already underway, including extensive investigation into the ground conditions on

site. The work was undertaken by a specialist contractor, Socotec, using drilling equipment that can extract soil samples from deep within the ground below. The information we have gathered is now being used to inform the design of the reservoir as we progress towards a planning application in 2020.

Customer, community and stakeholder support for the reservoir is overwhelmingly positive. The reservoir will be owned, operated and maintained by Portsmouth Water.



Ofwat CEO, Rachel Fletcher, visits the Havant Thicket Site

## Strategic Report

# Our Business



The year ended 31 March 2020 was the fifth and final year of the current Ofwat regulatory review period. We also received Ofwat's Final Determination for the forthcoming regulatory period (2020-2025). We were delighted that this determination included the development of the Havant Thicket Winter Storage Reservoir (HTWSR). This is included in a separate, 10 year, price control covering the period of construction and commissioning.

### COVID-19 impacts

We have set out further detailed information relating to our response to the COVID-19 pandemic on pages 35 and 36. As the provider of a key public service our overarching objective is maintain the provision of high quality water supplies to our customers whilst closely adhering to Government guidance on social distancing. We have acted swiftly to implement new ways of working with the vast majority of employees now working remotely and have also suspended certain activities which could not be carried out safely in the current circumstances.

Although the impact of the pandemic only became evident in the final weeks of the 2019/20 financial period, we have seen some impacts on the results of the business primarily relating to the rapid reduction in revenue from non-household (commercial) customers with an impact of c £0.1m on revenue. We have also reflected the likely adverse economic conditions in our assessment of bad debt exposure, and as a result of this have made an additional, exceptional, bad debt provision of £1.5m.

Finally we have reflected the possible impacts of the pandemic in our analysis of Going Concern and our Viability Statement.

We enter the 2020-2025 Regulatory period with limited headroom on financeability. This is now predicted to be further challenged, particularly in the early years, due to the combination of difficulties in the NHH retail market, household affordability issues and incremental COVID-19 related operating costs in many areas.

### Ownership structure

In 2017/18 the Group was acquired using funds managed by Ancala Partners LLP ("Ancala"). This was effected through Ancala Fornia Holdco Limited, the Group's then ultimate controlling party. Ancala is an independent mid-market infrastructure investment manager. Ancala is committed to supporting the Company purpose of "Delivering excellence for our customers, our employees, the environment and the communities which we serve".

During the year, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on the 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited. Accordingly, Southern Region Water Holding Limited is the ultimate parent undertaking at the year end date. There was no change in the composition of the ultimate investors as a result of this. Further information on the group structure is set out on page 47.

As beneficiaries of the Employee Benefit Trust which previously owned the Group the majority of current employees received a share of sale proceeds. These were distributed by the Company on behalf of the Trust over a 3 year period, with the third and final payment made to staff in March 2020. This is discussed further in note 31.

### Financing structure

Since 2001 the Company has largely been financed through a 30 year (to 2029) index linked fixed interest loan with a base value of £66.5m. This was drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also currently linked to the Retail Prices Index (RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed carrying value of the loan at 31 March 2020 was £109.7m (2019 - £106.7m).

### Gearing and liquidity

Net debt to regulatory capital value is a key covenant defined by the Company's loan documents. Gearing at 65.8% (2019 - 60.3%) 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 £8.7m (2019 - £9.0m) of cash held in relation to the distribution of sales proceeds. After adjusting, to remove this atypical cash, gearing is 71.5% (2019 - 66.3%). Gearing remained comfortably within the 86% ceiling imposed by the bond covenants on both adjusted and unadjusted bases.

Primarily as a result of higher capital expenditure relating to the HTWSR, the Company increased the level of the revolving credit facility to £20m and utilised £20m 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 capital at the end of 2020/21 to finance growth in the capital investment programme driven by the development of HTWSR. Post year end it has extended the Revolving Credit Facility held with Lloyds Bank to £25m.

### Interest Cover

At 31 March 2020 the interest cover ratio, defined by the covenants associated with Company's index linked loan, of 1.59 times (2019 – 1.54 times) remains comfortably above the 1.4 times covenant required.

### Return on regulatory equity (RoRE)

RoRE, based on adjusted gearing, at 6.62% (2019 – 6.06%) increased slightly.

### Review of Trading Performance Operating Profit after exceptional items

Operating profit at £4.2m shows a reduction of £0.8m on the prior period of £5.0m. This was primarily driven by additional costs as discussed further below.

### Revenue

Turnover of £43.1m (2019 - £42.2m) shows a £0.9m increase from 2019. This increase is driven by a combination of new properties, increased measured demand and a modest tariff increase.

In total there were 2,114 new properties connected (2,000 household and 114 non-household). The wholesale tariffs increased by 3.3%. 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 fell by £0.3m. This primarily relates to work for developers.

### Operating costs

Operating costs increased by £0.8m as a result of a number of net movements, the most significant of which are as follows; higher infrastructure renewals costs £0.4m reflecting the mix of projects undertaken, higher staff costs by £0.2m, higher depreciation of £0.4m, incremental trade effluent charges of £0.2m, higher power costs of £0.1m offset by lower PR19 costs of £0.6m.

### Exceptional items

Two exceptional items, in terms of size and nature, were 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.

An additional bad debt provision, relating to the impact on economic conditions of the

COVID-19 pandemic, of £1.5m. This relates to a combination of household and non-household exposure.

### Interest payable & other finance income

Total interest payable for the period is £7.296m (2019 - £7.444m), showed a 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 £0.672m (2019 - £0.762m) for the year.

### Taxation

The tax charge in the period of £2.024m includes a prior year adjustment for current tax of £0.313m and deferred tax charges of £1.711m. The deferred tax charge is driven by a combination of the change in tax rate (from 17% to 19%) and additional short term timing differences.

### Dividends

The dividends paid during the year totalled £3.7m (2019 - £3.1m). 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.

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. However, in response to the current COVID-19 pandemic and related financial uncertainty, no final dividend is proposed for the year ending 31st March 2020. This will be reviewed again carefully at a later date.

### Capital investments

Gross capital investment in the year was £19.7m (2019 - £14.8m).

The significant increase in gross capital expenditure of £19.7m (2018/19 £14.8m) reflects, the activities explained in the Engineering Report on page 29. Within the year spend on the HTWSR accounted for £5m of additions as work on the project continues. £1.9m has been spent on disinfection improvement projects. This has been undertaken to improve our Water Treatment sites and to comply with our new disinfection policy, with an additional £1.3m spent on investing and refurbishing our existing Treatment Works to ensure they are reliable and resilient. A further £1.6m of costs have been incurred on the Eel screening project and creation of a second crossing at the River

Wallington. This is in accordance with the new Eels Regulation enforced by the Environment Agency.

Further information on the capital programme is set out in the Engineering Report on page 29.

### Mains activity

	2019/20 £m	2018/19 £m
Renewals charged in the income statement	2.0	1.6
Mains capitalised	2.4	2.8
Total mains investments	4.4	4.4

During the year the Company renewed 8.1km of mains (2019 – 7.9km) at a cost of £2.0m (2019 - £1.6m) charged to the income statement. A further 6.9km (2019 – 12.1km), of new mains and enhancements to the network were capitalised at a cost of £2.4m (2019 - £2.8m).

### Capital contributions

The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £1.6m (2019 - £1.4m). In accordance with the requirements of FRS 102 these contributions are deferred and amortised to the Income Statement.

### Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest actuarial valuation as at 31 March 2020 was carried out in accordance with FRS 102 and shows a net pension asset (after asset ceiling restrictions and deferred tax) of £15.5m (2018 - £23.8m).

The overall reduction in the surplus on actuarial valuation has largely been driven by the asset ceiling restriction and the impact on the Pension Trustees decision to enter into a 'Buy In agreement' as set out in note 25.

### Cash and cash flow

Cash generated from operations of £10.8m (2019 - £9.8m) remained consistent with long term out-turn.

The significant £2.6m increase in spend on purchase of tangible fixed assets (particularly HTWSR) was offset by a higher level of borrowing under the revolving credit facility of £20m (2019 - £10m).

## Strategic Report

# Tax Strategy

### Corporate Structure

The Group structure within which the Company resides, has recently changed and is set out on page 47. The Group is wholly owned by funds managed by Ancala Partners LLP ("Ancala") through a Hong Kong domiciled holding company Southern Region Water Holdings Limited. Ancala Partner LLP the ultimate owner of the group is a UK based and domiciled independent infrastructure fund manager.

Portsmouth Water is committed to full compliance with UK tax laws. As a Company we understand that collecting and paying tax is an important part of contributing to the economic environment that we operate in and in addition to paying corporation tax we also contribute as a result of indirect taxes, employee related taxes and environmental taxes. The Company's tax affairs are managed in a way which takes into account the wider corporate reputation. At all times the tax affairs are managed in line with the Company values of Integrity, Excellence and Respect.

### Governance in relation to UK taxation

- The ultimate responsibility for the tax strategy of Portsmouth Water Limited sits with the Board
- The Finance and Regulation Director is the Board member with executive responsibility for tax matters
- The day-to-day management of tax affairs is delegated to the Group Financial Controller who reports to the Finance and Regulation Director
- Members of the Finance team are trained to a level that ensures tax compliance and a continuous cycle of training occurs to ensure all skills are relevant and up to date
- For tax filing, specialist advice and support Portsmouth Water engage the services of specialist Finance and Accountancy professionals

### Risk Management

#### Attitude towards tax planning and level of risk

Portsmouth Water Limited manages risks to ensure compliance with legal requirements in a manner which ensures payment of the correct amount of tax.

Portsmouth Water's attitude towards tax planning is one of prudence; seeking to comply fully with relevant tax legislation and to achieve a high degree of certainty in the Company's tax affairs. The wider group of Companies applies the same approach to tax planning as a whole.

At all-times Portsmouth Water seeks to act in a way which is legitimate and upholds its reputation as a good corporate citizen.

For any specific issue or transaction the Board is ultimately responsible for identifying the risks, including tax risks, and for determining what actions should be taken to manage those risks. In doing so the Board has regard to the materiality of the amounts and where specific risks occur the Company will seek specialist professional advice.

In line with the Company's ethos to strive for continuous improvement through innovation we are able to utilise government tax initiatives such as the R&D Tax Credits scheme to reduce our corporation tax charge and therefore continue to maintain one of the lowest operating costs in the water industry.

### Working with HMRC

Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC at all times, be that directly or through intermediaries acting on our behalf.

Any inadvertent errors that may occur in any submission made to HMRC are fully disclosed as soon as reasonably practicable after they are identified and independent specialist advisors are commissioned to validate the value of any error. Following this, an internal review will then identify any required process changes or additional internal controls, to ensure full and ongoing compliance.

Future tax changes are considered through Water UK's Tax Forum, of which Portsmouth Water is a member. This group allows us the opportunity to discuss how future tax legislation can be interpreted and applied to the Water Industry.

### Corporate Criminal Offences Code of Conduct

Tax evasion, tax fraud and attempts to facilitate such actions are unethical and inconsistent with the ethos of Portsmouth Water.

Portsmouth Water is committed to complying in full with the UK tax laws, and we expect everyone working with the Company to fully comply with their tax obligations. We believe in paying our fair share, and that everyone working with us should too. This extends to recent but now delayed changes in IR35 legislation within the private sector.

### Accountability & Governance

The Board has approved a code of conduct policy and supports our commitment to a zero

tolerance of tax evasion or its facilitation. The Finance and Regulation Director is responsible for monitoring compliance with the policy and is supported by the Board and the management team in doing so.

### Employee responsibilities

Our code of conduct sets the standards of behaviour we expect all employees to adhere to and if employees are ever asked to act in any way that could facilitate tax evasion, this must be reported without delay. This is formalised through our whistleblowing policy.

### Risk assessment and mitigating factors

Our business risk assessment covers those areas of business operation where there is a risk of tax evasion. In relation to these risks we have considered relevant mitigating factors (including internal controls). Where necessary we have developed further activities and controls to mitigate areas of exposure.

### Our commitment

Portsmouth Water is committed to the following principles:

- Our business is carried out fairly, honestly, and openly in every part of our work
- Our values underpin everything we do
- We will never transact with any supplier where it is known or suspected that any aspect of the transaction is being misused, abused or otherwise corrupted for the purposes of tax evasion
- We will immediately terminate any agreement or business relationship if we learn of or suspects tax evasion may be taking place
- We will not do business with others who do not also hold to at least the same standard of preventing tax evasion
- Any employee found in breach of our policy will be subject to disciplinary action.
- No employee will suffer demotion, penalty, or any other adverse action for reporting or from refusing to carry out an action which may lead to tax evasion

**Helen Orton**  
Finance & Regulation Director

# Strategic Report

## Engineering Report



**Receiving the Competent Operator Accreditation from EU Skills**  
**Inset: Technology Exchange Visit to Dunea Water Company, Netherlands**



As a capital intensive infrastructure business, maintaining and building our large network of above and below ground assets is a critical part of our operation. This activity also represents a significant proportion of the business cost base and, as such, is a key area of focus for efficiency and innovation in order to provide value for money for our customers. Further information on the major Havant Thicket Winter Storage Reservoir project is included on page 25.

### **Mains renewals (below ground assets)**

The Company has renewed and replaced 15km of mains during the year, 73% of which has been completed using “no dig” techniques. The continued use of no dig techniques to renew mains reduces the impact of the works on customers & local communities and is a more efficient way of completing the work. It has the added benefit of reducing the amount of material required to reinstate roads after work has been completed, reducing the Company’s carbon footprint.

Customers continue to give very positive feedback on the works completed with 87.5% rating the work and associated communication as either “good” or “very good”.

The Company’s successful partnership with contractors Cappagh has been renegotiated and now extended to the end of the next regulatory period, securing reduced costs and improving performance objectives.

### **Non infrastructure framework contract (above ground assets)**

Non infrastructure works covers significant maintenance activity at our operational sites.

The Company’s innovative “collaborative non-infrastructure framework contract” is now delivering results for our customers. This is promoting the development of innovative solutions to works which will both reduce the initial cost of activities and future maintenance costs. This is having a positive impact, for example, by streamlining construction and installation times on site by using off site construction, reducing both costs and H&S risks on site.

Work has commenced on compiling a new framework contract for non-infrastructure work for the next regulatory period, with a view to having contractors in place for 2021.

### **Leakage**

During 2019/20 we have continued to invest in both a new fixed leakage detection network and hand-held leak noise correlation equipment. Helped by an absence of extreme temperature fluctuations during the year, leakage levels in our 3,359km network achieved a record low level in 2020 as a result we have beaten our 5 year target.

### **Water Quality**

Following an audit by the DWI in October 2017 the Company has completely reviewed its disinfection policy and associated disinfection strategies at all of its water treatment works (WTW’s). This has led to a number of small and large schemes the majority of which are in delivery, with works at Northbrook and Sllindon WTW being largely completed in the year. Work continues on the Racton booster scheme and the contract for improvements at Lavant WTW has just been let. The work, along with the review of all O&M manuals, has brought the Company up to the leading edge standards of disinfection in the water industry.

### **Eel screens**

The screens to be sited on the River Itchen, have been manufactured for this scheme and are awaiting installation. Despite delays caused by COVID-19 we are still on programme to complete this work in spring/summer 2020.

### **Developer Services**

A number of improvements have been made to our developer services offering over the past 12 months. We have implemented the use of PE barrier pipe, replacing our previous preferred option of ductile iron. This has seen the average mains installation time reduced by more than 30%. We have also opened an additional number of contestable activities, which can be undertaken by self-lay providers.

In December we held a Developer Services Forum at our Head Office. We had a strong turnout, which included attendees from Ofwat, CCW and other industry stakeholders in addition to a large range of our developer services customers.

### **Developer Services Satisfaction ODI**

In our business plan we committed to a reputational ODI to improve the service we provide to developers. Success in meeting this ODI has been measured in an annual survey in which we aim to achieve 70% satisfaction amongst our customers.

In 2019/20, we achieved a 93% satisfaction level from our developer customers. Over the AMP results have ranged from 85-95%. In AMP7 Developer Customer satisfaction will be measured by the new D-Mex Performance Commitment.

### **New Charging Rules**

From 1 April 2020, new Ofwat developer charging rules came into effect. The revised rules are intended to ensure all customer types are treated fairly and that cost transparency is improved between incumbents, Self Lay Providers and NAVs.

## Strategic Report

**The Issues That Affect Us**

There are many external issues that impact our business. These shape our business decisions, risk profile and strategy. Set out below are the key issues likely to impact the business over the next year. We have provided more information on some of these issues later in this section.

**COVID-19**

The impact of the COVID-19 on the business, society and the UK economy is still highly uncertain. However, what is clear is that it has already and will continue to have a significant impact upon business operations in the forthcoming year and possibly beyond that. We have responded swiftly and effectively to mitigate the current impacts – focusing on the delivery of our core, essential, services. We have set out more detail in relation to COVID-19 on pages 35 and 36.

**Regulation**

The water industry is highly regulated (see page 31 for further information). The Regulatory environment continues to become more complex and challenging and this increases both the compliance burden and costs of meeting new regulatory requirements. Ofwat is our economic regulator and determines the revenue we receive from customers.

The Environment Agency ('EA') regulates the amount of water that we are allowed to take from the Environment and the quality of what we return. We work closely with the EA in developing our water resources management plan; currently our plan indicates that we have sufficient water availability to support a resilient supply network and a further, cross border, supply to Southern Water.

The Drinking Water Inspectorate regulates the quality of water that we supply to our customers and sets the standards required.

**Brexit**

Working in collaboration with the industry we are continuing to manage the Brexit risks and prepare for exit from the EU.

We continue to manage the risks relating to the availability of chemicals and other materials that could have the most significant operational impact and have increased levels of chemical storage in response to this risk.

**Resilience of Water Supply**

The South East of England faces the dual challenges, in both the near and long term, of continued population growth and limited water resources. Most of the South East, with the exception of the area supplied by the Company, is designated as an area of 'serious water stress'. Predictions also suggest that this part of the UK may be disproportionately impacted in the future by climate change. In addition there is a need to protect the natural environment through the reduction of abstraction from chalk streams such as the Test and the Itchen.

As a result of these pressures, the Company continues to focus on balancing supply and demand for water. Through the development of Havant Thicket Winter Storage Reservoir we will strengthen our role as a regional water supplier.

This significant 10 year reservoir programme is underpinned by a highly collaborative approach between water companies and regulators. This scheme was a key part of the Company's PR19 Business Plan.

**Affordability and Vulnerability**

The UK continues to see a rise in levels of household debt for lower income families. Across the industry, trends show both increasing levels of overdue and bad debt and greater numbers of applications for reduced tariffs. In addition, both Government and Ofwat have clearly signalled the need for a more proactive and targeted approach to identify and support those household customers in greatest need of support.

As a local company, the community is at the heart of our business. We have developed a Community Partnership, which has a focus on helping the most vulnerable within society. We have commenced ambitious plans to help more customers than ever before by expanding our Priority Service Register and increasing numbers of customers assisted via our Social Tariff. We will achieve this by working closely and collaboratively with support agencies, utilities and other key stakeholders.



## Our Regulators



Defra is the UK government department responsible for safeguarding the natural environment. They set policy for the water industry. These policies, such as the development of competition for non-household customers, management of flood risk and water abstraction reform, are then implemented by individual regulators.



The Water Services Regulation Authority, or Ofwat, is the body responsible for economic regulation of the water and sewerage industry in England and Wales. They are responsible for protecting the interests of customers in a monopoly market. Ofwat is primarily responsible for setting limits on the prices charged for water and sewerage services, taking into account proposed capital investment schemes and expected operational efficiency gains.

*Ofwat Chair and NED's visit to Portsmouth Water*



The Drinking Water Inspectorate regulates the public water supply companies in England & Wales. It provides independent reassurance that drinking water quality is safe for customers, meeting the legal standards. The DWI's remit is to monitor the quality of drinking water England and Wales, taking enforcement action if standards are not being met, and appropriate action when water is unfit for human consumption.



The Environment Agency is a non-departmental public body with responsibilities relating to the protection and improvement of the environment in England. The Agency's responsibilities include water quality and water resources. They set the volume of water that we may extract from the environment. They also have responsibilities for flooding, conservation, rivers and harbours.



Natural England is the government's adviser for the natural environment in England. This non-departmental public body is responsible for ensuring that England's natural environment, is protected and improved. Natural England monitor the way we maintain and operate our sites to ensure we enhance the local environment. We have been complemented for the improvement in the management of our sites by Natural England and in particular the Site of Scientific Special Interest on the River Itchen.



The Consumer Council for Water (CCW) is the independent voice for all water consumers in England and Wales. It was established to provide consumers with strong representation, making sure that customers are at the heart of decisions made by water companies. It provides free advice to consumers and keep them informed on the issues that affect their water and sewerage services. CCW monitors the quality of the service we provide to our customers.



Market Operator Services Ltd (MOSL) is a private company that works on behalf of and is funded solely by its water company members. Companies are required to be members of MOSL to participate in the non-household market. MOSL is responsible for the effective and efficient operation of the non-household water retail market and plays a central role in its evolution through its continued work with the Code Panel.

## Strategic Report

# The Issues That Affect Us

## Our Stakeholders

### Our Customers and our community

Customers are at the centre of our business and we are continually reviewing the services we provide and how we can improve them. We supply water to over 306,000 households and 16,000 businesses. This number increases each year as we work with housing developers to ensure they can deliver significant housing plans for the area.

We are an integral part of the local community; proud of our close ties with the people we serve, having supplied drinking water locally for 160 years.

- Most of our employees are from the local area
- We have a partnership with Staunton Country Park, contributing to an education centre which introduces children to the importance of fresh water, how it is delivered and why we must use it wisely. To date, over 10,000 children have visited the centre
- We are actively involved in schools and attend and sponsor local science fairs
- The Company participates in PUSH, The Partnership for Urban South Hampshire, which seeks to encourage local development in a sustainable manner

We have recently formalised commitment to the communities that we serve through our Community Partnership.

### Customer Challenge Group

Our Customer Challenge Group ('CCG'), includes a range of stakeholders and customers. The CCG challenges us to ensure that our Business Plan is built upon the needs and preferences of our customers. This includes independent oversight of the nature and breadth of Customer Engagement activity. In addition the CCG reviews our performance against the Business Plan promises. It is a key part of the Company's governance in respect of our development of and performance against the regulatory Business Plan.

The Group is chaired by an independent member of the public whose responsibility is to represent the customers and stakeholders in holding us to account on our performance.

### Our employees

One of our primary objectives is that our employees return safely to their families at the end of the working day and customers are safe when we are working near their homes or when they are near our sites. The Board of Directors sees Health and Safety as a key priority of the business and seeks to ensure:

- The safest possible environment for our employees, visitors and general public
- Continual review of all our operational practices from a Health and Safety perspective

We must make sure we provide an attractive remuneration package for our staff. We are located within the South East of England with a relatively dynamic labour market and low unemployment. We offer an attractive package including life assurance cover and entry to a pension scheme.

Finally we invest in our people, offering all of our staff development opportunities to reach their full potential. This includes degrees, NVQs, professional qualifications and relevant training courses.

### Our investors

Like all businesses we need to generate sufficient profits to provide a fair return to shareholders and meet the interest cost of our borrowings.

