

# Portsmouth Water Limited Annual Performance Report 2021



**Delivering excellence**

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

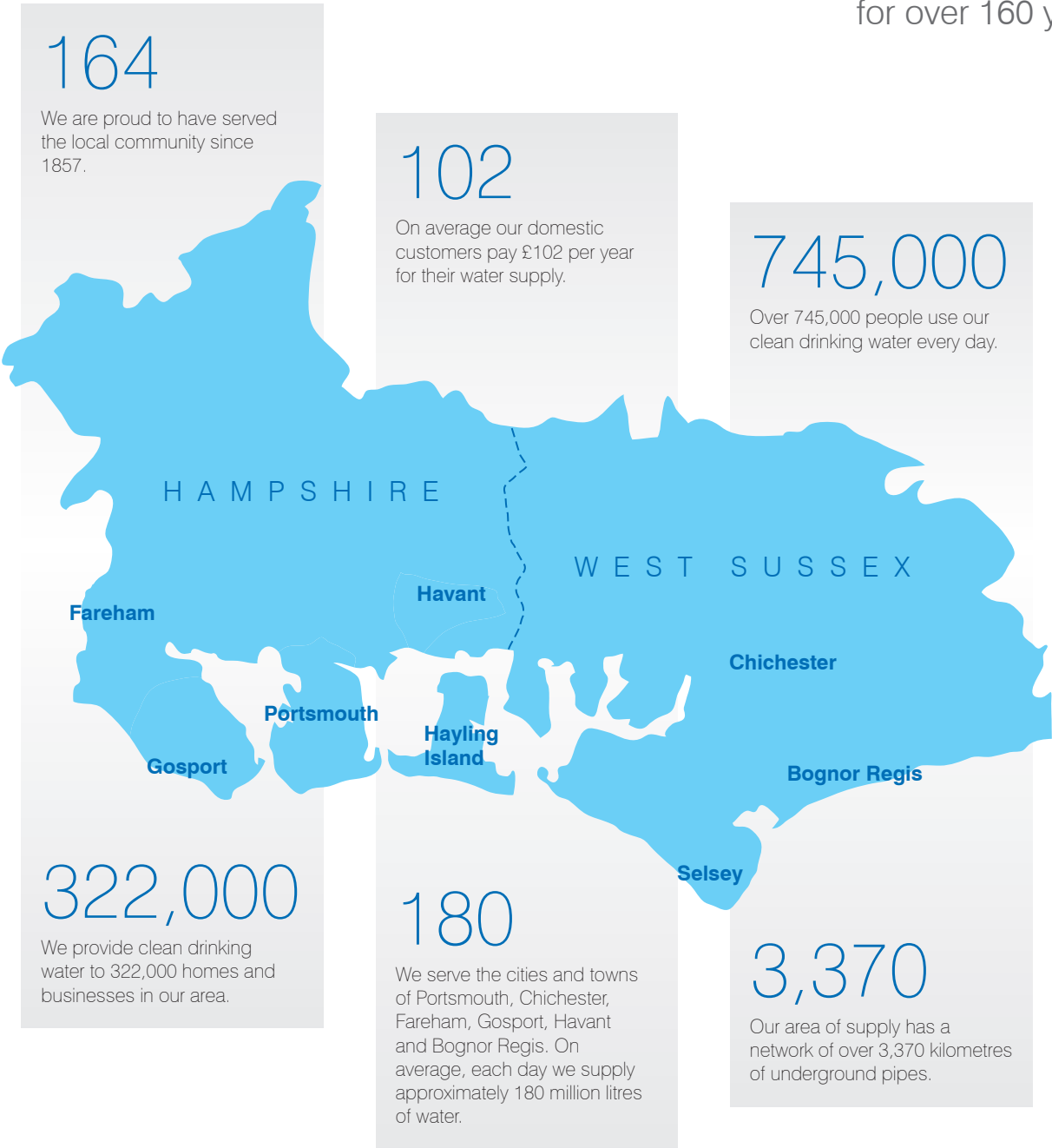


Production Technicians inspecting a borehole before lowering a replacement pump.

# Portsmouth Water At A Glance



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



We provide drinking water only. We do not provide sewerage services; these are normally provided by Southern Water within our supply area.

# Introduction

Portsmouth Water Limited is a water supplier operating under an Instrument of Appointment granted by the Secretary of State for the Environment under the Water Industry Act 1991. In accordance with the requirements of the Company's licence conditions and Ofwat guidance the Company both operates and prepares its statutory Annual Report and Accounts ('ARA') having regard to the requirements of the Disclosure and Transparency Rules and the relevant elements of the UK Corporate Governance Code. This Annual Performance Report ('APR') has been prepared in accordance with the requirements of Regulatory Accounting Guidelines published by Ofwat.

The Company does not prepare a combined document covering both ARA and APR but, as permitted and where appropriate, cross references to the published ARA. Copies of the ARA can be obtained from the Company Secretary at PO Box 8, West Street, Havant, PO9 1LG and on the Company's website at [www.portsmouthwater.co.uk](http://www.portsmouthwater.co.uk).

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

Company Number  
**2536455**



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# 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 current regulatory period 2020-2025 (known as 'outcomes') as set out below.

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 developed and launched the Portsmouth Water Community Partnership, our social contract.

The Board puts great emphasis on 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'.

## 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**

# Corporate Governance

The Board of Portsmouth Water Limited, at 31 March 2021, comprised of two Executive Directors, one Independent Chairman, two independent Non-Executive Directors and one Investor Director. The Executive Directors are Bob Taylor, who is the CEO, and Helen Orton who is the Finance and Regulation Director. The Independent Chairman is Christopher Deacon and Independent Non-Executive Directors are Mike Coffin and Angela Wilson. In addition, there is one Investor Director, Christopher Loughlin, replacing David Owens, who retired at the end of the year.

The Ofwat principles require that independent Non-Executives should constitute the largest single group of Directors. Portsmouth Water complies with this requirement.

There was an external Board evaluation and review exercise in early 2021. The Board felt that this was particularly important given the recent Board membership changes, the ambitious agenda for change in the business and the strategic work planned in support of the business plan for PR24 and beyond. We have given more information about this review on page 54 of the ARA.

Portsmouth Water is committed to high standards of Corporate Governance and takes the lead from those principles set out in the UK Corporate Governance Code and guidance issued by Ofwat. That guidance highlighted Ofwat's principles by which they believe Water Companies should deal with Board Leadership, transparency and governance.

Detailed information in connection with the Company's Corporate Governance processes and compliance, including operation of the Board, Risk Management and Internal Control is set out on pages 48-69 of the Company's ARA.

## **Compliance**

In 2019 Ofwat published the updated principles by which water companies should deal with Board leadership, transparency and governance. The Board complies with the Ofwat principles in all areas and has provided a summary of how the Company meets Ofwat's principles, on pages 6 and 7.

## **Auditors**

KPMG LLP were appointed as Auditors of the Portsmouth Water Group during 2017, in relation to the year ended 31 March 2018, and have continued in office since that time.

# Corporate Governance

The Board has considered the Ofwat corporate governance requirements in relation to leadership, transparency and governance. For ease of reference the key provisions have been summarised in the table below and referenced to the areas of the Annual Report & Accounts (ARA) where further information can be found. This table refers to the relevant pages and sections of the Company's ARA.

## 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 formalised our commitments to the communities that we serve through our Community Partnership. Following the recent Board review, and as we move towards PR24, the Board is implementing plans with the senior leadership team, to undertake an updated review of the Company Purpose, Vision, Values and Strategy.
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". We note the Board's plans to update this area in contemplation of the challenges of PR24 & beyond.
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". Following the recent Board review we plan to do further work to develop an HR strategy to support the alignment of values and culture and support further business change needed to deliver the long term strategy.
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". We also consider key elements further within this Corporate Governance report and in the Directors Statement on s172 of the Companies Act.

## 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". No matters are reserved for shareholders and the Board has a majority of independent Non-Executive directors. Accordingly the Board has full responsibility for all aspects of the regulated business' strategy.
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 the case as set out in the Corporate Governance section under "Board of Directors".  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".
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 has a conflict of interest policy which defines conflicts of interest, sets out the requirement to declare such conflicts and agrees how any conflicts arising would be dealt with. This includes the position that "interested" board members may not vote on matters affecting their own interests. This is set out in the "Board of Directors" section.



## 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 49 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 under both "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 52.
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 60 to 66, including the linkage of remuneration to stretching delivery targets.

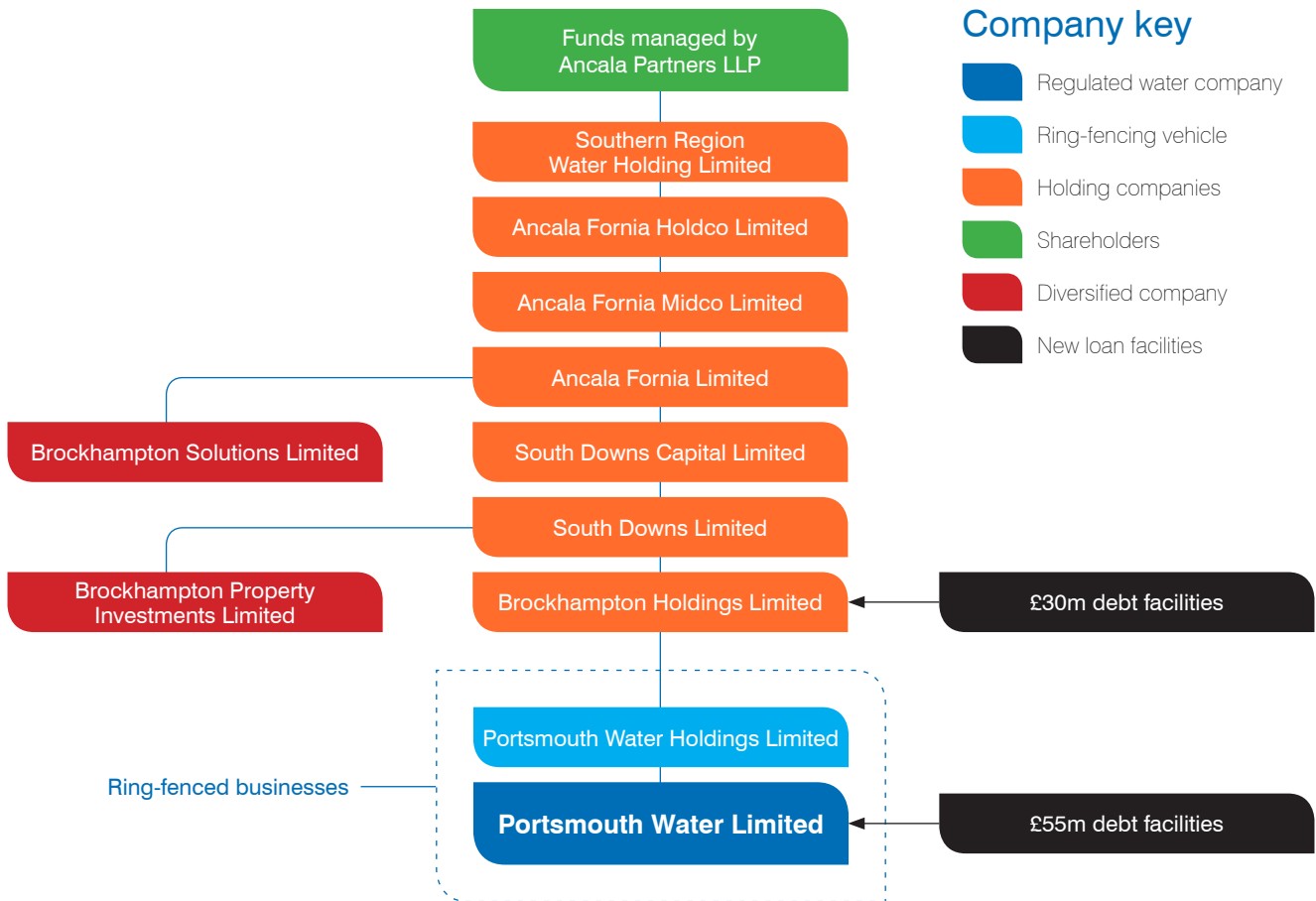
## Board structure and effectiveness

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 pages 53 and 59.  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 59.
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 53.
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 page 54. The Board has also updated its skills matrix and has been mindful of the appropriate balance of skills and experience in making new appointments.
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 59.
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 59. The Candidates appointed during the current year have all undertaken a meeting with Ofwat prior to their appointment.
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 52 and in the sections covering the Audit, Nomination and Remuneration Committees.

# Ownership Structure



The chart above shows the ownership structure and new financing arrangements of the Company and the Group. All companies are wholly owned by the parent company indicated 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 Limited, 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 and European corporate and local authority pension plans. The acquisition of the South Downs Capital group of companies, in March 2018, was undertaken by Ancala Fornia Limited, which is incorporated in the UK. Ancala Fornia Midco Limited and Ancala Fornia Holdco Limited were also inserted into the Group as part of the acquisition structure.

The ultimate parent undertaking is Southern Region Water Holding Limited (SRWHL) which is incorporated in Hong Kong. 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 €2 billion of funds with investment primarily 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 statements for the year ended 31 March 2021 will be prepared at the level of Ancala Fornia Holdco Limited and SRWHL (this will be the largest Group for which consolidated financial statements are prepared).

During the year, Brockhampton Holdings Limited's investment in Brockhampton Property Investment Limited was transferred to South Downs Limited. No gain or loss was crystallised in respect of this reorganisation. In addition Brockhampton Solutions Limited was established in order to develop new business opportunities relating to renewable energy and other services supporting the water industry.

## Financing

Portsmouth Water Limited was historically financed primarily by way of an RPI index 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 £111.6m (2020 - £109.7m).

During the year the group also raised additional debt facilities for up to £85m in order to finance the development of Havant Thicket Winter Storage Reservoir (HTWSR) and other capital investments. This was raised under two debt facilities with up to £30m available to Brockhampton Holdings Limited and up to £55m available to Portsmouth Water Limited. The new loans are repayable in March 2025 by which time the group plans to refinance. Of the new loan facilities a total of £55 million is sustainability linked.

# Company Direction and Performance

## Delivering for our Customers & Communities

Our values of Excellence, Integrity and Respect are deeply rooted and embedded in our company 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.

In this year, impacted by the Covid-19 pandemic, it was very important that we engaged with our people so they understood the situation and how it affected their roles within the Company and that we communicated effectively. Therefore, it is very pleasing that in our 2020 Covid staff survey over 91% of staff felt they have been valued throughout by the Company and 99% were happy with the communication they received from the Company. This is a great testament of the healthy partnership that exists between the business and our people which is critical in challenging times.

We were delighted to be ranked 1st overall in the industry Customer Measure of Experience (C-MeX) for 20/21. This result is especially pleasing given most customer service staff have been working remotely from home during Covid-19 and yet have continued to deliver outstanding service.

For the current regulatory period D-Mex was introduced as an industry measure of developer satisfaction. In a challenging year for developers, that saw the temporary closing of development sites in lockdown 1, we continued our strong D-Mex performance, from the shadow year into 2020/21. In the recently published D-Mex performance we ranked 3rd overall in the industry.

In addition to these regulatory performance measures, we continue to be assessed through the independent Institute of Customer Service, and continue to hold the prestigious ‘ServiceMark’ accreditation. Their annual Business Benchmarking survey gave a score of 83.2 for Portsmouth Water. The Institute’s national survey results, where utilities averaged 72.6 and all sectors averaged of 77.0, provides strong and independent evidence that our customer service rivals that across all sectors. The survey showed that customers continue to value our service reliability, helpfulness and competence of staff.

We have been pro-active in supporting our household customers impacted by the Covid-19 pandemic, by offering payment holidays and increasing promotion of our affordable “social tariff”; with the number of customers on this tariff standing at 9,327. Throughout the year we have continued to work collaboratively with other utilities and support agencies to promote assistance for those with vulnerabilities – which we feel is particularly important during these difficult times. We currently have 31,690 customers on our Priority Services Register which represents over 10% of our customer base.

Supporting the local communities that we are proud to serve has been a long-term commitment for us. During the year we launched 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 Havant Thicket Winter Storage Reservoir (HTWSR) project will have a community focus – in 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 also encouraged our people to support the community response through volunteering and we have developed new “home schooling” educational resources.

## Performance Commitments

The Company is subject to a total of 26 Performance Commitments (PCs) of which 10 are common across the industry and 16 are bespoke (including one PC for Havant Thicket reservoir). Eighteen of our PCs have financial rewards and penalties attached.

For the ODIs that are consistent across water companies, the Company performs well and generally benchmarks in the upper quartile of the industry. We achieved 21 of our PCs and were very pleased to have delivered continued improvements in a number of areas, particularly leakage. Unfortunately, we did not meet our targets for per capita consumption (PCC), mains repairs, voids and biodiversity survey and narrowly missed our target for the vulnerability survey and have action plans in place to address these. Of the areas where we failed to meet our stretching performance commitments we believe that three were adversely impacted by Covid restrictions.

PCC measures household water usage. We have seen a significant increase in

household use in the year from 150 litres per person per day up to 170 litres per person per day. This was the consequence of the need to stay at home to comply with the restrictions due to Covid-19. We remain committed to promote the efficient use of water and will work with our customers to ensure this is the case. There is uncertainty as to what level of household demand we should expect in the future but we are well placed to accommodate any continuation of this step change.

## Mains repairs

We saw a significant increase in mains repairs in winter 2021 as a result of a prolonged cold and dry weather period. In January 2021 for example we had 65 bursts on the network, almost double that of January 2020, and high relative to the long term average of 40. That said our management of this activity did not adversely impact our customers, as shown by the interruptions to supply ODI. In fact despite significantly more repairs needed to be undertaken to the network, we have reduced the overall impact on customers in the year and expect to be industry leading on this measure when comparisons are available.

## Other areas

The void target of 2% was not achieved this year and was adversely impacted by Covid restrictions when meter reading and visits to properties could not be undertaken during April – June 2020. We have made good progress on this measure more recently.

Following significant progress enhancing the biodiversity on our sites it was disappointing that we could not demonstrate this had been maintained for all sites. This ongoing work was adversely impacted by Covid operational challenges which curtailed our ability to mow grassland during a critical period. We have employed an additional two members of staff to undertake this activity in future.

In the vulnerability survey we narrowly missed its satisfaction rating with a result of 84% versus a target of 85%. We believe this is still a good result, given the challenges in serving these customers and organisations during this year.

The company also notes the particularly strong performance in a number of areas and particularly with respect to significant reductions in leakage and strong performance in relation to interruptions to supply, water quality contacts and CRI.

# Company Direction and Performance

## Leakage and supply interruptions

We recognise 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 23.4 MI/d in 2020/21 compared to 24.4 MI/d last year and outperformed our regulatory target for 2020/21 by over 6 MI/d. This is a very good performance in light of the need to change our operational processes due to Covid-19 restrictions. It was further compounded by the cold weather in January and February 2021, when we experienced a significant increase in bursts on our network. We have installed new technology in our 3,370km network to help us identify and locate leaks quickly. This has resulted in us now having an industry leading level of leakage at just under 73 litres per property per day. We are well placed to continue this improvement in the remaining 4 years of AMP7, where we plan to reduce leakage by 15%.

We continue to deliver one of the best levels of performance in the industry for interruptions to supply for customers. At an average of 2 minutes 48 seconds per property, compared to a target of 6 minutes 30 seconds, this is our best performance in the last six 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. Again the impact of Covid-19 restrictions required us to change our operational process, which we did successfully without a detriment to customers. We are well placed to achieve our regulatory targets for the remainder of AMP7.

## Water Quality Contacts

This is the measure of the number of times that customers contact us with queries connected to water taste, odour, discolouration or illness. It 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 have achieved our first year target for AMP7 of 0.440 contacts per 1,000 population served. Our performance was industry leading for the last two years, and we expect this to be the case again this

year, when the DWI publish its report. We did experience an increase in contacts in the summer this year, as water demand was significantly higher due to the good weather and Covid-19, but ended the year back at more normal contact rates.

## Compliance Risk Index

The measure of water quality now used by DWI is the Compliance Risk Index (CRI). We had 5 water quality failures in the calendar year with minor impact on the CRI score. Accordingly we expect to remain industry leading on water quality compliance when the DWI publish its annual review later in the year.

## Water resources for the region

Our vision for PR19 and beyond is to enable enhanced water trading for the region as a whole – working closely with our neighbouring water company Southern Water. The PR19 final determination included a separate price control for the Havant Thicket Winter Storage Reservoir (HTWSR) to enable the development of a new reservoir which will enable up to 21 mega litres a day to be supplied to Southern Water.