As explained more fully in the Corporate Governance section on page 47 the Group is owned by Southern Region Water Holdings Limited, an investment holding company for a UK based infrastructure investment fund.

Our main source of finance is an index linked loan which has conditions that require a certain specified level of financial performance. Our Licence conditions also stipulate that the Company has to maintain an Investment Grade credit rating. This rating demonstrates to lenders that we can meet our interest payments and allows us to secure borrowing at efficient interest rates.

### Our suppliers

Suppliers and the overall supply chain are key to enabling the business to successfully function operationally, financially and environmentally. This supply chain is diverse in nature ranging from the pipe and fittings to deliver the water to our Customers, to the pumps and the electricity that powers them and to the chemicals that are used to treat the water. In addition there is a significant range of goods and services that enable the overall functioning of the wider business.

We deal with our suppliers with a 'partnership' based approach; helping to ensure that we receive quality products and services such that our suppliers feel valued and are paid a fair price. Wherever possible we include

collaborative working principles including common shared goals & behaviours. We apply the requirements of the Modern Slavery Act to our supply chain and set out our Statement in this regard on the Company's website. Our supplier population is being considered for IR35 consequences and our policy will be updated accordingly.

Company collaborative working also extends to other water companies and has enabled "benchmarking" of some internal operations and an increasing number of joint contracts with suppliers.

### Customer Challenge Group Report on ODI performance 2019/20

The Customer Challenge Group (CCG) provides independent challenge and assurance on the quality of the Company's customer engagement and has a monitoring role reviewing performance against the Outcomes (Outcome Delivery Incentives). We are pleased to see the continued strong business performance against the industry customer service measure with the Company ranked first overall for the PR14 regulatory period. Whilst the company has met the majority of its Outcomes this year it was disappointing to see that two – per capita consumption (PCC) and Mean Zonal Compliance (MZC) have not been met.

PCC has continued to be challenging for the business showing a gradual upward trend over the regulatory period. The Company has explained that this has been further influenced by periods of unseasonably dry weather. With relatively low metering levels the Company's PCC can be disproportionately influenced by weather and can be challenging to control.

In recent years the Company has twice failed the Mean Zonal Compliance measure and it is disappointing that it has failed this measure again in 2019. The Company state that the overall result were disproportionately impacted by one nickel failure as a result of a new kitchen tap being sampled and a lead failure as a result of lead in the customer side supply pipes. The Company states that it supports the development of the new measure of water quality compliance, the Compliance Risk Index, as the impact of the failures experienced will in 2019 will more accurately reflect the quality of the water delivered to customers.

We were very pleased to see the continued strong improvement in leakage performance this year.

During the year the Company completed the PR19 business plan submission. At all times the Company kept the CCG informed and involved in the process.

**Lakh Jemmett**  
CCG Chair

## Water Resources Management Plan

In November 2019 the Company was given approval by Defra to publish its Water Resources Plan for 2020-2045. This followed extensive consultation with customers and stakeholders alike.

Our plan describes how we will meet the ever increasing demands for water due to population growth and climate change and ever tighter environmental requirements.

The key component of our plan is the construction of the Havant Thicket Winter Storage Reservoir, the first to be built in the South East since the 1970s. This will allow us to provide greater bulk supplies to our neighbour, Southern Water, into their

Hampshire zone, which is in deficit. The project will be complete by 2029.

Furthermore, we have an ambitious programme to work with customers to reduce their household usage. There are many elements to this programme - including greater use of metering.

Finally our plan proposes a 20% reduction in leakage before 2025.

All of these actions will ensure we can supply our current and future customers, and support the wider region, to an even high level of drought resilience for water supplies in the future.



## Regulatory Price Review 2020-2025 (PR19)

In the year 2019/20 the industry concluded the process of the 2020-25 Regulatory Price Review. This process is managed by Ofwat, the industry regulatory and sets the revenue we may recover from customers each year, the levels of return to investors and drives improvements in the levels of service to customers.

We submitted our final Business Plan, including detailed financial models and our proposals for service levels ("performance commitments") in September 2019, with the final determinations received in December 2019.

We were generally satisfied with the Final Determination. We received the largest reward for continued high levels of service to customers. We were the only company to propose lower expenditure to run our business than Ofwat estimated – and thus are classified as the most efficient in the industry. Finally there was strong support for Havant Thicket Winter Storage Reservoir (HTWSR). All of this will be achieved with lower revenue from our customer base.

The key areas of challenge for us at PR19 relate to financeability and the delivery of HTWSR - a collaborative new water resource

that will enable increased supplies to our neighbour - Southern Water.

In addition the Company has committed to delivering stretching performance in service levels to customers with the most efficient cost base in the industry.

## Brexit

The Company continued to maintain its level of preparedness through the winter period up to the 31st January 2020. Working closely with Water UK, our Brexit team met weekly during this time to assess the risks posed to the business, react accordingly and apply key mitigation measures. Since then we have ramped down our response to Brexit now that the country has entered the transition period, during which time a deal is negotiated between Brussels and the UK Government.

Between now and 31 January 2021 we will continue to adhere to EU law and so the risk to the business in the next few months is low. However, the risk of a no deal remains and the Company is cognisant of the risk posed to the supply chain together with logistical constraints in undertaking our essential duties as a result of import restrictions. The group will reform in the autumn to undertake a review of the risks posed by the concluding

negotiations. We will reapply the mitigation measures as required, some of which we have held in place and are confident that the Company is suitably prepared to manage the risk of a no-deal Brexit scenario.

## Strategic Report

# The Issues That Affect Us

## Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, in the decisions taken during the year ended 31 March 2020. In doing so the Directors have regard to the range of stakeholders and matters set out in s172(1) (a-f) of the Act.

We have set out more detail, throughout our Strategic Report, and have provided further references to below;

- a) The likely consequences of any decision in the long term are inherent, given the long term nature of the business. This is evident in the long term business planning cycle and runs through our Annual Report, particularly "Our Company Purpose" "What we do", "Our Strategy", "The Issues That Affect Us" and "Principal Risks & Uncertainties". This is further underpinned by Corporate Governance.
- b) The interests of the Company's employees are explained in "Our People" and in particular how we promote a 'values based' culture, assess employee satisfaction and ensure Health and Safety.
- c) The need to foster the company's business relationships with suppliers, customers and others is set out in "The Issues That Affect Us" particularly within the section covering stakeholders. We have also explained our payment practices and performance.
- d) The impact of the Company's operations on the community and the environment are primarily covered in "Our Customers" and "Our Environment".
- e) The desirability of the Company maintaining a reputation for high standards of business conduct is covered in our Corporate Governance statement.
- f) The need to act fairly as between members of the company is covered under the 'Ownership Structure' and as part of the wider Corporate Governance statement.

In particular the Directors have considered their approach with reference to the three most significant decisions made in the business during the year; the approval of the regulatory Business Plan; the development of Havant Thicket Winter Storage Reservoir (HTWSR); and the impact of COVID-19 on the business.

**The approval of the regulatory Business Plan for the period 2020–25** (which was supported by a Board assurance statement):

- The Business Plan was designed to have a long-term beneficial impact on the Company and to contribute to its success in meeting the company's purpose of "Delivering excellence for our customers, our employees, the environment and the communities which we serve" (page 8).
- Our employees are fundamental to the delivery of our plan. We aim to be a responsible employer with the health, safety and well-being of our employees as one of our primary considerations. A wide range of Company employees were involved in and consulted on the Business Plan as part of the process of its development and approval.
- Our duty, in accordance with the Water Industry Act 1991, is to provide a safe and secure supply of water. Our Business Plan was informed by extensive engagement with customers, suppliers and the wider stakeholder group, enabling us to gain a clear understanding of their priorities.
- Our Business Plan took into account how we affect our environment and the communities that we serve. We revised our Company purpose and developed our Social Contract to more formally reflect our commitment to communities. We also set out how we will support the wider South East region through the development of HTWSR.
- As the Board of Directors, our intention is to behave responsibly and ensure that the management team operate the business in a responsible manner, with high standards of business conduct and good governance.
- As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they too may benefit from the successful delivery of our Business Plan.

### **The development of Havant Thicket Winter Storage Reservoir:**

- The strategy to utilise our strong water resources position and land to develop a long term asset and contractual arrangement (80 years) was designed to provide a long-term beneficial impact on the Company and the wider region.
- We have consulted extensively, with employees, local communities, suppliers & delivery partners, regulators and regional bodies. This will ensure that the HTWSR delivers the right benefits across the multiple interested stakeholder groups, as informed by their views.

- Plans for HTWSR take into account how it impacts our environment, both in terms of creating a lasting legacy, with a net biodiversity gain and how it allows a reduction of the impact on sensitive chalk stream habitats in Hampshire.
- As the Board of Directors, we have been closely involved in the HTWSR project including a non-executive presence on key programme governance committees and Board approval of key gates. This has included the establishment of appropriate governance and oversight arrangements.
- As the Board of Directors, our intention is to behave responsibly toward our shareholders and treat them fairly and equally, so they may benefit from the successful delivery of this major capital programme.

### **The Company's response to COVID-19:**

Whilst this matter had relatively limited impact on the results for the financial period it will clearly remain an area of significant focus for the Board. Further information on the COVID response is included on pages 35-36.

- The Company response to COVID-19 must support the dual objectives of continuing to deliver essential services whilst ensuring that the long term viability of the Company is protected.
- Our employees have been a key consideration in our response – both in terms of their safety and their commitment to working flexibly to support business operations. We have developed new ways of working including weekly company-wide interactive webinars to ensure we are engaged fully with our employees.
- The Board's considerations have included wider stakeholder groupings, particularly how we support local communities & vulnerable customers, working effectively with & supporting suppliers and consulting regulators.
- As the Board of Directors, our intention is to behave responsibly and ensure that the management team operate the business in a responsible manner, with high standards of business conduct and good governance during this difficult time.
- As the Board of Directors, our intention is to behave responsibly toward our shareholders particularly in ensuring we respond appropriately to protect the long term financial resilience of the business.

## Response to COVID-19



The global response to the COVID-19 pandemic has created challenging and uncertain times for us all. As the provider of a key public service our overarching objective is to maintain the provision of high quality water supplies to our customers, whilst closely adhering to Government guidance aimed at minimising onward transmission of the virus. To help us in achieving this objective we are maintaining a strong focus on protecting the health, safety and wellbeing of our customers, our staff and our supply chain contractors.

Under these circumstances, our strategy, therefore, is to continue delivery of the 'core service' – delivering high quality drinking water, to our customers' homes and businesses and responding to customer requests for support, assistance and information. We have acted swiftly to implement new ways of working with the vast majority of employees now working remotely to maintain social distancing requirements. We have also suspended certain activities which could not be carried out safely in the current circumstances.

We enter the 2020-2025 Regulatory period with limited headroom on financeability. This is predicted to be further challenged due to the combination of difficulties in the NHH retail market, household affordability issues and incremental COVID-19 related operating costs in many business areas. This downward pressure impacts liquidity and, more significantly, key financial ratios and covenants. It will have to be mitigated by cost reductions and careful cash flow management

in order to maintain our financial ratios (in compliance with our license obligations and existing covenants). This is a critical area of focus for us during the coming year.

We have quickly developed our COVID-19 action plan – leveraging existing elements of our pandemic emergency response plan. We have implemented much of this action plan already and a number of the key mitigating steps have already been taken. The potential scale of the impacts for a company of our size means that we had to move quickly. Fortunately, our scale also allows us to respond quickly and the same will apply when things return to normal.

We are in the early stages of delivering the new Havant Thicket reservoir. This is a regionally significant water resources project with already challenging delivery timescales. We are maintaining focus on this programme but keep under close review the potential impact that the current situation could have upon successful delivery.

Finally, there is a high degree of uncertainty as to how long this pandemic will impact daily lives and the wider economy – industry commissioned analysis is indicating that this is more likely to be of a longer duration leading to a deeper recession than has ever been experienced before. We are acting quickly and decisively to do all we can to conserve cash. As a smaller company, we can respond quickly and can remobilise back to normality (or semi normality) relatively easily - so long as

we retain the liquidity to do so. However, we also recognise the potentially severe financial consequences of an extended duration of the pandemic. However, as noted below our financial analysis includes a range of available mitigations to effectively manage the impacts.

In order to support our Company's COVID-19 risk assessment and response we have developed a number of management tools including a COVID risk register, enhanced reporting of certain "leading indicators" and extensive financial modelling of the impact and related mitigants.

### Operational response

We have made swift and significant operational changes across the business in order to continue to deliver our essential services to customers. This includes the following operational changes;

- Enabling a significant portion of employees to work from home including the launch of additional essential IT enablers
- Modifying essential operational activities to allow for social distancing
- Suspending certain activities which are difficult to undertake whilst maintaining social distancing, for example meter reading, non-essential street works and certain capital projects
- Developing a cross-business skills matrix and other contingency plans to manage in the event of absence of essential staff
- Ensuring that vulnerable customers are effectively and proactively supported
- Enhancing business communications, staff welfare and wellbeing support to ensure that our workforce is well supported
- Supporting our key contractors to ensure that we continue to work effectively together and that they are resilient to the impacts of COVID-19

We have worked closely with the rest of the industry in order to understand and manage the risks and implications of COVID-19. We have formally demonstrated our business' commitment to respond appropriately to the COVID-19 impacts by signing the "COVID Business Pledge". We have also considered carefully any areas where we could optimise activities as a result of the current circumstances – most notably any street works in difficult locations that could be more efficiently undertaken during low traffic.

Plans and options are in place for the "return

## Strategic Report

# The Issues That Affect Us

to normal" as COVID restrictions are gradually reduced and will continue to keep our operational activities and financial position under review.

### The impacts of COVID-19 to date

In addition to the operational changes and mitigations that we have instigated, we have seen a number of significant consequences of COVID-19, in particular the recent changes in the NHH retail market - extending credit terms to retailers and allowing the use of "void" classifications for businesses significantly impacted by the pandemic.

Whilst understanding and supporting these measures they have, and will, continue to have a significant impact on business revenue and cash flow, adversely impacting key financial ratios. We have also seen changes in patterns of consumption with, on average a 20% reduction in non-household customers and a 12% increase in household customers. Since only approximately 30% of our household customers are currently on measured tariffs this will not be translated into higher household revenue – over time we predict this will result in a net fall in revenue during 2020/21.

We are employing a range of financial measures to mitigate how these changes impact our financial position and we have explained these further below.

### COVID-19 financial scenario analysis

In order to gain a deeper understanding of the likely impact of COVID-19 we have undertaken extensive financial scenario modelling. We recognise that there is a high degree of uncertainty relating to both the duration and impact of the pandemic. Accordingly we have considered, and discussed with our Board and investors, a range of scenarios together with potential mitigating actions. A number of mitigations have already been implemented. We will continue to closely track out-turn and to modify our financial assumptions as our experience and other facts emerge.

In our COVID-19 impact analysis we have modelled three scenarios with incrementally increasing durations of major disruption of 3, 6 and 12 months. This analysis has then considered a hierarchy of implications.

- Our primary focus has been upon ensuring we remain solvent and financially resilient in order to continue to deliver essential services to our customers
- We have then considered compliance with banking covenants and key credit rating metrics
- Finally we have considered the extent the

scenarios impact on our ability to deliver regulatory performance commitments e.g. ODI improvements and TOTEX

### Results of our financial analysis

We have concluded that, after taking into account reasonable mitigating action, the business is able to withstand the impact of the COVID-19 pandemic. However, this does further weaken our financial resilience and, unsurprisingly, as the duration of the event extends the overall impact becomes more significant.

Included in our financial analysis are a number of critical mitigating activities;

- Deferral of management bonus payments and a voluntary 10% deferral in salaries for executive directors and members of the senior leadership team
- Suspension of dividend payments
- Reduction in certain capital works and in the level of infrastructure renewals
- Furlough of 40 members of staff who cannot undertake their jobs in the current circumstances
- Extension of our current revolving credit facility by a further £5m to provide additional liquidity headroom
- Deferral of pension contributions for a 3 month period

### Liquidity

We have considered liquidity as most essential, in the first instance, as we must have sufficient cash resources to be able to continue to deliver our core service reliably. In all scenarios, without mitigation, our liquidity is adversely impacted reducing already tight headroom. Mitigating actions such as reduction in cash expenditure and increasing headroom on our revolving credit facility (RCF) are effective in managing the adverse liquidity impact.

### Key financial ratios

Managing liquidity alone is insufficient to address the down-side pressures. The impacts on revenue/bad debt and operating costs have a downward pressure on profit. Accordingly, in unmitigated scenarios, our key financial ratios come under pressure. The mitigating actions, such as reduction in expenditure and increasing headroom on our RCF by £5m, are effective in managing the impact on key financial ratios.

# Report On Payment Practices and Performance

Ensuring a collaborative and good working relationship with all of our suppliers is key to the operational success of Portsmouth Water.

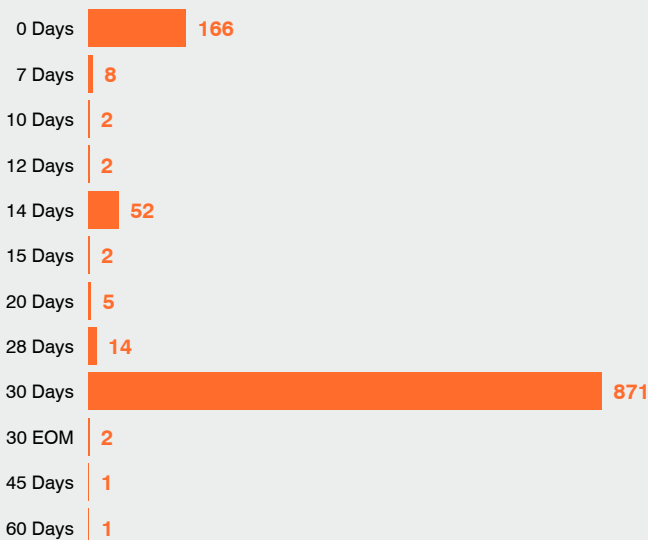
We are aware of the importance of being paid on time and within a reasonable period to all of the suppliers that we work in partnership with, and as such operate with fair payment terms. This is demonstrated by our payment practices which we have reported for the year to 31st March 2020.

Through close relationships with our suppliers we are fortunate to have minimal instances where payment of invoices has been in dispute. Our current process means that both the Financial Controller and the Procurement Manager are aware, on a day to day basis, of any payment disputes and these are actioned and resolved quickly. Statements are reconciled monthly and all of our spend is covered by a Purchase Order system which is also managed on a daily basis.

- ▶ Our standard terms are payment in 30 days from date of invoice.
- ▶ The maximum contractual payment term is 60 days.
- ▶ Change of payment terms occur rarely. However, this would be on an individual supplier basis and changed through a collaborative process.

- ▶ Suppliers are encouraged to send their invoices to us electronically
- ▶ Supply chain finance is not available
- ▶ Portsmouth Water is not a member of a payment code
- ▶ Initiated a comprehensive review of all procurement and commercial arrangements in preparation for PR19

## Supplier Payment Terms

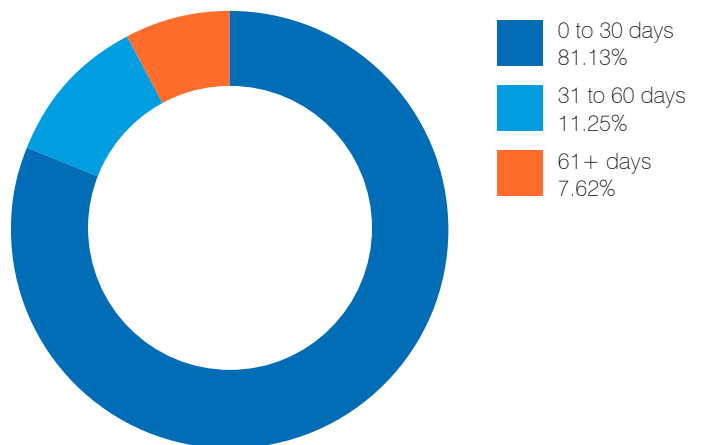


Suppliers on zero day payment terms are generally paid by direct debit

## Invoices with a receipt date between 1 October 2019 and 31 March 2020\*

Total number of those invoices paid	10,267
Total number of those invoices unpaid	563
<b>Total number of those invoices unpaid but due</b>	<b>10,830</b>
	193

## Breakdown of percentage paid



## Average number of days taken to make payments within the dates above from receipt of invoice\*

21.40 days

## Those due for payment within period up to 31 March 2019\*

Not paid	1.78%
Not paid within terms	41.71%
Not paid within 30 days of receipt	17.89%

\*Statutory disclosure requirements

## Strategic Report

**Principal Risks and Uncertainties**

Effective risk management is critical to the achievement of our strategic aims and customer Outcomes. As a company, risk management is embedded in our day to day activities and we use a range of formal and informal processes to make sure we keep risk management at the heart of what we do. We have revised the assessment of the 'Operational' risk category in terms of both likelihood and trend to reflect the impact of the ongoing COVID-19 pandemic. We have also set out more detail, in relation to the financial and operating implications, of COVID-19 in the Strategic Report on pages 35 and 36.

Risk category	Description	Potential impacts	Nature	Likelihood	Impact
<b>OUR CUSTOMERS</b>					
<b>Operational</b>	The significant loss of treatment works or failure of critical parts of the mains network or impact of major national event.	Failure to supply customers over an extended period.	Operational Reputational Financial		
<b>Water quality</b>	Failure against drinking water quality standards.	Water not fit to drink.	Operational Reputational Financial		
<b>Business continuity</b>	Scenarios for loss of major business elements such as key operational sites, power, telecoms, IT, personnel.	Adverse impact on ability to carry on normal business activities. Potential impact on ability to supply services to customers and ultimately potential impact on business viability.	Operational Reputational Financial		
<b>OUR PEOPLE</b>					
<b>Human resources</b>	Loss or shortage of critical skills, company knowledge or operational capacity. Possible over reliance on key individuals.	Adverse impact on ongoing operational activities. Poor business decision making due to lack of knowledge or experience.	Operational Reputational		
<b>Health &amp; Safety</b>	Failure to maintain appropriate Health and Safety standards.	Serious injury or death of employee or contractor. Prosecution by HSE.	Reputational Financial		
<b>OUR ENVIRONMENT</b>					
<b>Environmental</b>	Reduction in water abstraction licences due to EA reform and sustainability issues. Climate change and population growth increases demand. Damage to the environment.	Inability to provide a sustainable supply of water to the population. Impact on habitats and biodiversity.	Operational Reputational Financial		
<b>OUR BUSINESS</b>					
<b>Financial</b>	Liquidity, solvency, capital risk and credit risk.	Insufficient funds or facilities to finance capital programme, service debt or for day to day operating cash flow requirements. Breach of financial covenants and/or breach of licence conditions for financial viability. Inability to pay dividends. Inability to recover revenue due to increasing bad debt driven by socio-economic conditions.	Financial		
	Exposure to increasing costs or other financial loss reduce the financial viability of the Company.	Significant costs, such as power or interest expense, limited control and result in trading losses. Unexpected events, such as significant claims against the Company result in significant costs.	Financial		
<b>Regulatory</b>	Regulators' actions have an adverse impact on the business. DWI and EA related regulatory impacts are considered under Water Quality and Environmental risks.	Failure to meet customer service standards or Outcomes agreed with Ofwat may result in penalties. Unexpected changes in the Ofwat regulatory approach. Increasing Regulatory Requirements.	Reputational Financial		
<b>Legal &amp; governance</b>	Failure to meet our legal obligations particularly licence conditions and data protection. Lack of appropriate Governance.	Prosecution or fines as a result of company failure. Significant adverse publicity and loss of reputation.	Reputational Financial		
<b>Political</b>	Renationalisation	Unable to secure required funds for infrastructure projects.	Operational Financial		
	Brexit	- Unable to provide service. - Loss of key materials or chemicals.	Operational Reputational		
<b>IT</b>	Significant cyber-attack on the Company	Loss of critical computer systems resulting in failure to operate business as usual activities.	Operational Reputational Financial		



## KEY TO OCCURRENCE

### Likelihood of occurrence

● Low ● Medium ● High

### Impact of occurrence

● Negligible ● Moderate ● Serious ● Catastrophic

The table on pages 10 to 11 sets out how the principal risks and uncertainties identified relate to the Company's business objectives and reporting KPIs. We have summarised in the following table an overview of our risk management priorities. This summarises the type of risk, explains the likely impact and summarises the mitigations (plans, controls and actions) in place. It also provides an indication of the likelihood and potential impact of each risk occurring, together with the Board's assessment of the trend (increasing, decreasing or stable). In each category the level of required mitigation and control is determined by the Company's risk tolerance. On an annual basis the Board reviews its tolerance for risk and sets appropriate levels.