Despite the challenges of the pandemic we have completed a number of significant milestones for the programme – negotiating and signing the related commercial bulk supply agreement, raising a total of up to £105m of new finance, commencing the procurement process and submitting planning applications. We discuss progress in relation to HTWSR in more detail in the annual report and accounts and we remain on track to deliver the reservoir by 2029. In addition to the HTWSR we also began collaborations with Southern Water for other joint schemes under the Ofwat RAPID programme. The most significant of these schemes is for the development of a 45km direct pipeline between the HTWSR and Southern Water's treatment works at Otterbourne.

## Facing the challenges of Covid-19

Although the impacts of the Covid-19 pandemic were only just emerging as we began the 2020/21 financial year it was clear that this would result in extensive operational challenges. We acted swiftly to implement our Covid-19 pandemic response plan. We saw new ways of working, with the vast majority of employees now working remotely to maintain social distancing requirements. Initially we also suspended certain activities that could not be carried out safely, although we were able to resume them once we had implemented appropriate ways of working. Our scale, and our committed workforce,

allowed us to respond quickly and effectively to these emerging challenges and we have continued to work flexibly to respond to Covid-19.

Following the tough regulatory settlement we enter the 2020-2025 Regulatory period with reduced headroom on financeability. At the start of the financial year we recognised that this may be reduced further as a result of the impact of Covid-19. This downward pressure has been mitigated during the year by cost reductions and careful cashflow management. The effect of lockdown on changes in patterns of water consumption has significantly increased levels of household water use with reductions in non-household (commercial) use. This has adversely impacted achievement of our per capita consumption (PCC) target. We have also seen further impacts primarily in relation of the adverse impact on bad debt and implications for efficient ways of working. We will be continuing a dialogue with Ofwat in relation to seeking appropriate regulatory relief in relation to these areas.

Shortly after the last financial year end careful consideration was given to the range of Government incentive and deferral schemes that the company would utilise. Whilst we were able to gain clearance for PAYE and VAT deferral schemes, after careful consideration and in collaboration with our specialist advisors, we did not feel that this was an appropriate action to take in the 'spirit' of the incentive mechanisms. Given the initial uncertainty of the impacts of the pandemic, we initially took a decision to take advantage of the Government furlough scheme placing 44 employees on furlough – receiving a contribution of £220,000. However, the Board subsequently took the decision to repay amounts received under this arrangement.

## Financial performance

Finally, performance in relation to key financial metrics is satisfactory and stable. In the Board's view this supports a business which continues to be financially resilient. Whilst the ongoing impact of the Covid-19 pandemic remains uncertain, the Company has maintained a prudent financial position and has managed the impacts of Covid upon operational and financial performance. More detail in relation to the Company's financial performance is set out in pages 26 to 27 of the ARA and the response to Covid-19 is set out on page 35 of the ARA. In addition the Viability Statement on pages 40-43 models the impact of a further period of lock down.

On balance the Board's view is that the Company's overall performance is delivering for customers and stakeholders and that levels of executive remuneration and investor return are both appropriate and consistent with this level of company performance. Further detailed information on executive remuneration is set out on pages 20 to 28 of the APR and pages 60 to 66 of the ARA. The Company maintains a stable and transparent dividend policy in line with levels of expected notional equity returns and this is further explained on pages 12 and 13 of the APR.

#### **Financial Viability**

The Company's financial position is set out in the ARA on pages 74 to 99, including cash flows, liquidity position, borrowing facilities and loan maturities. The Strategic Report, on pages 4 to 48 of the ARA, also covers aspects such as the overall financial performance and financial risks. Finally the Viability Statement on pages 40 to 43 of the ARA (and repeated on pages 14 to 17 below) sets out the factors considered and the conclusions reached by the Board in assessing both the going concern of the business over the period of 12 months from the balance sheet date and the prospects over a longer period of 10 years.

#### **Assurance Process**

The Company set out its approach to data assurance, including assurance over the APR, in its Final Audit Plan which was published on 1 April 2021. We have completed our data assurance in accordance with that plan and will publish a summary of the relevant results in the Data Assurance Summary in July 2021. The Board and the Audit Committee have considered the results of data assurance processes, together with the Company's proposed response to relevant findings, and are satisfied with the overall outcome.

# Dividend Policy

Dividend payments are consistently calculated based upon two elements – a return on the equity component of the Regulatory Capital Value (RCV) - the base dividend, and a “recirculating” element which permits interest on certain intercompany loans receivable to be serviced. This second element is received by the Company in the form of interest payments and does not result in any net cash outflow.

## Dividend policy

As part of the Company’s PR19 business plan submission a revised Dividend policy was adopted. This is centred upon a base dividend reflecting a 5% return on the average equity RCV for the year. This is then further adjusted (upwards or downwards) depending upon the following factors which reflect financial resilience and overall Company performance;

1. Overall financial performance of the appointed and non-appointed business supporting a dividend.
2. Reflecting the Company’s commitments to customers and stakeholders including;
  - Customer Service: C-Mex, D-Mex, Written Complaints
  - Performance Commitments: Leakage, Interruptions to supply, Water Quality (CRI)
  - Commitments to customers: Vulnerable customers, Sustainable abstraction, Community commitments
  - Employees: Health & Safety, pensions
3. Demonstrating financeability tests to ensure sufficient liquidity for the medium term and testing the financial viability of the company.
4. Recognising Regulatory requirements in particular Licence Condition F.

In addition the recirculating dividend is determined based upon the interest payable on the related intercompany loan.

## Base dividend calculation

The base dividend was calculated to provide a 5% return on the average equity value of the RCV. The Directors then considered the Company’s performance across the range of factors set out above;

## Company Performance

### 1 Overall financial performance

- The financial performance of the business is set out in the Annual Report
- The business has performed well overall in relation to budget and the business plan
- Covenant and cash flow projections, set out in the recently approved budget, demonstrate that there are no forward looking concerns and liquid resources are adequate
- Overall ODI performance is strong with the likelihood of overall net ODI rewards
- No matters have been identified that would require additional resources to be funded by the restriction of dividends

### 2 Performance against commitments to customers

<b>Customer service</b>	Strong customer service performance with C-Mex first overall & D-Mex third overall. Written Complaints - we expect to remain upper quartile (UQ) industry performance when CCW publish its 2020/21 report.
<b>Performance commitments</b>	Overall a strong ODI performance with 21 out of 26 ODIs being met. Leakage performed well - exceeding targets, interruptions to supply exceeding target and expected to be UQ, Water Quality (CRI) exceeding target & and expected to be UQ. It should also be noted that the overall net ODI position for the company is expected to be a reward, even taking into account the possible PCC penalty. Of the 5 ODI's that we failed to meet 3 were significantly impacted by the Covid pandemic including PCC.
<b>Commitments to customers</b>	In supporting vulnerable customers we increased the number registered on our Priority Services Register by over 30,000 this year. We now have over 10% of our customer base on the PSR. Further, the survey we undertake with agencies who support such customers showed an 84% satisfaction rating just missing our stretching target of 85%. We continue to make voluntary reductions to water abstraction at sensitive sites including local chalk rivers. We continue to deliver our Community Pledge and support local communities through our education programme and the development of Havant Thicket reservoir.
<b>Employees</b>	Health & Safety remains our priority with no reportable accidents during the year. We have also improved focus on mental health and wellbeing. There continues to be no pension deficit or issues with pension covenants.

### 3 Financeability tests

Following the recent successful financing there is significant headroom in relation to liquidity in the medium term as set out in the approved budget including 5 year cashflows. The viability of the company is tested considering facilities available and the headroom target. Extensive viability testing has been completed as part of the annual report and accounts process demonstrating appropriate financial resilience.

### 4 Regulatory requirements

Licence Condition F Dividend Policy. The Company meets the requirement to have a clear dividend policy in place which has been used in determining the proposed dividend. The assessment of financial position (including liquidity) as set out above does not impair the financeability of the business.

As this is the first year in the new regulatory cycle, although in overall terms the Company feels it has shown strong performance against the above factors demonstrating commitments to customers and stakeholders, the Directors have chosen not to make any enhancements above the base dividend (5% return on average regulatory equity for the year).

#### **Proposed dividend**

Following the emergence of the Covid-19 global pandemic in early 2020, the Board confirmed its intention to suspend dividend payments until the full effect was better understood and there was greater clarity as to the potential Covid financial impact upon the business. As a consequence no further dividend was declared in respect of the year ended 31 March 2020 when those accounts were approved. Interim dividends declared & paid during the period ended 31 March 2021 related solely to the recirculating amounts explained above totalling £1.103m.

The Board has kept the business impact of Covid-19 under close review together with the performance of the business – including mitigating actions available. Based upon national progress in relation to managing the pandemic, the Company's ongoing business performance & Covid response, financial and cash flow headroom and the availability of mitigating actions, the Board has concluded that dividend payments can be resumed. In reaching this decision the Board also concluded that it was appropriate to first repay amounts received by the Company under furlough arrangements, totalling £220,000, before dividend payments were resumed.

Accordingly the Board has approved dividend payments in relation to the remaining (final) dividend in respect of financial year 2019/20 and a final dividend in respect of the financial year 2021/22. These dividends were approved on 27 May 2021 and are expected to be paid during July 2021. In relation to the year ended 31 March 2020 the Company set a dividend policy based upon a 5% return on equity regulatory capital value and has consistently applied this policy in declaring a final dividend of £1.676m.

In making a recommendation of a final dividend payment in respect of the year ended 31 March 2021 the Company has applied this policy and the Directors have carefully considered the factors set out above. Accordingly, the directors have proposed a core dividend for the period of £3.210m. The final dividend proposed in relation to the 2020/21 financial period also includes a further £0.244m of recirculating dividend in relation to the servicing of intercompany debt and this will be made as a distribution in-specie. This results in a total final dividend proposed for the year ended 31 March 2021 of £3.454m.

# Viability Statement

## 1. Assessment of prospects

The Board has assessed the prospects of the Company over a period of 10 years. Page numbers refer to the ARA unless stated.

### 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 to 11. 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 to 2031. More information in respect of the regulatory regime is set out in pages 31 to 36.

The Company has just completed the first year of the current regulatory cycle 2020-2025 (for the Havant Thicket price control the period from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2031 considers that this represents the best indication of future operating activity and financial results.

The Board continues to take a balanced 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 HTWSR 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 also considered the Covid-19 impacts which have been included in the underlying budget together with a scenario modelled on a further period of full lock down.

### The assessment process of the Company prospects;

The Board recognises that the assessment of viability is dependent upon forecasts which, by nature, involves a significant 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 (2021/22) financial period.
- Long term 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.

The budget also has regard to committed funding and 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 Company's Budget Committee. 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 January and February 2021.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the Covid-19 pandemic
- 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 additional funding 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.

### 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 assessment was completed and updated in March 2021. As part of the PR19 Business Plan process the Company also 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 38 and 39) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 55. 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.

### The period of assessment

The Board conducted the assessment for a period of 10 years to 31 March 2031. 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 4 years remaining of the next regulatory period and an assessment of the results for the successive 6 years; and for the Havant Thicket price control the 9 years to the end of the price control



and the successive year. This is consistent with the timing of the regulatory review cycle and an expectation that, for the subsequent regulatory periods, 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 2031.

## 2. Assessment of viability

The Assessment of Viability uses; for the "core business" a period of 4 years of regulatory business plan to 2025 and a further 6 years of projection to 2031; and for the Havant Thicket price control a period of 9 years of the regulatory business plan together with a further year to 2031. 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 covenant and regulatory gearing, net and interest cover). These scenarios (summarised on pages 42 and 43), have been driven from the Board's assessment of the ongoing impact of Covid-19 and of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 38 and 39). These scenarios represent 'severe, plausible and reasonable' circumstances that the Company could experience.

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 2031.

## 4. Going concern

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 apply 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 1.

The Directors consider going concern 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, the Company will have sufficient funds through cash balances, operating cash flow, loan facilities and its' RCF facility to meet its' liabilities as they fall due for that period. The forecasts prepared also demonstrate that after reasonable, controllable management mitigating actions the Company continues to meet all banking covenants and key ratings metrics.

In considering a "severe but plausible" downside scenario for the purpose of assessing going concern the Directors have prepared a combined scenario - including the impact of a further 12 months of severe Covid-19 restrictions together with a failure to secure planning consents for the HTWSR therefore incurring additional costs. The further elements of this combined downside scenario are explained below.

Covid-19 - Whilst recognising generally positive outcomes from recent lock-downs and progress with national vaccination, the ongoing impact of the Covid-19 pandemic remains uncertain 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 current Covid-19 situation and have modelled a down side

scenario reflecting a further full 12 months of significant business disruption. This includes assumptions relating to the impact of: reduced revenue from non-household customers and reduced cash flow from both non-household and household customers together with the ongoing operational impacts on both operating costs and capital spend. Further information relating to our business response to Covid-19 is included on page 110.

Havant Thicket – In combination the Directors have also considered the potential impact of the development of the Havant Thicket Winter Storage Reservoir (HTWSR) upon the business. A comprehensive programme plan and risk register are in place and the Directors have considered the activities arising within the next 12 months of the programme which could have a severe down side impact on the business. In this respect the most critical up-coming activity relates to the completion of the necessary planning approvals. Accordingly we have modelled a down side scenario reflecting the additional costs that could be incurred if initial planning consents are not received in line with the programme plan.

In the Directors' opinions these combined scenarios reflect a "severe but plausible" down side scenario for the purpose of assessing the Company's ability to continue as a going concern. Further longer term scenarios have also been set out in the Viability Statement. In this severe but plausible downside scenario the Company remains financially viable following mitigating actions which include; draw down on the Company's RCF, reduction in infrastructure renewals, leakage detection and repair activities and a recruitment freeze to 1 September 2021. 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.

For and on behalf of the Board



**Bob Taylor**  
Chief Executive Officer  
9 July 2021

# Viability Statement

Set out below are summaries of the results of the financial sensitivity analysis performed in support of the Viability Statement both on a pre and post mitigation basis.

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Capex	Borrowing	Capital
<b>3 month Covid impact</b>	<p>Assumption that a 3 month period of Covid disruption in FY22 is equivalent to 50% of the Covid impact in FY21. Revenue loss of £1m (predominantly the NHH market), together with £400k increased HH bad debt and £350k of other cost increases.</p> <p>This causes the Moody's ICR to fall to 1.15x (against a target of 1.50x), and the Covenant ICR to fall to 1.19x (target of 1.40x) in FY22. There are no impacts assumed beyond FY22.</p>	In line with the Company's response to Covid in FY21, the infrastructure renewals programme could be reduced in year. A £1.75m reduction in FY22 ensures that both key ICRs are met. Headroom in the ratios means that the AMP infrastructure renewals programme can still be achieved in full by the end of the AMP with catch up of £500k, £500k and £750k in FY23-FY25 respectively.	✓			
<b>Major non-household (NHH) retailer default and increased household (HH) bad debt</b>	<p>Assumed loss of NHH income from largest retailer at £1.4m in FY22. This represents an assumed write off of the gross debtor, together with a loss of income for 3 months (however, this lost income is assumed to be recovered over the remainder of the AMP once a new retailer is appointed). There is also an assumed £500k increase in HH bad debt.</p> <p>This leads to an Covenant ICR of 1.15x and Moody's ICR of 1.12x.</p> <p>No impact assumed beyond FY22 other than £100k of additional NHH revenue per annum to reflect recovery of lost billing period.</p>	<p>£2m of cost saving in FY22 is required to achieve key ICRs. This can largely be achieved through infrastructure renewals (£1.75m reduction in FY22), supported by £250k deferral of other costs. All of these cost can be recovered over the course of the AMP such that net spend in the AMP is unaffected.</p> <p>£1m of RCF drawdown is required in FY24 to support the increased spend in the year to recover underspend in FY22. This is repaid in full in FY25.</p>	✓		✓	
<b>Multiple ODI failures equal to 3% RoRE ODI penalty per annum</b>	<p>Based upon FY21 RoRE, a 3% penalty equates to £2m. The regulatory framework means that this penalty to revenue would apply from FY23. Thereafter the penalty is assumed to increase annually with CPIH.</p> <p>Such penalty every year causes a number of ICR failures, with the Covenant ICR falling below the 1.40x target in FY23, FY24 and FY26. The Moody's ICR falls below the 1.50x target in FY23-FY25, FY28-FY30.</p>	Cost savings of £3.65m in AMP7, and £3m in AMP8 are required to ensure compliance with key ratios. This could be achieved by annual reductions in mains renewals of £0.5m, staff costs of £0.2m and general savings of £0.2m (in AMP7 only). There is also a drawdown on the RCF in FY26 of £1.5m (repaid in full in FY27) required.	✓		✓	
<b>50bps reduction in WACC</b>	<p>Assumption that the WACC for AMP8/9 is 50bps lower than anticipated in the current model. This reduces EBITDA £1m-£2m per year from FY26 to FY32.</p> <p>The Covenant ICR is 1.36x in FY26, while the Moody's ICR is 1.48x and 1.43x in FY29 and FY30 respectively.</p>	A drawdown on the RCF of £1m is required in FY26 to ensure the Covenant ICR is met. This can be repaid in full in FY27. Cost saving initiatives are required in FY29 and FY30 (amounting to £1m over the two years). However, there is sufficient headroom in the first half of the AMP that this cost saving could be a reprofiling of costs to earlier in the AMP.	✓		✓	
<b>Loss of company specific premium to WACC</b>	The company specific premium to WACC in AMP8 is assumed to be 33bps. Losing this in the period reduces EBITDA over the AMP by £3.8m, causing the Covenant ICR to fall below 1.45x (to 1.43x) in FY26, and the Moody's ICR to fall below 1.50x (to 1.49x) in FY30.	£0.5m of RCF drawdown in FY26 (repaid in FY27) and cost saving of £250k in FY30 are required.	✓		✓	
<b>£5m pension deficit – recovered through increased annual contributions of £0.5m</b>	Assumed pension deficit of £5m at the end of FY21, recovered through increased contributions of £556k per annum from FY22 to FY30. This causes the Covenant ICR and Moody's ICRs to fail (1.45x and 1.40x respectively) in FY22.	Compliance with the ratios can be achieved through a £600k cost saving in FY22. Limited scope to recover this in AMP	✓			
<b>Delay in HTWSR</b>	<p>The HTWSR delivery team value a delay of 12months at £2.6m of additional cost. This scenario assumes a reprofiling of costs together with an additional £2.6m of cost (real terms) overrun. The volumetric revenue and economic profit under the BSA is also assumed to be delayed.</p> <p>This causes the Covenant ICR to fall to 1.18x in FY27, and 1.42 in FY28 and FY29.</p>	<p>A drawdown of £5m on the RCF is required in FY26 as well as a £2.75m drawdown in FY29. The full £7.75m could be repaid in FY30.</p> <p>The same effect could be achieved by reprofiling external or intercompany debt drawdowns over the period to better match capex spend.</p>			✓	
<b>£1.5m cost shock in FY22</b>	Assumed increase in costs of £1.5m in FY22 only. This causes the both key ICRs to fail with the Covenant ICR being 1.24x and the Moody's being 1.20x. No impact in any other year.	A reduction in the infrastructure renewals programme of £1.5m in FY22, which can be recovered over the AMP evenly at £500k per year from FY23-FY25.	✓			

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Capex	Borrowing	Capital
<b>Combined scenario - Pension deficit, WACC reduction and loss of company premium</b>	Assumed pension deficit of £5m at the end of FY21, recovered through increased contributions of £556k per annum from FY22 to FY30, together with a reduction in allowed Ofwat returns. This causes numerous instances of key ratios being failed (FY22 both Covenant ICR and Moody's ICR, FY26 (Covenant ICR) FY28-FY29 (both) and FY30 (Moody's only)).	This can be managed by a £600k cost reduction in FY22 with a net saving of £4.85m in opex over AMP8. Drawdowns on the RCF (£3m at FY26, further £3.5m at FY28, repaid over FY29 and FY30) are also required to ensure ratio compliance	✓		✓	
<b>Combined scenario - Covid and NHH retailer default</b>	This scenario assumes a significant period of Covid in FY22, together with largest retailer defaulting. This results in a £3.2m reduction in EBITDA in FY22, causing the Covenant ICR (0.88x) and the Moody's ICR (0.86x) to fall below the required level in the year.	Opex savings at £3.25m are required in FY22, which could be achieved through a reduction in infrastructure renewals and other activities across the business, some of which would not be possible due to Covid. The majority (£2.75m) of these costs could be recovered later in the AMP	✓			

Many of these mitigations involve reductions in infrastructure renewals spend and, although Portsmouth Water's spend in this area is one of the highest in the sector, the Board would aim to avoid reductions in this area as far as possible to maintain healthy network assets delivering high standards of service to customers.