Further information on the Board's approach to risk is set out in the Corporate Governance section which commences on page 38.

Trend	Mitigation/Control
↑	<ul style="list-style-type: none"> <li>- The supply network has been developed to connect different supply areas, such that in most situations water can be transferred to compensate for a failure at a treatment works or in the network. Double the industry standard of treated water storage (48 hours) plus wide coverage of network with pressure management also support a highly resilient system.</li> <li>- A fully documented Emergency Plan which is initiated in the event of a major incident.</li> <li>- Employment of modelling, telemetry and monitoring to maintain the resilience of the network.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- A Drinking Water Safety Plan which identifies the potential risks throughout the supply process.</li> <li>- A rigorous sampling regime in accordance with statutory legislation together with 24 hour monitoring and response</li> <li>- Membrane filtration at four of the treatment works considered most at risk from cryptosporidium. Ultra violet treatment plants built at three other high risk sites.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- Defined and documented Emergency Plan in place which utilises Drinking Water Safety Plan (DWSP) risk assessments.</li> <li>- Business continuity planning processes. See also IT risk mitigations.</li> <li>- Appropriate insurance cover.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- Investment in a programme of employee development and cross training and collaborative working with other water companies.</li> <li>- Regular succession planning reviews at the Board level and Non-Executive Directors with appropriate, relevant skills mix.</li> <li>- Control procedures and policies in place to ensure that all relevant legislation is complied with.</li> <li>- Appropriate use of contractors and consultants to support the business needs.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- Culture of Health and Safety awareness and "zero tolerance" policy lead from the Board down including a Health and Safety Committee.</li> <li>- Risk assessment, training and inspections embedded in the business. All incidents reviewed for lessons learned.</li> </ul>
↓	<ul style="list-style-type: none"> <li>- Detailed modelling and studies in order to assess and understand the future balance of supply and demand.</li> <li>- Monitoring and modelling in order to identify the impact of abstraction at certain sites; identification and implementation of mitigating solutions.</li> <li>- Biodiversity surveying and specific schemes to support and enhance biodiversity.</li> <li>- Completed all investigations and no current obligations under National Environment Programme to support sustainability.</li> </ul>
↑	<ul style="list-style-type: none"> <li>- An appropriate capital structure with a mixture of cash, debt and equity together with appropriate credit facilities.</li> <li>- Effective processes of budgeting for costs and cash flows. This includes close monitoring of headroom against financial covenants and stress testing.</li> <li>- Mitigation of significant costs or claims (see below):</li> <li>- Utilisation of all appropriate means of debt collection, including the use of a dedicated debt recovery section and collection agencies.</li> <li>- A Social Tariff (Helping Hand) supporting our financially vulnerable customers.</li> <li>- Successful raising of additional debt or equity financing.</li> <li>- An appropriately experienced management team supporting development of the Havant Thicket winter storage reservoir project.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- An effective system of internal controls together with a process of budgeting and forecasting to manage the underlying cost base.</li> <li>- Energy represents around 7.5% of operating costs. An energy broker is used in order to manage exposure to power costs and price fluctuations.</li> <li>- Both interest payments and revenue are currently linked to inflation and therefore provide a natural hedge.</li> <li>- Comprehensive insurance cover for a range of risks, including damage to property, public and employee liability, fraud and terrorism.</li> </ul>
↑	<ul style="list-style-type: none"> <li>- The 5 year price review is conducted in an open and transparent manner and the Company actively participates in the process.</li> <li>- Performance against regulatory targets is reviewed on a monthly basis by the Board or the Executive Directors.</li> <li>- Close engagement with Ofwat through consultation processes, workshops and industry groupings.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- Corporate Governance code and authorisation framework which is reviewed annually. Monitoring of legal and governance areas.</li> <li>- Appropriate levels of insurance cover such as Public Liability insurance.</li> <li>- Close monitoring of performance against licence conditions through KPIs. A clear data protection policy and project implemented for adherence with GDPR.</li> </ul>
↓	<ul style="list-style-type: none"> <li>- In association with Water UK, the sector is introducing a Social Contract to reinforce commitments to making a wider contribution to society and restoring legitimacy. Portsmouth Water has implemented its own Community Partnership to dovetail with national efforts and modified the Company Purpose.</li> <li>- Continued industry defence of impact of nationalisation and reminders of the sector's achievements post privatisation.</li> </ul>
↓	<ul style="list-style-type: none"> <li>- Full assessment completed on all potential impacts of a No-deal Brexit in conjunction with Water UK.</li> <li>- Continued dialogue and reporting to Defra.</li> <li>- Detailed analysis on ongoing assessment of key suppliers. Increased stock levels to ensure continuity of supply.</li> </ul>
↔	<ul style="list-style-type: none"> <li>- We leverage a mix of technologies, threat intelligence, training and network isolation in order to protect, detect, contain, respond and adapt to the continuously evolving cyber threat.</li> <li>- Standard operating procedures such as regular back-ups held off site. Duplicate IT infrastructure held in a secure off site location.</li> <li>- A clear disaster recovery programme in place to enable us to continue working should the systems fail.</li> </ul>

## Strategic Report

# Viability Statement

### 1. Assessment of prospects

The Board has assessed the prospects of the Company over a period of 10 years.

#### Background information

The Company's business model and strategy are central to an understanding of its prospects. Further explanation of the business model and strategy can be found on pages 8 and 9. As a regulated, capital intensive, utility provider the nature of the Company's activities are long-term and, although subject to some regulatory changes, the business model is generally stable. The Company's current overall strategy, budget and cash flow projections are intrinsically linked to the Ofwat 5 year regulatory review cycle. Consequently, the 5 year regulatory Business Plan (which runs from 1 April 2020 to 31 March 2025 and for the Havant Thicket price control for 10 years to 2030) and the related Ofwat Final Determination are the primary drivers for the Company's future prospects. The Final Determination sets out the allowed revenue, operating expenditure, capital expenditure and agreed business Outcomes for the regulatory period. In addition we have extended our assumptions for the core business in order to reflect our estimate of the regulatory outcome (for the core business) for the period 2025-2030. More information in respect of the regulatory regime is set out in pages 30 to 33.

The Company has recently received the Final Determination for the 2020-2025 regulatory Business Plan cycle (for the Havant Thicket price control the period from 2020-2030) and together with an estimate of the regulatory outcome for the period 2025-2030 considers that this represents the best indication of future operating activity and financial results.

The Board continues to take a conservative approach to the Company's strategy. The business' focus is largely on delivering the agreed regulatory Outcomes and out-performing the operating costs set out in the Ofwat Final Determination. Decisions relating to major capital schemes, water quality, resilience of supply and changes to the business strategy are made with a low tolerance for risk. In particular, the Board has considered the changes in the risk profile of the Company in the Business Plan resulting from the lower allowed cost of capital, the development of Havant Thicket reservoir and a more challenging regime of rewards and penalties.

Given the current circumstances of the COVID-19 pandemic and its impact on business operations and the wider economy, the Board has modified its assessment process to consider the COVID-19 impacts in combination with a range of other down-side scenarios.

#### The assessment process of the Company prospects;

The Board recognises that the assessment of viability is dependent upon forecasts which, by nature, involves an element of uncertainty.

#### Budget process

The Company's prospects are routinely assessed, primarily, through its budget process and performance against regulatory Outcomes. These are both closely linked to the financial position set out in the Ofwat Final Determination for the core business period to 2025 and Havant Thicket price control to 2030 which drives the key budget assumptions. This has been extended to cover a longer term, 10 year duration.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2020/21) financial period.
- Five year analysis to 2025 in line with the Final Determination.
- Cash flow projections to 2025.
- Projection of key financial ratios including those required for banking covenants and to maintain an investment grade credit rating.

It also has regard to committed funding & liquidity positions and future funding requirements.

This assessment process involves an annual review of the budget (including financial projections through to the end of the 2025 regulatory period) and related objectives, led by the CEO and Finance Director, through the Budget Committee and Management Board. All Company departmental heads are involved in this review. A key part of this review is a comparison of the projected total operating and capital expenditure ("Totex") against that set out in the Company's submitted business plan and the Ofwat Final Determination for the 5 year period.

The Board participates fully in the annual process by means of the budget review and approval process, setting annual business objectives and strategy. The annual budget process was completed and approved by the Board during February and March 2020.

The key business assumptions in the budget related to;

- Increase in CPI(H) (which drives tariffs and costs)
- Levels of capital and renewals spend and related efficiency and cost savings
- Levels of capital spend relating to Havant Thicket reservoir and a capital injection to finance this growth in RCV
- Headcount and salary increases
- Interest rates and loan indexation rates

- Levels of operating expenditure out-performance against the final determination and targeted cost savings
- Levels of activity and cost related to delivering key ODI improvements – particularly leakage and PCC.

#### COVID-19 impact

We have modified our process of viability assessment in order to consider the impact of the COVID-19 pandemic – both in terms of the operational performance of the business and the wider economic conditions. As a business we have undertaken multiple iterations of scenario analysis considering 3, 6 and 12 months "severe business impact" of the pandemic and we have set out further information relating to our response to the COVID-19 pandemic on pages 35 and 36. The Board has been, and continues to be involved, in the process of assessing the potential impact of COVID-19 on the business. This includes the presentation of detailed board papers, weekly COVID-19 Board meetings and close tracking of the actual outcomes versus modelled scenarios. The Board will continue to carefully monitor the effects and to refine it's assessment of the overall impact. However, it should be recognised that there remains an inherent level of uncertainty relating to the COVID-19 situation.

Accordingly, we have considered, as a first step of this viability assessment, a 6 month severe COVID-19 business impact. The Board has assessed that the 6 month severe COVID-19 impact represents the best estimate of the likely outcome at this time. This has been completed initially on an unmitigated basis and then mitigating actions applied. We have then considered a further 12 month severe but plausible COVID-19 scenario. All additional viability scenarios were performed in combination with the post mitigation 6 month COVID-19 scenario.

The material down-side assumptions used in the 6 month COVID-19 scenario include;

- Reduction in non-household revenue as a result of lower consumption and void properties
- Reduction in non-household cash collection as a result of the above together with extended credit terms
- Reduction in household cash collection and resultant bad debts due to economic conditions
- Additional operating costs including cover for illness

The significant mitigating actions applied include;

- Deferral and restriction of dividends
- Restriction of capital expenditure

- Restriction of infrastructure renewals expenditure
- Headcount freeze
- Deferral of management salaries and bonuses
- Regulatory mechanisms permitting the recovery of revenue in later periods
- Furloughing of some employees
- Utilisation of revolving credit facility up to the current level of £25m

### Risk assessment

The Company updates the analysis of significant risks that could prevent the budget and Outcomes from being delivered. The Board performs regular reviews of the principal risks and uncertainties and a formal annual review and a robust assessment was completed and updated in April 2020. As part of the Business Plan process the Company performed an assessment of “resilience in the round” building from an understanding of operational risks through financial resilience and with regard to overall company resilience including governance and management effectiveness.

The overall summary of the principal risks and uncertainties (set out on pages 30 to 31) reflects this consideration of “resilience in the round”. Details of the Board risk assessment process are set out on page 43. The purpose of the principal risks table is, primarily, to summarise those matters that could prevent the Company from delivering on its strategy. A number of other aspects of the principal risks – because of their nature or potential impact – could also threaten the Company’s ability to continue in business in its current form if they were to occur. This was considered as part of the assessment of the Company’s viability, as explained further below.

In setting out specific scenarios for the Viability Statement we have reviewed the risk register together with resilience modelling prepared as part of the PR19 Business Plan and considered the impact of the current COVID-19 pandemic.

Using this information we have developed a range of relevant severe, plausible and reasonable business scenarios which have been linked to the relevant business risks. These were reviewed and approved by the Board and are summarized in section 2 below.

### The period of assessment

The Board conducted the assessment for a period of 10 years to 31 March 2030. The Board considers that this period of 10 years to be most appropriate given the current stage of the regulatory review cycle, the longer term nature of the business and the new 10 year Havant Thicket price control. This period

covers; for the “core business” the 5 years of the next regulatory period and an assessment of the results for the successive regulatory period; and for the Havant Thicket price control the 10 years to the end of the price control. This is consistent with the timing of the regulatory review cycle and an expectation that, for the subsequent regulatory period, Ofwat’s methodology will not be significantly changed. This is also consistent with Ofwat’s guidance relating to the period of assessment.

The Board feels that this is an appropriate length of time to permit a reasonable assessment of likely business performance and to make reasonable estimates of key assumptions. As set out above, the Ofwat Final Determination, the Business Plan, the delivery of Havant Thicket reservoir and the related Outcomes are significant drivers of the business strategy & performance. In addition the Board has considered the impact of the COVID-19 pandemic. These are key drivers to the end of the next regulatory period and beyond to 2030.

### 2. Assessment of viability

The Assessment of Viability therefore uses; for the “core business” a period of 5 years of regulatory business plan to 2025 and a further 5 years of projection to 2030; and for the Havant Thicket price control a period of 10 years of the regulatory business plan to 2030. Although these results reflect the Directors’ best estimate of the future prospects of the business, they have also stress tested the potential impact on the Company of a number of scenarios. This has been performed by quantifying their financial impact and overlaying this on the financial forecasts. The potential impact has been considered in relation to operating profit, cash flow, liquidity and the key financial ratios needed for banking covenants and the retention of an investment grade credit rating (such as gearing, net debt:RCV and interest cover). These scenarios (which are summarised on pages 42 and 43), have been driven from the Board’s assessment of the impact of COVID-19 and of “resilience in the round” (and are reflected in the principal risks and uncertainties set out in pages 38 to 39). These scenarios represent ‘severe, plausible and reasonable’ circumstances that the Company could experience. As noted above we have undertaken a two-step process first assessing the impact of a severe 6 month COVID-19 scenario and then overlaying this with further severe but plausible downside scenarios.

In addition the Directors also tested a number of broad sensitivities including increase in interest rates and adverse movements in Retail Price Index/Consumer Price Index. In

each case the availability and effectiveness of mitigating actions that could reasonably be taken to reduce the impact was taken into account. The primary mitigating actions relate to the use of available credit facilities, levels of insurance cover, the ability to defer capital and renewals spend and the discretion not to pay dividends.

It has also been assumed that adverse impacts, which may have an adverse but short lived (1 year) effect on financial ratios, could be managed by careful discussion with key stakeholders such as bond holders and the rating agencies.

The results of this stress testing showed that, due to the stability of the business, the Company would be able to withstand the impact of these scenarios occurring over the period of the financial forecasts by making adjustments to its operating plans within the normal course of business. This included both the restriction and elimination of dividend payments.

### 3. Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the ten year period ending 31 March 2030.

### 4. Going concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in note 1 to the financial statements.

### 5. Directors’ Responsibility Statement

We confirm that to the best of our knowledge:

- the accounts, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the report and accounts, taken as a whole, provides the information necessary to assess the Company’s performance, business model and strategy and is fair, balanced and understandable; and
- the Strategic Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties.

For and on behalf of the Board



**Bob Taylor**  
Chief Executive Officer  
11 June 2020

## Strategic Report

**Viability Statement**

Set out below are summaries of the results of the financial sensitivity analysis performed in support of the Viability Statement. The first table summarises the impact of "step one" of the COVID-19 6 month scenario upon the Company's original budget (both unmitigated and mitigated). The Directors consider that a 6 month impact represents a reasonable assessment of the most likely impact on the business. It should be noted that significant additional mitigating actions were included in our COVID-19 mitigation modelling. This is in order to provide sufficient headroom to withstand the high levels of uncertainty relating to the duration and severity of the pandemic.

<b>COVID-19 INITIAL IMPACT</b>				
	<b>Gearing</b>	<b>Artesian Interest Cover Ratio</b>	<b>Moody's Interest Cover Ratio</b>	<b>S&amp;P FFO/Net debt</b>
<b>Targets</b>				
AMP 7 Average	60.00%	1.40	1.50	7.00%
AMP 8 Average	70.00%	1.40	1.50	7.00%
<b>Budget before the impacts of COVID</b>				
AMP 7 Average	49.85%	1.65	1.99	9.30%
AMP 8 Average	62.22%	1.97	2.21	7.39%
<b>Budget including the 6 month impacts of COVID (unmitigated)</b>				
AMP 7 Average	50.71%	1.87	1.94	9.20%
AMP 8 Average	62.22%	1.97	2.21	7.39%
<b>Budget including the 6 month impacts of COVID (mitigated)</b>				
AMP 7 Average	48.51%	1.97	1.99	9.89%
AMP 8 Average	62.22%	1.97	2.21	7.39%

<b>SUMMARY OF RESULTS</b>						
<b>Individual Scenario</b>	<b>Impact (pre mitigation)</b>	<b>Mitigation</b>	<b>Opex</b>	<b>Capex</b>	<b>Borrowing Capital</b>	<b>Other</b>
<b>STEP ONE - COVID-19 SCENARIOS</b>						
COVID 6 month	FY21 EBITDA £2.5m lower & cash generated from operations £2.9m lower, due to lower non-household consumption and lower cash collections across household and non-household.  Unmitigated, Artesian ratio Moody's ICR and S&P FFO/Net Debt all fall below target in FY21.	Mitigating actions are made in FY21 - EBITDA saving, deferral of capital spend and deferral of dividends being the most significant. These are effective in mitigating the impact on ratios entirely. No further mitigation is needed for FY22 onwards as there is sufficient headroom in the financial ratios.	✓	✓	✓	✓
COVID 12 months	FY21 EBITDA £4m lower & cash generated from operations £5.5m lower, due to lower non-household consumption and lower cash collections across household and non-household.  Unmitigated, Artesian ratio Moody's ICR and S&P FFO/Net Debt all fall below target in FY21.	Mitigating actions are made in FY21 - EBITDA savings, reduction in Capex programme and reduction in dividends being the most significant. These are effective in mitigating the impact on ratios entirely. No further mitigation is needed for FY22 onwards as there is sufficient headroom in the financial ratios.	✓	✓	✓	✓

Following this assessment of the COVID-19 6 month impact and related mitigation we have, at step 2, overlaid further longer term "severe but plausible" scenarios (including combined scenarios) and summarise the results on the following page. It should be noted that in all scenarios the impact is considered to be mitigated in full by employing measures which are both reasonable and wholly within the control of management. These include additional borrowings, within the headroom of the current revolving credit facility, deferring the timing of capital expenditure and reducing operating expenditure, for example through a temporary reduction in infrastructure renewals.

## SUMMARY OF RESULTS

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Capex	Borrowing	Capital	Other
<b>STEP TWO - Additional scenarios overlaid onto COVID-19 post mitigation scenario</b>							
Major NHH retailer defaults	Following the change to extend additional credit to retailers the greatest potential exposure is in May 20. Assume retail default at this time resulting in gross exposure of £1.2m. Under-recovered revenue is assumed to be recovered in FY23. The initial impact is not reduced by the regulatory cap on exposure to NHH default.  The impact of this is that the Moody's ICR ratio falls below target to 1.15x in FY21 and adverse cash flow requires additional borrowing in year. All other ratios remain above the target for all years.	A £1.5m reduction in Opex would be required in FY21 together with additional in year borrowing to manage cash flow and mitigate impact on ratios.	✓		✓		
Household bad debt costs substantially increased due to socio economic factors relating to COVID-19	Assumption that the bad debt cost projected in the COVID-19 scenario is insufficient and the impact of COVID on customer's paying bills extends beyond FY21. This scenario models a nominal increase of £950k over the AMP- phased £250k, £300k, £200k, £100k and £100k for FY21 - FY25 respectively.  The impact of this is that the Moody's ICR falls below target in FY21 (1.43x). All other ratios remain above target for all periods.	To mitigate, a £200k opex saving would be required in FY21.	✓				
Multiple ODI failures resulting in penalty - 3% of RoRE in Y3	Assumed 3% RoRE ODI penalty based upon FY21 performance, amounting to £1.5m downward revenue penalty applied in FY23. EBITDA and cash both £1.5m lower in the year.  The impact of this is that the Artesian ICR falls below target in FY23, to 1.16x. All other ratios remain above target for the duration.	£1.5m additional drawdown on Revolving Credit Facility in FY23- repaid in FY25. This is within the authorised limit.			✓		
RPI and CPI lower by 2%/1% respectively	With CPI at 1% EBITDA reduced by £0.7m over AMP7 and an additional £1.3m in AMP8. This is somewhat offset by lower indexation on the Artesian loan (reducing interest charges). This improvement in the interest charge (£1.7m over both AMPs) mitigates to some degree impact on interest cover ratios. By the end of AMP8 cash is £1.3m lower. None of the ratios fall below target.	No mitigation required.					
50bps reduction in WACC in AMP8	Revenue decline of £5.1m in AMP8, ending the AMP with £4.7m less cash.  The impact of this is that the S&P FFO/Net Debt ratio falls below target from FY27 to FY30, falling by c0.6%.	Over AMP8 would need to reduce Opex by £4m to meet target S&P FFO/Net Debt ratio. This equates to £1m per year from FY27. There may be some savings in interest costs where new debt is raised.	✓				
Loss of Company specific premium in AMP8	Loss of the Company Specific Premium (0.30% on the cost of debt) in AMP8 would reduce revenue by £300k-£400k per annum (£1.8m over the whole AMP).  The impact of this is that the S&P FFO/Net Debt ratio falls below target from FY27 to FY30, falling c0.2% in each of these years, taking the ratio just below the 7% target.	Opex savings of £1.1m would be required in AMP8.	✓				
Pension deficit of £2m through £250k increase in annual contribution	Deficit is recovered through an increase in contributions of £250k per annum. At the end of AMP7 cash is £1.4m lower rising to £2m lower by the end of AMP8. This scenario impacts both the Moody's ICR and the S&P FFO/Net Debt ratios. The Moody's ICR is falls to 1.42x and the S&P FFO/Net Debt falls marginally below target in FY27 & FY28.	Impact in AMP7 can be managed by reprofiling spend and borrowing an additional £0.5m on the RCF in FY23. A total of £400k opex saving required in AMP8.	✓		✓		
HTWSR delay in project increased costs	Assumption of an initial 12 mth delay in the HTWSR project. Additional spend needed to meet commissioning date totaling £5.2m, incurred from mid-way through FY23. This represents a P90 scenario.  This results in fall of the Artesian ICR in FY24, with coverage at 1.26x (a decline of 0.23x from Covid Base Case) resulting in a dividend lock up without mitigation (but not breached). The S&P FFO/Net Debt ratio falls marginally below 7% FY27 to FY30.	Fully mitigated through additional draw down on the RCF of £1m in FY24. £250k of opex saving required in FY28 to meet the S&P FFO/Net Debt target level.	✓		✓		
Cost of debt increases 50bps - impact to new debt raise in AMP8	£99.5m of new debt is forecasted to be raised in AMP8. An increase of 50bps on the cost of debt raised in AMP8 increases interest costs by £205k in FY26, rising to £498k in FY30 (£2m over the whole of AMP8). Cash at the end of AMP8 is £1.9m lower.  The S&P FFO/Net Debt ratio falls below target in FY27 to FY30, having declined by c0.25%.	Opex savings (in nominal terms) would need to be achieved in AMP8 to offset the increased cost of borrowing. This would need to amount to £1.1m over AMP8.	✓				
<b>COMBINED SCENARIOS</b>							
Pension deficit combined with ODI failure	£1.5m ODI penalty applied to revenue in FY23 based upon FY21 failure, together with additional £250k (nominal) per annum cost to recover the pension deficit.  Moody's ICR falls in FY21 and FY23 (declining 0.13x and 0.81x to 1.42x and 1.46x respectively). The Artesian ratio falls to 1.10x in FY23. S&P FFO/Net debt target ratio is not met in FY27 to FY30.	Total Opex savings of £0.8m over the two AMPs, additional £1.5m drawdown on the debt facility in FY23 and £0.5m in FY24 are required.	✓		✓		
Combination of NHH retailer default, increase in household bad debt costs and ODI failure as set out above.	The net impact of these scenarios are that the Moody's ICR is failed in FY21, falling to 1.09x, the Artesian ratio marginally fails in FY23 1.39x and the S&P FFO/Net Debt ratio fails in FY28 at 6.98%.	Opex saving of £1.8m are needed in FY21 to ensure compliance with the Moody's ICR. Headroom in FY23 ratio means that these costs can be deferred from FY21 to FY23. Additional £2m drawdown on the credit facility in FY23 (repaid in full in FY25). £100k (nominal) opex saving in FY28 required.	✓		✓		

# Corporate Responsibility Statement

## Affordability

In recent years the UK has seen increasing levels of household debt. Accordingly the Company pays close attention to how we support domestic customers who may be struggling to pay their water bill. Whilst at £106 our average bill is the lowest in the country, we still have a number of options available to support these customers.

We introduced our 'Helping Hand' Social Tariff in 2016. This tariff caps customers' bills at our minimum charge, currently £81.14, for those customers whose household income, excluding certain benefits, is less than the Government's low income threshold of £16,105.

Our Arrears Assist Scheme started in May 2014. Through this scheme we encourage customers back into making regular payments by matching the payments we receive £ for £. We currently have over 335 customers on this scheme with over 500 having completed it. We have found the Arrears Assist Scheme has been successful in encouraging customers to engage with us about payment of their water accounts. It also enables us to better understand our customers' financial situation and the hardships they are facing.

Customers can also apply to be placed on the WaterSure Tariff. This tariff is for metered customers who are in receipt of certain benefits and have a medical condition that requires an individual to use more water or have 3 children under the age of 19 resident in their home. These customers have their measured bills capped at our average bill value.

We also operate a scheme called WaterDirect. Customers who receive certain benefits from the Department of Work and Pensions, and are in arrears on their bills, can request that water bill payments are deducted straight from their benefits.

Finally we have an in-house Customer Support Officer whose role is to engage with hard to reach customers, and the organisations that support them.

## Compensation & Customer Charter

We operate a compensation scheme as part of our Customer Charter. This includes the service standards as set out in law, under the Guaranteed Standards of Service (GSS) scheme. If we fail to meet any of the standards outlined in the GSS guidelines, customers are entitled to a compensation payment. The GSS standards cover the following areas:

- Making and keeping of appointments with customers
- Responding to account queries
- Responding to complaints
- Dealing with interruptions to the water supply (planned and unplanned)
- Levels of water pressure

Our Company Customer Charter is enhanced beyond the GSS standards. We increased the compensation payment amounts beyond what is required in the GSS standards.

## Streamlined Energy and Carbon Reporting (SECR)

In common with all water companies' energy is a significant operating cost of the business accounting in our case for 7.5% of operating expenses. The majority of our energy consumption and the associated greenhouse emissions relate to water pumping and treatment activities.

Our gross greenhouse emissions for the year were 6,362 tCO<sub>2</sub>e for Scope 1 and Scope 2 emissions. The tables below show our energy consumption, greenhouse gas emissions for scope 1 and 2 emissions and the volume of water we deliver to our customers.

The significant reduction in gross greenhouse gas emissions is due to the conversion factor we apply in the calculation, which reflects the UK grid electricity generation mix, as determined by Department for Business, Energy & Industrial Strategy (BEIS).

We continue to work pro-actively to develop sustainable solutions that minimise the impact on the environment and reduce our carbon footprint.

In our Business Plan, over the 5 year period from 2015/16 to 2019/20 we committed "to increase the percentage of energy obtained from renewable resources and, wherever practicable, to reduce electrical consumption delivering a more sustainable water supply service".

We address carbon emissions in a number of different ways:

- Operate solar arrays at 6 of our operational sites
- Purchase almost 100% of our energy for our treatment and pumping sites from 'Green' energy sources (biomass)

During 2019/20 we have continued to work towards further reductions in energy including:

- Enhancing telemetry controls for remote control of assets and installing power consumption monitors. This has provided asset specific energy monitoring and the flexibility to utilise more efficient pumps based upon energy consumption.
- Currently implementing an energy optimisation system called "SPORT". This will utilise the telemetry remote controls and key cost data to provide a least cost operating schedule for pumping assets, enabling a reduction in operational energy usage and carbon emissions (Tonnes of CO<sub>2</sub>).

<b>kWh Energy Consumed</b>	2019/20
Electricity	23,021,716
Natural gas	898,179
Gas oil	37,340
Transport	1,471,005
<b>Total</b>	<b>25,428,240</b>

<b>Volume of Water</b>	2019/20
<b>Total</b>	<b>4,179</b>

<b>tCO<sub>2</sub>e Emitted</b>	2019/20
Scope 1	534
Scope 2 (LB)	5,828
Scope 3	-
<b>Total</b>	<b>6,362</b>

<b>Intensity Ratio (tCO<sub>2</sub>e/MI)</b>	2019/20
<b>Total</b>	<b>0.086</b>

	Units	2019/20	2018/19	2017/18
Electricity used	MWh	23,022	23,875	22,793
Gross greenhouse gas emissions	tCO <sub>2</sub> e	5,884	8,417	9,716
Water delivered - Distribution input	MI	62,362	63,725	63,667
<b>Gross Greenhouse gas emissions per million litres of water delivered</b>	<b>KgCO<sub>2</sub>/MI</b>	<b>94</b>	<b>132</b>	<b>153</b>

- TRIAD / Tariff management to reduce our consumption and demand during the electricity peak periods throughout the year.
- Implementation of a vehicle telematics system called "Lightfoot" across our transport fleet. This has improved driving efficiency and has provided a reduction in fuel usage and carbon emissions (Tonnes of CO2).

### Water Efficiency

We began our Water Efficiency Programme in 2010 and continue to promote the benefits of saving water to our customers, our community and our local schools.

Our efforts focus on providing free water saving devices and having information and interactive features on our website. In addition we work closely with schools and our education centre to create a water wise attitude amongst our future generations. We also continue to look for new and innovative ways to encourage our customers to switch to a water meter.

### Working in the Community

2019 saw us launching our new education program and website.

The Education Programme "Water is Life" has been designed working with TeachTalkLearn, an education specialist company, and in partnership with the Staunton Farm Education Team.

The program will be delivered as part of regular school visits to Staunton Farm. Every schoolchild on an education visit to Staunton farm will be given information on how to be a good citizen and how this relates to looking after the valuable resource of water.

Alongside the education programme, which will be delivered by the Staunton Education team, is a website full of resources and activities for all KS1 & KS2 children to enjoy both in the classroom and at home. Activities are designed to be easily understood with supporting information for adults so they can engage in the learning together with their children.

### Supporting Disability in the Workplace

The Company has adopted a policy which complies with the Disability Discrimination Act 1995. Every consideration is given to applications for employment from disabled persons, where the job requirements may be adequately covered by a person with a disability. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

### Community Partnership

During 2019 we launched the Company's Community Partnership which sets out the commitments we have made to do the right thing for the communities that we serve.

### Catchment Management

Portsmouth Water abstracts groundwater found within the chalk rock of the South Downs to supply public drinking water in our area. Around 85% of the water we supply comes directly from groundwater, sourced from boreholes or springs. The water we supply to our consumers has to meet strict drinking water standards which provide specific limits on a number of contaminants, including nitrates and pesticides.

The two principal pollution risks to our water sources are nitrates from agriculture and leaks and spills from oil tanks. The past year has seen the Catchment Management Team develop new 'on the ground' initiatives to address these risks.

With regards to nitrate, the Company is working in partnership with other water companies in the South and northern France as part of the European Union Interreg France (Channel) England project 'Channel Payments for Ecosystem services'. Trials are underway in our catchment looking at innovative ways of financially supporting farmers and landowners to alter their practices to deliver cleaner groundwater in our catchments.

Related to this, we are also working in partnership with the Forestry Commission on ways of establishing long term relationships with farmers regarding the improvement of groundwater quality through woodland creation.

Both of these projects will help inform the catchment management measures we will fund through our next Business Plan (2020-2025).

Take up of our oil tank subsidy scheme continues to increase, delivering a very real reduction in the risk of groundwater contamination from oil spills and leaks across our catchments. The scheme offers a 50% subsidy for any works to make domestic heating oil installations a low risk to groundwater; this can include tank and pipework replacement.

Further work has been undertaken to ensure groundwater protection through the Catchment Management Team's continued active involvement with local planning. This includes Portsmouth Water's Groundwater Protection Guidance documents which inform developers on Portsmouth Water's preferred approach to development relating to groundwater quantity and quality.

### WaterAid

The Company continues to support and promote the charity WaterAid to customers and staff. Over the last 30 years donations from our customers, together with fundraising efforts of our employees have raised over £500,000 for WaterAid. This funding is used by WaterAid to develop low cost water supply and sanitation infrastructure in developing countries.

### Nature Conservation & Biodiversity

The Company is committed to ensuring compliance with all environmental legislation and obligations, carefully assessing the impact of its activities, especially construction projects, on the environment. This ensures that the impact of such schemes is minimised.

We have a statutory duty to consider conservation and biodiversity as part of our business activity. We operate in an environmentally sensitive area and we are committed to ensuring compliance with all environmental legislation and obligations, carefully assessing the impact of our activities on the environment, to ensure this is minimised.

As part of our wider commitment to improving the environment, we aim to conserve and enhance biodiversity on the 44 operational sites we own. Sites are located in a variety of habitats including chalk down-land, river catchments and coastal margins. Habitat management plans have been agreed for all operational sites.

We own one Site of Special Scientific Interest (SSSI) at the Itchen water treatment works, which we manage in conjunction with Itchen Valley Country Park. Through a Natural England High Level Stewardship agreement we allow cattle grazing of the meadow to maintain the wet grassland habitat.

Further information in relation to our commitment to biodiversity and the environment is set out on pages 16 to 21 "Our Environment".

### Data Protection

The Company continues to take seriously its obligations under Data Protection and can confirm that it is compliant with all aspects of that law.

The Company's Data Privacy policy is available on the Company's website and all employees have undertaken Data Protection training.

All Subject Access Requests received were dealt with in a timely manner and no matters were escalated to the data protection governing body, the ICO.

# Governance



**Mike Kirk**  
Chairman  
11 June 2020

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## Chairman's Introduction

We continue to remain committed to the highest standards of corporate governance and take the lead from those set out in the UK Corporate Governance Code and guidance issued by Ofwat. Ofwat have updated their principles which deal with Board leadership, transparency and governance and we are reporting against those in this Report, and elsewhere in this document. We have summarised on pages 53 and 54 how we have responded to the Ofwat provisions. We set out our revised Company Purpose on page 8.

### Links

A copy of the FRC 2018 UK Corporate Governance Code can be found at: [www.frc.org.uk/our-work/publications/corporate-governance/UK-corporate-governance-code-2018.pdf](http://www.frc.org.uk/our-work/publications/corporate-governance/UK-corporate-governance-code-2018.pdf)

A copy of the Portsmouth Water Governance Code can be found at: [www.portsmouthwater.co.uk/wp-content/uploads/2015/02/D67ZBEE-1EAZ-42F6-BE30-3D086D7COZCZ.pdf](http://www.portsmouthwater.co.uk/wp-content/uploads/2015/02/D67ZBEE-1EAZ-42F6-BE30-3D086D7COZCZ.pdf)

## Retirement

After eight years as an Independent Director and Chairman of the Company I have decided that, as the business goes into a new AMP, now would be an appropriate time to leave the Board. I shall leave the Board in June 2020.

I have thoroughly enjoyed my time at this wonderful Company and would like to thank my fellow Board Members and everyone working for the Company for the fantastic support they have given me during my tenure. I wish the Company every success for the future.

## Board Composition

I am delighted to confirm that from 1 May 2020 Christopher Deacon joined the Board as an Independent Non-Executive Director and from June he will take over my current role as Chairman. I am certain that Christopher will continue to ensure that Portsmouth Water remains a leader in the Water Industry.



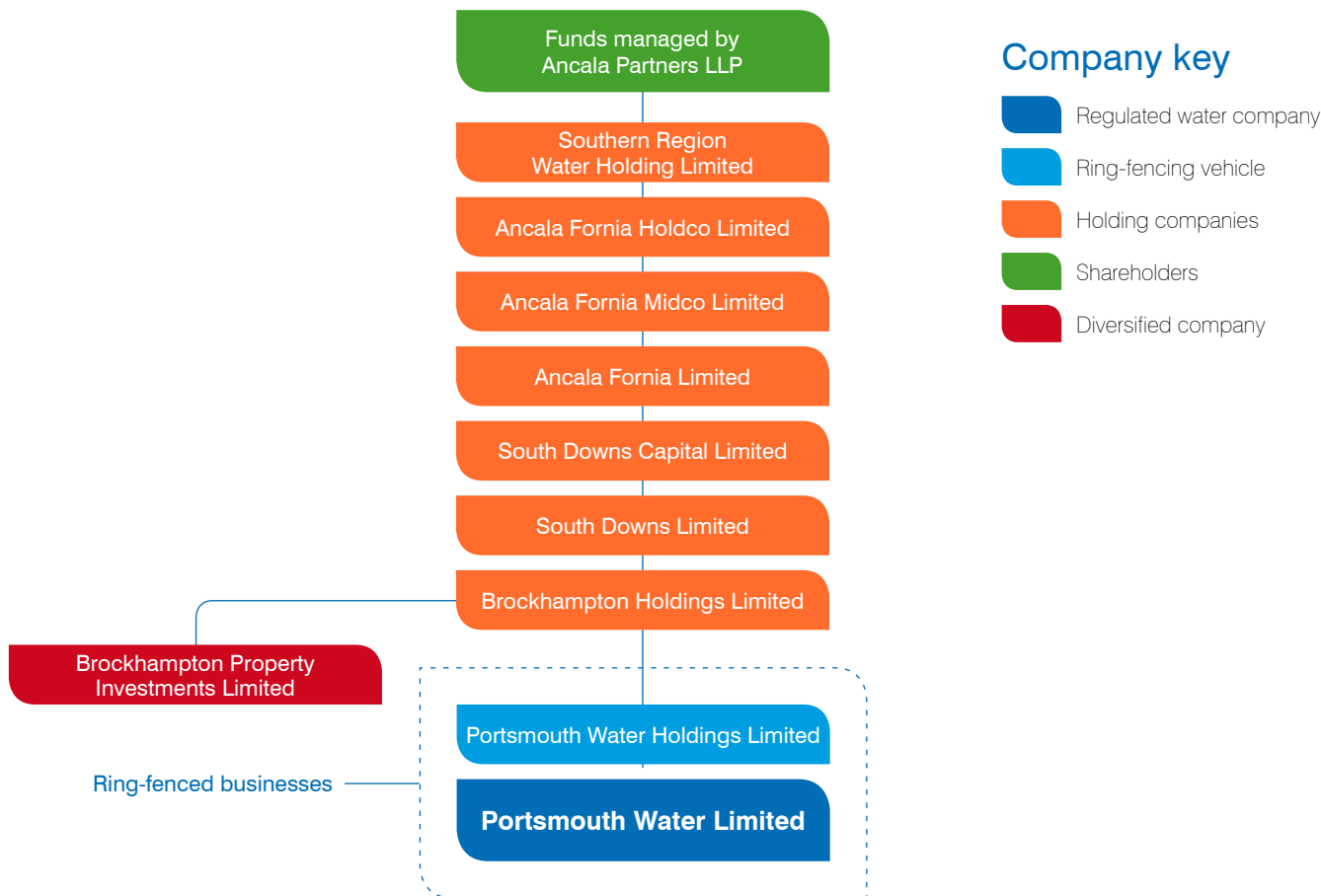
Tree planting with a local school at our Havant Thicket Winter Storage Reservoir site



Governance

# Ownership Structure

The following chart shows the ownership of the Company and the Group Structure. All companies are wholly owned by the parent company shown and all companies, with the exception of Southern Region Water Holding Limited (which is Hong Kong tax domiciled) are domiciled in the UK for tax purposes.



**Explanation**

Portsmouth Water Limited is the primary trading company in the group and is included within the regulatory ring-fence as established by the Instrument of Appointment. The immediate parent of Portsmouth Water is Portsmouth Water Holdings, a company established in 2002 to protect the interest of Bond holders by exercising control over distributions.

Ancala Partners LLP (“Ancala”) is a UK based infrastructure fund manager. Its investors are primarily UK corporate and local authority pension plans. The acquisition of South Downs Capital Limited in March 2018 was implemented by a new company, Ancala Fornia Limited, which is incorporated in the UK. The ultimate parent undertaking is Southern Region Water Holding Limited (SRWHL) which is incorporated in Hong Kong and was set up in 2019. The investors in SRWHL comprise a number of investment vehicles, all focused primarily on UK long-term infrastructure investment and managed by Ancala Partners LLP. Ancala manages approximately £850 million of funds with investment from UK and European pension plans and institutional investors with a long term investment horizon.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the year ended 31 March 2020 will be prepared at the level of Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

**Financing**

Portsmouth Water Limited is financed primarily by way of an RPI indexed linked loan secured upon the assets of the Company. This thirty year £66.5m index-linked loan was issued in June 2002 and is repayable on 30 September 2032. The loan interest is calculated by adjusting the value of the loan by RPI and then charging interest on this amount at 3.635%. The current value of the loan is £109.7m (2019 - £106.7m).

Governance

# Board of Directors

## Executive Directors



(N)

**Colin Robert Taylor (58)**

Appointed: November 2018

Chief Executive Officer

B.Sc., M.Sc., MBA, C.Eng., F.I.C.E.

With over 35 years' experience in the water industry Bob has held a range of senior roles including Operations Director (Drinking Water Services) at South West Water and Managing Director/Director of Operations at Bournemouth Water. Prior to this he was the Business Development Director with Singaporean group Sembcorp responsible for development of the municipal water and wastewater business (with specific focus on Middle East, South America and India). Bob is currently a Director of Water UK and President Elect of the Institute of Water.



**Helen Mary Grace Orton (50)**

Appointed: October 2015

Finance and Regulation Director

B.Sc., F.C.A.

A Chartered Accountant and previously a Director with PricewaterhouseCoopers LLP Helen has a broad range of commercial experience working with a wide range of listed and large companies. She has particular experience working with businesses in the Water Industry and other regulated industries including the development of Regulatory Financial Statements. Helen also serves as a Non-Executive Director for UKWIR.

## Shareholder Nominated Non-Executive Director



(N)

**David William Owens (68)**

Appointed: March 2018

Investor Representative

C.Eng., B.Sc., F.I.E.T.

David has an extensive utility background and between 2006 and 2009 he served as CEO of Thames Water. Prior to his role at Thames he was an Asset Director at Macquarie European Investment Fund. He has also been Managing Director of Eastern Electricity and prior to that Managing Director of ABB Power T & D. David holds a First Class Honours Degree in Electrical Engineering. He is a chartered electrical engineer and fellow of the IET (Institution of Engineering and Electronics). David is currently Chairman of Islands Energy Group the gas delivery business for the Isle of Man and the Channel Islands, Ancala Water Services which delivers water and waste services to over 1100 MoD sites throughout England and Wales and Biogen the UK's leading Anaerobic Digestion operator converting food-waste to renewable energy and a Non-Executive Director of Leep Utilities the "last mile" utilities operator.

**KEY TO COMMITTEES**

A Audit

N Nomination

R Remuneration

● Committee Chair

**Independent Non-Executive Directors**

**Michael Peter Kirk (60)**  
Independent Non-Executive Chairman

Appointed: November 2012

FT Non Executive Director Diploma, MBA, M.Sc., D.I.C., B.Sc.

Mike is a Chemical and Nuclear Engineer, with extensive experience of long-life infrastructure design and project economics. He then moved into investment banking and had extensive experience advising water, power and gas utilities through several periodic reviews. Mike is Chair of VIVID - Hampshire's largest housing association with 30,000 homes and Executive Chairman of QFI, a listed speciality oil & gas technology business.

N R



**Martin Paul Johnson (47)**  
Senior Independent Non-Executive Director  
M.Sc, C.Eng., F.I.MechE., B.Eng. PRINCE2

Appointed: July 2014

Martin Johnson is a Mechanical Engineer, a Fellow of the Institute of Mechanical Engineers and a Lean Six Sigma Master Black Belt, with experience in regulation, large capital programmes and customer strategy from BAA and BMI Healthcare. Martin brings board experience from his current role as Chief Executive of Adelie Foods Group and previously as Chief Commercial Officer at BMI Healthcare. Martin started his career as an Engineer in the automotive sector with Ford and BMW.

R A N



**Michael Robert Coffin (61)**  
Independent Non-Executive Director  
BA (Econ), F.C.A.

Appointed: January 2019

Mike is a Chartered Accountant with a broad range of audit and commercial experience gained during his long career as a Director with PricewaterhouseCoopers LLP, working with a range of listed and regulated entities. He is a governor at Portsmouth Grammar School where he chairs the Audit and Risk Committee.