# Tax Strategy



## Corporate Structure

The Group structure 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.

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.

## Corporate Interest Restriction

Corporate Interest Restriction is applied at a group level and the tax cost is incurred at group level.

## 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.

## Capital Allowances

As with all large infrastructure companies, we manage our application of Capital Allowances carefully. This ensures we maximise legitimate taxation reduction opportunities where possible.

## 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 the recently implemented IR35 legislation.

#### 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

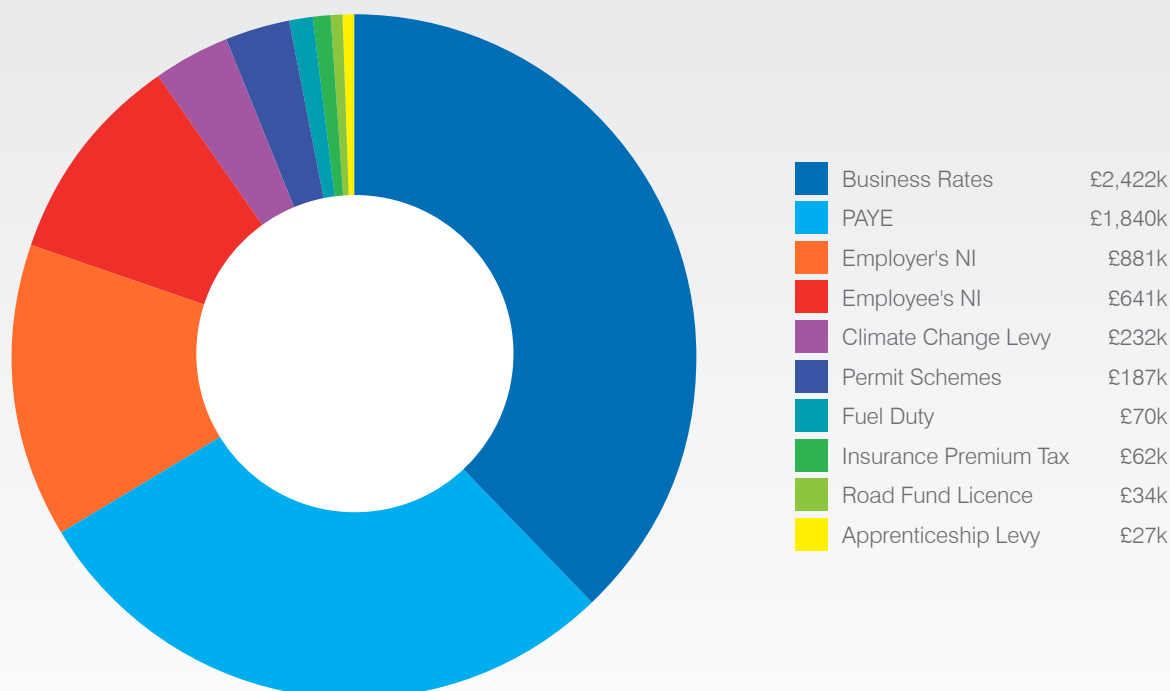
#### Our approach during Covid

At all times during the Covid-19 pandemic, the Company paid over all taxes as and when due. Whilst deferment periods were available for utilisation, the management of the Company considered this to be the fairest approach.



**Helen Orton**  
Finance & Regulation Director

#### Portsmouth Water paid the following amounts of tax in the current year



# Remuneration Report

The Ofwat guidance “Board Leadership Transparency & Governance” together with the expectation and approach to executive remuneration set out in the PR19 Business Plan established enhanced reporting requirements in order to demonstrate that the Company is meeting these important principles.

This section on remuneration should also be read in conjunction with the Remuneration Report included in the Annual Report and Accounts on pages 60 to 66. Section 3.2 of the Regulatory Accounting Guideline 3 provides information that Boards should consider in explaining how they have met the relevant principles. Accordingly, for ease of reference, we cross refer to these guidelines here in blue bold italics:

- ***An explanation of the role of the remuneration committee in developing, implementing and monitoring performance related pay policies, including how the committee will ensure that targets remain stretching and aligned to delivery for customers;***

## **Role of Remuneration Committee (the '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 undertook a review setting both the Executive annual incentive plan and LTIP for the current regulatory reporting period. In doing so the Committee had regard to the objectives set out by Ofwat and the proposals made by the company as part of the Business Plan submission. Details of this bonus structure are set out later in this report.

## **Activities During the Year**

During the year the Committee dealt with the following matters:

- Annual executive salary review and achievement of performance targets (2020)
- Concluding the Executive Bonus Framework for AMP7, aligning Remuneration to the key strategic objectives and stakeholder priorities. This included determining performance targets in respect of 2020/21 annual incentive bonus plan and finalizing the LTIP structure
- Development of an annual incentive scheme for the Company's senior leadership team
- Taking ongoing responsibility for the approval and changes in Manager salaries

## **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, include a performance related element. This is on the basis of achieving stretching annual performance targets in terms of service delivery, company finances and personal objectives.

### *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 and development 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.

- **The date the arrangements were made;**

An overview of the proposed structure of executive remuneration was set out in the Company's PR19 Business plan submission. The details of the performance related element of executive pay were discussed at the Remuneration committee in January and February 2020 and finalised in June 2020.

- **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 rigorously applied.**

The Company's executive remuneration policy is set out in the table below:

<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, car allowance, 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. A significant proportion to be linked to stretching performance objectives.</p>	<p>Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. A significant portion (66%) of executive bonus awards are linked to stretching performance levels for the relevant financial year together with personal performance objectives.</p> <p>Details of the performance levels for the most recent financial year and performance against them are provided below.</p>	<p>The maximum bonus potential for each Director is 60% of base salary of which 40% is payable in year and 20% is payable at the end of year five (see below).</p>	<p>The incentive scheme is split between; Stretching delivery targets (operational and financial) 66.6% and personal performance objectives 33.3%. (percentages refer to proportion of bonus payment).</p>
<p><b>Long-term incentive scheme (Variable Pay) (1)</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>20% of salary per year paid at the end of year five.</p>	<p>The incentive targets are as set out for the Annual Bonus award. The discretionary 25% uplift is determined by successful outcome at PR24.</p>

# Remuneration Report

<b>Long-term incentive scheme (Variable Pay) (2)</b> To incentivise Executive Directors to deliver sustained long-term performance	Long term bonus award to Executive Directors on the basis of business performance over the five year performance period. Annual assessment of likely performance conducted, with a provision for 1/5th of the likely bonus at the end of the period.	30% of outperformance in excess of £8m to the Totex set by Ofwat for the AMP, together with 30% of non regulated EBITDA in excess of £4.75m target for the AMP. A further 25% (to a cap of £0.625m) is payable at the discretion of the ultimate shareholders. These amounts are payable 50% and 25% to the CEO and the FRD respectively.	Totex and EBITDA from the non regulated business.
<b>Long-term incentive scheme (Variable Pay) (3)</b> To incentivise the CEO to deliver the critical HTWSR programme.	Long term bonus award to CEO on the basis of on time delivery (wet commissioning ODI) and cost efficiency.	Up to £500,000 constrained by level of Totex efficiency outturn.	Wet commissioning ODI and HTWSR Totex out-performance.
<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.	Notice periods from the Company are limited to 12 months.	N/A	N/A
<b>New Executive Director appointments</b> To facilitate recruitment of necessary talent.	Remuneration for new appointments will be set in accordance with the policy detailed in this table.	N/A	N/A

Further information in relation to the variable element of executive and senior management pay is as follows:

## Variable pay/performance measured pay for Executive Directors and senior leadership team

In line with the start of the current regulatory period (2020-25) the Remuneration committee developed a new performance incentive scheme. In developing this scheme the Committee was guided by the principles set out by Ofwat in the Putting the Sector into Balance report. This included linking a substantial proportion of variable pay to stretching performance measures and has a short term (annual) and long term (5 year) element. At this time it was also agreed to include a variable element of performance related pay for members of the senior leadership team. Bonus amounts are non-pensionable and require the recipient to remain in role until the date of award and payment – July of the following financial year.

The scheme pays up to the following percentage of base pay;

	Total Maximum Variable Element	Annual Variable Element	Long Term Variable Element
<b>Total maximum variable bonus allowance (%)</b>			
Executive Directors	60%	40%	20%
Senior Leadership Team	20%	13%	7%

The total bonus pool awarded in any year is based upon three equally weighted components; service objectives, financial objectives & personal objectives. The table below provides further information about how the bonus components are determined. Once the bonus pot for any year has been determined 2/3 will be paid in year and the remaining 1/3 will be deferred and included in the long term incentive which will be paid at the end of the regulatory period. The long term element of the scheme is designed to encourage retention of key employees.



Components of the variable bonus elements	Total maximum variable element (Executive Directors)	Total maximum variable element (Senior Leadership Team)	Objective	Percentage of variable bonus element awarded
<b>Service objectives</b>	20%	6.7%	The 10 stretching performance measures (See table below with further information on targets).	10 measures met 100% 8 measures met 75% 6-7 measures met 50% <6 measures 0%
<b>Financial objectives</b>	20%	6.7%	Financial measures two of which are linked directly to stretching performance measures on TOTEX and Capex (see table below with further information on targets).	EBITDA linked to stretching TOTEX out-performance up to 40% Capex linked to stretching delivery up to 40% Cash flow up to 20%
<b>Personal objectives</b>	20%	6.7%	Personal objectives linked directly to strategic business objectives.	Full or substantial 100% Partial 75% Some progress 50% Incomplete 0%
<b>Total</b>	<b>60%</b>	<b>20%</b>		

• *A description of all performance targets and the standards of performance in question;*

The table below provides details of the performance targets and standards used to measure the Service and Financial components of the variable bonus. In addition each Director and member of the Senior Leadership Team is set a number of personal objectives which are closely aligned to delivery of the overall Business Plan objectives and to their respective areas of responsibility within the business.

Service metric targets	Owat AMP7 Target	Company AMP7 Target	2020/21 spot target
<b>Compliance Risk Index</b>	0	< 2.0 reducing to less than 1.5 in year 3	< 2.0
<b>Interruptions</b>	6 mins 30 to 5 mins over AMP7	4 mins to 3 mins over AMP7	4 minutes per property
<b>Leakage</b>	15.2% reduction over AMP7	15.2% by year 2022/23	3.10% reduction in the year
<b>PCC</b>	6.3% reduction over AMP7	3.6% reduction over AMP7	1.30% reduction in the year
<b>Mains repairs</b>	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	73.8 repairs
<b>Unplanned Outage</b>	2.34% pa	2.34% pa	2.34% pa
<b>C-Mex</b>	No explicit target	Reward equating to 4% pa	Upper quartile
<b>D-Mex</b>	No explicit target	Reward equating to 2% pa	Upper quartile
<b>Priority Services</b>	2% to 9% over AMP7	2% to 9% over AMP7	2%
<b>Severe Drought</b>	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	84%

Financial objectives	Target
<b>EBITDA* (before exceptional items)</b>	£13.9m
<b>Capex - programme</b>	£9.75m
<b>Capex - efficiency</b>	Better than 3%
<b>Cash generated from operations - half year</b>	Greater than £5m
<b>Cash generated from operations - full year</b>	Greater than £10.4m

\*EBITDA - Earnings before interest, tax, depreciation and amortisation

# Remuneration Report

- **A description of each performance target and how it demonstrates alignment to the delivery of service to customers;**
- **A description of the targets set for each standard;**

The Service objectives, summarised in the table above are based upon ODIs as agreed and defined in the Final Determination. They cover a range of measures closely linked to service performance and to the areas of performance that our customer research (at PR19) showed us was most important to customers.

The Financial objectives relate to positive TOTEX efficiency outturn (EBITDA & Capex) and to financeability (Cash generated from operations).

The personal objectives cover a range of measures closely linked to the successful delivery of the PR19 Business Plan including Havant Thicket.

- **An explanation of the purpose of linking each particular target standard of performance to remuneration;**

As noted above the Board believes that the standard of performance linked to variable pay shows close alignment to the overall delivery of the PR19 Business Plan. This is aimed at incentivising the Directors and members of the senior leadership team to focus on delivery of a set of congruent business objectives and to attract and retain Directors and employees of a high calibre.

- **How the company ensures performance targets are stretching;**

In setting the performance targets for the Service element the Remuneration Committee had regard to the level of performance set by Ofwat as part of the Final Determination, the historic industry performance, the Company's historic performance and the level of challenge that the Company faces in meeting a particular level of performance. Accordingly the Committee assesses the performance targets to be stretching.

In setting the performance targets for the Financial element these represent out-performance relative to the Business Plan financial position – in terms of profit, TOTEX and cash flow. Accordingly the Committee assesses the performance targets to be stretching.

In setting the personal objectives the Committee uses its judgement to assess the level of challenge involved in performing each objective. Accordingly the Committee assesses the performance targets to be stretching.

- **An explanation of how all the targets are monitored and assessed and the source of the data and an explanation of how the company has ensured the policy has been rigorously applied;**
- **An explanation of how all the standards of performance are assessed and the source of the data;**

The Service targets are based upon ODIs. ODIs are monitored and reported to the Board on a monthly basis as part of routine Board reporting. From time to time deep dive information will also be provided to the Board by way of understanding ongoing performance eg detailed papers during the year in relation to leakage, PCC, water quality, C-Mex, D-Mex and priority services.

The Service targets are subject to independent third party assurance performed by Jacobs. The Audit Committee has direct access to the assurance providers, receives reports and assesses any matters arising in relation to assurance. The final Service targets used as part of the calculation of the variable element of pay are agreed as being the relevant assured results for the year. As these Service measures have clear empirical targets there is no ambiguity as to whether a target has been met or not.

The Financial targets are consistently prepared on the basis of UK GAAP. Year-end targets are agreed to the audited financial statements and the half year target to interim financial statements. The Audit Committee has oversight of the results of financial assurance work performed by KPMG, has direct access to the assurance providers, receives reports and assesses any matters arising in relation to assurance. The final Financial targets used as part of the calculation of the variable element of pay are agreed as being the relevant assured results for the year. As these Financial measures have clear empirical targets there is no ambiguity as to whether a target has been met or not.

Further information in relation to Data Assurance is set out in the Directors' Statements and also in the published Company Monitoring Framework.

The Personal Objectives, when set, are assessed as being SMART targets (Specific, Measurable, Attainable, Relevant and Time limited). When objectives are set the SMART components are clearly articulated and the objectives are approved by the Remuneration Committee. At the end of the year the personal assessment of performance against the objectives is set out in writing together with supporting information. The performance is therefore assessed relative to these SMART objectives, reviewed, challenged and approved both by the CEO (and in the CEO's individual case by the Independent Chairman) and by the Remuneration Committee.

- **A description of any gateway or underpin arrangements or other conditions that must be met in order for a bonus to be awarded including an assessment of the performance of each arrangement;**

Two gateway measures underpin the variable element of pay; firstly, that the company demonstrates the highest levels of Health & Safety through the award of ROSPA Gold medal accreditation and secondly, that any bonus award does not result in EBITDA below that set as a target objective.

• **An explanation of: whether targets were achieved or not; how the remuneration was calculated for each standard**

When the variable element of pay was set at the start of the year there was a clear articulation of the weighting attributed to each of the three components and further broken down into each individual sub component (target). This is expressed as a % of weighted average base salary for the financial year.

The calculation process follows the following steps;

- Weighted average base pay is agreed from payroll for the period
- A table is completed indicating the outturn against each of the individual targets
- For those targets met the agreed % is totalled and applied to the weighted average base salary
- This total award is further sub-divided between the in-year award (2/3) and the long term (deferred) award (1/3).

This calculation detail together with relevant supporting information is provided in full to the Remuneration Committee for approval.

The targets met and associated bonus % awarded is set out below:

Service metric targets	2020/21 spot target	Achieved
Compliance Risk Index	< 2.0	✓
Interruptions	4 minutes per property	✓
Leakage	3.10% reduction in the year	✓
PCC	1.30% reduction in the year	✗
Mains repairs	73.8 repairs	✗
Unplanned Outage	2.34% pa	✓
C-Mex	Upper quartile	✓
D-Mex	Upper quartile	✓
Priority Services	2%	✓
Severe Drought	84%	✓

Financial objectives	Target	Achieved
EBITDA (before exceptional items)	£13.9m	✓
Capex - programme	£9.75m	✓
Capex - efficiency	Better than 3%	✓
Cash generated from operations - half year	Greater than £5m	✓
Cash generated from operations - full year	Greater than £10.4m	✗

**Short term annual bonus award**

As explained above 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 stretching performance objectives linked to service objectives, financial objectives & personal objectives. This includes a short term annual element paid in the first half of the next financial year and a long term element deferred until the end of the regulatory period.

# Remuneration Report

We summarise below an explanation of the performance for the year in relation to the Executive Director's Bonus scheme.

	% of targets achieved	% of bonus provision earned
<b>Service objectives</b>	80 (8/10 ODIs)	75
<b>Financial objectives:</b>		
EBITDA (before exceptional items)	100	100
Capex - programme	100	100
Capex - efficiency	95	95
Cash generated from operations	50	50
<b>Personal objectives:</b>		
H. M. G. Orton	86	75
C. R. Taylor	100	100

As a consequence of this performance the following performance related awards were made in respect of the current financial period.

Performance related bonus achieved 2020/21:	% of base salary (out of possible 60%)	Bonus £
H. M. G. Orton	47.80	62,917
C. R. Taylor	52.80	90,882

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
H. M. G. Orton	33.3	33.3	33.3	100
C. R. Taylor	33.3	33.3	33.3	100

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
H. M. G. Orton	13.3	13.3	13.3	40
C. R. Taylor	13.3	13.3	13.3	40

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

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum Variable Pay - Payable in Year £
H. M. G. Orton	13.3	17,550	13.3	17,550	13.3	17,550	52,650
C. R. Taylor	13.3	22,950	13.3	22,950	13.3	22,950	68,850

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	Variable Pay Achieved - Payable in Year £
H. M. G. Orton	10.0	13,163	12.0	15,620	10.0	13,163	41,945
C. R. Taylor	10.0	17,213	12.0	20,426	13.3	22,950	60,588

## Long term incentive scheme 1

The Directors could earn up to 20% 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 2020. This payment will be made at the end of a five year performance period, subject to the achievement of performance conditions.

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total per annum %	5 Year Total %
H. M. G. Orton	6.6	6.6	6.6	20	100
C. R. Taylor	6.6	6.6	6.6	20	100

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

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum Variable Pay - Payable under LTIP1 £
H. M. G. Orton	6.6	8,775	6.6	8,775	6.6	8,775	26,325
C. R. Taylor	6.6	11,475	6.6	11,475	6.6	11,475	34,425

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	Variable Pay Achieved - Payable under LTIP1 £
H. M. G. Orton	5.0	6,581	6.0	7,810	5.0	6,581	20,972
C. R. Taylor	5.0	8,606	6.0	10,213	6.6	11,475	30,294

All variable pay has been awarded in accordance with the remuneration policy and criteria agreed by the committee at the start of the regulatory period and summarised earlier in this report.

### Long term incentive scheme 2

This scheme is payable in addition to the schemes outlined above and is related entirely to business performance. It is not set in relation to the Executive Directors salary, as outlined below.

	Target £000	Projected outperformance £000	Maximum Bonus %	Projected Bonus for 5 Year Period £000
Totex	8,000	132	30	40
Non Regulated EBITDA	4,750	-	30	-
Total				40

One fifth of the projected bonus has been accrued in the year as set out below.

	Maximum %	Projected 5 Year Bonus £	LTIP2 - Bonus Accrued in Year £
H. M. G. Orton	25	9,900	1,980
C. R. Taylor	50	19,800	3,960

Note, the remaining 25% bonus is payable to a member of the Senior Leadership Team.

### Long term incentive scheme 3

This scheme is payable based on on time delivery of wet commissioning (in line with the HTWSR wet commissioning ODI) together with cost savings of at least £0.5m (Totex out-performance). Given the very early stages of the programme and early indications of cost pressures, no provision has been made in relation to this incentive scheme at this time.