A N R



**Christopher Deacon (72)**  
Independent Non-Executive Director  
M.A.

Appointed: May 2020

Christopher Deacon has a background in private finance in infrastructure and in the water and electricity utilities. He was Head of Project Finance with HSBC/Midland and lead banker for the Eurotunnel financing in the 1980s and since then he has been involved as a Board Adviser on major world-wide infrastructure projects.

More recently, since the early 2000s Christopher has held several Non-Executive Directorships. He recently stood down as a Non-Executive Director of Thames Water but continues as an Independent Director of companies in the Aspire Defence Group. He also advises OFGEM on commercial aspects of the UK electricity network, particularly relating to offshore wind transmission. Christopher is Deputy Chairman and Treasurer of the Franco British Council and an Independent Director of the London Business School Trading Company Ltd.

N R

## Governance

**Board of Directors**

Meeting	Board	Audit	Nomination	Remuneration
<b>Number of meetings in the year</b>	<b>12</b>	<b>3</b>	<b>2</b>	<b>4</b>
<b>Chairman</b>				
Mike Kirk	12/12	-	-	4/4
<b>Independent Non-Executive Directors</b>				
Martin Johnson	11/12	3/3	2/2	4/4
Mike Coffin	12/12	3/3	2/2	4/4
<b>Executive Directors</b>				
Helen Orton	12/12	-	-	-
Bob Taylor	12/12	-	2/2	-
<b>Investment Director</b>				
David Owens	12/12	-	2/2	-

**How the Board Operates**

The Board has a schedule of matters reserved for its decision and delegates more detailed consideration of certain matters to Board Committees including the audit, remuneration and nomination committees. All these committees report directly to the Portsmouth Water Board of Directors, where the final decisions are taken.

The Board is confident that reserved matters are appropriate for a regulated business and focuses on the key regulated activities. The independence of the Board is maintained with the independent non-executive being the largest group and the Investor limited to one Director although the Board do recognise the importance that our shareholder plays within the Company.

Information is circulated to the Board in a timely fashion to ensure that all Directors are fully briefed on all issues arising at Board Meetings. They are free to seek any further information considered necessary. Under the guidance of the Chairman, all matters before the Board are discussed openly and presentations and advice are received frequently from senior managers.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in the furtherance of their duties.

**Board Effectiveness**

Although during this handover period there are four Non-Executives, the Board usually consists of three Non-Executive, two Executive Directors and an Investor Director. We believe the composition of our Board is appropriate for balancing the needs of customers, the environment and our shareholding, and also complies with the Governance proposals laid out by Ofwat.

It is considered that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge to enable them to discharge their duties and responsibilities effectively. A thorough review of skills of each Director and the Board as a whole was carried out during the year.

The appointment of Mike Coffin, with a strong audit background, to chair the Audit Committee and the recent appointment of Christopher Deacon as Chairman Designate, for his detailed infrastructure experience as we embark upon the HTWSR Project, are examples of how the Board reviews the required skills and makes changes to reflect any gaps.

**Performance Evaluation**

During the year, a formal performance evaluation of the Board, its committees and its Directors was undertaken. Each Director was required to complete a questionnaire, the responses to which were reviewed by the Board as a whole. The Non-Executive Directors also met without the Executives to consider the performance of the Board and its committees, and without the Chairman to appraise his performance. The Executive Directors are subject to a formal appraisal of performance which is reviewed by the Chairman. The Chairman also meets with each Non-Executive Director to review individual performance. The evaluation concluded that the Board and its committees operated effectively, and that each Director demonstrated commitment to the role and performed effectively.

A full report on the evaluation responses was considered at the March 2020 Board Meeting and reviewed under the following headings: Purpose and Values, Company Performance Assessment (Financial, Operational and Strategic), Board Performance and Independence, Understanding and Engagement with Stakeholders, Governance, Risk and Control and Board Constitution and Size.

A further assessment was made by the Chairman in April 2020 where recommendations were made to:

- Refocus on the Strategy after the Final Determination
- Enhance Stakeholder mapping work
- Further integrate and Management risk analysis
- Introduce a thorough approach to major project reviews

The Board will continue to focus on these areas to implement the recommendations.

The Board continues to strive for diversity across the Company and is proud of the graduate, apprenticeship and leadership programme within the business to ensure inclusivity is embedded in both our organisation and in our succession planning. Diversity is crucial for the long term success of the business.

### **Chairman and CEO**

The roles of Chairman and CEO are separate with a clear division of responsibilities between them.

The Chairman is responsible for leading the Board and ensuring its effectiveness. He facilitates the contribution of the Non-Executive Directors and the relationship between them and the Executive Directors. He is independent of both Management and the Investors.

### **Shareholder Engagement**

The Group comprising Portsmouth Water is 100% owned by funds managed by Ancala Partners LLP. As part of the agreement when the Group was purchased, Ancala are allowed one member on the Portsmouth Water Board and David Owens is their representative.

### **Risk Management and Internal Control**

The Board is responsible for the Company's system of internal control and risk management and considers this to be fundamental to the achievement of the Company's strategic objectives. These systems and procedures are designed to identify, manage and, where practicable, reduce and mitigate the effects of the risk of failure to achieve business objectives. They are not designed to eliminate such risk recognising that any system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Company's significant risks, that it has been in place for the year ended 31 March 2020 and up to the date of approval of the Annual Report and Accounts and that it is regularly reviewed by the Directors. The Board have also set the Risk Appetite for the business and it is reviewed regularly.

The key procedures, which have been established with a view to providing effective internal control, are as follows:

#### *Organisation*

The Company's activities are operated through a Board of Directors with clearly defined reporting lines and delegation of authority. The Directors meet regularly to consider a schedule of matters required to be brought to them for decision making. A standing committee with delegated authority meets weekly for the purpose of ensuring that full and effective control is maintained over appropriate financial, regulatory and operational issues.

#### *Budgetary Control*

Each year the Directors approve an annual plan produced from a comprehensive budgeting system. Actual results are reported against the approved plan on a monthly basis to provide a timely and regular monitoring of performance.

#### *Investment Appraisal*

The Company has a clearly defined framework for assessing capital expenditure needs and options, while post project appraisal looks at relevant improvement in the internal control procedures. Board approval is required for any project exceeding a quantified expenditure level and those authorisation levels were reviewed and amended in March 2019.

#### *Business, Operational and Compliance Risks*

The Company assesses the risks facing its business on an ongoing basis and has identified them under eleven main headings – operational, water quality, financial, environmental, regulatory, information technology, Health and Safety of employees, human resources, legal (including whistle-blowing and fraud), business continuity and political. They are subject to regular reporting to the Directors. The Board reviews the controls established to mitigate these risks and its insurance requirement on an annual basis. The Directors also receive reports from independent regulatory bodies, which comment on the performance of the core water business. Any issues raised in these reports are identified and dealt with in an appropriate manner.

At the Board meeting on 30 April 2020, the Directors carried out their annual assessment, including consideration of events since the year end. They also reviewed the Company's Risk Management Policy and processes. They agreed that this annual assessment, coupled with the Board's ongoing analysis of risks provided an effective Risk Management Strategy.

### **Board Committees**

A range of key matters delegated to the Board's Committees are set out on pages 46 to 63 of this Corporate Governance Report. The Terms of Reference of each of the Board's Committees are available upon request from the Company Secretary at the Company's Registered Office.

## Governance

**Board of Directors**

The Board has considered the revised Ofwat requirements in relation to leadership, transparency and governance and has, for ease of reference, summarised below how the key provisions have been met.

**Purpose, values and culture**

The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

**Provisions**

The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Following the extensive stakeholder engagement as part of PR19, we undertook work to update the Company Purpose, this is set out in more detail on page 8. In parallel to this we also formalized out commitments to the communities that we serve through our Community Partnership.
The board makes sure that the company's strategy, values and culture are consistent with its purpose.	The Company's Purpose is developed from and underpinned by the Company's "Vision" and "Values". We explain more about our values under "Our Customers and "Our People".
The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	The Board assesses behaviours throughout the business in a number of ways including reviewing the results of Company-wide staff surveys and regular monthly management reporting. Where the Board finds misalignment this is addressed directly through the actions of the Executive directors and senior leadership team and through direct alignment to the company staff assessment and appraisal process. We explain more about this alignment under "Our People".
Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	This is communicated throughout the annual Report and Accounts and in particular under, "Our Company Purpose", "Our Strategy" and "How we measure success".

**Standalone regulated company**

The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

**Provisions**

The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.	This is set out in the Corporate Governance section under "Board of Directors".
Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	This is set out in the Corporate Governance section under "Board of Directors".
The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.	The Board is made up of a majority of independent non-executive directors. This is set out in the Corporate Governance section under "Board of Directors".

## Board leadership and transparency

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

### Provisions

An explanation of group structure;	The Group structure is set out on page 47 of the Corporate Governance report.
An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	The dividend policy is explained on page 27 of the strategic report. This was updated as part of the PR19 Business Plan process.
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	The Principle risks and uncertainties faced by the business are covered both under "the issues that affect us" and "Principal risks and uncertainties".
The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast;	This is set out in the table of meetings on page 50.
An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	This is reflected under "Remuneration Committee" on pages 56 to 61, including the linkage of remuneration to stretching delivery targets.

## Board structure and effectiveness

The Board of the Appointee and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

### Provisions

Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	This is set out in the Corporate Governance section including how we recruit NEDs to ensure the right balance of skills on page 55. The Board have updated their assessment of the composition of Board.
Independent non-executive directors are the largest single group on the board.	This is set out in the Corporate Governance section under "Nomination Committee" on page 55.
The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	This is set out in the Corporate Governance section under "Board of Directors" on page 51.
There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	The board completes an annual performance evaluation and has set this out under "Board of Directors" on pages 50 and 51.
There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.	This is set out in the section covering the "Nomination Committee" on page 55.
To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	This is set out in the section covering the "Nomination Committee" on page 55.
There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.	This is set out under Board Composition on page 55 and in the sections covering the Audit, Nomination and Remuneration Committees.

## Governance

**Audit Committee**

**Mike Coffin**  
Chair of Audit Committee  
11 June 2020

**Audit Committee Members**

Mike Coffin (Chair)

Martin Johnson

**Audit Committee Chair**

Mike Coffin commenced his role as Chairman of the Audit Committee on 1 April 2019 and has held the position for the full 12 months.

**Role of Committee**

The purpose of the Committee is to ensure the preservation of good financial practices throughout the Company, to ensure that controls are in place to ensure the integrity of those practices and to monitor them, to review the interim and annual financial statements and to provide, by way of timely meetings, a line of communication between the Board and the external auditors. During these meetings with the external auditors the Audit Committee have asked to be made aware of significant issues, discovered by the Auditors on the financial statements.

The Committee has formal Terms of Reference, which deal with its authorities and duties. It has primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors. It also reviews annually arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

**Activities during the Year**

In addition to fulfilling its ongoing duties, the Committee has an extensive agenda of items addressing issues relating to the day-to-day activities of the business with which it deals in conjunction with senior management, the Reporter and Auditor and the Company finance team. There were three scheduled meetings of the Committee during the year. Items on the agenda included:

- Reviewing the Year End and Interim Results, going concern statement and accompanying press releases
- Reviewing the critical accounting judgements and key sources of estimation uncertainty in the Financial Statements
- Reviewing the Audit and Assurance work carried out by the Company's Reporter
- Completed the process to appoint a new Reporter
- Review of the UK Corporate Governance Code and Ofwat Governance Code
- Assessing the calculations of the 2020 Customer Tariffs and NAV Tariffs
- Consideration to Fraud Risk within the Company and updating the Company's whistleblowing policy
- Reviewing the status of internal control recommendations provided by the Reporter and the Auditor

**External Audit and Non-Audit Services**

The Committee reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, including a review of non audit services policy, seeking to balance objectivity and value for money. The non-audit services provided during the year were for other Assurance services relating to regulatory financial submissions, tax advisory and compliance work. These services would be those expected to be provided by the Company's external auditor, with the requisite independence safeguards in place.

The review of the Auditors includes consideration of the audit process, the effectiveness and performance of the audit team, and the output, quality and cost effectiveness of the audit. The review of the Auditor's independence and objectivity was initially carried out as part of the Audit Tender and is monitored throughout the year. The current Auditors have been in tenure for three years.

The Committee does not consider that an internal audit function is required for the Company due to the size and nature of the business and the level of assurance on operational controls and data that is provided by the external Reporter. This recommendation is reviewed annually.

**Committee Performance and Effectiveness**

An annual review of the Committee's performance was undertaken as part of the external Board Evaluation process. No material shortcomings in the operation of the Committee were highlighted.

**Annual Report and Accounts**

The Audit Committee considers the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.



Governance

# Nomination Committee



**Mike Kirk**  
Chairman  
11 June 2020

### Nomination Committee Members

- Mike Kirk (Chair)
- Mike Coffin
- Martin Johnson
- Bob Taylor
- David Owens
- Christopher Deacon

### Role of Committee

The Committee's primary function is to advise the Board in relation to the appointment of Executive and Non-Executive Directors. This includes the following:

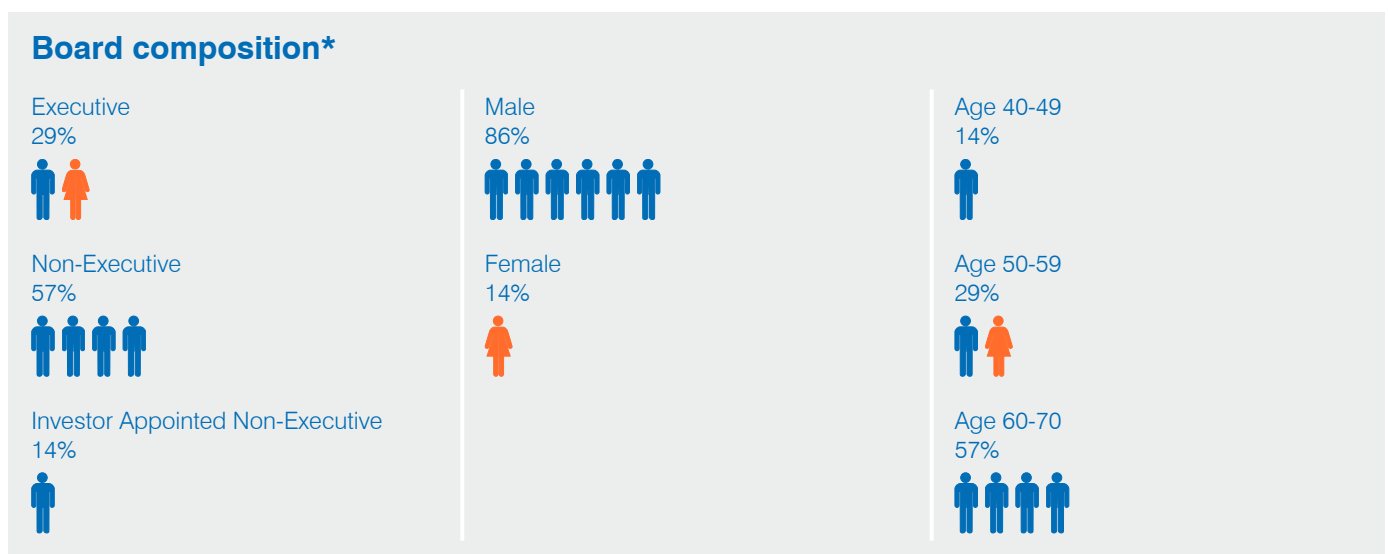
- Taking responsibility for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise
- Before any appointment is made, evaluating the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, preparing a description of the role and capabilities required for a particular appointment
- Taking account of length of service of Board Members to ensure business continuity is maintained
- Ensuring the Company policies on Equal Opportunities, including diversity and inclusion are adhered to across the business

The Committee comprises of all four Independent Non-Executive Directors, the CEO and the Investor Director.

### Activities during the Year

The Committee met twice during the year. On both occasions it was to fill the vacancy that will be left by my retirement. In the circumstances I stepped down from the Nomination Committee for those meetings and they were chaired by Martin Johnson.

A formal, rigorous and transparent search for appropriate candidates was carried out by a combination of approaching potential individuals who had extensive industry knowledge and also advertising on the FT Appointment website, from which previous vacancies had been filled. Potential candidates from both routes were considered and assessed. This included a meeting of the final candidate with the OIwat Chairman ahead of his appointment. At the end of the process the committee were delighted to recommend the appointment of Christopher Deacon.



\*This reflects the Board composition at the date of signing of the Annual Report & Accounts. The current Chairman will step down following signing of the Financial Statements.

## Governance

**Remuneration Committee**

**Martin Johnson**  
Chair of Remuneration Committee  
11 June 2020

**Remuneration Committee Members**

Martin Johnson (Chair)

Mike Kirk

Mike Coffin

**Role of Committee**

The primary objective of the Committee is to set a policy to ensure that competitive reward packages are offered that will attract, retain and motivate talented senior executives to run the business effectively and to promote the success of the Company for the benefit of customers, the environment and stakeholders.

We align executive pay to stretching delivery targets ensuring we deliver real value through high quality customer service and operational performance, whilst ensuring we provide the cheapest water in the country through incentivising financial efficiencies.

Within these arrangements, reward is based on performance against demanding targets. These targets are set by the Committee based on key strategic priorities benefiting customers, investors and other stakeholders and consistent with a Board approved level of risk.

At the beginning of the year the Committee reviewed the industry levels of reward against the Company's reward structure to ensure that they were competitive; and the makeup of the financial incentive scheme to ensure that the majority of reward was for achievement of customer, water quality or safety criteria. As a result of this review the annual maximum reward available was increased to 51% of base salary, whilst the criteria for achievement of this were made more stretching and more customer focused.

The Committee will shortly be completing work on setting the LTIP to cover the next five year regulatory period. This will continue to incentivise the delivery of long-term sustainable performance for customers and stakeholders. This new LTIP will be fully detailed in this 2021 Annual Report.

**Activities during the Year**

During the year the Committee dealt with the following matters:

- Annual executive salary review and achievement of performance targets
- Determining performance targets in respect of 2019/20 annual incentive bonus plan, and increasing the potential rewards to reflect the industry norm
- Preparing the Executive Bonus Framework for AMP7, aligning Remuneration to the key strategic objectives and stakeholder priorities
- Taking ongoing responsibility for the approval and changes in Manager salaries as well as assessing ongoing staff bonus payments

**Remuneration Report***Remuneration Policy*

The objective is to attract, retain and motivate high calibre Senior Executives through pay arrangements which are competitive, fair and reasonable for the responsibilities involved. In addition to individual performance, reference is made to pay levels in companies of similar size within the same or relevant other industries.

The remuneration packages of the Executive Directors, as reported in the accounts, includes a performance related element. The performance related element is based upon the achievement of agreed financial, customer service and personal targets for the whole of the previous year.

*Service Contracts*

All Executive Directors appointed to the Board are employed on service contracts of no fixed term with a notice period of one year, both by the Company and the Director. Both Executive Directors are entitled to pension provision and certain contractual benefits, details of which are summarised below. Each Executive Director also participates in bonus or incentive arrangements at the sole discretion of the Remuneration Committee which are also described later in this Report. All Executive Directors are subject to retirement by re-election at the AGM.

Mr. C. R. Taylor serves as a Director for the Institute of Water, an organisation that supports the development of professionals in the water industry. He is also a Director of Water UK, the industry trade association.

Mrs. H. M. G. Orton serves as a Non-Executive Director for UKWIR, an organisation set up by the 20 water and sewerage undertakers in England, Wales, Scotland, Northern Ireland and the Republic of Ireland to identify and provide research requirements to meet the industry's business needs.

The Chairman and other Non-Executive Directors have service contracts but these can be terminated without compensation. All Non-Executive Directors are subject to re-election at the AGM.

<b>Remuneration Policy Table</b>			
<b>Element, purpose and link to strategy</b>	<b>Operation, performance measures, deferral</b>	<b>Maximum opportunity</b>	<b>Performance metric</b>
<p><b>Base Salary (Fixed Pay)</b> To pay a fair salary, commensurate with the individual's role, responsibilities and experience, and having regard to the market rates for similar roles in the water/utility sector and other comparable companies.</p>	<p>Reviewed annually, taking account of market salary levels, Company performance, individual performance, changes in responsibility and levels of increase for the broader employee population.</p> <p>The remuneration committee considers the impact of any base salary increase on the total remuneration package.</p>	<p>There is no prescribed maximum salary or maximum rate of increase. The remuneration committee is guided by the general increase for the broader employee population but on occasions may need to recognise, for example, development in role, change in responsibility, specific retention issues, market practice or changes in regulatory requirements.</p> <p>Details of the outcome of the most recent salary review are provided in the annual report on remuneration.</p>	None
<p><b>Benefits (Fixed Pay)</b> To provide cost-effective taxable benefits and to support the wellbeing of employees.</p>	<p>The Company currently provides a range of taxable benefits such as medical insurance; life insurance and paid holiday.</p> <p>Specific benefits provision may be subject to minor change from time to time, within this policy.</p>	<p>Taxable benefits are not subject to a specific cap, but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and controlled.</p>	None
<p><b>Pension (Fixed Pay)</b> To provide market competitive pension arrangements, to assist with recruitment and retention.</p>	<p>Employer contributions are made to appropriate pension schemes.</p>	<p>10% of salary into a defined contributions scheme.</p>	None
<p><b>Annual bonus (Variable Pay)</b> To reward performance by linking to achievement of key performance objectives aligned to the strategy of the Company.</p>	<p>Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. Executive bonus awards take account of the Company's key financial and service performance indicators for the relevant financial year.</p> <p>Details of the performance indicators for the most recent financial year and performance against them are provided in the annual report on remuneration.</p>	<p>The maximum bonus potential for each Director is 51% of base salary.</p>	<p>The incentive scheme is split between; Business Outcomes - 34%; Programme Delivery - 66%</p>
<p><b>Long-term incentive bonus (Variable Pay)</b> To incentivise Executive Directors to deliver sustained long-term performance</p>	<p>Long term bonus awards to Executive Director calculated on an annual basis but paid out at the end of the five year performance period, subject to the achievement of performance conditions.</p>	<p>10% of salary per year paid at the end of year five.</p>	<p>Awards at the end of the five year performance period, based on achievement of eight specified performance conditions.</p>
<p><b>Employment contracts, and loss of office</b> To facilitate recruitment and retention, and support pay for performance, by providing fair but not excessive contract features.</p>	<p>Notice periods from the Company are limited to 12 months.</p>	N/A	N/A
<p><b>New Executive Director appointments</b> To facilitate recruitment of necessary talent.</p>	<p>Remuneration for new appointments will be set in accordance with the policy detailed in this table.</p>	N/A	N/A

## Governance

**Remuneration Committee****Statement of Consideration of Employment Conditions Elsewhere in the Company**

The remuneration approach for the Executive Directors is broadly consistent with that for employees across the Company as a whole. However, the exception is that general employees do not receive an annual performance related bonus.