- **An explanation of any changes made or proposed to the policy, including the underlying reasons for the change.**

No changes were made to the approved policy during the year.

# Remuneration Report

## • Details of the amounts paid to all individual directors

### 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 2021 £000</b>	Total 2020 £000
<b>Executive:</b>						
H. M. G. Orton	132	14	65	14	<b>225</b>	183
C. R. Taylor	172	8	95	17	<b>292</b>	257
<b>Non-Executive:</b>						
M. Coffin	27	-	-	-	<b>27</b>	26
C. Deacon (Appointed May 2020)	42	-	-	-	<b>42</b>	-
M. Johnson (Resigned June 2020)	7	-	-	-	<b>7</b>	26
M. P. Kirk (Resigned May 2020)	8	-	-	-	<b>8</b>	41
A. Wilson (Appointed July 2020)	20	-	-	-	<b>20</b>	-
	<b>408</b>	<b>22</b>	<b>160</b>	<b>31</b>	<b>621</b>	<b>533</b>

The Investor Director, now Mr. C. Loughlin (previously Mr. D. W. Owens) is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.

Mr. M. Johnson and Mr. M. P. Kirk resigned in 2020 and Mrs A. Wilson was appointed during 2020.

### 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>2021 £000</b>	2020 £000
Car benefit	<b>17</b>	14
Medical insurance	<b>5</b>	5
Total	<b>22</b>	19

# Directors' Statements and Responsibilities

## Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Performance Report and the financial statements in accordance with applicable law and regulations.

Further to the requirements of Company Law the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment by the Secretary of State for the Environment, Food and Rural Affairs (Defra) and as a water undertaker under the Water Industry Act 1991; Regulatory Accounting Guidelines issued by Ofwat.

In preparing these accounting 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are also responsible for:

- keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 2006 and Condition F.
- safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge that the accounts are prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the Company.

## Confirmation of disclosure of information to auditors

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 as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Statement of Compliance with Licence Condition P – ring-fencing

In accordance with the provisions of Condition P of the Licence we hereby present a Ring-fencing Certificate. This certificate confirms that, in the opinion of the Board of Portsmouth Water Limited:

- (a) Portsmouth Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the next twelve months
- (b) Portsmouth Water Limited will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the next twelve months; and
- (c) all contracts entered into between Portsmouth Water and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out the Regulated Activities.

In providing this Ring-fencing Certificate, the Board of Portsmouth Water has taken into account the factors set out in the following table. In the opinion of the Board of Directors they have carried out a robust assessment of these factors and have summarised the matters that they have considered below.

# Directors' Statements and Responsibilities

FINANCIAL RESOURCES AND FACILITIES	
Factors	Summary of Board considerations
<b>Financial Position</b>	<p>A detailed review and consideration of the year-end financial statements with particular attention to available cash and short term facilities.</p> <p>Consideration of the Company's "Investor Report" including forecast headroom in relation to key financial ratios. A process of robust challenge and review of budgets prior to Board approval including the impacts of Covid-19 and available headroom.</p> <p>Close involvement and approval of the additional financial facilities, of up to £105m, during the year.</p> <p>Consideration of ratings agency position and credit rating.</p>
<b>Performance against PR19 business plan and Final Determination</b>	<p>Routine Board reporting of key PR19 delivery metrics, including P&amp;L and Outcome Delivery Incentives. Routine reporting of TOTEX outturn.</p> <p>Board scrutiny and challenge in relation to the delivery of Business Plan activities and objectives including key aspects of the capital programme, support for vulnerable customers, the impact of Covid-19, delivery risks and overall business performance. Board attendance at CCG meetings considers external challenge. Overall the Board has concluded that the company has adequately planned to deliver customer promises set out in PR19 business plan and is making strong progress in delivery. Where the business performance has fallen below the stretching targets set out in the business plan the Board has considered the Company's response and strategy in those areas.</p>
<b>Credit related factors</b>	<p>The Board approved the company's "Investor Report" including headroom against financial covenants and key financial ratios at both 31 March 2021 and as forecast for the next 5 years. The company has maintained an investment grade credit rating. The Board approved the extension of the Revolving Credit Facility to £25m in May 2020 and approved the strategy and execution of up to an additional £105m of financing – primarily in support of the Havant Thicket reservoir programme.</p>
<b>Business plans &amp; long-term viability statements</b>	<p>Board approval of PR19 Business Plan, acceptance of the Final Determination and approval of management plans &amp; budgets to deliver the Plan. The significant Havant Thicket Winter Storage Reservoir project (HTWSR) is considered further below. Extensive analysis of, and evidence supporting, going concern and the Viability Statement was presented to the Board, reviewed and approved. This included detailed assessment of the impact of Covid-19 as set out further below.</p>
<b>Any relevant reports – internal or third-party</b>	<p>All relevant internal and external reports are reviewed by the Board. Of particular interest was the report by the Company's financial auditors (KPMG) and the report on key non-financial information by the Reporter (Jacobs). The Board challenges management as to the outcome of those reports and tracks performance against any recommendations. The non-executive Directors have separate private meetings with the financial auditors. Reports by credit rating agencies are reviewed by the Board.</p>
MANAGEMENT RESOURCES	
Factors	Summary of Board considerations
<b>Management skills, experience and relevant qualifications. Recruitment process, staff engagement</b>	<p>The Board, through the Executive Directors and senior leadership team, assesses the skills, experience, capability and performance of all employees with a focus on the management community. The Board receives periodic reports and updates on employee training &amp; development and reviews the results of employee engagement surveys – challenging findings and reviewing any plans to address concerns. The Executive directors formally review the minutes of the Executive Directors' meetings with trade unions (the Joint Information and Communication Committee &amp; the Joint Negotiation Committee). The Remuneration Committee has oversight of appointment of members of the senior leadership team and makes the final appointment. A Non-Executive director has designated responsibility to represent staff views.</p>
<b>Succession planning for key management/staff;</b>	<p>An independent review of the Board performance was undertaken during the year. The Board has put into place a programme to address the matters highlighted. The Board has reviewed management papers and plans in relation to succession planning. It has also considered the Board's assessment of its own skills mix and taken actions to ensure that the appropriate balance of skills is retained.</p>
<b>Quality of management/staff induction and other training and development;</b>	<p>The Board, through the Executive Directors and senior leadership team, has oversight of employee induction and training activities. The Executive Directors are represented on all staff induction sessions. The Board, through the Remuneration committee, also considers the annual performance of the senior leadership team including development areas and approval of objectives. This year, working in partnership with DWI, the company has embarked on an extensive programme of work to improve skills, knowledge and capability within the water production area of the business and this work is overseen by the Board.</p>
<b>Process for ensuring diversity of perspectives;</b>	<p>The Board challenges the Executive Directors and senior leadership team to ensure appropriate depth and breadth of thinking and perspective. This includes engagement with wider stakeholder groups and supporting initiatives, such as the Young Person's Board (YPB), which support and encourage a diversity of thinking. The Board regularly has direct contact with other stakeholder groups such as Regulators and the CCG. The Board, through the Nominations Committee, is responsible for ensuring that the Company policies on Equal Opportunities, including diversity and inclusion are adhered to across the business.</p>
<b>Board or management activities, reports or statements;</b>	<p>There is a transparent process of both routine management reporting and reporting on specific matters to the Board. The Board meets 10 times each year and receives management reports monthly. It actively considers and challenges management reports and related information. The Board also meets outside the scheduled meetings to consider specific matters as required. For example at the start of the Covid-19 pandemic the Board had additional weekly, and subsequently two weekly meetings to receive Covid updates. The Board has also met to consider matters in relations to HTWSR including the approval of the Bulk Supply Agreement and the procurement process. The Board is content that it has access to and has considered all relevant management reports.</p>
<b>Independence of Board</b>	<p>As part of the Annual Report and Accounts and Annual Performance Report the Board has considered independence and confirmed that the Board remains independent. The Board composition has a majority of independent Non-Executive directors (including the independent chairman).</p>



## SYSTEMS OF PLANNING AND INTERNAL CONTROL

Factors	Summary of Board considerations
<b>Governance procedures; risk management frameworks, oversight procedures. Internal and/or external audit policies, processes, activities and/or reports.</b>	The Board has considered the Company's robust framework of governance, risk management and control. The Board considers the Company's risk register and discusses emerging & related risk mitigations. The Board also reviews and tracks the outcomes of external assurance (financial and non-financial) and considers, annually, the need for an internal audit function. The Board, through the audit committee, annually reviews and approves the company's assurance approach and considers the execution of that assurance in line with the Company's published plan. It reviews the outcome of third party assurance and management's response to any identified control weaknesses. It tracks implementation of control recommendations.
<b>Systems for maintaining supply/business continuity, stated action plans.</b>	The Board periodically considers the Company's business continuity/disaster recovery framework. It also receives reports of any significant operational issues arising and considers the effectiveness of Company response and lessons learned. During the year the Board has particularly considered the impact of Covid-19 and the Company's response. The Board undertook reviews of the Company's approach to IT and Operational Technology in the context of cyber security risks.
<b>Policies to prevent fraud and other unethical behaviour; whistleblowing policy;</b>	The Company has clear policies on behaviour, values and fraud - these are revised periodically by the Board. The Company also operates key systems of internal control designed to prevent and detect fraud and the Board carefully reviews any internal control recommendations made by the external auditors or failings identified through operational reports. The Board considers that it leads from the top in terms of reinforcing the Business' purpose, ethics and values.
<b>Risk, compliance other assurance statements</b>	The Board reviews and approves the Company's risk compliance statement as part of the approval of the Annual Performance Report. As noted above the Board leads the process of assessing and managing risk. The Board, through the Audit Committee, assesses the requirements, appropriateness and outcome of formal assurance processes particularly the approval of the Annual report & Accounts and the Annual Performance Report. The Company has both whistleblowing and anti-fraud and corruption policies in place and employees confirm compliance annually.

## RIGHTS AND RESOURCES OTHER THAN FINANCIAL RESOURCES

Factors	Summary of Board considerations
<b>Corporate purpose, vision and values.</b>	The Board performs an annual review of the Company's purpose, vision and values. The Board and the senior leadership team place great emphasis on operating at all times in line with the Company's purpose and values. This is promoted throughout the business, monitoring performance and addressing behaviours not felt to be in line with these values. The Board has confirmed that both the Board evaluation and employee survey strongly support the view that the Company, at all times, operates within its purpose & values. The Board is currently undertaking an engagement process to review and refresh the Company's purpose, vision and values in preparation for the start of the PR24 process.
<b>Technology and other systems for ensuring checks and balances. Policies to encourage an integrated approach and 'systems thinking'. Planning systems.</b>	The Company has a comprehensive range of technology and systems used to ensure effective monitoring and control of key operating activities. The Board encourages a process of continuous improvement. This includes systems used for planning and delivering all of the Company's key activities such as production, distribution, capital investment, billing and account management and finance. The Head of IT is a member of the senior leadership team meetings in order to ensure that an integrated approach is taken across the business to systems and processes.
<b>Assets maintenance/insurance factors.</b>	As part of the Business Plan process the Company prepared an assessment of asset health, risk and resilience and this informed the asset maintenance programme for future periods. The Board undertook a detailed review of the asset maintenance programme as part of the preparation of the PR19 Business Plan and obtains regular reports in relation to asset health metrics and progress in the capital maintenance programme. Appropriate insurance is maintained by the Company. The Board reviewed the annual insurance renewal proposals including an assessment of any areas where insurance cover is not taken/available and the related risk.

## CONTRACTING

Factors	Summary of Board considerations
<b>Position/status of key contracts in place.</b>	As part of governance processes the Board considers and approves all material contracts entered into by the Company – in line with the agreed corporate approval matrix. For example the Board reviewed the renewal of the Infrastructure Framework Contract with key partner Cappagh, the implementation of a new Non Infrastructure Framework contract with key partner Trant Engineering and has overseen key contracting activities in relation to HTWSR through the HTWSR Steering Committee (which four Board members attend). This has included Board approval of the critical Havant Thicket "Bulk Supply Agreement" and a close oversight of the planning process and the tendering process for the two main work packages, the main reservoir works and pipeline.
<b>All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards. Note on transactions between the Appointee and any Associated Company. Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I). No Guarantees or Cross-Default Obligations given without Ofwat's written consent.</b>	The Company has limited contracting activities with related parties. The Board reviews and approves the disclosure of transactions between the Company and "Associated Companies" as part of the approval of the Annual Performance Report. The Board has not identified any breaches of compliance with licence conditions in relation to Associated Companies, including cross subsidies, nor has it approved any new guarantees or cross-default obligations.

# Directors' Statements and Responsibilities

OTHER MATERIAL ISSUES OR CIRCUMSTANCES	
Factors	Summary of Board considerations
<b>Covid-19 impact</b>	<p>The Board has considered the impact of the current Covid-19 pandemic upon the Company's sufficiency of financial resources. This has included a detailed Board review of the Covid assumptions included in the budget setting process and the Covid impact on the viability statement included in the Annual Report and Accounts. In the first months of the pandemic, the Board also undertook weekly and later two weekly Covid briefing sessions with the senior leadership team.</p> <p>The Board has been involved in the decision making process around the Company's response to Covid-19 and the mitigating actions which have been taken. This included the extension of the Company's Revolving Credit Facility in May 2020 by a further £5m to £25m in order to allow additional financial headroom. The Board has reviewed the ongoing impact upon liquidity, key financial ratios and covenants through the budget process and has concluded that, following the application of reasonable mitigating measures, the Company retains sufficient financial resources. Further detail in relation to the Covid-19 response is set out in the Annual Report and Accounts and the Annual Performance Report.</p>
<b>Havant Thicket Winter Storage Reservoir (HTWSR)</b>	<p>The HTWSR project represents a significant programme of work for the business due to its size relative to the Company's Regulatory Capital Value. The Board has been closely involved in the oversight of this programme and has representation on the HTWSR Steering Committee. Regular reports are brought to the Board at each meeting in relation to the project, including risk assessment and financial modelling. The Board has also considered the need to obtain additional capital to support the development of HTWSR and has approved the development and execution of the financing strategy, raising an additional £105m of finance. The Board approved the critical Havant Thicket "Bulk Supply Agreement" and has maintained a close oversight of planning and the tendering process for the main works and pipeline.</p> <p>Further detail in relation to the HTWSR project is set out in the Annual Report and Accounts.</p>

A formal certificate together with supporting appendices, in compliance with the licence condition, will be separately provided to Ofwat.

## Statement of Compliance of Licence Requirement Condition K - disposal of protected land

No disposals of land have taken place in Portsmouth Water during the year. Consequently, 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 4.3 (1) (g) of Condition 'K' of that Instrument as there have been no such transactions during the year.

## Statement of Compliance with Regulatory Accounting Guideline 5 - Related Party Transactions

The Directors hereby certify that, in their opinion, Portsmouth Water Limited complies with the objectives and principals of the above Regulatory Accounting Guideline, in so far as they apply to the Company. Transactions with associated companies are at arm's length and cross subsidy is not occurring.

## Statement on Risk & Compliance

The Directors confirm that the Company, in their opinion:

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

In preparing this statement, the Directors confirm that the Company is aware of the obligations in legislation and in its licence with which it must comply. In particular, the Directors confirm that the Company:

- has sufficient rights and assets available to enable a special administrator to run the business;
- trade with associates is at arm's length;
- publishes a statement explaining the links between directors' pay and standards of performance; and
- maintains an investment grade credit rating.

The risk management, monitoring and control systems and processes upon which the Directors rely in making this statement are described in the Company's Annual Report and Accounts within the Strategic Report on pages 38 and 39 and the Corporate Governance Report on page 55.

## Statement on accuracy and completeness of data and information

The Board recognises the importance of providing information to customers and other stakeholders that is; customer-led, relevant, reliable, complete, accurate, objective, understandable and timely. Our ongoing objective is to make information available that is easy to understand and which enables stakeholders to see how we are performing; this helps build trust and confidence in the business.

The Board recognises the importance of high quality and transparent reporting of the key business measures that customers and stakeholders use to monitor Company performance. This is key to establishing trust and legitimacy in the industry. This information is primarily reported through this Annual Performance Report.

In order to develop stakeholder confidence, in relation to the quality of our reporting, we consult on and prepare a plan for assurance over the regulatory information that we publish. Accordingly, this statement should be read in conjunction with the Company's separately published Assurance Plan and Data Assurance Summary <https://www.portsmouthwater.co.uk/news/publications/company-monitoring-plans/>

The Company consulted upon and published its annual Assurance Plan and has executed the relevant Data Assurance in line with this Plan. Further information relating to this Data Assurance, including the results and findings of external assurance providers, is published in the annual Data Assurance Summary. The Board was consulted upon and approved this Data Assurance Plan through the Audit Committee.

The Board considers that the Company has executed its Data Assurance in line with the Plan. The Board also considers that the Company has applied its processes and internal systems of control in a manner that has enabled it to identify material departures from the reporting obligations. The Board does not consider that any material departures have been identified in 2020/21.

This statement includes a summary of the activities which the Board has carried out to support the statement on the completeness of data and information.

#### **How the Board has engaged and challenged on the assurance approaches which have been taken**

The Board encourages a culture of openness, accuracy and transparency in data reporting across the business. The Board engages in challenging assurance processes in a number of ways as follows:

- Regular reporting to the Board on key performance indicators, regulatory performance commitments and financial outcomes to gain visibility of the business and its operations. In addition to the Annual Performance Report, the Board also reviews data for the Annual Report and Accounts, Investor Report and related half year reporting.
- The Board, through the Audit Committee, reviews the Company's assessments of risks strengths & weaknesses in relation to information reporting, the draft & final assurance plan and the final summary of the outcome of data assurance activities. This includes considering any stakeholder feedback.
- The Audit Committee receives reports from external independent assurance providers, considers the results and tracks the rectification of any control weaknesses identified.
- The Board, through the Audit Committee has close oversight over both the performance of third party assurance providers and the appointment/reappointment of those parties. A re-tender exercise was run during 2020/21 in relation to financial assurance and a similar exercise was completed in 2019/20 in relation to technical assurance.
- As this was the first year of reporting on our PR19 performance commitments the Board agreed that additional early audits of our performance commitments should be undertaken. In addition the Board also tracked the company's progress in relation to "process documentation" for all ODIs.
- A regular risk identification, assessment and mitigation process, is performed across the business and updated in the risk register. This includes challenge and oversight by the executive directors and senior leadership team before review by the Board.
- With the onset of the Covid-19 pandemic, more frequent updates on changes in the business, risks arising and mitigating action plans have been taking place with the Board in order to manage closely this specific risk.

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

The Risk & Compliance Statement above, confirms that the Board has complied with its relevant statutory, licence and regulatory obligations, has adequate internal controls and is taking appropriate steps to manage and/or mitigate any risks it faces. This statement on accuracy of data should be read in conjunction with the above Risk and Compliance statement.

- The Board, through the Audit Committee, has considered the results of the planned data assurance process and has discussed the outcomes with the independent assurance providers – Jacobs and KPMG.
- The Board, through the audit committee, has been made aware of any control weaknesses or failures during the year and has challenged the impact and the business response to such weaknesses.
- The Audit Committee also tracks any remediation of control deficiencies including improvement in the documentation of processes.
- All external data submissions are made with the specific approval of the Board. The Finance & Regulation director has specific responsibility to the Audit Committee for statutory reporting and regulatory financial reporting.

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

Before publishing our Annual Performance Report, we consulted in November 2020 on the company monitoring framework and consulted further in March 2021 in the Draft Assurance Plan publishing the Final assurance plan on 1 April 2021. This consultation and review process developed our Data Assurance Plan which covered:

- How we undertake a risk assessment to determine the risk of the probability of inaccurate reporting with the data we intend to publish in the year ahead
- Our areas of assurance for the data items we intend to publish that have been assessed as most at risk of inaccurate reporting.
- How the Board engage with these assurance activities.
- How wider stakeholders have provided feedback into the process and the Company's response to that feedback. This includes feedback from the Customer Challenge Group (CCG).
- The details of the final assurance plan over data to be published.

## Directors' Statements and Responsibilities

We use appropriately qualified and experienced external auditors and technical assurers to review our methods, systems and processes for reporting key data and information. In particular Jacobs provide technical assurance on technical elements of our regulatory submissions, and financial auditors, KPMG, audit our key financial data.

We publish in July a detailed Data Assurance Summary report which sets out how our Data Assurance Plan has been executed, the outcome and any specific areas for improvement. This report includes feedback from our external assurance providers.

This process is the responsibility of the Audit Committee and is signed off by the Chairman of the Audit Committee and Finance and Regulation Director, after appropriate Board consultation.

### How the Board has utilised individual directors and committees in carrying out its activities in this area

The Company operates through a formal Board structure. A regular risk identification, assessment and mitigation process, is performed across the business, with robust challenge from the executive team undertaken before being submitted to the Audit Committee for review.

The Board:

- monitors compliance with the obligations of the Company under its licence as a water undertaker;
- considers material financing and investment decisions;
- reviews monthly reports of key management information, including ODIs.
- reviews the role of insurance in managing risks;
- reviews and approves financial budgets and emerging financial results; and
- reviews and scrutinises the Company's business plans.
- assesses the risk management and control arrangements including risk reporting.

The Audit Committee is chaired by an independent Non-Executive director with appropriate finance qualifications/experience and extensive assurance experience:

The Audit Committee:

- reviews the Company Monitoring Framework and approves assurance plan
- reviews and where appropriate, approves non-audit services undertaken by the statutory auditor;
- considers reports from management and external auditors on the system of internal control and any material control weaknesses identified;
- discusses with management the actions taken on any problem areas identified by the Board members and management or in the external audit reports; and
- the Chairman of the Committee reports the outcome of the Audit Committee Meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

For further information on Audit Committee, our Annual Report includes a statement from the Chair and explains the work undertaken in 2020/21.

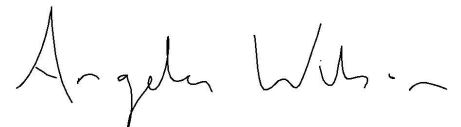
Signed on Friday 9 July 2021 by:



**Christopher Deacon**  
Independent Chairman



**Michael Robert Coffin**  
Independent Non-Executive Director



**Angela Wilson**  
Independent Non-Executive Director



**Colin Robert Taylor**  
Chief Executive Officer



**Helen Mary Grace Orton**  
Finance and Regulation Director



**Christopher Loughlin**  
Investor Representative

# 1A Income Statement

**Table 1A - Income statement for the 12 months ended 31 March 2021**

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	2	41.957	(2.454)	0.367	(2.821)	39.136	1A.1
Operating costs	3	(34.080)	0.035	(0.072)	0.107	(33.973)	1A.2
Other operating income	4	(0.013)	-	-	-	(0.013)	1A.3
Exceptional items	13	(0.091)	-	-	-	(0.091)	
Operating profit		7.773	(2.419)	0.295	(2.714)	5.059	1A.4
Other income	5	-	2.639	-	2.639	2.639	1A.5
Interest income	6	0.803	-	-	-	0.803	1A.6
Interest expense	7	(6.308)	-	-	-	(6.308)	1A.7
Other interest income	6	0.479	-	-	-	0.479	1A.8
Profit before tax and fair value movements		2.747	0.220	0.295	(0.075)	2.672	1A.9
Fair value gains/(losses) on financial instruments		-	-	-	-	-	1A.10
Profit before tax		2.747	0.220	0.295	(0.075)	2.672	1A.11
UK Corporation tax	8	(0.175)	-	-	-	(0.175)	1A.12
Deferred tax	8	(0.542)	-	-	-	(0.542)	1A.13
Profit for the year		2.030	0.220	0.295	(0.075)	1.955	1A.14
Dividends	9	(1.103)	-	-	-	(1.103)	1A.15
<b>Tax analysis</b>							
Current year	8	0.175	-	-	-	0.175	1A.16
Adjustments in respect of prior years	8	-	-	-	-	-	1A.17
UK Corporation tax		0.175	-	-	-	0.175	1A.18
<b>Analysis of non-appointed revenue</b>							
Imported sludge		-					1A.19
Tankered waste		-					1A.20
Other non-appointed revenue		0.367					1A.21
Revenue		0.367					1A.22

## 1B Statement of Comprehensive Income

**Table 1B - Statement of comprehensive income for the 12 months ended 31 March 2021**

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year		2.030	0.220	0.295	(0.075)	1.955	1B.1
Actuarial gains/(losses) on post-employment plans	22	1.976	-	-	-	1.976	1B.2
Other comprehensive income	20	(0.376)	-	-	-	(0.376)	1B.3
<b>Total Comprehensive income for the year</b>		<b>3.630</b>	<b>0.220</b>	<b>0.295</b>	<b>(0.075)</b>	<b>3.555</b>	<b>1B.4</b>

# 1C Statement of Financial Position

**Table 1C - Statement of financial position for the 12 months ended 31 March 2021**

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
<b>Non-current assets</b>							
Fixed assets	10	161.382	-	-	-	161.382	1C.1
Intangible assets	11	1.212	-	-	-	1.212	1C.2
Investments - loans to group companies	12	55.484	-	-	-	55.484	1C.3
Investment properties	12	0.325	-	-	-	0.325	1C.4
Retirement benefit assets	22	17.609	-	-	-	17.609	1C.6
<b>Total</b>		<b>236.012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>236.012</b>	<b>1C.7</b>
<b>Current assets</b>							
Inventories		0.446	-	-	-	0.446	1C.8
Trade & other receivables	13,14	9.038	-	0.154	(0.154)	8.884	1C.9
Financial instruments		-	-	-	-	-	1C.10
Cash & cash equivalents	15	28.377	-	-	-	28.377	1C.11
<b>Total</b>		<b>37.861</b>	<b>-</b>	<b>0.154</b>	<b>(0.154)</b>	<b>37.707</b>	<b>1C.12</b>
<b>Current liabilities</b>							
Trade & other payables	17	(14.633)	-	(0.154)	0.154	(14.479)	1C.13
Capex creditor	17	(3.426)	-	-	-	(3.426)	1C.14
Borrowings	16	(2.284)	-	-	-	(2.284)	1C.15
Current tax liabilities	17	(0.327)	-	-	-	(0.327)	1C.17
Provisions	17	(1.412)	-	-	-	(1.412)	1C.18
<b>Total</b>		<b>(22.082)</b>	<b>-</b>	<b>(0.154)</b>	<b>0.154</b>	<b>(21.928)</b>	<b>1C.19</b>
<b>Net Current assets/(liabilities)</b>		<b>15.779</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15.779</b>	<b>1C.20</b>
<b>Non-current liabilities</b>							
Borrowings	18	(142.409)	-	-	-	(142.409)	1C.22
Deferred income - G&C's	19	(34.545)	0.220	-	0.220	(34.325)	1C.26
Deferred tax	20	(8.529)	-	-	-	(8.529)	1C.29
<b>Total</b>		<b>(185.483)</b>	<b>0.220</b>	<b>-</b>	<b>0.220</b>	<b>(185.263)</b>	<b>1C.30</b>
<b>Net assets</b>		<b>66.308</b>	<b>0.220</b>	<b>-</b>	<b>0.220</b>	<b>66.528</b>	<b>1C.31</b>
<b>Equity</b>							
Called up share capital	21	1.078	-	-	-	1.078	1C.32
Retained earnings & other reserves	21	65.230	0.220	-	0.220	65.450	1C.33
<b>Total Equity</b>		<b>66.308</b>	<b>0.220</b>	<b>-</b>	<b>0.220</b>	<b>66.528</b>	<b>1C.34</b>

\* The non-appointed amount is meter reading deferred income relating to the sale of the Non-household retail business.

# 1D Statement of Cashflows

Table 1D - Statement of cashflows for the 12 months ended 31 March 2021

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
<b>Operating activities</b>							
Operating profit		7.773	(2.419)	0.295	(2.714)	5.059	1D.1
Other income		-	2.639	-	2.639	2.639	1D.2
Depreciation		6.240	-	-	-	6.240	1D.3
Amortisation - G&C's		(0.723)	(0.220)	-	(0.220)	(0.943)	1D.4
Changes in working capital		(5.291)	-	-	-	(5.291)	1D.5
Pension contributions		(0.091)	-	-	-	(0.091)	1D.6
Movement in provisions		(0.157)	-	-	-	(0.157)	1D.7
Loss on sale of fixed assets		0.013	-	-	-	0.013	1D.8
Cash generated from operations		7.764	0.000	0.295	(0.295)	7.469	1D.9
Net interest paid		(3.268)	-	-	-	(3.268)	1D.10
Tax paid		-	-	-	-	-	1D.11
Net cash generated from operating activities		4.496	0.000	0.295	(0.295)	4.201	1D.12
<b>Investing activities</b>							
Capital expenditure		(19.000)	-	-	-	(19.000)	1D.13
Grants & Contributions		1.016	-	-	-	1.016	1D.14
Disposal of fixed assets		0.008	-	-	-	0.008	1D.15
Other		-	-	-	-	-	1D.16
Net cash used in investing activities		(17.976)	-	-	-	(17.976)	1D.17
Net cash generated before financing activities		(13.480)	0.000	0.295	(0.295)	(13.775)	1D.18
<b>Cashflows from financing activities</b>							
Equity dividends paid		(1.103)	-	-	-	(1.103)	1D.19
Net loans received		(11.000)	-	-	-	(11.000)	1D.20
Cash inflow from equity financing		24.623	-	-	-	24.623	1D.21
Net cash generated from financing activities		12.520	-	-	-	12.520	1D.22
Increase (decrease) in net cash		(0.960)	0.000	0.295	(0.295)	(1.255)	1D.23



# 1E Net Debt Analysis (Appointed Activities)

**Table 1E - Net debt analysis (appointed activities) at 31 March 2021**

	*Fixed rate	**Floating rate	Index linked		Total	RAG 4 reference
			RPI	CPI/CPIH		
<b>Interest rate risk profile</b>						
	£m	£m	£m	£m	£m	
Borrowings (excluding preference shares)	24.906	9.500	112.245	-	146.651	1E.1
Preference share capital					-	1E.2
<b>Total borrowings</b>					<b>146.651</b>	1E.3
Cash					(28.377)	1E.4
Short term deposits					-	1E.5
<b>Net Debt</b>					<b>118.274</b>	1E.6
<b>Gearing</b>						
Gearing					70.33%	1E.7
<b>Adjusted Gearing</b>					<b>55.69%</b>	1E.8
<b>Interest</b>						
Full year equivalent nominal interest cost	0.749	0.123	5.790	-	6.662	1E.9
Full year equivalent cash interest payment	0.749	0.123	4.080	-	4.952	1E.10
<b>Indicative interest rates</b>						
Indicative weighted average nominal interest rate	3.01%	1.50%	5.19%	-	4.60%	1E.11
Indicative weighted average cash interest rate	3.01%	1.50%	3.66%	-	3.42%	1E.12
<b>Time to maturity</b>						
Weighted average years to maturity	4	3	11	-	9	1E.13

\* Includes Debenture Stock of £0.284m, which is perpetual debt, and an Intra-group subordinated creditor of £24.622m.

### Intra-group subordinated creditor

On 2 March 2021 Portsmouth Water Limited entered into a subordinated intercompany loan agreement with Portsmouth Water Holdings Limited permitting borrowing to a total facility value of £50m, initially drawing down £24,622m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan has a five year term, maturing in 31 March 2025.

\*\*On 2 March 2021 Portsmouth Water Limited entered into a £55m Bank Facility, with £7.5m drawn immediately. This facility matures in March 2025, with interest payable six monthly at floating rate of LIBOR + 1.25%. This margin is subject to an assessment of sustainability, with an adjustment of up to +/- 1.75 basis points depending on the Company's performance.

Total Borrowings difference between 1C and 1E is the deferred arrangement costs of £1.958m. Of this, £0.653m relates to the index linked loan and £1.305m relates to the new £55m loan facility.

### Adjusted Gearing

For banking covenant purposes, gearing is calculated excluding the fixed rate intercompany loan, of £24.622m.

# 1F Financial Flows

**Table 1F - Financial flows for the 12 months ended 31 March 2021  
(2017-18 financial year average CPIH)**

	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	RAG 4 reference
	%			£m			
<b>Return on regulatory equity</b>							
Return on regulatory equity	4.12%	2.97%	4.12%	2.517	1.814	1.814	1F.1
Regulatory equity £m	61.104	61.104	44.020				1F.2
<b>Financing</b>							
Gearing		1.15%	0.53%		0.704	0.232	1F.3
Gearing benefits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		-0.10%	-0.13%		(0.059)	(0.059)	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-2.78%	-4.57%		(1.697)	(2.013)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.12%	1.25%	-0.06%	2.517	0.761	(0.026)	1F.9
<b>Operational Performance</b>							
Totex out / (under) performance		0.43%	0.60%		0.265	0.265	1F.10
ODI out / (under) performance		0.15%	0.20%		0.090	0.090	1F.11
C-Mex out / (under) performance		0.00%	0.00%		-	-	1F.12
D-Mex out / (under) performance		0.00%	0.00%		-	-	1F.13
Retail out / (under) performance		-0.62%	-0.85%		(0.376)	(0.376)	1F.14
Other exceptional items		-0.14%	-0.20%		(0.087)	(0.087)	1F.15
Operational performance total		-0.18%	-0.25%		(0.108)	(0.108)	1F.16
RoRE	4.12%	1.07%	-0.31%	2.517	0.653	(0.134)	1F.17
Actual performance adjustment 2015-20	-2.30%	-2.30%	-3.19%	(1.403)	(1.403)	(1.403)	1F.18
Total earnings	1.82%	-1.23%	-3.49%	1.114	(0.750)	(1.537)	1F.19
RCV growth from inflation	1.01%	1.01%	1.01%	0.617	0.617	0.445	1F.20
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.21
Total shareholder return	2.83%	-0.22%	-2.48%	1.732	(0.132)	(1.093)	1F.22
<b>Dividends</b>							
Gross Dividend	4.19%	1.72%	2.39%	2.560	1.054	1.054	1F.23
Interest Received on Intercompany loans	0.00%	-1.26%	-1.74%	-	(0.767)	(0.767)	1F.24
Retained Value	-1.36%	-0.69%	-3.13%	(0.829)	(0.419)	(1.380)	1F.25

### Basis of preparation

In preparing the table 1F Financial Flows the following should be noted:

- The notional returns on Regulatory Equity are taken from the Ofwat Financial Flows Data Source file, as well as the actual performance adjustment for 2015-20.
- The notional regulatory equity values are taken from Ofwat's document "PR19 RCV\_2021\_PRT", for each year.
- The gearing and cost of debt calculations use the year-end RCV numbers published by Ofwat in "PR19 RCV\_2021\_PRT". The gearing calculation adjusts the actual return on net debt by July RPI, in line with the actual loan arrangements.
- Actual returns include the exceptional item relating to the Covid-19 provision for bad debt (note 13).

### Variances between the Final Determination and the results for 2020/21

We have considered the significant variances arising between the return assumed in the Final Determination and the actual return for 2020/21. In overall terms the actual total shareholder return is -£0.198m and the dividend paid is £0.287m, compared to the notional total shareholder return of £1.732m and notional net dividend paid of £2.560m, based upon the Final Determination.

The material differences are driven by;

- higher gearing than the notional company
- higher corporation tax charges than assumed in the Final Determination
- higher cost of debt than allowed in the Final Determination
- operational out performance
- ODI rewards relating to the year
- lower net dividend levels than assumed in the Final Determination

### Gearing

Actual average gearing of 71.2% is above the notional gearing of 60% by 11.2 percentage points. This has two implications. Firstly, it results in a lower regulatory Equity Base as regulatory equity % (the reciprocal of gearing) is lower in the actual structure (actual equity 28.8% vs notional equity of 40%). Secondly, it results in a benefit due to the cost of debt being lower than the cost of equity.

### Gearing Benefits Sharing

The threshold for this adjustment is 74% in 2020/21. Portsmouth Water gearing is 70.33%, which is below this level, and therefore there is no adjustment to be made.

### Corporation Tax

2017/18 price base	£'000	£'000
Allowed Corporation Tax Charge in Final Determination		106
Tax payable in appointed profit at the standard rate of Corporation Tax	439	
<b>Adjusted for the tax impact of:</b>		
Origination and reversal of timing differences	(125)	
Pensions deduction	(102)	
Corporate Interest Rate adjustment	(144)	
Other tax adjustments	(48)	
Tax losses (utilised)/generated in the year	(19)	
CT charge for the year - 2017/18 prices	-	
Group relief payable - 2017/18 prices	165	
Total tax charge for the year		165
Difference (adverse)		(59)

The above reconciliation, in 2017/18 price base, sets out the key reasons for the higher tax charge outturn relative to the FD. This is primarily driven by higher trading profit as a result of opex out-performance but has been offset by the factors shown above resulting in tax charges relating only to the payment for group relief surrendered by other group companies. Further explanation of the tax reconciliation (in current year price base) has been included in Note 8.

### Cost of debt

The Company's actual real cost of debt is 3.8% (mainly index linked debt), and exceeds the allowed cost of debt of 2.77% (as published by Ofwat), and together with the higher gearing levels, this results in a £1.1m reduction in financial returns.

### Totex out performance

The 2020/21 variance on capital expenditure is £0.457m, after an adjustment for timing differences of -£3.222m. The variance on operating expenditure is -£1.411m, after an adjustment for timing differences of -£1.911m. The timing differences are mainly due to the Covid restrictions in place during the year and are consistent with Table 4C.7. The customer cost sharing percentages are then applied to these

variances, followed by the PAYG rate applicable to Water Resources and Water Network+. The cost sharing and PAYG percentages are published by Ofwat in the Financial Flows Data Source file.

See commentary relating to Table 4D on page 88 for more details on the Totex expenditure variances.

### Retail out/under performance

The 2020/21 Household Retail expenditure is above the FD, and was driven by a combination of factors which are explained further in the narrative for the Retail Price Control on page 72.

### ODI rewards and penalties (including C-Mex and D-Mex)

There are a number of ODI rewards and penalties relating to 2020/21. They are all paid on an in-period basis (within AMP7 as opposed to the end of AMP7, i.e. March 2025), and none of them have an impact on the RCV. The total net reward for the year is £0.747m, in 2017/18 prices.

2017/18 prices	Target	Reward (£m)	Penalty (£m)	Performance	Payment (£m)	Water Resources	Network Plus	Retail
Interruptions	06:30	0.069	-0.069	02:49	0.254		0.254	
Leakage	27.48	0.134	-0.160	25.10	0.281		0.281	
Mains repairs	73.8		-0.024	76.0	-0.053		-0.053	
Household Voids	2.00%	0.140	-0.140	2.36%	-0.050			-0.050
PCC	147.4	0.028	-0.033	157.2	-0.323	-0.323		
Biodiversity	90		-0.000940	70	-0.019		-0.019	
ODI's (exclu. C-Mex and D-Mex)					0.090	-0.323	0.464	-0.050
C-Mex	Potential up to 12%			1st giving 12%	0.570			0.570
D-Mex	Potential up to 6%			3rd giving 5.21%	0.087		0.087	
Total ODI's					<u>0.747</u>	<u>-0.323</u>	<u>0.551</u>	<u>0.519</u>

The C-Mex and D-Mex rewards for 2020/21 are not reported in the year, in Table 1F, but will be reported one year in arrears, in 2021/22.

# Reconciliation between Statutory Accounts and Regulatory Accounts

For the year ended 31 March 2021

	Statutory £'000	Regulatory £'000	Commentaries
<b>Income statement</b>			
Revenue	41,957	39,136	See a) below
Operating profit	7,773	5,059	See b) below
<b>Statement of financial position</b>			
Tangible fixed assets (net book value)	161,382	161,382	

- a) The difference relates to the way these figures have been presented in both sets of accounts, as well as the inclusion of non-appointed business in the ARA. In the ARA, this figure includes all income from Grants and Contributions, but the APR classifies this as Other Income. In addition, the ARA includes non-appointed revenue, £0.207m of which relates to Commercial Services, and £0.160m is income from the sale of the Non-Household business, and relates to meter reading services. All of these amounts are excluded from the APR revenue.

There is a small void debt provision movement, included in revenue in the ARA, but classed as operating cost in the APR.

An amount of Havant Thicket bulk supply income from Southern Water has been recognised in the APR, but not in the ARA, where it is all in deferred income.

	£'000
Statutory revenue	41,957
Amortisation of Developer Contributions	(681)
Income from Connection Charges	(908)
Income from Mains Diversions	(1,050)
Non-appointed revenue	(207)
Non-appointed meter reading revenue	(160)
Void debt provision	(35)
Havant Thicket bulk supply revenue	220
Regulatory revenue	39,136

- b) The difference relates to the way these figures have been presented in both sets of accounts, as well as the inclusion of non-appointed business in the ARA. Income from Grants and Contributions is reported as Other Income in the APR, but is reported as Revenue in the ARA. The breakdown of this income is shown below.