**Annual Report on Remuneration****Directors Remuneration as a Single Figure (Audited Information)**

Remuneration is analysed by Director below:

	Salary/Fees £000	Benefits £000	Bonus Scheme £000	Pension £000	<b>Total 2020 £000</b>	Total 2019 £000
<b>Executive:</b>						
H. M. G. Orton	130	11	28	14	<b>183</b>	154
C. R. Taylor	170	8	62	17	<b>257</b>	68
R. P. Porteous (retired)	-	-	-	-	<b>-</b>	107
N. Smith (retired)	-	-	-	-	<b>-</b>	175
<b>Non-Executive:</b>						
M. Coffin	26	-	-	-	<b>26</b>	6
M. Johnson	26	-	-	-	<b>26</b>	26
M. P. Kirk	41	-	-	-	<b>41</b>	40
H. V. Benjamin	-	-	-	-	<b>-</b>	26
	<b>393</b>	<b>19</b>	<b>90</b>	<b>31</b>	<b>533</b>	<b>602</b>

The Investor Director Mr. D. W. Owens is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.

Mr. R. C. Porteous and Mr. N. Smith retired in 2019 and Mrs. H. V. Benjamin resigned in 2019.

Mr. C. R. Taylor joined the Company in November 2019 and therefore the comparative figure represents five months of remuneration.

**Directors' emoluments waived during the year**

There were no Directors' emoluments waived during the year.

**Taxable benefits**

Benefits comprise company car (taken in cash and as a benefit in kind) and medical insurance.

The table below provides a breakdown of taxable benefits provided to Directors in the period.

	<b>2020 £000</b>	2019 £000
Car benefit	<b>14</b>	31
Medical insurance	<b>5</b>	8
Vehicle gifted	<b>-</b>	22
Total	<b>19</b>	61

## Variable pay/performance measured pay for Executive Directors

### Short term annual bonus scheme

The remuneration package of the Executive Directors, as reported in the accounts, includes a performance related element. The performance related element is based upon the achievement of agreed financial, customer service and personal targets and is paid in the form of a payment at the end of the year.

The Executive Directors can earn up to 51% of basic salary for the annual performance related element. The assessment of this element is based upon:

- 34% based on Business Outcomes. This is specifically water quality achievement, leakage, being a top performer in customer service and financial performance.
- The remaining 66% is programme delivery across a range of Company and Stakeholder objectives.
- The bonus scheme is subject to employee Health and Safety performance, measured by RIDDOR incidents and the bonus is reduced if there are any accidents during the year.

### Performance related bonus achieved 2019/20:

	% of base salary (out of possible 51%)	Bonus £
H. M. G. Orton	21.5%	28
C. R. Taylor	21.2%	37

### Relative weighting of performance measures as described above for short term variable pay:

	Business Outcomes %	Programme Delivery %	Total %
H. M. G. Orton	34	66	100
C. R. Taylor	34	66	100

### The above weightings convert into maximum percentages of salary payable as follows:

	Business Outcomes %	Programme Delivery %	Total %
H. M. G. Orton	17	34	51
C. R. Taylor	17	34	51

### Summary of Directors' performance targets and maximum variable pay achievable:

	Target %	Business Outcomes Value £	Target %	Programme Delivery Value £	<b>Maximum Variable Pay Achievable 2020 £</b>	Maximum Variable Pay Achievable 2019 £
H. M. G. Orton	17	22,100	34	44,200	<b>66,300</b>	22,550
C. R. Taylor	17	28,900	34	57,800	<b>86,700</b>	12,575

### Summary of Directors' performance against measures set for the period:

	Achieved %	Business Outcomes Value £	Achieved %	Programme Delivery Value £	<b>Variable Pay Achieved 2020 £</b>	Variable Pay Achieved* 2019 £
H. M. G. Orton	8	10,400	13.6	17,680	<b>28,080</b>	17,476
C. R. Taylor	8	13,600	13.6	23,120	<b>36,720</b>	9,117

An additional bonus amount of £25,000 was awarded to Mr. C. R. Taylor in recognition of the stretching leakage performance delivered.

## Governance

**Remuneration Committee****Long term bonus scheme**

The Directors could earn up to 10% per annum of basic salary for achieving long term objectives over the 5 years of the regulatory period. This long term bonus scheme commenced on 1 April 2015. This payment was to be made at the end of a five year performance period, subject to the achievement of performance conditions.

The long term objectives, payable this year if achieved, included the delivery of a comprehensive NHH Retail Market Plan, achieving culture change targets, being the top performing company in SIM, refinancing, reducing leakage and per capita consumption, improving credit ratings and implementation of an CRP system.

**The maximum percentages of salary payable under the long term bonus scheme were as follows:**

	Long -Term Objectives per annum %	5 Year Total %
C. R. Taylor	10	14.2
H. M. G. Orton	10	50

**Summary of Directors' performance targets and maximum variable pay achievable:**

	Target %	Long-Term Objectives Value £	Maximum Variable Pay Achievable 2020	Maximum Variable Pay Achievable 2019
C. R. Taylor	10	23,000	<b>23,000</b>	6,288
H. M. G. Orton	10	51,050	<b>51,050</b>	45,100

**Summary of Directors' performance against measures set for the period:**

	Achieved %	Long-Term Objectives Value £	Maximum Variable Pay Achieved 2020	Maximum Variable Pay Achieved 2019
C. R. Taylor	5	11,500	<b>11,500</b>	3,144
H. M. G. Orton	7	35,735	<b>35,735</b>	31,570

Mr. C. R. Taylor's long-term objectives are based on his earnings since his employment commenced on the 1st November 2018.

All variable pay has been awarded in accordance with the remuneration policy and criteria outlined at the commencement of the period. In addition to the 2015-2020 long-term incentive plan, the Board have decided to award an additional £25,000 bonus to Mr. C. R. Taylor in recognition of his exceptional contribution to the business in respect of the leakage performance since his arrival at the business. His efforts not only enabled the business to achieve a leakage target that looked extremely unlikely but has also laid a firm foundation for AMP7 that will be to the benefit of customers, stakeholders and the environment.

**Pension Entitlements (Audited Information)**

The Company participates in the Brockhampton Pension Scheme to provide pension benefits for its employees. At the year end no Executive Directors were part of this scheme.

Mrs. H. M. G. Orton and Mr. C. R. Taylor are both members of the defined contribution scheme. Contributions amounting to £30,810 (2019 - £17,027) were made on their behalf by the Company in the year. The Non-Executive Directors are not members of either of the pension schemes.

Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees.

No Executive Directors have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefit scheme, during the year.

No additional benefits will become available to Directors who retire early. For further details regarding each of the pension schemes, please refer to note 25 in the financial statements.

**Payments to Past Directors**

No payments requiring disclosure were made to past Directors during the period.

### Remuneration of the Chief Executive Officer

The table below summarises the remuneration of the Chief Executive Officer for each of the last six financial years. These figures do not include amounts accruing under defined benefit pension arrangements as the figures for historic years are not readily available.

Year ending 31 March:	2015	2016	2017	2018	2019	<b>2020</b>
Total remuneration excluding pension (£000)	160	162	161	164	167	<b>257</b>

### Percentage Change in Remuneration of the Chief Executive Officer

The following table shows the percentage change in the base salary and benefits of the Chief Executive Officer between the current and previous financial year compared to the average for all employees of the Company.

% change in:	Chief Executive Officer	Average for all employees
Base salary <sup>1</sup>	12.2%	2.3%
Benefits <sup>2</sup>	0%	0%

<sup>1</sup>This increase represents the annual pay award.

<sup>2</sup>There were no changes made to the underlying value of benefit payments provided during the year.

Whilst the current Chief Executive Officer remuneration package includes Annual Bonus as shown previously, the former Chief Executive Officer did not qualify for a bonus so a percentage change is not applicable.

### CEO Ratio Reporting for the Year Ended 31 March 2020

CEO total pay as a 2020 ratio of the following:

25th percentile	1 : 6.13
50th percentile	1 : 7.87
75th percentile	1 : 10.45

The calculation does not include the benefit of pension contributions as this is complex to ascertain for all employees given the two schemes in operation. The remuneration does not include amounts payable as a result of the share purchase.

The Company believes that the 50th percentile ratio is consistent with the Company's general employee pay, reward and progression policies due to the pay grade structure in place.

### Statement of Implementation of Remuneration Policy in the Following Financial Year

The Remuneration Committee intends to continue to apply broadly the same key performance metrics as in the previous year and to assess performance taking account of stretching performance targets in relation to the strategic and annual expectations for the Company including the stretching performance levels set out in the Business Plan for 2020 - 2025.

### Approval

This report was approved by the Board on 11 June 2020 and will be subject to shareholder approval at the Annual General Meeting to be held on Thursday 23 July 2020.

**M. P. Johnson**

Chair of the Remuneration Committee

## Governance

# Directors' Report

The Directors have pleasure in presenting their Report and Accounts for the year ended 31 March 2020.

**Principal Activity and Business Review**

The principal activity of the Company and a detailed review of its operations, strategy and business model is provided in the Chairman's Statement on page 4 and the Strategic Report on pages 8 to 43.

The Company's Area of Supply is shown on page 1 of this report.

**Financial Risk Management Objectives and Policies**

A detailed review of the Company's financial risk management objectives and the policies employed are set out in the Strategic Report on pages 38-39 and 51.

**Financial Results and Dividends**

The Company's loss (2019 - loss) before taxation amounts to £1.3m (2019 - £0.7m loss). After deducting the tax charge of £2.0m (2019 - £0.007m), a loss of £3.3m has been transferred to reserves (2019 - £0.7m loss).

The Directors are not recommending a dividend payment at the current time due to current COVID-19 uncertainties. However, this will be reviewed on an ongoing basis.

**Fixed Assets**

Capital expenditure on tangible fixed assets was £19.7m (2019 - £14.8m). Information relating to these and other changes in fixed assets is shown in note 13 to the accounts.

The Directors are of the opinion that the current market value of the land and buildings included in tangible fixed assets is in excess of the value shown in the balance sheet. As they are held for operational purposes, no professional valuation has been obtained and the excess has not, therefore, been quantified.

**Share Capital**

During the year the Company issued 10 new ordinary shares of 10 pence each at a premium of £2,433,038 for cash. This new share capital and share premium was increased to offset the incremental exceptional National Insurance costs as a result of distribution of sale proceeds to employees. It is explained further in note 31.

**Board of Directors**

The Directors who held office at 11th June 2020 are shown on pages 48 and 49.

Mr. C. Deacon was appointed to the Board as a Non-Executive Director on 1 May 2020.

Mr. M. P. Kirk has given notice that he will retire as a Director in June 2020.

Mr. M. P. Johnson, Mr. M. R. Coffin, Mr. D. W. Owens, Mr. C. R. Taylor and Mrs. H. M. G. Orton, who retire by rotation, offer themselves for re-election. Mr. C. Deacon offers himself for election.

No Directors have any interest in the Group shares.

The Company maintains appropriate Directors' indemnity insurance.

**Substantial Shareholder**

At 31 March 2020, Portsmouth Water Holdings Limited owned the entire voting capital of the Company.

**Regulatory Accounts**

A set of accounts for regulatory purposes is required by the Water Services Regulation Authority. These accounts relate solely to the regulated water supply business and copies may be obtained on request from the Registered Office or via our website at [www.portsmouthwater.co.uk](http://www.portsmouthwater.co.uk).

**Employees**

Direct communication with employees is maintained through the Company in-house newsletter. In addition, the Joint Information and Consultative Committee met regularly and ensured effective communication with employee representatives. The Board review the minutes from the meetings.

The Directors consider Health and Safety to be an important issue within the Company, with the active participation of employee safety representatives taking place through the Health and Safety Committee. During the year, a number of initiatives were undertaken, which ensured that Health and Safety continues to maintain its high profile throughout the organisation.

The Company has, for the last sixteen years, been awarded sixteen Gold Awards in the RoSPA Occupational Health and Safety Awards and was also awarded an Industry Sector Award in 2009. In recognition of this the Company has been awarded the RoSPA Order of Distinction.



The Company's policy regarding the employment of disabled persons is included on page 45.

### Environment

The Company is aware of its obligations to both customers and the environment. In recent years, it has adopted an active approach to environmental issues and further information is set out in the Strategic Report on pages 20 to 25. The total amount of gross Greenhouse Gas Emissions that resulted from the Company's operations in the financial year is estimated to be 5,813 tCO<sub>2</sub>e (2019 - 8,417 tCO<sub>2</sub>e).

### Licence Requirement

In accordance with its Instrument of Appointment under the Water Industry Act 1991, the Directors are of the opinion that the Company is in compliance with paragraph 3.1 of Condition 'P' of that Instrument.

### Auditors

KPMG LLP were appointed as Auditors of the Group during 2017 in respect of the year ended 31 March 2018.

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the current auditors are aware of that information.

### Statement of Directors' Responsibilities in respect of the Strategic Report, The Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



By order of the Board

### C. Hardyman ACIS

Secretary  
PO Box 8  
West Street  
Havant  
Hampshire  
11 June 2020

Governance

## Company Information



### Registered Office

PO Box 8  
West Street  
Havant  
Hampshire  
PO9 1LG

Telephone: 023 9249 9888  
Fax: 023 9245 3632  
[www.portsmouthwater.co.uk](http://www.portsmouthwater.co.uk)

Company Number: 2536455

Company Secretary: Christopher Hardyman ACIS

### Registered Address of the Ultimate Holding Company until 13 September 2019

PO Box 8  
West Street  
Havant  
Hampshire  
PO9 1LG

### Registered Address of the Ultimate Holding Company from 13 September 2019

Southern Region Water Holding Limited  
3001A, 30th Floor  
118 Connaught Road West  
Sai Ying Pun  
Hong Kong



**Auditors**

KPMG LLP  
Gateway House  
Tollgate  
Chandlers Ford  
SO53 3TG

**Bankers**

Lloyds Bank plc  
25 Gresham Street  
London  
EC2V 7HN

**Insurance Brokers**

Willis Watson Towers  
The Anchorage  
34 Bridge Street  
Reading  
Berkshire  
RG1 2LU



# Independent Auditors' Report to the Members of Portsmouth Water Limited

## Opinion

We have audited the financial statements of Portsmouth Water Limited ("the company") for the year ended 31 March 2020 which comprise the Income statement, Statement of other comprehensive income, Statement of financial position, Statement of changes in equity and Statement of cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## Directors' responsibilities

As explained more fully in their statement set out on page 63, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**James Ledward**  
Senior Statutory Auditor

for and on behalf of  
**KPMG LLP, Statutory Auditor**  
Chartered Accountants  
Gateway House  
Tollgate  
Chandlers Ford SO53 3TG

## Income Statement

For the year ended 31 March 2020

	notes	2020 £000	2019 £000
<b>Turnover</b>	3	<b>43,147</b>	42,161
<b>Cost of sales</b>		<b>(24,354)</b>	(23,111)
<b>Gross profit</b>		<b>18,793</b>	19,050
Net operating expenses	4,5	<b>(10,714)</b>	(11,124)
<b>Operating profit before loss on disposal of fixed assets and exceptional items</b>		<b>8,079</b>	7,926
Gain/(loss) on disposal of fixed assets	6	<b>103</b>	(494)
Exceptional items - Incremental ER's NI related to share proceeds	5	<b>(2,433)</b>	(2,422)
- COVID related bad debt provision	16	<b>(1,489)</b>	-
<b>Operating profit after loss on disposal of fixed assets and exceptional items and before interest</b>		<b>4,260</b>	5,010
Investment income	7	<b>1,062</b>	957
Other finance income	25	<b>672</b>	762
Interest payable and similar charges	8	<b>(7,296)</b>	(7,444)
<b>Loss on ordinary activities before taxation</b>	6	<b>(1,302)</b>	(715)
Taxation of loss on ordinary activities	9	<b>(2,024)</b>	(7)
<b>Loss for the financial year</b>		<b>(3,326)</b>	(722)

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 2020

	notes	2020 £000	2019 £000
Loss for the financial year		<b>(3,326)</b>	(722)
Remeasurement of net defined benefit asset	25	<b>(9,269)</b>	(1,170)
Movement on deferred tax relating to pension asset	21	<b>1,760</b>	199
<b>Total comprehensive loss for the year</b>		<b>(10,835)</b>	(1,693)

# Statement of Financial Position

For the year ended 31 March 2020

	notes	2020 £000	2020 £000	2019 £000	2019 £000
<b>Fixed assets</b>					
Intangible fixed assets	11	936		1,116	
Investment properties	12	325		325	
Tangible fixed assets	13	150,185		136,136	
Investments	14	55,484		55,484	
			206,930		193,061
<b>Current assets</b>					
Investments	15	2		2	
Stock		537		419	
Debtors	16	7,552		8,933	
Cash at bank and in hand	17	29,337		27,210	
		37,428		36,564	
<b>Creditors: Amounts falling due within one year</b>	18	(50,244)		(36,773)	
<b>Net current liabilities</b>			(12,816)		(209)
<b>Total assets less net current liabilities</b>			194,114		192,852
<b>Creditors: Amounts falling due after more than one year</b>	19		(109,742)		(106,709)
<b>Accruals and deferred income: Capital contributions</b>	20		(28,043)		(27,138)
<b>Provisions for liabilities</b>	21		(8,094)		(6,919)
<b>Net assets excluding pension asset</b>			48,235		52,086
Pension asset	25		15,546		23,782
<b>Net assets including pension asset</b>			63,781		75,868
<b>Capital and reserves</b>					
Called up share capital	23		1,078		1,078
Share premium account	23		9,382		6,949
Capital redemption reserve			3,250		3,250
Profit and loss account			50,071		64,591
<b>Shareholder' funds</b>			63,781		75,868

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 11 June 2020 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 2020

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 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 income 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
Loss for the year	-	-	-	(3,326)	(3,326)
Remeasurement of net defined benefit asset	-	-	-	(9,269)	(9,269)
Movement on deferred tax relating to pension scheme	-	-	-	1,188	1,188
Effect of change to corporation tax rate on pension asset	-	-	-	572	572
Total comprehensive loss for the year	-	-	-	(10,835)	(10,835)
New share capital/share premium issued	-	2,433	-	-	2,433
Dividends	-	-	-	(3,685)	(3,685)
<b>Balance at 31 March 2020</b>	<b>1,078</b>	<b>9,382</b>	<b>3,250</b>	<b>50,071</b>	<b>63,781</b>

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 2020 £63.608m (2019 - £64.418m) was distributable in accordance with company law and £0.130m (2019 - £0.130m) 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 2020

	notes	2020 £000	2020 £000	2019 £000	2019 £000
<b>Cash generated from operations</b>	24		<b>10,775</b>		9,797
UK corporation tax refund		<b>271</b>		-	
<b>Net cash inflow from operating activities</b>			<b>11,046</b>		9,797
<b>Cash flows from investing activities</b>					
Purchase of tangible assets		<b>(16,497)</b>		(13,896)	
Purchase of intangible fixed assets		<b>(326)</b>		(112)	
Capital contributions received		<b>1,612</b>		1,404	
Sale of tangible fixed assets		<b>172</b>		-	
Interest received		<b>1,135</b>		957	
<b>Net cash used in investing activities</b>			<b>(13,904)</b>		(11,647)
<b>Cash flows from financing activities</b>					
Receipts from borrowings		<b>20,000</b>		10,000	
Receipt from intercompany borrowing		<b>500</b>			
Repayment of borrowings		<b>(10,000)</b>		(3,000)	
Equity dividends paid		<b>(3,685)</b>		(3,076)	
Proceeds from issue of share capital		<b>2,433</b>		2,422	
Interest paid		<b>(4,263)</b>		(4,030)	
<b>Net cash generated/(used in) financing activities</b>			<b>4,985</b>		2,316
<b>Net increase in cash and cash equivalents</b>			<b>2,127</b>		466
Cash and cash equivalents at beginning of year			<b>27,210</b>		26,744
<b>Cash and cash equivalents at end of year</b>	17		<b>29,337</b>		27,210

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



# Notes to the Financial Statements

For the year ended 31 March 2020

## 1. Accounting policies

Portsmouth Water Limited is a private company incorporated in England and Wales under the Companies Act 2006. The Company's registered office is PO Box 8, West Street, Havant, PO9 1LG and the registered number is 2536455.

The financial statements of Portsmouth Water Limited have been prepared in compliance with UK Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. The financial statements are presented in pounds sterling.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken from disclosing information relating to financial instruments and key management personnel remuneration. The Company's financial statements have been consolidated into the accounts of Ancala Fornia Holdco Limited, copies of which are available from the registered office.

In view of the licence conditions under which the Company operates as a water supplier, it is required to publish information about its annual results as if it were a company covered by the listing Rules of the Financial Conduct Authority, except where it is considered inappropriate to do so. Earnings per share disclosures are not presented as the Company is a wholly owned subsidiary. Segmental reporting has not been presented as, in the opinion of the Directors, the Company undertakes a single activity.

The principal accounting policies are as follows:

### 1.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain assets which have been measured at fair value.

The preparation of financial statements requires the use of critical accounting estimates. They also require management to estimate judgement in the application of group accounting policies. Those areas that involve a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

### 1.2 Going concern

Notwithstanding net current liabilities of £12,816,000 as at 31 March 2020 and a loss for the year then ended of £3,326,000, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, including the impact of COVID-19, the Company will have sufficient funds through cash balances, operating cash flow and its' RCF facility to meet its' liabilities as they fall due for that period.

Our base case forecast assumes that in line with the Business Plan assumptions, we will receive an additional capital injection of up to £32m in March 2021 to fund growth in the Regulatory Capital Value due to HTWSR. Our investors, Ancala, have indicated that they have the intent (and the means) to provide this capital. Were this injection not to be received the HTWSR project would be paused and other funding options pursued. This would not impact the going concern of the Company and the base case and downsides have been modelled with and without the HTWSR project.

The full impact of the COVID-19 pandemic remains uncertain at this time and our key priorities are the continued supply of our essential services and the health of our employees, customers and other business partners. Accordingly, the Directors have reviewed the COVID-19 situation and have modelled a series of 'downside' scenarios of varying duration and severity. A 12 month COVID-19 downside scenario was considered to be "severe but plausible" and include assumptions relating to the estimates of the impact of: reduced revenue from non-household customers and reduced cash flow from both non-household and household customers together with the operational impacts on both operating costs and capital spend. Further information relating to our business response to COVID-19 is included on pages 35 to 36. Further longer term scenarios have also been set out in the Viability Statement.

In the severe but plausible downside scenario the Company remains financially viable following mitigating actions which include; deferral of management bonuses and dividends, reduction in capital expenditure and infrastructure renewals activities and furlough of employees. The Directors consider that these mitigating actions are all within the control of the business.

In conclusion, the Directors, after reviewing the Company's operating budgets, investment plans and financing arrangements, consider that the Company will have sufficient funds available, to allow the Company to continue to meet its liabilities as they fall due, for a period of at least 12 months from the date of approval of the financial statements. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

# Notes to the Financial Statements

## 1.3 Turnover

Turnover, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business. It comprises the value of water supplied and other related charges. Revenue is recognised at the fair value of the consideration received or receivable.

Turnover from the regulated water business includes amounts billed for the year, together with an estimation of amounts unbilled at the year-end, for measured water customers.

Unmeasured income bills are based on the rateable value of properties. Unmeasured customers are billed annually in advance on 1 June and amounts invoiced in advance are not recognised in turnover until earned. Measured income arises from customers who have meters fitted at their premises and amounts billed, therefore, are based on actual water consumption. The estimation of the amounts unbilled at the year end uses a defined methodology based upon a measure of unbilled water consumed, which is calculated from historical customer data.

Turnover includes the amortisation of capital contributions received in connection with the enhancement of mains infrastructure. This is set out further below.

## 1.4 Investment properties

The Directors consider certain holdings of freehold land and buildings to be investment properties. In accordance with FRS 102, they are included in the statement of financial position at their open market value. The surplus or deficit on revaluation is recognised in the profit or loss for the year, along with the related deferred tax charge or credit. Depreciation is not provided in respect of these holdings. It is the Company's policy to obtain an external third party valuation of 1/5th of the property portfolio on a rolling basis with the remainder being valued based on a management review and using relevant indices.

## 1.5 Tangible fixed assets

The Company holds both above ground assets and a below ground infrastructure network of mains.

### Mains infrastructure (below ground assets)

Infrastructure assets comprise a network of mains, communications pipes and boundary boxes. The Company undertakes expenditure on this network in order to maintain it in an ongoing serviceable condition. Where this expenditure meets certain criteria (set out below) it is capitalised. All other expenditure is expensed as incurred.

Expenditure on infrastructure assets relating to increases in capacity or other economic enhancement is capitalised. Other economic enhancements relate primarily to the installation of new boundary boxes, betterment of the network such as upsizing and schemes where a significant proportion of the network in that area has been replaced.

Such items are treated as additions and included in property, plant and equipment at cost. The cost of infrastructure assets is their purchase cost, together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

The assets are depreciated over their useful lives of between 40 and 100 years on a straight line basis. There are no expected residual values.

### Other fixed assets (above ground assets)

Other assets comprise buildings and reservoirs, pumping plant, vehicles, mobile plant and office equipment. The cost of other assets is the purchase cost, together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company.

Depreciation is provided on all fixed assets, with the exception of freehold land. It is calculated to write off the cost of assets over their estimated useful economic lives using the straight line method. There are no expected residual values. Those lives are estimated as follows:

Building and reservoirs 100 years  
 Pumping and other plant (including solar panels) 15-25 years  
 Office equipment 5-10 years  
 Vehicles and mobile Plant 5-7 years  
 Computer and network hardware 5 years  
 Meters 7-12 years

### Assets in the course of construction

Assets in the course of construction are included in tangible fixed assets at cost but are not depreciated until they come into use.

## 1.6 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised so as to write off the cost or valuation of assets over their useful lives on the following basis:

Software (acquired before 31 March 2016) 5 years  
 Software (acquired after 31 March 2016) 3 years  
 Consultancy and internal staff costs (acquired before 31 March 2016) 5 years  
 Consultancy and internal staff costs (acquired after 31 March 2016) 3 years

#### **Intangible assets in the course of construction**

Intangible assets in the course of construction are included in intangible fixed assets at cost but are not amortised until they come into use. The purchase date may therefore place them in one category but the commencement of their economic life places them in another. Where this occurs the post March 2016 policy shall apply.

#### **1.7 Capital contributions**

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. In accordance with the Companies Act 2006 and FRS 102 requirements to include fixed assets at cost, such contributions are treated as deferred income and released to the income statement over the useful economic life of the corresponding assets.

#### **Infrastructure charges**

Infrastructure charges are made in respect of new connections in accordance with Condition 'C' of the Instrument of Appointment. These charges are treated as mains contributions as explained above.

#### **1.8 Financial Instruments**

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for financial assets classified as fair value through profit and loss, which are initially measured at fair value (normally transaction price excluding transaction cost).

If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments which meet the applicable conditions are recognised as basic financial instruments and subsequently measured at amortised cost using the effective interest rate method. Instruments that are payable or receivable within one year of initial recognition and meet the applicable conditions are measured at the undiscounted amount of consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when the contractual rights to the cash flows from the financial assets expire or are settled, or the Company transfers substantially all of the risks and rewards of ownership of the financial asset. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

#### **Investments**

Investments consist of non-current and current investments. Non-current investments are in respect of loans to group companies. They are measured at amortised cost using the effective interest rate method. Current asset investments are held at cost less impairment since fair value cannot be measured reliably.

#### **1.9 Impairment**

Assets other than those measured at fair value, are assessed for indicators of impairment at each statement of financial position date. If there is objective evidence of impairment, an impairment loss is recognised in the income statement.

#### **Non-financial assets**

Assets are impaired when evidence indicates that the assets recoverable amount is less than its carrying amount. Recoverable amount is the lower of fair value less cost to sell and its value in use.

#### **Financial assets**

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

#### **1.10 Stocks**

Stocks of raw materials are valued on a weighted average cost basis at the lower of cost or net realisable value. In accordance with established practice in the water industry, no value is placed upon the water in reservoirs, mains or in the course of treatment.

# Notes to the Financial Statements

## 1.11 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the statement of financial position date. Deferred tax assets are recognised when it is probable that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is recognised when assets are revalued and the gain or loss expected to arise on sale has been recognised in the financial statements.

## 1.12 Pension costs and other post-retirement benefits

Portsmouth Water Limited, a subsidiary undertaking, is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme is a defined benefit scheme. The assets of the scheme are held in a separate trustee administered fund. As principal employer Portsmouth Water includes the pension asset in its financial statements.

The current service costs are charged to the income statement and included as staff employment costs. The interest cost and interest income are shown as a net amount within other finance income. Re-measurements of the net defined benefit asset are recognised immediately in other comprehensive income. In accordance with the provisions of FRS 102, the level of defined benefit asset recognised is restricted to the extent which future benefits can be recovered by the Company. Of the total pension scheme assets £81.6m are classified as 'level 3' assets and their valuation requires more judgement (note 25).

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using the AA corporate bond rate. Pension scheme assets are valued at fair value at the statement of financial position date. The pension scheme surplus is recognised in full on the statement of financial position.

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities. Detailed information regarding the surplus and actuarial position of the scheme is given in note 25 to the accounts.

The Company also operates a defined contribution pension scheme. The charge to the income statement amounts to the contributions payable to the scheme in respect of the accounting period.

## 1.13 Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted.

## 2. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimates made will, by definition, seldom equal the actual results that out-turn over time.

Those estimates and assumptions that have a risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are set out below;

### Estimation of unbilled measured income (measured income accrual)

As set out in note 1.3 above, the estimation of the amounts unbilled at the year-end uses a defined methodology based upon valuing an estimate of unbilled water consumed. This is calculated using known factors such as the date of the customers' last bill and the customer tariff rate together with an estimate of the water consumed. The estimated water consumed is calculated from various factors including; the number of days elapsed since the last meter read, historical consumption levels for each premises (which is calculated from historical customer billing data) or estimated average consumption per property type (where a historic actual is not available). The assumptions reflect historic experience and current data. Management review both the data sets used, the outcome of the calculation and quarterly trends in determining the year end position.

If the volumetric element of the Measured Income Accrual were to vary by 10% this would impact the accrual by £186k.

### Capitalisation and Useful Economic Lives of Mains Infrastructure

Judgement is used in determining the extent to which work on existing mains infrastructure represents "economic enhancement". To this extent such activity is capitalised. This is assessed by reference to the extent that such assets are physically enhanced. Appropriately qualified and experienced company engineers are consulted as part of this process.

By the nature of below ground assets it is more difficult to directly establish remaining estimated useful economic lives ("UEL"). In setting the UELs the Directors have consideration of a number of factors including the age and construction material of the pipes, historic experience in relation to both replacement and burst rates and industry averages. In particular the range applied of 40 to 100 years is consistent with wider industry practice which typically uses a range of between 50 and 200 years.

### Life of Mains

If the useful economic life of mains were to be extended by a further 10 years, this would generate a £326k saving on depreciation within the year. If the useful economic life of mains were to be reduced by 10 years, the impact on the 2019/20 depreciation would have been an additional charge of £2,533k.

### Defined Benefit Pension Scheme

The Company has obligations to pay pension benefits to certain employees and former employees. The cost of these benefits and the present value of the related obligation depend upon a number of factors including; life expectancy, salary increase, asset valuations and the discount rate based on corporate bonds.

Management estimate these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. In addition, management review the sensitivity analysis provided by the actuaries and use external data to benchmark the range of assumptions used. Management also consider the relevant factors in determining the recoverability of any surplus arising. Sensitivities in respect of the assumptions used during the year are disclosed in note 25.

The present value of the pension obligations is dependent on the actuarial calculation, which includes a number of assumptions. These assumptions include the discount rate, inflation price and mortality rates which are used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Company considers market yields of high quality corporate bonds, denominated in sterling, that have times to maturity approximating the terms of the pension liability. Were this discount rate to reduce or increase by 0.1%, the carrying value of the pension obligations as at 31 March 2020 would increase or reduce by £2.0m (2019 - £2.4m). If the schemes assets underperform relative to the discount rate used to calculate the liabilities, this will increase the value of the projected deficit. Performance asset values would reduce the assets by £3m (2019 - £4m). A one year increase in life expectancies would increase the deferred benefit obligation by around £4m (2019 - £4.8m). See also note 25.

### Bad Debt Provision

The Company makes an estimate of the recoverable value of trade receivables. When assessing impairment of trade receivables, management considers factors including aging profile of the receivables, stage of credit control and historical experience. After an exercise to develop our understanding about the relationship between bad debt and certain customer segmentation information, we made a decision to revise the accounting estimate for the bad debt provision. We believe that this provides a more accurate reflection of the bad debt risk based upon customer characteristics. As part of this analysis we also considered the linkage between collection history and debt ageing. Accordingly we revised the levels of provision based on debtor age in line with updated experienced collection rates. In addition we made the decision to write off all debt over six years old writing off, previously provided for debt, totalling £0.9m meaning the bad debt provision for 2020 was £3.7m. The bad debt provision remains largely consistent year on year prior to the write off (2019 - £4.6m, 2018 - £4.6m, 2017 - £3.9m, 2016 - £3.5m, 2015 £3.4m).

The application of this revised methodology resulted in a charge of £0.4m compared to the previous methodology that would have resulted in a charge of £0.8m. This revised methodology will be consistently applied from now onwards.

The Bad Debt Provision currently assumes a 32% recovery rate for debts between one and four years old. If this was increased to 37% (a 5% increase) or reduced to 27% (a 5% decrease), this would decrease/increase the provision by £86k.

### COVID-19 related specific bad debt provision

The Company has made an estimate on the level of customer debt, (both for invoiced and accrued amounts), as at 31 March 2020 that may now be subject to additional risk due to the impact of COVID-19. Of this total provision of £1.489m, £1.089 has been allocated against trade debtors, as a bad debt provision and a further £0.400m against accrued, but unbilled income. Significant analysis and modelling has been undertaken which has considered customer segmentation and socio economic factors which might impact the ability to recover debts under the COVID-19 circumstances, such as unemployment levels. The current level of provision of £1.489m has been presented as an exceptional item by virtue of its size and atypical nature. This is classified by nature, as an operating expense.

For every 1% increase in unemployment the COVID-19 bad debt provision would increase by £104,000.

### Tangible fixed assets in the course of construction

As a result of the programme to begin development of the Havant Thicket Winter Storage Reservoir the Company has currently incurred £5.0m of expenditure which has been capitalised as a tangible fixed asset (work in progress). These costs will ultimately be recovered through a third party contractual arrangement. Currently this commercial arrangement has not yet been signed and therefore there is judgement as to whether the economic value of the asset can be recovered through future revenue flows. We have concluded that these amounts will remain recoverable due to the following factors;

- Commercial discussions, with regard to agreeing a full commercial heads of terms, are progressing towards completion.
- The programme was included in both the Regulatory Business Plan and the Ofwat Final Determination for the Company and for Southern Water (the counterparty).
- An additional capital injection is needed to finance this project. Our investor has indicated the intention to support this.

## Notes to the Financial Statements

<b>3. Turnover</b>	<b>2020</b>	2019
	<b>£000</b>	£000
Unmeasured household supplies	<b>21,446</b>	21,200
Measured household supplies	<b>10,226</b>	9,678
Non-household supplies	<b>9,116</b>	8,757
Bulk supply	<b>401</b>	321
Amortisation of developer contributions (note 20)	<b>709</b>	645
Chargeable work	<b>1,102</b>	1,386
Deferred meter reading revenue	<b>147</b>	174
	<b>43,147</b>	42,161

Turnover is wholly attributable to water supply and related activities in the United Kingdom. Included within turnover is amortised meter reading revenue related to the disposal of the non-household retail business.

<b>4. Net operating expenses</b>	<b>2020</b>	2019
	<b>£000</b>	£000
Administrative expenses	<b>11,123</b>	11,557
Other operating income	<b>(409)</b>	(433)
	<b>10,714</b>	11,124

In addition the items included in exceptional items would ordinarily be classified, by type, as operating expenses.

<b>5. Directors and employees</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Employment costs:</b>		
Wages and salaries	<b>8,016</b>	7,657
Social security costs	<b>900</b>	833
Defined benefit pension costs (note 25)	<b>1,944</b>	1,993
Defined contribution pension costs (note 25)	<b>335</b>	240
	<b>11,195</b>	10,723
Costs transferred to capital schemes	<b>(902)</b>	(602)
Ordinary net employment costs charged to the income statement	<b>10,293</b>	10,121
Exceptional National Insurance costs	<b>2,348</b>	2,337
Total employment costs	<b>12,641</b>	12,458

The total incremental amount of social security costs payable in relation to a transaction, whereby the shares in South Downs Capital Limited (of which Portsmouth Water Limited is the primary trading company) were sold to Ancala Partners LLP, totalled £2,347,883 (2019 - £2,337,000), a further £85,155 (2019 - £85,000) related to additional apprenticeships levy arising. This is explained further in note 31.

<b>Average numbers employed during year:</b>	<b>2020</b>	2019
	<b>Number</b>	Number
Operations	<b>149</b>	153
Administration	<b>115</b>	106
	<b>264</b>	259

	<b>Highest Paid Director</b>	Highest Paid Director	<b>Total</b>	Total
	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000
Total remuneration	<b>240</b>	167	<b>477</b>	593
Pension scheme benefit	<b>17</b>	8	<b>31</b>	8
	<b>257</b>	175	<b>508</b>	601

2 Directors (2019 - 2) are accruing benefits under a defined contribution pension scheme. The number of Directors for whom retirement benefits are accruing under defined benefit pension schemes amounted to nil (2019 - nil). No payments were made in respect of compensation for loss of office.

Further details relating to Directors' remuneration are set out in the Report on Remuneration on pages 56 to 61. The information set out in that Report which is subject to audit forms part of these financial statements.

<b>6. Loss on ordinary activities before taxation</b>	<b>2020</b>	2019
	<b>£000</b>	£000
Profit on ordinary activities is stated after charging:		
Depreciation - infrastructure assets	<b>1,130</b>	1,114
- non infrastructure assets	<b>4,485</b>	4,085
Amortisation of intangible assets	<b>506</b>	667
(Gain)/loss on disposal of fixed assets	<b>(103)</b>	494
Rates	<b>2,384</b>	2,337
Water abstraction charges	<b>1,322</b>	1,319
Hire of plant and machinery	<b>4</b>	3
Operating lease charges	<b>-</b>	-
Auditors' remuneration:		
Fees payable to the Company's current auditor for the audit of the Company's annual accounts	<b>50</b>	30
Fees payable to the Company's current auditor for other services:		
Audit related assurance services - Annual Performance Review	<b>30</b>	25
Taxation compliance services	<b>32</b>	16
R&D tax fees	<b>43</b>	13
Other non-audit services (including advice for refinancing)	<b>7</b>	32
Fees in respect of Portsmouth Water Holdings Limited - Audit and Tax	<b>7</b>	8
Fees in respect of the Brockhampton Pension Scheme: Audit*	<b>8</b>	8
Fees relating to previous audit	<b>20</b>	8

\*Not paid by the Company

<b>7. Investment income</b>	<b>2020</b>	2019
	<b>£000</b>	£000
On loan from group company	<b>1,054</b>	953
Interest on short term deposit	<b>8</b>	4
	<b>1,062</b>	957

<b>8. Interest payable and similar charges</b>	<b>2020</b>	2019
	<b>£000</b>	£000
£66.5m loan:		
Interest	<b>3,970</b>	3,867
Indexation	<b>2,976</b>	3,357
Amortisation of fees	<b>57</b>	57
Administration fees	<b>212</b>	131
Other bank loans and overdraft	<b>65</b>	10
Debenture stock	<b>14</b>	10
Other interest payable	<b>2</b>	12
	<b>7,296</b>	7,444

For information, the indexation is based on RPI. (July 2019 - 289.5 and July 2018 - 281.7).

## Notes to the Financial Statements

<b>9. Taxation</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Current tax</b>		
United Kingdom corporation tax at 19% (2019 - 19%)	-	-
Adjustment in respect of prior periods	<b>313</b>	(140)
	<b>313</b>	(140)
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>346</b>	302
Adjustment in respect of prior periods	<b>(20)</b>	(155)
Effect of tax rate change on opening balance	<b>1,385</b>	-
	<b>1,711</b>	147
<b>Tax on profit on ordinary activities</b>	<b>2,024</b>	7
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before tax	<b>(1,302)</b>	(715)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	<b>(247)</b>	(136)
Effect of:		
Expenses not deductible for tax purposes	-	107
Depreciation on assets not qualifying for capital allowances	<b>236</b>	366
Effect of change in tax rate	<b>1,385</b>	(35)
Other tax adjustments	<b>357</b>	-
Prior year adjustment - current tax	<b>313</b>	(140)
Prior year adjustment - deferred tax	<b>(20)</b>	(155)
<b>Total tax charge for year</b>	<b>2,024</b>	7

No deferred tax balances are expected to reverse during the year to March 2019 (2018 - £nil).

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax liability at the balance sheet date has been calculated at 19% (2019: 17%).

<b>10. Dividends</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Equity: Ordinary/"A" Ordinary</b>		
Final paid from 2019	<b>1,975</b>	-
Interim paid for 2020	<b>1,710</b>	3,076
	<b>3,685</b>	3,076

Given the current COVID-19 related financial concerns and mitigants employed around cash flow protection, the Directors are not proposing payment of a final dividend for the year ended 31 March 2020. This position will be kept under review for the current time.



**11. Intangible fixed assets**

	Software, consultancy and internal staff costs £000
<b>Cost</b>	
At 1 April 2019	3,030
Additions	326
Disposals	(16)
At 31 March 2020	3,340
<b>Amortisation</b>	
At 1 April 2019	1,914
Charge for year	506
Disposals	(16)
At 31 March 2020	2,404
<b>Net book value</b>	
At 31 March 2020	936
At 31 March 2019	1,116

**Intangibles in the course of completion as at the 31 March 2020**

Included in the above are assets in the course of construction as follows:

At 1 April 2019	112
Additions in to WIP during the year	218
Transferred into completed intangible assets	(40)
At 31 March 2020	290

This work in progress cost relates to the development of the AMP7 Commercial and Procurement Strategies for the future capital spend.

**12. Investment properties**

	Investment properties £000
<b>Valuation</b>	
At 31 March 2019	325
At 31 March 2020	325

The historic cost of the investment properties at 31 March 2020 was £0.195m (2019 - £0.195m)

There are no restrictions on the realisability of investment property. There are no contractual obligations to purchase, construct or develop investment property or to make any repairs or enhancements.

## Notes to the Financial Statements

### 13. Tangible fixed assets

	Freehold land, buildings, & reservoirs £000	Mains £000	Pumping £000	Vehicles, mobile plant & office £000	Total £000
<b>Cost</b>					
At 1 April 2019	58,311	64,173	56,221	23,467	202,172
Additions	5,786	3,784	7,685	2,479	19,734
Disposals	-	(93)	-	(217)	(310)
At 31 March 2020	64,097	67,864	63,906	25,729	221,596
<b>Depreciation</b>					
At 1 April 2019	14,061	5,895	30,155	15,925	66,036
Charge for year	527	1,130	2,094	1,864	5,615
Disposals during year	-	(25)	-	(215)	(240)
At 31 March 2020	14,588	7,000	32,249	17,574	71,411
<b>Net book value</b>					
At 31 March 2020	49,509	60,864	31,657	8,156	150,185
At 31 March 2019	44,250	58,278	26,066	7,542	136,136

### Assets in the course of construction

Included in the above are assets in the course of construction as follows:

	Freehold land, buildings, & reservoirs £000	Mains £000	Pumping Plant £000	Vehicles, mobile plant & office equipment £000	Total £000
<b>Cost</b>					
At 1 April 2019	3,882	2,941	(822)	31	6,032
Transferred into completed fixed assets	(820)	(3,749)	(3,858)	(922)	(9,349)
Additions in to WIP during the year	5,786	4,211	7,685	1,175	18,857
At 31 March 2020	8,848	3,403	3,005	284	15,540
<b>Depreciation</b>					
At 1 April 2019	-	-	-	-	-
At 31 March 2020	-	-	-	-	-
<b>Net book value</b>					
At 31 March 2020	8,848	3,403	3,005	284	15,540
At 31 March 2019	3,882	2,941	(822)	31	6,032

### 14. Fixed asset investments

Loans to Group undertakings  
£000

As at 31 March 2019 and 31 March 2020	55,484
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Non-current asset investments represent a loan to the parent entity South Downs Limited. These loans are repayable other than by instalments and are held at amortised cost. Interest is charged 6 monthly at a rate of LIBOR + 1%. The Company has confirmed that it does not intend to request payment of this loan within 12 months from the date of approval of these financial statements.

### 15. Current asset investments

Unlisted  
Investments  
£000

As at 1 April 2019 and 31 March 2020	2
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**16. Debtors**

	<b>2020</b>	2019
	<b>£000</b>	£000
Trade debtors (including COVID-19 bad debt provision)	<b>2,111</b>	3,070
Amount owed by Group companies	<b>1,286</b>	1,418
Prepayments	<b>557</b>	559
Accrued income	<b>2,904</b>	3,155
Other debtors	<b>694</b>	731
	<b>7,552</b>	8,933

All of the above amounts fall due within one year. Included within other debtors is corporation tax recoverable of nil (2019 - £0.271m). A refund was received during the year. As at 31 March 2020, trade debtors had a carrying value of £6.934m (2019 - £7.706m) before provision for bad debt.

Trade debtors in arrears are provided for on a sliding scale depending on age of debt. The amount of the provision was £3.734m as at 31 March 2020 (2019 - £4.636m) before the addition of specific COVID-19 bad debt provision as noted further below.

The ageing of these debtors was as follows:

	<b>2020</b>	2019
	<b>£000</b>	£000
Up to 12 Months	<b>4,497</b>	3,690
Over 12 Months	<b>2,437</b>	4,016
	<b>6,934</b>	7,706

The debtors provided for are mainly in respect of water charges for household customers where experience in the water industry has shown over time that it is likely that there will be difficulties in recovering the water charges for the periods concerned. An additional provision related to future debt attributable to the COVID-19 situation has been recognised for £1.489m, of which £1.089m relates to provision for bad debts and a further £0.4m reflects a reduction of accrued income. This has been treated as exceptional by virtue of its' size and atypical nature.