There is a non-appointed operating profit of £0.206m, which relates to Commercial Services, as well as a number of other non-appointed items relating to rental properties and the sold Non-Household Retail Business. These are excluded from Regulatory operating profit.

	£'000
Statutory operating profit	7,773
Amortisation of Developer Contributions	(681)
Income from Connection Charges	(908)
Income from Mains Diversions	(1,050)
Non-appointed commercial profit	(206)
Non-appointed meter reading revenue	(160)
Non-appointed rents receivable	(118)
Non-Household meter reading costs	15
Non-appointed Commercial department	174
Havant Thicket bulk supply revenue	220
Regulatory operating profit	5,059

# Notes to the Accounts

## 1. Accounting policies

The statutory 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. This Annual Performance Report has been prepared on the basis of these statutory financial statements and has been presented and, where applicable, modified in accordance with the requirements of the Regulatory Accounting Guidelines ('RAGs') published by Ofwat and in force at the date of these accounts. The principal accounting changes in respect of the application of RAGs relate to the treatment of non-appointed business.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated. The financial statements are presented in pounds sterling.

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, which have been applied consistently, are as follows:

### (a) Revenue

Revenue, which excludes value added tax, represents the income receivable for goods and services provided to external customers in the ordinary course of business.

Revenue from the regulated water business includes amounts billed for the year, together with an estimation of amounts used but unbilled at the year-end, for measured water customers. Where an invoice has been raised or payment received but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year's turnover but will instead be included within creditors as deferred income.

Unmeasured income bills are generally based on the rateable value of properties. Unmeasured customers are billed annually in advance of 1 July and amounts invoiced in advance are not recognised in turnover until earned.

Measured income arises from customers who have meters fitted at their premises therefore amounts billed are based on actual water consumption. In addition a 'measured income accrual' is calculated in order to estimate of the value of water used but unbilled at the year-end. 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 the data sets used, the outcome of the calculation and quarterly trends in determining the year-end position. There has been no change in the methodology for calculating the measured income accrual during the year.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and any out of pocket court costs are added to the relevant customer account. They are not recognised within turnover.

### Differences between Statutory and Regulatory accounts

Non-appointed income is included within turnover in the statutory accounts but is excluded from turnover in the APR.

### Havant Thicket bulk supply income

An accounting difference arises in relation to the treatment of bulk supply income in connection with the Havant Thicket price control and associated bulk supply agreement. Under the revenue recognition principles of FRS 102, no revenue may be recognised during the construction phase of the Havant Thicket Winter Storage Reservoir (HTWSR). Accordingly, in the annual report and accounts HTWSR bulk supply income totaling £0.220m has been deferred and will be amortised over the term of the bulk supply agreement commencing from the date that water from the reservoir goes into supply (estimated to be in 2029). However, for the purpose of reporting in this Annual Performance Report, in accordance with Regulatory Accounting Guidelines this is treated as bulk supply income and therefore gives rise to a difference between statutory and regulatory accounts.

### Void Properties

Empty household properties are classed as "voids" and no bill is raised. There is a defined process for determining if a property is unoccupied. The first stage is that an Occupation Form is posted to the property, requesting details of the occupier. If there is no reply a reminder is sent. The meter continues to be read and monitored and, if consumption is present, further steps are taken. The next stage involves a Visit Notice being raised and given to an Inspector. The Inspector will then go to the property and confirm if the property is void or not, and will turn off the water supply if appropriate. Accordingly revenue is only recognised if the property can be shown not to be void.

### Empty Property Charging Policy

Charges are payable if premises are furnished unless the Company is asked to turn off the supply. No retrospective allowances are given. If the premises do not have a separate supply pipe it may not be possible for the Company to turn off the supply.

Where turn-off is required pending the sale of a property, or for a planned period of more than six months, no charge will be made to turn the water back on, provided this is undertaken within normal working hours and sufficient notice has been given.

No charges are payable in respect of unoccupied unfurnished premises, where no water is being used. No retrospective allowances are given.

Where a property is unoccupied following the death of the owner/occupier, the Executors/Administrators can decide whether a supply is maintained to furnished premises, with charges accruing, or the supply is turned off. In either case, the bill outstanding will only become payable upon Probate or Letters of Administration having been obtained.

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover.

If the developer is no longer responsible for the property and no new occupier has been identified the process referred to above, for void properties, is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

## **(b) Fixed assets**

### **Tangible fixed assets**

The Company holds both above ground assets and a below ground infrastructure network of mains. This classification, together with the value and nature of items, drives both the approval process and the accounting treatment of tangible fixed assets.

As part of the annual budgeting process a detailed capital programme is drawn up for the forthcoming financial year. This categorises capital schemes between mains infrastructure and above ground assets. This is approved by the Company's Board. Following Board approval individual schemes are programmed for the coming year by Project Managers responsible for delivering the schemes. The Project Managers are responsible for the control of expenditure on the schemes and authorise each individual item of expenditure incurred. The Financial Controller reviews the scheme expenditure in order to ensure that the correct accounting treatment has been applied. For small plant, equipment and vehicles a list is drawn up and also approved by the Company's Board. Purchases made are reviewed for correctness of treatment and to ensure that these are all capital items. The policy adopted by the Company is that only items above £500 are capitalised.

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

Infrastructure assets comprise a network of mains and communications pipes. 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 schemes addressing specific water quality issues or areas where mains have been diverted to avoid damage. 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 tangible 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.

### **Impairment**

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

# Notes to the Accounts

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

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.

## (c) 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.

## (d) Capital contributions

### Mains 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.

## (e) 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.

## (f) Taxation

Current tax, including UK corporation 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.

## (g) Leases

In accordance with the requirements of Regulatory Accounting Guideline 1.09 leases are accounted for in accordance with IFRS 16 'Leases'. Where leases have a term of less than 12 months or are leases of low value assets, the Company has elected not to recognise right-of-use assets and lease liabilities as permitted by IFRS 16. Accordingly lease payments are charged to the income statement on a straight-line basis over the period of the lease. There are no leases extending beyond 12 months.

## (h) Pension costs and other post-retirement benefits

Portsmouth Water Limited 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 interest income. Re-measurements of the net defined benefit asset are recognised immediately in other comprehensive income.

Pension scheme liabilities are measured on an actuarial basis using the 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 22 of the APR.

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.

### **(i) 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 costs 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.

The Company subsequently categorises financial instruments as follows:

- Fixed asset investments consist of loans to Group undertakings, which earn interest based on London Interbank rates and are classified as loans and receivables.
- Other financial assets consist of short term bank deposits and debtors and are classified as loans and receivables.

The Company's financial liabilities consist of fixed rate borrowings in the form of perpetual debentures, an index linked loan and an intercompany loan.

### **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.

### **(j) 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.

### **(k) Cost allocation policies**

#### **Price Control Units – Accounting Separation**

The tables which relate to the PR19 price controls have been completed in accordance with RAG 2 - Guideline for classification of costs across the price controls. The details of this classification are included in the separately published Accounting Separation Methodology Statement, which can be located on the Company website at [www.portsmouthwater.co.uk](http://www.portsmouthwater.co.uk).

The Methodology Statement details the systems in place and the sources of information used to populate the relevant tables in the Annual Performance Report. The detailed nominal ledger management information reports allow costs to be identified for each cost centre of the Company, and the direct costs of Business Units, for example Retail, can be readily identified.

# Notes to the Accounts

The Company has used the guidance issued by Ofwat in the separating of costs and assets between the Wholesale and Retail business units. It has followed the prescribed hierarchy of cost drivers when deciding upon the most appropriate basis for allocation of both costs and assets. Where the Company has opted to base the allocation of a number of costs and assets on a management estimate, it is satisfied that this was the only valid option given the time and costs involved in other methods.

A summary of the bases of allocation for the operating costs, excluding depreciation, is included below:

## Annual Performance Report - Business Unit Tables 2020/21

<b>Direct costs</b>	<b>Basis of Allocation</b>
Employment Costs	Direct and management estimate
Power	Pumping Head
Hired & Contracted Services	Direct
Materials & Consumables	Direct
Service Charges	Direct
Other Direct Costs	Direct
<b>General &amp; support activities</b>	<b>Basis of Allocation</b>
Land & Property	Direct and prorata on direct
Production Technical	Direct and prorata on direct
Production Engineer	Production Technical basis
Network General & Admin	Direct
Personnel Services	FTE's
Legal & Property	FTE's
Financial Services	FTE's
Directors	Time on activities and Board Agenda
IT	No. of computers & mobile devices
Operational / Technical Support	GMEAV of asset additions
Vehicles & Plant	No. of vehicles
Stores	Direct material costs
<b>General admin</b>	<b>Basis of Allocation</b>
Directly identifiable items	Direct
Other General Admin	Direct/Floor space/FTE's
Other Business Activities	Direct/1/5 per Business Unit
Scientific Services	Quality samples
Doubtful Debts	Direct
General Rates	Floor space
Bulk Supply	Direct
Third Party Costs (RCW)	Direct
Renewals Expensed	Direct

The allocation of shared assets and the associated depreciation is based on the principal use rules. These assets are grouped into categories, such as IT or Scientific Services, and recharges are allocated on the same basis as the corresponding operating costs.

Significant movements in Wholesale and Retail costs have been identified and are reported in the Methodology Statement.

### (I) Critical accounting judgements and key sources of estimation uncertainty

Information on critical accounting judgements and key sources of estimation uncertainty can be found on page 72 of the Annual Report and Accounts.

## 2. Revenue

	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000	Appointed 2020 £000	Non Appointed 2020 £000	Total 2020 £000
Unmeasured household supplies	20,114	-	20,114	21,396	-	21,396
Measured household supplies	11,000	-	11,000	10,227	-	10,227
Non-household supplies	7,174	-	7,174	9,116	-	9,116
*Third party services	573	367	940	612	222	834
Havant Thicket bulk supply	220	-	220	-	-	-
Other sources	55	-	55	49	-	49
	<b>39,136</b>	<b>367</b>	<b>39,503</b>	41,400	222	41,622

\*Appointed Third Party services includes Bulk Supply revenue of £494k, but the Havant Thicket Bulk supply revenue is shown on a separate line.

**Measured Income Accrual**

For the year 2019/20 the measured income accrual was £2,627,901, and the corresponding actual billed revenue was £2,860,839. This is a difference of £232,938.

**3. Analysis of operating costs**

This note has been prepared in accordance with Condition 'F' of the Company's Instrument of Appointment.

	<b>Appointed</b>	<b>Non</b>	<b>Total</b>	Appointed	Non	Total
	<b>2021</b>	<b>Appointed</b>	<b>2021</b>	Appointed	Appointed	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Manpower costs	<b>10,258</b>	<b>207</b>	<b>10,465</b>	10,433	180	10,613
Other costs of employment	<b>330</b>	-	<b>330</b>	303	-	303
Power	<b>2,711</b>	-	<b>2,711</b>	2,720	-	2,720
Rates	<b>2,426</b>	-	<b>2,426</b>	2,499	-	2,499
Hired and contracted services	<b>7,131</b>	<b>11</b>	<b>7,142</b>	6,731	3	6,734
Materials and consumables	<b>1,930</b>	-	<b>1,930</b>	1,673	1	1,674
Service charges	<b>1,322</b>	-	<b>1,322</b>	1,322	-	1,322
Renewals expensed	<b>1,234</b>	-	<b>1,234</b>	2,358	-	2,358
Provision for bad and doubtful debts	<b>171</b>	-	<b>171</b>	536	-	536
Other operating costs	<b>220</b>	<b>(146)</b>	<b>74</b>	296	(108)	188
Depreciation and Amortisation	<b>6,240</b>	-	<b>6,240</b>	6,121	-	6,121
	<b>33,973</b>	<b>72</b>	<b>34,045</b>	34,992	76	35,068

Manpower costs include a notional pension credit/charge which should not be included for efficiency purposes, as the notional pension credit/charge is excluded from the price determination. A comparison of these costs are shown below:

	<b>2021</b>	2020
	<b>£000</b>	£000
Manpower as reported	<b>10,258</b>	10,433
Notional Pension Cost	<b>91</b>	(864)
Manpower Cost for Efficiency and Price Determination purposes	<b>10,349</b>	9,569

**4. Other operating income**

	<b>Appointed</b>	<b>Non</b>	<b>Total</b>	Appointed	Non	Total
	<b>2021</b>	<b>Appointed</b>	<b>2021</b>	Appointed	Appointed	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Profit/(loss) arising on disposal of fixed assets	<b>(13)</b>	-	<b>(13)</b>	103	-	103

**5. Other income**

	<b>Appointed</b>	<b>Non</b>	<b>Total</b>	Appointed	Non	Total
	<b>2021</b>	<b>Appointed</b>	<b>2021</b>	Appointed	Appointed	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Amortisation of Developer Contributions	<b>681</b>	-	<b>681</b>	709	-	709
S45 Connection Charges	<b>908</b>	-	<b>908</b>	816	-	816
Mains Diversions	<b>1,050</b>	-	<b>1,050</b>	-	-	-
	<b>2,639</b>	-	<b>2,639</b>	1,525	-	1,525

**6. Interest income**

	<b>2021</b>	2020
	<b>£000</b>	£000
Loan to Group Company	<b>803</b>	1,054
Interest on short term deposits	<b>-</b>	8
Other Interest Income (see note 22)	<b>803</b>	1,062
	<b>479</b>	672

# Notes to the Accounts

## 7. Interest expense

	2021 £000	2020 £000
£66.5m loan - interest	4,051	3,970
- indexation	1,793	2,976
- amortisation of fees	57	57
- administration expenses	111	212
	<b>6,012</b>	7,215
£7.5m loan - amortisation of fees	27	-
Intercompany loan - interest	61	-
Revolving credit facility and other	194	67
Debenture stocks	14	14
	<b>6,308</b>	7,296

## 8. Taxation (appointed business only)

	2021 £000	2020 £000
<b>Current tax</b>		
United Kingdom corporation tax at 19% (2020 - 19%)	175	-
Adjustment in respect of prior periods	-	313
	<b>175</b>	313
<b>Deferred tax</b>		
Origination and reversal of timing differences	535	346
Effect of tax rate change on opening balance	-	1,385
Adjustment in respect of prior periods	7	(20)
	<b>542</b>	1,711
<b>Tax on profit on ordinary activities</b>	<b>717</b>	2,024
The tax charge for the year is higher (2020 - lower) than the standard rate of Corporation tax in the UK of 19% (2020 - 19%), explained as follows:		
Profit/(loss) on ordinary activities before tax and fair value movements	2,747	(1,448)
Profit/(loss) before tax (taxable)	2,747	(1,448)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020 - 19%)	522	(275)
Effect of:		
Depreciation on assets not qualifying for capital allowances	188	236
Other tax adjustments (including effect of change in tax rate)	-	39
Prior year adjustments	7	313
Expenses not deductible for tax purposes	-	-
<b>Current tax charge for the year</b>	<b>717</b>	313

## Reconciliation between current tax charge and current tax in price limits

	Note	Statutory Accounts £'000	Non Appointed £'000	Appointed £'000	Final Determination Wholesale £'000	Final Determination Retail £'000	Tax Difference @19% £'000
Profit per FD - Wholesale	a				(895)		(636)
Profit per FD - Retail	a					661	126
Other table income (grants & contributions)	a				638		121
Additional interest - notional to actual	a				(891)		(169)
<b>Earnings before tax</b>	a	2,747	295	2,452	(1,148)	661	(558)
Disallowable items:							
Add depreciation	b	6,240		6,240	6,367		24
Less Capital allowances	b	(6,939)		(6,939)	(7,358)		(80)
Pensions deduction	c	(570)		(570)			108
Corporate Interest Rate adjustment	d	(803)		(803)	1,024		347
Other tax adjustments	e	(271)		(271)	29		57
Tax losses (utilised)/generated in the year	f	(404)	(295)	(109)	1,086		227
Adjusted profit chargeable to CT	g	-	-	-	-	661	125
Difference in tax rate - 19% vs FD tax @17%							(13)
Current Tax charge		-	-	-			
Group relief payable	h	175	-	175			
Tax charge for the period		175	-	175	-	112	112

We have analysed the difference between the tax charge for the year of £0.175m for the appointed business against the charge calculated in the Final Determination of £0.112m. The significant movements and related tax impact are set out in the table above.

#### a) Earnings before tax

Firstly the profit before tax (PBT) per the FD has to be adjusted to reflect the inclusion of income from grants and contributions of £0.638m and the interest charge adjustment to bring the notional interest charges included in the profit per the FD in line with the actual capital structure of £0.891m. The resultant adjusted PBT is higher in the current year as a result of lower operating costs as explained in the TOTEX narrative. This drives a significant tax difference of £0.558m as we compare an outturn profit for the year of £2.452m versus a net loss before tax per the FD of (£0.487m).

#### b) Depreciation & capital allowances

There are relatively immaterial differences in the levels of depreciation and capital allowances resulting in a net tax difference of £0.056m.

#### c) Pension deduction

The FD reflects pension contributions on a cash basis only and therefore no pension tax adjustment is required. The current year's PBT reflects a full actuarial adjustment for pensions and therefore non cash credits of £0.570m must be reversed in line with the tax treatment. This results in a tax difference of £0.108m.

#### d) Corporate interest rate restrictions

The complex rules in relation to the corporate interest rate restrictions (CIR) result in a different tax adjustment due to both the overall level of profit/loss and CIR elections made. Following an extensive piece of tax work earlier this financial year the company made the Public Benefit Infrastructure election. This results in a different CIR adjustment of £0.803m tax deduction in the current year versus an expected interest restriction of £1.086m at the time of the FD. This drives a significant difference in the tax charge of £0.347m.

#### e) Other tax adjustments

Other tax adjustments in the current year relate primarily to profit from rental properties of £0.118m and deductions for capitalised items of £0.132m. This results in a difference in the tax charge of £0.057m.

#### f) Tax losses utilised/generated

The tax calculation for the year results in an overall chargeable profit in the appointed business of £0.109m which is offset by utilising tax losses whereas in the FD the tax calculation results in an overall tax loss of £1.086m which increases overall tax losses. This results in a difference in the tax charge between the current year and the FD of £0.227m.

#### g) Rate of tax

The different in the rate of tax between the FD (17%) and the current year (19%) results in a tax difference of £0.013m.

#### h) Group relief

The final tax charge for the year of £0.175m is driven by group relief payable.

### 9. Dividends

#### Equity: Ordinary/'A' Ordinary

	<b>2021</b>	2020
	<b>£000</b>	£000
Interim paid	<b>559</b>	1,710
Final paid	<b>544</b>	1,975
Total Dividends	<b>1,103</b>	3,685
	<b>2021</b>	2020
	<b>£000</b>	£000
Dividend ultimately for group shareholders	-	2,550
Servicing of intercompany debt net of tax	<b>1,103</b>	1,135
Total Dividends	<b>1,103</b>	3,685

Please refer to the Dividend Policy on pages 12 and 13.

## Notes to the Accounts

### 10. Tangible fixed assets

	Freehold land, buildings, & reservoirs Restated £000	Mains Restated £000	Pumping plant £000	Vehicles, mobile plant & office equipment £000	Total Restated £000
<b>Cost</b>					
At 1 April 2020	64,097	67,864	63,906	25,729	221,596
Additions	7,371	3,444	3,813	2,401	17,029
Disposals	-	(41)	-	(43)	(84)
At 31 March 2021	71,468	71,267	67,719	28,087	238,541
<b>Depreciation</b>					
At 1 April 2020	14,588	7,000	32,249	17,574	71,411
Charge for year	540	1,155	2,201	1,915	5,811
Disposals during year	-	(21)	-	(42)	(63)
At 31 March 2021	15,128	8,134	34,450	19,447	77,159
<b>Net book value</b>					
At 31 March 2021	56,340	63,133	33,269	8,640	161,382
At 1 April 2020	49,509	60,864	31,657	8,155	150,185

#### Assets in the course of construction

Included in the above table 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 2020	8,848	3,403	3,005	284	15,540
Additions	7,411	3,649	4,583	1,343	16,986
Transferred into fixed assets	(975)	(1,653)	(4,713)	(1,347)	(8,688)
At 31 March 2021	15,284	5,399	2,875	280	23,838
<b>Depreciation</b>					
At 1 April 2020	-	-	-	-	-
At 31 March 2021	-	-	-	-	-
<b>Net book value</b>					
At 31 March 2021	15,284	5,399	2,875	280	23,838
At 1 April 2020	8,848	3,403	3,005	284	15,540

No depreciation has so far been provided on the above cost and £14.3m of the balance relates to Havant Thicket.

### 11. Intangible fixed assets

	Software, consultancy and internal costs £000
<b>Cost</b>	
At 1 April 2020	3,340
Additions (WIP completed assets)	705
Disposals	-
At 31 March 2021	4,045
<b>Amortisation</b>	
At 1 April 2020	2,404
Disposals	-
Charge for year	429
At 31 March 2021	2,833
<b>Net book value</b>	
At 31 March 2021	1,212
At 1 April 2020	936

Included in the above table are assets in the course of construction with a net book value of £0.843m.

**12. Fixed asset investment**

	Loan to Group Undertakings £000
At 1 April 2020	55,484
At 31 March 2021	55,484

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%. We note that before 31 December 2021 LIBOR will be replaced by a SONIA related measure. 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.

**Investment properties**

	Investment Properties £000
At 1 April 2020	325
At 31 March 2021	325

The historic cost of the investment properties at 31 March 2021 was £0.195m (2020 - £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.

**13. Debtors**

	<b>2021</b> <b>£000</b>	2020 £000
Trade debtors	<b>2,822</b>	2,111
*Amounts owed by Group companies	<b>1,780</b>	975
Prepayments and accrued income	<b>3,930</b>	3,461
Other debtors	<b>350</b>	694
	<b>8,882</b>	7,241

\* Amounts owed by Group companies excludes the notional intercompany payable of £0.154m (2020 - £0.311m), relating to the deferred income for Non-household meter reading, which is non-appointed.

All of the above amounts fall due within one year.

As at 31 March 2021, trade debtors had a carrying value of £7.262m (2020 - £6.934m) 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 £4.440m as at 31 March 2021 (2020 - £4.823m).

The ageing of these debtors was as follows:

	<b>2021</b> <b>£000</b>	2020 £000
Up to 12 months	<b>4,705</b>	4,497
Over 12 months	<b>2,557</b>	2,437
	<b>7,262</b>	6,934

Debtors provided for relate, to water charges for household and non-household customers - where experience in the water industry has shown, over time, it is likely that there will be difficulties in recovering the water charges for the periods concerned. Of the total £4,440k provision (2020 - £4,823k) £145k (2020 - £220k) relates to non-household debtors and £4,295k (2020 - £4,603k) relates to household debtors.

	<b>2021</b> <b>£000</b>	2020 £000
As at 1 April 2020	<b>4,823</b>	4,636
Provision for bad debt required in the year	<b>228</b>	428
Additional Covid-19 related provision	<b>-</b>	1,089
Debt written off in the year as uncollectable	<b>(611)</b>	(1,330)
As at 31 March 2021	<b>4,440</b>	4,823

# Notes to the Accounts

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.

	<b>2021</b>	2020
	<b>£000</b>	£000
<b>Total Debtors Outstanding &gt; 30 days</b>		
Household	<b>5,091</b>	5,741

## Write Off Policy

Our bad debt write off policy has been reviewed.

### Customers who remain within our area of supply;

Domestic – written off upon Bankruptcy or the granting of a Debt Relief Order.

### Customers who have moved outside of our area of supply;

Debt less than £50 – limited automated credit control and then periodic automatic write off.

Debt greater than £50 – credit control process then passed to a Debt Collection Agency (DCA) for recovery on a no success, no fee basis.

Periodic write off exercise for accounts returned by DCA, following internal review.

Differences in amounts written off from year to year are generally the result of differences in the timing of write off exercises rather than as a result of any particular trends.

## Provisioning policy

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. As part of this analysis we also considered the linkage between collection history and debt ageing. Accordingly our provision based on debtor age in line with experienced collection rates.

The bad debt provision remains largely consistent period by period and the application of the provisioning methodology resulted in a charge of £0.2m.

The Bad Debt Provision applies the following recovery rates;

Provision rate	Overdue up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-6 years
Measured	23%	65%	72%	77%	83%	90%
Unmeasured	27%	63%	68%	72%	78%	87%

## Covid-19 related specific bad debt provision

The Company has made an estimate of the level of customer debt, (both for invoiced and accrued amounts), as at 31 March 2021 that may now be subject to additional risk due to the impact of Covid-19. Of this total provision of £1.000m (2020 - £1.489m), £0.600m (2020- £1.089m) has been allocated against trade debtors, as a bad debt provision and a further £0.400m (2020 - £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.

At the end of 2019/20 the emergence of the Covid-19 pandemic was just commencing and at that time there was a high degree of uncertainty as to the resulting economic impact. Accordingly at the 2019/20 year end an additional "Covid" provision was made to reflect the impact of the economic downturn on debt recovery levels. As we could not wholly rely upon historic experience of bad debt, judgements were overlaid to account for other economic indicators – particularly forecast unemployment levels.

Since the emergence of the pandemic we have also carefully tracked trends in our bad debt experience and have reflected this in both bad debt write offs and levels of provision. To this extent the 2020/21 bad debt position takes a more holistic view – with the benefit of an improved observable experience of the impact of Covid-19 on debt recovery. To this extent, in relation to the provisioning of older debts (over one year), where we have observed adverse outturn variance against normal historic collection trends, the resultant bad debt provision charge of £495k has been presented as an exceptional item by virtue of its size and atypical nature. In addition we have also identified new debt (<1 year) written off during the period where this has been directly identified as Covid related. This has also been presented as an exceptional charge of £85k. These charges are classified, by nature, as an operating expense. Finally, the £489k gross reduction in the 2020 Covid bad debt provision (credit to the income statement) has also been classified as exceptional by nature consistent with the 2020 accounts classification. This has resulted in an overall net charge of £91k classified as exceptional. An additional charge of £137k has been made as a non-exceptional bad debt charge in the year to reflect the underlying bad debt experience.

As a "new norm" emerges we would expect to further review the current provisioning approach during 2021/22 – this will include the extent to which variances from long term historic trends are disclosed as exceptional by virtue of their nature and size.



**14. Investments**

	<b>2021</b>	2020
	<b>£000</b>	£000
Unlisted investments	<b>2</b>	2

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

Of the total amount shown of £28.377m (2020 - £29.337m), £2.049m (2020 - £2.021m) is held specifically for the payment of the next half yearly loan interest charges. None (2020 - £8.749m) of the increase in cash is due to proceeds of sale and share options being transferred from Ancala. This was to settle future incremental employment related social security liabilities bought about by the transaction (ARA note 31).

**16. Borrowings: due within one year**

	<b>2021</b>	2020
	<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
Balance outstanding on revolving credit facility	<b>2,000</b>	20,000
<sup>1</sup> Short term intercompany loan	<b>-</b>	500
	<b>2,284</b>	20,784

<sup>1</sup>An intercompany short term loan carrying interest charged at 3 months LIBOR + 1%, no short term loan occurred in FY21.

**17. Other current liabilities**

	<b>Appointed</b>	<b>Non</b>	<b>Total</b>	Appointed	Non	Total
	<b>2021</b>	<b>Appointed</b>	<b>2021</b>	2020	Appointed	2020
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000	£000	£000
Payments received on account	<b>1,697</b>	-	<b>1,697</b>	1,399	-	1,399
Trade creditors	<b>3,502</b>	-	<b>3,502</b>	2,868	-	2,868
Amounts owed to Group companies	<b>688</b>	-	<b>688</b>	433	-	433
Other creditors	<b>460</b>	-	<b>460</b>	420	-	420
Accruals	<b>1,029</b>	-	<b>1,029</b>	997	-	997
Water rates in advance	<b>7,103</b>	<b>154</b>	<b>7,257</b>	7,830	311	8,141
Trade and other payables	<b>14,479</b>	<b>154</b>	<b>14,633</b>	13,947	311	14,258
Provisions	<b>1,412</b>	-	<b>1,412</b>	1,412	-	1,412
Capex creditor	<b>3,426</b>	-	<b>3,426</b>	4,689	-	4,689
Other taxation and social security	<b>327</b>	-	<b>327</b>	9,101	-	9,101
	<b>19,644</b>	<b>154</b>	<b>19,798</b>	29,149	311	29,460

**18. Non-current liabilities**

	<b>2021</b>	2020
	<b>£000</b>	£000
In five years or more:		
Bank loan	<b>112,245</b>	110,452
Less: deferred arrangement costs	<b>(1,958)</b>	(710)
Revolving loan facility	<b>7,500</b>	-
Intra-group subordinated creditor	<b>24,622</b>	-
	<b>142,409</b>	109,742

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 £0.653m (2020 - £0.710m).

The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this inflated amount at 3.635% per annum.

On 2 March 2021 Portsmouth Water Limited entered into a £55m Revolving Loan Facility, with £7.5m drawn immediately. This facility matures in March 2025, with interest payable six monthly at floating rate. This margin is subject to an assessment of sustainability, with an adjustment depending on the performance.

Intra-group subordinated creditor please refer to note at bottom of Table 1E for details of the £24.622m.

# Notes to the Accounts

## 19. Deferred income: capital contributions

	2021 £000	2020 £000
Capital Contributions	35,268	28,752
Release of Capital Contribution to Turnover	(723)	(709)
	<b>34,545</b>	28,043

## 20. Provisions for liabilities

	2021 £000	2020 £000
<b>Deferred taxation:</b>		
At 1 April 2020	8,094	6,919
Charged during the year in profit and loss account	435	1,175
At 31 March 2021	<b>8,529</b>	8,094

The amount provided for deferred taxation represents timing differences caused by the excess of tax allowances over depreciation, net of the benefit of deferred tax assets in respect of unutilised tax losses.

	2021 £000	2020 £000
<b>Deferred tax including that relating to pension asset:</b>		
Accelerated capital allowances	9,614	9,265
Other timing differences	(1,085)	(1,171)
Pension asset (note 22)	4,130	3,647
Total provision for deferred tax	<b>12,659</b>	11,741
At 1 April 2020	<b>11,741</b>	11,790
Deferred tax charge in profit and loss account (note 8)	542	1,711
Deferred tax credited to the statement of comprehensive income	376	(1,760)
At 31 March 2021	<b>12,659</b>	11,741

In the 3 March 2021 Budget it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability, which is calculated at 19%, would have increased by approximately £4.0m.

A deferred tax asset of £0.6m (2020 - £0.6m) relating to the Corporate Interest Restriction rules on interest charges has not been recognised as there is insufficient evidence that this asset would be recovered in future periods.

## 21. Changes in equity

	Called up Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
Balance at 1 April 2020	1,078	9,382	3,250	50,071	63,781
Profit for Financial Year	-	-	-	2,030	2,030
Remeasurement of net defined benefit asset	-	-	-	1,976	1,976
Movement on deferred tax relating to pension scheme	-	-	-	(376)	(376)
Total comprehensive profit for the year	-	-	-	3,630	3,630
New share capital/share premium issued	-	-	-	-	-
Dividends	-	-	-	(1,103)	(1,103)
Balance at 31 March 2021	1,078	9,382	3,250	52,598	66,308

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 2021 £66.178m (2020 - £63.651m) was distributable in accordance with company law and £0.130m (2020 - £0.130m) was not distributable.

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

## 22. 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 prior 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 2021 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 2022 year, commencing 1 April 2021 is £1.2m (2021 actual - £1.4m). Of this amount, £1.0m is contributed directly by that Company and £0.2m is contributed by employees by salary sacrifice under the SMART arrangement.

Employer contributions for the remainder of the AMP are projected to be FY22 - £1.0m, FY23 - £1.0m, FY24 - £1.0m.

The key FRS 102 assumptions used for the scheme were as follows:

	2021 % per annum	2020 % per annum	2019 % per annum
RPI inflation	3.2	2.5	3.3
CPI inflation	2.7	1.9	2.4
Discount Rate	2.0	2.4	2.3
Pension increases	2.7	2.0	2.4
Salary growth	2.8	2.0	4.4

Assumption	31 March 2021	31 March 2020	Comments on assumptions
<b>RPI inflation</b>	3.2% pa	2.5% pa	<ul style="list-style-type: none"> <li>The assumption for future RPI inflation is based upon index-linked and fixed-interest gilts, as published by the Bank of England and extrapolated for later durations. The single equivalent inflation rate is then calculated as the 'average' rate that produces the same present value of the liabilities as using the inflation rates for each term.</li> <li>Consistent with the approach taken last year, a deduction of 0.3% pa has been applied to allow for an assumed inflation risk premium.</li> </ul>
<b>CPI inflation</b>	2.7% pa	1.9% pa	<ul style="list-style-type: none"> <li>The CPI inflation used previously was set as RPI inflation less a gap of 0.6% pa. In light of the proposed changes to the RPI inflation index, the gap has now been updated to the to reflect the weighted average adjustment for the Scheme.</li> <li>As an approximation to reflect the differences pre/post 2030 a rate reduction of 0.5% pa, reflecting the average expected reduction in RPI-CPI gap, has been applied. This gives broadly equivalent results to 1% / 0.1% pa pre/post 2030 for the Scheme.</li> </ul>

Life expectancy of a male aged 65 at the accounting date is 22.0 years and for a female is 24.5 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 23.7 years and for a female is 26.2 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 £2.4m.
- A 5% fall in performance asset values would reduce the assets by around £4m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £6m.

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:

	2021 Fair Value		2020 Fair Value		2019 Fair Value	
	%	£000	%	£000	%	£000
Equities	24	38,643	17	23,783	34	56,452
Absolute Return Fund	11	18,875	13	18,158	24	40,922
LDI	9	14,106	10	13,957	22	37,610
Property	8	12,892	12	17,404	10	17,312
Cash	4	5,938	3	4,565	10	15,851
Buy-in policy	44	71,867	45	64,162	-	-
	100	162,321	100	142,029	100	168,147

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 £84.759m (2020 - £81.566m) 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

## Notes to the Accounts

estimates in note 1. Experienced 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.

### Method of valuation

The benefits are valued using the projected unit method at the trustees' funding valuation date of 31 March 2018. In line with industry practice and the approach taken in previous years, the liabilities are then estimated by rolling forward the 31 March 2018 results to the current year-end. This roll-forward allows for changes in market conditions, changes in demographic assumptions and certain experience adjustments – including inflation and benefits paid out.

	2021 £000	2020 £000
Total fair value of scheme assets	<b>162,321</b>	142,029
FRS 102 value of scheme defined benefit obligation	<b>(138,348)</b>	(113,826)
Impact of asset ceiling	<b>(2,233)</b>	(9,010)
Pension asset	<b>21,740</b>	19,193
Related deferred tax liability	<b>(4,131)</b>	(3,647)
Net pension asset	<b>17,609</b>	15,546

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2021 by an asset of £21.740m (2020 - £19.193m), which amounts to £17.609m net of deferred tax (2020 - £15.546m).

Portsmouth Water Limited paid contributions at a rate of 30.0% 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 £372,033 (2020 - £334,876).

### Movement in the net balance sheet position

	2021 £000	2020 £000
The FRS 102 value of scheme assets moved over the period as follows:		
Opening asset	<b>19,193</b>	28,653
Expense charged to profit and loss	<b>(872)</b>	(1,271)
Gain/(loss) recognised outside of profit and loss	<b>1,976</b>	(9,269)
Employer contributions	<b>1,443</b>	1,080
Closing asset	<b>21,740</b>	19,193

### Movement in present value of defined benefit obligation

	2021 £000	2020 £000
The FRS 102 value of scheme defined benefit obligation moved over the period as follows:		
Opening scheme liabilities	<b>113,826</b>	133,273
Employer's part of current service cost	<b>1,351</b>	1,944
Interest on scheme liabilities	<b>2,666</b>	2,996
Benefits paid and running costs	<b>(5,504)</b>	(6,071)
Actuarial loss/(gain)	<b>26,009</b>	(18,316)
Closing scheme defined benefit obligation	<b>138,348</b>	113,826

### Movement in fair value of scheme assets

	2021 £000	2020 £000
The FRS 102 value of scheme assets moved over the period as follows:		
Opening fair value of scheme assets	<b>142,029</b>	168,147
Interest on scheme assets	<b>3,360</b>	3,811
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	<b>1,443</b>	1,080
Benefits paid and running costs	<b>(5,504)</b>	(6,071)
Actuarial gain/(loss)	<b>20,993</b>	(24,938)
Closing fair value of scheme assets	<b>162,321</b>	142,029

**Expense recognised in income statement**

	<b>2021</b>	2020
	<b>£000</b>	£000
The following amounts have been included within operating profit:		
Current service cost (employer's part only)	<b>(1,351)</b>	(1,944)
Total operating charge	<b>(1,351)</b>	(1,944)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	<b>3,361</b>	3,811
Interest on asset limit	<b>(216)</b>	(143)
Interest on pension scheme defined benefit obligation	<b>(2,666)</b>	(2,996)
Net return	<b>479</b>	672
Total expense recognised in the income statement	<b>872</b>	1,272

**Amounts recognised outside income statement**

	<b>2021</b>	2020
	<b>£000</b>	£000
The following amounts have been recognised within the statement of changes in equity:		
Actual return less interest	<b>(20,993)</b>	24,938
Experience gains arising on scheme defined benefit obligation	<b>(593)</b>	(603)
Loss/(gain) due to changes in assumptions	<b>26,601</b>	(17,713)
Change in asset limit other than interest	<b>(6,993)</b>	2,647
Remeasurement loss of net defined benefit asset	<b>(1,976)</b>	9,269

**Changes in accounting estimates**

The applicable discount rate is based upon a AA corporate bond yield curve. This was adjusted to take account of longer-dated corporate bonds as this was judged to be the most appropriate approach. The impact of this change in methodology is to reduce the balance sheet liabilities by £2.4m at 31 March 2021.

In relation to the long term estimate for CPI, the Company has reduced the long term gap between RPI and CPI by 10 basis points (from 0.6% to 0.5%) compared with the prior year to reflect increased clarity on the future of the RPI index. The impact of the change in estimate resulted in an increase in the balance sheet liabilities of £2.2m.

The actual return on plan assets was £24.354m in the year to 31 March 2021 (2020 - £21.127m loss).

**23. Ultimate controlling party**

During the previous financial 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 8.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statement for the year ended 31 March 2021 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.

**24. Disposal of the non-household business**

As previously disclosed, the non-household retail business was sold to Castle Water Limited on 1 April 2017, the date that the non-household market opened to competition. Proceeds of £2.9m, including deferred meter reading income, was received in the previous financial year. After taking into account transaction costs a profit of £1.8m was realised. Meter reading revenue has been deferred and amortised over a period of 5 years. This is non-appointed revenue in these accounts.

**25. Capital commitments**

Capital commitments of £9.0m reflect the fact that we are at the beginning of the AMP with a significant capital programme ahead of us. The most significant of the capital commitments relates to the contact time chlorination project at £4.6m.

## 2A Segmental Income Statement

**Table 2A - Segmental income statement for the 12 months ended 31 March 2021**

£m	Retail Household	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Revenue - price control	4.748	5.681	27.914	-	38.343	2A.1
Revenue - non price control	-	-	0.573	0.220	0.793	2A.2
Operating expenditure - excluding PU recharge impact	(4.357)				(4.357)	2A.3
PU opex recharge	(0.047)				(0.047)	2A.4
Operating expenditure - including PU recharge impact	(4.404)	(4.791)	(18.585)	-	(27.780)	2A.5
Depreciation - tangible fixed assets	(0.099)	(0.292)	(5.420)	-	(5.811)	2A.6
Amortisation - intangible fixed assets	(0.036)	(0.010)	(0.383)	-	(0.429)	2A.7
PU recharge impact	-	(0.044)	0.091	-	0.047	2A.8
Depreciation & amortisation - including PU recharge impact	(0.135)	(0.346)	(5.712)	-	(6.193)	2A.9
Other operating income	(0.091)	-	(0.013)	-	(0.104)	2A.10
Operating profit	0.118	0.544	4.177	0.220	5.059	2A.11

Recharges from Water Network+ to Retail and Water Resources, include a charge for the use of the Head Office Building. The market value of the rental is £332k per annum, of which 47.1% relates to Retail and 6.3% to Water Resources.

Amount of £0.091m in Retail Household 'Other operating income', relates to Covid-19 bad debt provisions.