	<b>2020</b>	2019
	<b>£000</b>	£000
At 1 April 2019	<b>4,636</b>	4,580
Provision for bad debt required in the year - charged to income statement	<b>428</b>	544
Additional COVID-19 related provision - charged to income statement	<b>1,089</b>	-
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	<b>(1,330)</b>	(488)
At 31 March 2020	<b>4,823</b>	4,636

The other classes within debtors do not contain balances that may be irrecoverable. The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The Company does not hold any collateral as security for routine trading debt, however, according to the Open Water Terms of Business collateral is now held in the form of cash and guarantees to cover any non-household risk.

**17. Cash at bank and in hand**

Of the total amount shown of £29.337m (2019 - £27.210m), £2.021m (2019 - £1.968m) is held specifically for the payment of the next half yearly loan interest charges. £8.749m (2019 - £9.020m) of the increase in cash is due to proceeds of sale and share options being transferred from Ancala. This is to settle future incremental employment related social security liabilities bought about by the transaction (note 31).

	<b>2020</b>	2019
	<b>£000</b>	£000
Cash at bank and in hand	<b>29,337</b>	27,210

**18. Creditors: amounts falling due within one year**

	<b>2020</b>	2019
	<b>£000</b>	£000
3% Perpetual debenture stock	<b>60</b>	60
3½% Perpetual debenture stock	<b>185</b>	185
4% Perpetual debenture stock	<b>39</b>	39
Payments received on account	<b>1,399</b>	1,845
Trade creditors	<b>7,557</b>	5,474
Short term intercompany loan <sup>1</sup>	<b>500</b>	-
Amounts owed to group companies	<b>1,845</b>	1,531
Social security and other taxation	<b>9,101</b>	9,281
Other creditors	<b>420</b>	425
Balance outstanding on revolving credit facility (refer to note 22)	<b>20,000</b>	10,000
Accruals	<b>997</b>	818
Water rates paid by customers in advance	<b>8,141</b>	7,115
	<b>50,244</b>	36,773

<sup>1</sup>An intercompany short term loan carrying interest charged at 3 months LIBOR + 1%.

## Notes to the Financial Statements

<b>19. Creditors: amounts falling due after more than one year</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>In five years or more:</b>		
Bank loan	<b>110,452</b>	107,476
Less: deferred arrangement costs	<b>(710)</b>	(767)
	<b>109,742</b>	106,709

The thirty year £66.5m index-linked loan was issued on 26 June 2002, is repayable on 30 September 2032, and is secured upon the assets of the Company. The capital value of the loan is adjusted by the change in the Retail Prices Index from year to year. The fees associated with the loan issue of £1.722m are amortised over the life of the loan. The balance shown above is net of deferred arrangement costs of £0.710m (2019 - £0.767m).

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this amount at 3.635% per annum.

<b>20. Deferred income - capital contributions</b>	<b>2020</b>	2019
	<b>£000</b>	£000
Capital contributions	<b>28,752</b>	27,783
Release to turnover (note 3)	<b>(709)</b>	(645)
	<b>28,043</b>	27,138

<b>21. Provisions for liabilities</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Deferred taxation:</b>		
At 1 April 2019	<b>6,919</b>	6,764
Charged during the year in income statement	<b>1,175</b>	155
At 31 March 2020	<b>8,094</b>	6,919

The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation.

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Total deferred taxation including deferred tax on pension asset:</b>		
Accelerated capital allowances	<b>9,265</b>	8,088
Other timing differences	<b>(1,171)</b>	(1,169)
	<b>8,094</b>	6,919
Pension asset (note 25)	<b>3,647</b>	4,871
Total provision for deferred tax	<b>11,741</b>	11,790
	<b>2020</b>	2019
	<b>£000</b>	£000
At 1 April 2019	<b>11,790</b>	11,842
Deferred tax charged in income statement (note 9)	<b>1,711</b>	147
Deferred tax credited to the statement of comprehensive income	<b>(1,760)</b>	(199)
At 31 March 2020	<b>11,741</b>	11,790

## 22. Financial instruments

The Company has financial instruments in the form of inter-company balances and third party loans. The carrying values of the Company's financial assets and liabilities are summarised by category below:

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Financial assets</b>		
Fixed asset investment (note 14)	<b>55,484</b>	55,484
Current asset investment (note 15)	<b>2</b>	2
Cash at bank and in hand (note 17)	<b>29,337</b>	27,210
	<b>84,823</b>	82,696

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Financial liabilities</b>		
Bank loans and overdrafts	<b>109,742</b>	106,709
Intercompany loans	<b>500</b>	-
Revolving credit facility	<b>20,000</b>	10,000
Debenture stock	<b>284</b>	284
	<b>130,526</b>	116,993

<b>Sterling</b>	<b>Fixed Rate</b>	Fixed Rate	<b>Floating Rate</b>	Floating Rate	<b>Total</b>	Total
	<b>2020</b>	2019	<b>2020</b>	2019	<b>2020</b>	2019
	<b>£000</b>	£000	<b>£000</b>	£000	<b>£000</b>	£000
<b>Liabilities</b>						
Bank loans and overdraft	<b>109,742</b>	106,709	<b>20,000</b>	10,000	<b>129,742</b>	116,709
Intercompany loans	<b>500</b>	-	-	-	<b>500</b>	-
Debenture stock	<b>284</b>	284	-	-	<b>284</b>	284
	<b>110,526</b>	106,993	<b>20,000</b>	10,000	<b>130,526</b>	116,993

<b>Fixed Rate</b>	<b>Weighted average interest rate</b>	Weighted average interest rate	<b>Weighted average period for which rate is fixed</b>	Weighted average period for which rate is fixed
	<b>%</b>	%	<b>Years</b>	Years
	<b>2020</b>	2019	<b>2020</b>	2019
<b>Sterling</b>	<b>3.6</b>	3.6	<b>12</b>	13

Interest on the floating rate financial liability is based on London Interbank rates.

The maturity profile of the Company's financial liabilities at 31 March 2020 is detailed below:

	<b>2020</b>	2019
	<b>£000</b>	£000
In one year or less	<b>20,784</b>	10,284
In more than five years	<b>109,742</b>	106,709
	<b>130,526</b>	116,993

The Company had undrawn borrowing facilities at 31 March 2020, in respect of which all conditions precedent had been met, as follows:

	<b>2020</b>	2019
	<b>£000</b>	£000
Expiring within one year	<b>500</b>	500
Expiring between two and three years	<b>-</b>	5,000
	<b>500</b>	5,500

The carrying amounts of the financial assets and liabilities shown above approximate their fair value.

The Company overdraft remains at £0.5m based on projected working capital requirements. During the year the revolving credit facility was increased from £15m to £20m reflecting the profile of projected capital spend in relation to HTWSR. This was further extended to £25m following the year end as part of the Company's mitigating actions in relation to COVID-19.

## Notes to the Financial Statements

The Company manages its working capital requirements primarily through the use of its £0.5m overdraft facility and revolving credit facility (RCF). During the year the RCF limit was increased from £15m to £20m reflecting the profile of capital spend in relation to the HTWSR. Following the year end, on 29th May 2020, the Company extended this facility further, to £25m, as part of the mitigating actions in relation to COVID-19. The RCV is available at its current level until 25th May 2022. At the Company's option amounts may be drawn under the RCF for fixed periods of 1 or 3 months. Subject to notice, the Company may extend the period of any amounts drawn (up to the £25m limit) on a rolling basis until the term date of May 2022.

<b>23. Called up share capital</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Authorised:</b>		
<b>Equity:</b>		
6,000,000 Ordinary Shares of 10p each	<b>600</b>	600
10,500,000 'A' Ordinary Shares of 10p each	<b>1,050</b>	1,050
	<b>1,650</b>	1,650
<b>Non-equity:</b>		
3,250,000 Redeemable Preference Shares of £1 each	<b>3,250</b>	3,250
Total	<b>4,900</b>	4,900
<b>Allotted, called up and fully paid:</b>		
<b>Equity:</b>		
4,265,197 Ordinary Shares of 10p each (2019 - 4,265,187)	<b>427</b>	427
6,509,162 'A' Ordinary Shares of 10p each	<b>651</b>	651
	<b>1,078</b>	1,078

The ordinary and 'A' ordinary shareholders are entitled to receive dividends pari passu according to the amount paid up or credited as paid up on their share. The Ordinary Shares are the only class of share to carry voting rights.

In a distribution on the winding up of the Company, the Ordinary and 'A' shareholders are entitled to share the balance of any surplus assets pari passu according to the amount paid up or credited as paid up on their shares.

On 27 March 2020 ten new Ordinary Shares at 10p each were issued at a premium of £243,303.80 per share which was fully paid up in cash for £2,433,039. This resulted in an increase in share capital of £1 and created a share premium of £2,433,038.

This additional capital related to funding for exceptional National Insurance contributions relating to the distribution of sales proceeds to employees as set out in note 31.

<b>24. Cash generated from operations</b>	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Loss on ordinary activities before taxation</b>	<b>(1,302)</b>	(715)
<b>Adjustments for:</b>		
Finance costs recognised in income statement	<b>7,296</b>	7,444
Notional pension costs	<b>864</b>	811
Investment income recognised in income statement	<b>(1,062)</b>	(957)
Other finance income	<b>(672)</b>	(762)
(Profit)/loss on disposal of asset	<b>(103)</b>	494
Depreciation and amortisation of tangible and intangible fixed assets	<b>6,121</b>	5,866
Amortisation of capital contributions	<b>(709)</b>	(646)
Amortisation of deferred meter reading revenue	<b>(147)</b>	(174)
<b>Movements in working capital:</b>		
(Increase)/decrease in stocks	<b>(118)</b>	189
Decrease/(increase) in debtors	<b>224</b>	(698)
Increase/(decrease) in creditors	<b>383</b>	(1,055)
<b>Cash generated from operations</b>	<b>10,775</b>	9,797

## 25. Pensions

Portsmouth Water Limited, a subsidiary undertaking, is the principal employer and its parent company, Brockhampton Holdings Limited, is the participating employer in the Brockhampton Pension Scheme. This scheme provides defined benefits based primarily on pensionable earnings. The assets of the scheme are held in a separate trustee administered fund. During the year the Brockhampton Pension Scheme Trustees entered into a 'Buy-In' arrangement with Just Retirement Limited. This asset will cover all the current pensioner liabilities and significantly reduces the risk within the Scheme. The Company supported this decision.

The formal actuarial valuation as at 31 March 2018 was updated to 31 March 2020 accounting date by an independent qualified actuary in accordance with FRS 102. As required by FRS 102, the value of the defined benefit liabilities has been measured using the projected unit method.

The estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the year commencing 1 April 2020 is £1.7m (2019 actual - £1.1m). Of this amount, £1.5m is contributed directly by that Company and £0.2m is contributed by employees by salary sacrifice under the SMART arrangement.

The key FRS 102 assumptions used for the scheme were as follows:

	<b>2020</b>	2019	2018
	<b>% per annum</b>	% per annum	% per annum
RPI inflation	<b>2.5</b>	3.3	3.2
CPI inflation	<b>1.9</b>	2.4	2.3
Discount Rate	<b>2.4</b>	2.3	2.5
Pension increases	<b>2.0</b>	2.4	2.3
Salary growth	<b>2.0</b>	4.4	4.3

Life expectancy of a male aged 65 at the accounting date is 22.0 years and for a female is 24.4 years.

Allowances for future improvements in the life expectancy mean that life expectancy of a male aged 65 at the accounting date plus 20 years is 23.6 years and for a female is 26.1 years.

As an indication of the sensitivity of the results to changes in the key assumptions:

- A decrease in the discount rate of 0.1% per annum would increase the defined benefit obligation by around £2m.
- A 5% fall in performance asset values would reduce the assets by around £3m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £4m.

The fair value of assets in the scheme, a breakdown of the assets into the main asset classes, the present value of the FRS 102 defined benefit obligation and the surplus of assets over the FRS 102 defined benefit obligation (which equals the gross pension asset) are set out below:

	<b>2020</b>		2019		2018	
	<b>Fair</b>		Fair		Fair	
	<b>Value</b>		Value		Value	
	<b>£000</b>	%	£000	%	£000	
Equities	<b>17</b>	<b>23,783</b>	34	56,452	32	52,727
Absolute Return Fund	<b>13</b>	<b>18,158</b>	24	40,922	25	41,111
LDI	<b>10</b>	<b>13,957</b>	22	37,610	23	38,205
Property	<b>12</b>	<b>17,404</b>	10	17,312	11	17,525
Cash	<b>3</b>	<b>4,565</b>	10	15,851	9	15,480
Buy-in policy	<b>45</b>	<b>64,162</b>	-	-	-	-
	<b>100</b>	<b>142,029</b>	100	168,147	100	165,048

With the exception of cash, assets consist of pooled investment funds which are not quoted on an active market, shown by category in the table above. The above include assets amounting to £81.566m (2019 - nil) classified as level 3 financial assets, these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumption during the year. Experience gains and losses are differences between the actual events as they have turned out and the assumptions that they were made as at the date of the earlier actuarial valuation and changes in the actuarial assumptions during the year.

	<b>2020</b>	2019
	<b>£000</b>	£000
Total fair value of scheme assets	<b>142,029</b>	168,147
FRS 102 value of scheme defined benefit obligation	<b>(113,826)</b>	(133,273)
Impact of asset ceiling	<b>(9,010)</b>	(6,221)
Pension asset	<b>19,193</b>	28,653
Related deferred tax liability	<b>(3,647)</b>	(4,871)
Net pension asset	<b>15,546</b>	23,782

## Notes to the Financial Statements

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2020 by an asset of £19.193m (2019 - £28.653m), which amounts to £15.546m net of deferred tax (2019 - £23.782m).

Portsmouth Water Limited paid contributions at a rate of 20.6% of earnings. Members pay contributions at a rate of 5% of earnings via salary sacrifice.

Portsmouth Water Limited also operates a defined contribution pension scheme. The contributions payable by Portsmouth Water Limited for the year in respect of the defined contribution scheme amounted to £334,876 (2019 - £240,016).

### Movement in the net balance sheet position

	2020	2019
	£000	£000
The FRS 102 value of scheme assets moved over the period as follows:		
Opening asset	28,653	29,872
Expense charged to profit and loss	(1,271)	(1,231)
Loss recognised outside of profit and loss	(9,269)	(1,170)
Employer contributions	1,080	1,182
Closing asset	19,193	28,653

### Movement in present value of defined benefit obligation

	2020	2019
	£000	£000
The FRS 102 value of scheme defined benefit obligation moved over the period as follows:		
Opening scheme liabilities	133,273	135,176
Employer's part of current service cost	1,944	1,993
Interest on scheme liabilities	2,996	3,312
Benefits paid	(6,071)	(5,452)
Actuarial gain	(18,316)	(1,756)
Closing scheme defined benefit obligation	113,826	133,273

### Movement in fair value of scheme assets

	2020	2019
	£000	£000
The FRS 102 value of scheme assets moved over the period as follows:		
Opening fair value of scheme assets	168,147	165,048
Interest on scheme assets	3,811	4,074
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	1,080	1,182
Benefits paid	(6,071)	(5,452)
Actuarial gain	(24,938)	3,295
Closing fair value of scheme assets	142,029	168,147

### Expense recognised in income statement

	2020	2019
	£000	£000
The following amounts have been included within operating profit:		
Current service cost (employer's part only)	(1,944)	(1,993)
Total operating charge	(1,944)	(1,993)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	3,811	4,074
Interest on asset limit	(143)	-
Interest on pension scheme defined benefit obligation	(2,996)	(3,312)
Net return	672	762
Total expense recognised in the income statement	1,272	(1,231)

### Accounts recognised outside income statement

	2020	2019
	£000	£000
The following amounts have been recognised within the statement of changes in equity:		
Actual return less interest	24,938	(3,295)
Experience gains arising on scheme defined benefit obligation	(603)	(3,083)
Loss/(gain) due to changes in assumptions	(17,713)	1,327
Change in asset limit other than interest	2,647	6,221
Remeasurement loss of net defined benefit asset	9,269	1,170

The actual loss on plan assets was £21.127m in the year to 31 March 2020 (2019 - £7.369m gain).



**26. Lease commitments**

At the reporting date the Company had no commitments for non-cancellable operating leases beyond one year.

**27. Ultimate controlling party**

During the year, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited.

The group structure is set out on page 47.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the year ended 31 March 2020 will be prepared at the level of Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

**28. Capital commitments**

	<b>2020</b>	2019
	<b>£000</b>	£000
Relating to fixed assets	<b>4,122</b>	3,348

The increase in capital commitments is as a result of future capex spend, primarily the eel screen project.

**29. Related Party Transactions**

The Company has taken advantage of the exemption available in FRS 102 "Related Party Disclosures" whereby it has not disclosed transactions with any wholly owned subsidiary undertaking of the Group. Related undertakings are set out in the Group structure on page 39 and have the same Registered Office as stated on page 54.

**30. Post Balance Sheet Event**

On 29 May 2020 the Company extended the revolving credit facility by £5m to a total of £25m.

**31. Disposal of the South Downs Capital Group**

On 16 March 2018 the South Downs Capital Group (of which Portsmouth Water Limited is the primary trading company) was sold to funds managed by Ancala Partners LLP ("Ancala"), an infrastructure investment fund. The Group was previously owned partially by an Employee Benefit Trust (EBT).

As a result of this transaction, share options relating to the EBT shareholding were issued to the trust beneficiaries at market value (the majority of current employees and certain former employees). These options were exercised immediately and the shares disposed of as part of the transaction.

External tax advice and HMRC clearance indicated that the sales proceeds, due to employees, were deemed to have arisen "by virtue of their employment" by the Group. As such these distributions were subject to PAYE and NI contributions. The payments were structured to be made in three annual tranches in March 2018, 2019 and 2020. As such, additional employee PAYE and NIC contributions were settled out of the gross proceeds and were paid during April 2018, 2019 and 2020. This resulted in a beneficial cash flow position of £8.749m (2019 - £9.02m) as at 30 March 2020 due to the timing of the receipt of proceeds for distribution and the settlement of PAYE and NIC liabilities.

A further impact of the transaction and its manner of distribution was the liability arising in respect of employers NIC and apprenticeship levy. As these are payable on payroll costs, a total additional charge of £2,433,039 (2019 - £2,422,000) arose in relation to the sale proceeds paid to employees. As this could not be deducted from the employees' distribution it results in a charge to the income statement which has been treated as an exceptional cost. However, this has been compensated for by the injection of additional share capital and share premium of £2,433,039 (2019 - £2,422,000) (note 23). This reflects part of the total purchase consideration.

## Notice of Meeting

Notice is hereby given that the Annual General Meeting of Portsmouth Water Limited will be held at the Company's Registered Office, PO Box 8, West Street, Havant, Hants, at 11.00am on Thursday, the 23rd day of July 2020, on the following business:

1. To receive and consider the Directors' Report and Accounts for the year ended 31 March 2020 and the Auditors' Report thereon.
2. To approve the Report on Remuneration.
3. Elect Mr. C. Deacon a Director of the Company.
4. To re-elect Mr. M. P. Johnson a Director of the Company.
5. To re-elect Mr. D. W. Owens a Director of the Company.
6. To re-elect Mrs. H. M. G. Orton a Director of the Company.
7. To re-elect Mr. C. R. Taylor a Director of the Company.
8. To re-elect Mr. M. R. Coffin a Director of the Company.
9. To reappoint KPMG LLP as Company Auditors and to authorise the Directors to fix their remuneration.

### Registered Office

PO Box 8  
West Street Havant  
Hants PO9 1LG  
11 June 2020

By order of the Board  
**C. Hardyman ACIS**  
Secretary

### Notes:

- i) Debenture holders are reminded that the holding of debenture stock does not entitle them to attend or vote at the meeting.
- ii) Shareholders are reminded that no voting rights attach to the 'A' Ordinary Shares. 'A' Ordinary Shareholders are not entitled to attend the meeting.
- iii) A proxy form is enclosed for Shareholders entitled to vote at the meeting.
- iv) To be valid proxies must reach the Company's Registered Office not later than forty-eight hours before the time fixed for the meeting.

## Appendix 1 KPI Calculations

### a) Gearing - Net Debt: RCV

	2020 adjusted* £000	2020 £000	2019 adjusted* £000	2019 £000
(i) Debt				
Bank loan (note 19)	110,452	110,452	107,476	107,476
Intercompany loan	500	500	-	-
Revolving credit facility (note 18)	20,000	20,000	10,000	10,000
Debenture stock (note 18)	284	284	284	284
Cash at bank and in hand	(20,588)	(29,337)	(18,190)	(27,210)
Net debt	110,648	101,899	99,570	90,550
(ii) Regulatory capital value indexed to 31 March	154,826	154,826	150,097	150,097
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	71.5%	65.8%	66.3%	60.3%

For the purposes of this ratio, debt excludes the deferred arrangement costs of £0.710m (2019 - £0.767m) and the current asset investment of £0.002m (2019 - £0.002m).

\*Included within the cash at bank and in hand value at the year end is amounts due of £8.749m (2019 - £9.020m) to be paid to HMRC relating to social security taxes. Funds to cover this payment were received from Ancala Partners in advance of the required settlement date. An adjusted Gearing-Net Debt: RCV has been calculated to remove the effect of this atypical cash balance.

(ii) Regulatory capital value as published by Ofwat.

### b) Cash interest cover

	2020 £000	2019 £000
Operating profit	8,079	7,926
Less exceptional National Insurance costs (below operating profit)	(2,433)	(2,422)
Less exceptional COVID-19 bad debt provision (below operating profit)	(1,489)	-
Gain/(loss) on disposal of fixed assets (below operating profit)	103	(494)
Notional pension costs (note 24)	864	811
Depreciation and amortisation charges (notes 12 and 13)	6,120	5,866
Interest received, excluding amounts for inter-company loan (note 7)	8	4
Taxation refund excluding payments for group relief	271	-
Capital expenditure (net of contributions)	(16,823)	(14,008)
Amortisation of deferred capital contributions	(709)	(646)
Amortised meter reading	(147)	(174)
Cash received from investing activities	2,433	2,422
Loan draw-down	20,000	10,000
Repayment of loan draw-down	(10,000)	(3,000)
Receipt of intercompany loan	500	-
	6,777	6,285
(ii) Interest paid	4,263	4,086
(iii) Cash interest cover ratio (i) ÷ (ii)	1.59	1.54

### c) Return on regulatory equity

	2020 £000	2019 £000
Revenue	43,147	42,161
Operating costs, excluding Employee Benefit Trust payments depreciation and amortisation and exceptional items	(28,948)	(28,370)
Regulatory depreciation (run off rate)	(6,240)	(5,782)
Infrastructure depreciation	(1,130)	(1,115)
Earnings before interest and tax	6,829	6,894
Current tax credit/(charge)	313	140
Interest payable, excluding indexation and amortisation	(4,263)	(4,030)
(i) Return	2,879	3,004
(ii) Average Regulatory Capital Value, equity element only (adjusted gearing)	43,503	49,534
(iii) Return on regulatory equity (i) ÷ (ii)	6.62%	6.06%

\*RoRE has been calculated excluding exceptional items as set out as the face of the income statement and based on adjusted gearing, as set out above, in order to be comparable with prior periods.