## 2B Totex Analysis - Wholesale Water

**Table 2B - Totex analysis for the 12 months ended 31 March 2021 - wholesale**

£m	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
<b>Base operating expenditure</b>					
Power	1.015	1.578	-	2.593	2B.1
Income treated as negative expenditure	-	-	-	-	2B.2
Abstraction charges/ discharge consents	1.322	-	-	1.322	2B.3
Bulk Supply/Bulk discharge	-	-	-	-	2B.4
Renewals expensed in year (Infrastructure)	-	1.234	-	1.234	2B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	2B.6
Other operating expenditure	1.973	12.065	-	14.038	2B.7
Local authority and Cumulo rates	0.481	1.754	-	2.235	2B.8
<b>Total base operating expenditure</b>	<b>4.791</b>	<b>16.631</b>	<b>-</b>	<b>21.422</b>	<b>2B.9</b>
<b>Other operating expenditure</b>					
Enhancement operating expenditure	-	-	-	-	2B.10
Developer services operating expenditure	-	0.995	-	0.995	2B.11
<b>Total operating expenditure excluding third party services</b>	<b>4.791</b>	<b>17.626</b>	<b>-</b>	<b>22.417</b>	<b>2B.12</b>
Third party services	-	0.959	-	0.959	2B.13
<b>Total operating expenditure</b>	<b>4.791</b>	<b>18.585</b>	<b>-</b>	<b>23.376</b>	<b>2B.14</b>
<b>Grants and contributions</b>					
Grants and contributions - operating expenditure	-	1.147	-	1.147	2B.15
<b>Capital expenditure</b>					
Base capital expenditure	0.136	4.983	-	5.119	2B.16
Enhancement capital expenditure	0.975	2.394	6.802	10.171	2B.17
Developer services capital expenditure	-	2.357	-	2.357	2B.18
<b>Total gross capital expenditure (excluding third party)</b>	<b>1.111</b>	<b>9.734</b>	<b>6.802</b>	<b>17.647</b>	<b>2B.19</b>
Third party services	-	-	-	-	2B.20
<b>Total gross capital expenditure</b>	<b>1.111</b>	<b>9.734</b>	<b>6.802</b>	<b>17.647</b>	<b>2B.21</b>
<b>Grants and contributions</b>					
Grants and contributions - capital expenditure	-	0.753	-	0.753	2B.22
<b>Net totex</b>	<b>5.902</b>	<b>26.419</b>	<b>6.802</b>	<b>39.123</b>	<b>2B.23</b>
<b>Cash expenditure</b>					
Pension deficit recovery payments	-	-	-	-	2B.24
Other cash items	-	-	-	-	2B.25
<b>Totex including cash items</b>	<b>5.902</b>	<b>26.419</b>	<b>6.802</b>	<b>39.123</b>	<b>2B.26</b>

## 2C Cost Analysis - Retail

**Table 2C - Cost analysis for the 12 months ended 31 March 2021 - retail**

£m	Household - total	Total	RAG 4 reference
<b>Operating expenditure</b>			
Customer services	1.986	1.986	2C.1
Debt management	0.318	0.318	2C.2
Doubtful debts	0.137	0.137	2C.3
Meter reading	0.125	0.125	2C.4
Other operating expenditure	1.604	1.604	2C.6
Local authority and Cumulo rates	0.187	0.187	2C.7
<b>Total operating expenditure excluding third party services</b>	<b>4.357</b>	<b>4.357</b>	<b>2C.8</b>
<b>Depreciation</b>			
Depreciation on tangible fixed assets existing at 31 March 2015	0.071	0.071	2C.9
Depreciation on tangible fixed assets acquired after 1 April 2015	0.028	0.028	2C.10
Amortisation on intangible fixed assets existing at 31 March 2015	-	-	2C.11
Amortisation on intangible fixed assets acquired after 1 April 2015	0.036	0.036	2C.12
<b>Recharges</b>			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	-	-	2C.13
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	-	-	2C.14
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	0.047	0.047	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	-	-	2C.16
<b>Net recharges costs</b>	<b>0.047</b>	<b>0.047</b>	<b>2C.17</b>
<b>Total retail costs excluding third party and pension deficit repair costs</b>	<b>4.539</b>	<b>4.539</b>	<b>2C.18</b>
Third party services operating expenditure	-	-	2C.19
Pension deficit repair costs	-	-	2C.20
<b>Total retail costs including third party and pension deficit repair costs</b>	<b>4.539</b>	<b>4.539</b>	<b>2C.21</b>
<b>Debt written off</b>			
Debt written off	0.609	0.609	2C.22
<b>Capital expenditure</b>			
Capital expenditure	0.087	0.087	2C.23



## 2D Historic Cost Analysis of Tangible Fixed Assets - Wholesale & Retail

**Table 2D - Historic cost analysis of tangible fixed assets**

£m	Water Resources	Water Network+	Havant Thicket	Retail Household	Total	RAG 4 reference
<b>Cost</b>						
At 1 April 2020	24.302	195.948	-	1.346	221.596	2D.1
Disposals	-	(0.084)	-	-	(0.084)	2D.2
Additions	1.190	9.021	6.802	0.016	17.029	2D.3
Adjustments	-	-	-	-	-	2D.4
<b>At 31 March 2021</b>	<b>25.492</b>	<b>204.885</b>	<b>6.802</b>	<b>1.362</b>	<b>238.541</b>	<b>2D.6</b>
<b>Depreciation</b>						
At 1 April 2020	(4.167)	(66.230)	-	(1.014)	(71.411)	2D.7
Disposals	-	0.063	-	-	0.063	2D.8
Adjustments	-	-	-	-	-	2D.9
Charge for year	(0.292)	(5.420)	-	(0.099)	(5.811)	2D.10
<b>At 31 March 2021</b>	<b>(4.459)</b>	<b>(71.587)</b>	<b>-</b>	<b>(1.113)</b>	<b>(77.159)</b>	<b>2D.11</b>
<b>Net book amount at 31 March 2021</b>	<b>21.033</b>	<b>133.298</b>	<b>6.802</b>	<b>0.249</b>	<b>161.382</b>	<b>2D.12</b>
<b>Net book amount at 1 April 2020</b>	<b>20.135</b>	<b>129.718</b>	<b>0.000</b>	<b>0.332</b>	<b>150.185</b>	<b>2D.13</b>
<b>Depreciation charge for year</b>						
Principal services	(0.292)	(5.420)	-	(0.099)	(5.811)	2D.14
Third party services	-	-	-	-	-	2D.15
<b>Total</b>	<b>(0.292)</b>	<b>(5.420)</b>	<b>-</b>	<b>(0.099)</b>	<b>(5.811)</b>	<b>2D.16</b>

The net book value includes £23.8m in respect of assets in the course of construction.

## 2E Analysis of 'Grants and Contributions' - Water Resources and Water Network+

**Table 2E - Analysis of 'grants and contributions' for the 12 months ended 31 March 2021 - water resources, water network+ and wastewater network+**

£m	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total	RAG 4 reference
<b>Grants and contributions - water resources</b>					
Diversions - s185	-	-	-	-	2E.1
Other contributions (price control)	-	-	-	-	2E.2
Price control grants and contributions	-	-	-	-	2E.3
Diversions - NRSWA	-	-	-	-	2E.4
Diversions - other non-price control	-	-	-	-	2E.5
Other contributions (non-price control)	-	-	-	-	2E.6
<b>Total</b>	-	-	-	-	2E.7
<b>Value of adopted assets</b>	-	-	-	-	2E.8
<b>Grants and contributions - water network+</b>					
Connection charges	0.908	-	-	0.908	2E.9
Infrastructure charge receipts	-	0.530	-	0.530	2E.10
Requisitioned mains	-	0.223	-	0.223	2E.11
Diversions - s185	0.239	-	-	0.239	2E.12
Other contributions (price control)	-	-	-	-	2E.13
Price control grants and contributions before deduction of income offset	1.147	0.753	-	1.900	2E.14
Income offset	-	-	-	-	2E.15
Price control grants and contributions after deduction of income offset	1.147	0.753	-	1.900	2E.16
Diversions - NRSWA	0.812	-	-	0.812	2E.17
Diversions - other non-price control	-	-	-	-	2E.18
Other contributions (non-price control)	-	-	-	-	2E.19
<b>Total</b>	<b>1.959</b>	<b>0.753</b>	-	<b>2.712</b>	2E.20
<b>Value of adopted assets</b>	-	-	-	-	2E.21
	Water resources	Water network+	Wastewater network+	Total	
<b>Movements in capitalised grants and contributions</b>					
b/f	-	28.043	-	28.043	2E.34
Capitalised in year	-	0.753	-	0.753	2E.35
Amortisation (in income statement)	-	(0.723)	-	(0.723)	2E.36
c/f	-	28.073	-	28.073	2E.37

Deferred income on Balance Sheet includes Havant Thicket income of £6.502m.

## 2F Residential Retail

**Table 2F - Residential retail**

	Revenue	Number of customers	Average residential revenues	RAG 4 reference
	£m	000s	£	
<b>Residential revenue</b>				
Wholesale charges	26.366			2F.1
Retail revenue	4.748			2F.2
<b>Total residential revenue</b>	<b>31.114</b>			2F.3
<b>Retail revenue</b>				
Revenue Recovered ("RR" )	4.700			2F.4
Revenue sacrifice	-			2F.5
<b>Actual revenue (net)</b>	<b>4.700</b>			2F.6
<b>Customer information</b>				
Actual customers ("AC" )		299.006		2F.7
Reforecast customers		297.141		2F.8
<b>Adjustment</b>				
Allowed revenue ("R" )	4.671			2F.9
<b>Net adjustment</b>	<b>(0.029)</b>			2F.10
<b>Other residential information</b>				
<b>Average residential retail revenue per customer</b>			<b>16</b>	2F.11

This table relates to Retail Revenue and compares the assumptions in the Final Determination, published by Ofwat in December 2019, with those underpinning our 2020/21 tariffs and the outturn for 2020/21.

The table below is based on Table 6 of the Notification of the Final Determination of Prices Controls for Portsmouth Water and provides detail of our assumptions when setting 2020/21 charges, the ex-ante assumptions when we set our 2020/21 tariffs, and the actual or ex post outturn:

2020/21	Final Determination	Ex Ante	Ex Post
Total Revenue (£m)	4.720	4.671	4.700
Modification factor	15.72	15.72	15.72
Customers	300,217	297,141	299,006

Line 2F.9 shows the residential retail revenue of £4.671m we assumed we would raise in 2020/21, based on our forecast number of properties of 297,141, when we set our tariffs in January 2020. Line 2F.4 shows the retail revenue we could assume to recover if we had precisely known how many households we would serve. The number of properties we actually served in 2020/21 was 299,066 and this revenue would be £4.700m. Line 2F.2 shows that we actually raised £4.748m, which is £0.048m greater than Line 2F.4 implies. This additional revenue of £0.048m reflects the fact that household customers actually used more water than we assumed when setting our charges, primarily as a result of Covid restrictions. This resulted in greater measured volume income and given our volume charge includes an element which relates to retail, retail revenue is higher by £0.048m.

The variance may also reflect our methodology to determine the average number of households in the year. We take a simple average of the start and end of the year, implying any growth is evenly split over the year. If this assumption were flexed, with more new connections earlier in the year for example, greater revenue would be achieved.

This data has been audited by Jacobs.

## 21 Revenue Analysis

**Table 21 - Revenue analysis for the 12 months ended 31 March 2021**

£m	Household	Non-household	Total	Water resources	Water network+	Total	RAG 4 reference
<b>Wholesale charge - water</b>							
Unmeasured	17.141	0.219	17.360	2.953	14.407	17.360	21.1
Measured	9.225	6.955	16.180	2.728	13.452	16.180	21.2
Third party revenue	-	0.055	0.055	-	0.055	0.055	21.3
<b>Total wholesale water revenue</b>	<b>26.366</b>	<b>7.229</b>	<b>33.595</b>	<b>5.681</b>	<b>27.914</b>	<b>33.595</b>	<b>21.4</b>
<b>Wholesale Total</b>	<b>26.366</b>	<b>7.229</b>	<b>33.595</b>	<b>5.681</b>	<b>27.914</b>	<b>33.595</b>	<b>21.13</b>
<b>Retail revenue</b>							
Unmeasured	2.973	-	2.973				21.14
Measured	1.775	-	1.775				21.15
Other third party revenue	-	-	-				21.16
<b>Retail Total</b>	<b>4.748</b>	<b>-</b>	<b>4.748</b>				<b>21.17</b>
<b>Third party revenue - non-price control</b>							
*Bulk supplies - water			0.715				21.18
Other third party revenue			0.078				21.20
<b>Principal services - non-price control</b>							
Other appointed revenue			-				21.21
<b>Total appointed revenue</b>			<b>39.136</b>				<b>21.22</b>

\*Bulk supplies – water includes £0.220m revenue from Southern Water, for Havant Thicket. This is the amount included in the Final Determination, indexed to 2020/21 prices.

## 2J Infrastructure Network Reinforcement Costs

**Table 2J - Infrastructure network reinforcement costs for the 12 months ended 31 March 2021**

£m	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
<b>Wholesale water network+ (treated water distribution)</b>			
Distribution and trunk mains	(0.719)	-	2J.1
Pumping and storage facilities	-	-	2J.2
Other	-	-	2J.3
<b>Total</b>	<b>(0.719)</b>	<b>-</b>	<b>2J.4</b>

## 2K Infrastructure Charges Reconciliation

**Table 2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2021**

£m	Water	Total	RAG 4 reference
<b>Impact of infrastructure charge discounts</b>			
Infrastructure charges	0.530	0.530	2K.1
Discounts applied to infrastructure charges	-	-	2K.2
<b>Gross Infrastructure charges</b>	<b>0.530</b>	<b>0.530</b>	2K.3
<b>Comparison of revenue and costs</b>			
Variance brought forward	1.662	1.662	2K.4
Revenue	0.530	0.530	2K.5
Costs	(0.719)	(0.719)	2K.6
<b>Variance carried forward</b>	<b>1.473</b>	<b>1.473</b>	2K.7

The cost of £719k for water mains network reinforcement works in 2020/21 was associated with four schemes, including at Haslar, Gosport and at Pook Lane, Chichester.

The variance between revenue and cost is due to the infrastructure charges being related to network reinforcement on a 5 year rolling programme. The cost of network reinforcement is not linear from year to year and is associated with the timing of specific developments. We have significant cost forecast in the next 3 years for network reinforcement works in the Barnham, Yapton and Farlington areas.

## 2M Revenue Reconciliation - Wholesale

**Table 2M - Revenue reconciliation for the 12 months ended 31 March 2021 - wholesale**

£m	Water resources	Water network+	Total	RAG 4 reference
<b>Revenue recognised</b>				
Wholesale revenue governed by price control	5.681	27.914	33.595	2M.1
Grants & contributions (price control)	-	1.900	1.900	2M.2
<b>Total revenue governed by wholesale price control</b>	<b>5.681</b>	<b>29.814</b>	<b>35.495</b>	<b>2M.3</b>
<b>Calculation of the revenue cap</b>				
Allowed wholesale revenue before adjustments (or modified by CMA)	5.855	28.536	34.391	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	-	1.237	1.237	2M.5
Revenue adjustment	-	-	-	2M.6
Other adjustments	-	-	-	2M.7
<b>Revenue cap</b>	<b>5.855</b>	<b>29.773</b>	<b>35.628</b>	<b>2M.8</b>
<b>Calculation of the revenue imbalance</b>				
Revenue cap	5.855	29.773	35.628	2M.9
Revenue Recovered	5.681	29.814	35.495	2M.10
<b>Revenue imbalance</b>	<b>(0.174)</b>	<b>0.041</b>	<b>(0.133)</b>	<b>2M.11</b>

## 2N Residential Retail - Social Tariffs

**Table 2N - Residential retail - social tariffs**

	Revenue	Number of customers	Average amount per customer	RAG 4 reference
	£m	000s	£	
<b>Number of residential customers on social tariffs</b>				
Residential water only social tariffs		8.864		2N.1
Residential wastewater only social tariffs		-		2N.2
Residential dual service social tariffs		-		2N.3
<b>Number of residential customers not on social tariffs</b>				
Residential water only no social tariffs		290.142		2N.4
Residential wastewater only no social tariffs		-		2N.5
Residential dual service no social tariffs		-		2N.6
<b>Social tariff discount</b>				
Average discount per water only social tariffs customer		23.579	-	2N.7
Average discount per wastewater only social tariffs customer			-	2N.8
Average discount per dual service social tariffs customer			-	2N.9
<b>Social tariff cross-subsidy - residential customers</b>				
Total customer funded cross-subsidies for water only social tariffs customers	0.209			2N.10
Total customer funded cross-subsidies for wastewater only social tariffs customers	-			2N.11
Total customer funded cross-subsidies for dual service social tariffs customers	-			2N.12
Average customer funded cross-subsidy per water only social tariffs customer	-		-	2N.13
Average customer funded cross-subsidy per wastewater only social tariffs customer	-		-	2N.14
Average customer funded cross-subsidy per dual service social tariffs customer	-		-	2N.15
<b>Social tariff cross-subsidy - company</b>				
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers			-	2N.16
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers			-	2N.17
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers			-	2N.18
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			0.70	2N.19
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			-	2N.20
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			-	2N.21
<b>Social tariff support - willingness to pay</b>				
Level of support for social tariff customers reflected in business plan			0.75	2N.22
Maximum contribution to social tariffs supported by customer engagement			1.10	2N.23

This table relates to customers on the Social Tariff and quantifies the impact on all other customers of providing a discount to this group of customers.

The average number of customers on this tariff in 2020/21 was 8,864. In total they received a discount of £0.209m in the 12 months up to end November 2020, which we recover from all customers in the following years charges, i.e. 2021/22. Given the average household customer base of 299,006 the average discount of £23.58 is recovered from 290,142 households at an extra charge of 70 pence per household.

When we launched our Social Tariff in 2016 we had customer support of up to 75 pence, thus the Company has not needed to contribute to the scheme to date.

We undertook further research in 2020 which has increased this valuation to £1.10 per household. We fully expect this willingness to pay will support our AMP7 Ofwat target of 10,000 by 31 March 2025. Indeed assuming a £25 discount recovered from 300,000 households, we will be able to support over 13,000 customers with our social tariff.

This data has been audited by Jacobs.



## 20 Historic Cost Analysis of Intangible Fixed Assets

**Table 20 - Historic cost analysis of intangible fixed assets**

£m	Water Resources	Water Network+	Retail Residential	Total	RAG 4 reference
<b>Cost</b>					
At 1 April 2020	0.220	2.208	0.912	3.340	20.1
Disposals	-	-	-	-	20.2
Additions	0.023	0.611	0.071	0.705	20.3
Adjustments	-	-	-	-	20.4
Assets adopted at nil cost	-	-	-	-	20.5
At 31 March 2021	0.243	2.819	0.983	4.045	20.6
<b>Amortisation</b>					
At 1 April 2020	(0.159)	(1.589)	(0.656)	(2.404)	20.7
Disposals	-	-	-	-	20.8
Adjustments	-	-	-	-	20.9
Charge for year	(0.010)	(0.383)	(0.036)	(0.429)	20.10
At 31 March 2021	(0.169)	(1.972)	(0.692)	(2.833)	20.11
Net book amount at 31 March 2021	0.074	0.847	0.291	1.212	20.12
Net book amount at 1 April 2020	0.061	0.619	0.256	0.936	20.13
<b>Amortisation for year</b>					
Principal services	(0.010)	(0.383)	(0.036)	(0.429)	20.14
Third party services	-	-	-	-	20.15
Total	(0.010)	(0.383)	(0.036)	(0.429)	20.16

# Notes on the Price Review and Other Segmental Reporting

## Retail Price Control Analysis

### Household Retail

Operating expenditure within the Household Retail price control was higher than the Final Determination allowance by £394k, with operating costs £4,539k (including depreciation and recharges), against a final determination of £4,147k.

This variance included the following items:

- Depreciation and recharges were higher than the FD by £290k. This was primarily due to the recharge for use of the Head Office building in Havant of £156k, and additional depreciation of £121k.
- Customer Services costs were higher by £227k, mainly due to the higher print fulfilment costs partly driven by higher levels of activity during Covid-19 and higher staff costs of £55k.
- Regulation costs were £147k higher mainly due to additional resources for the management of PCC. Other shared services costs were higher by £150k including a share of the vacation accrual, which amounted to £67k, and was driven by the impact of Covid-19.
- These additional costs were offset by a lower Bad Debt provision movement of £438k.

### Wholesale Control Reconciliation

	Actual £'000	FD £'000	Difference £'000
Revenue			
<b>Wholesale Charge:</b>			
Household - Unmeasured	17,141	17,063	78
Household - Measured	9,225	8,454	771
Non-Household - Unmeasured	219	263	(44)
Non-Household - Measured	6,955	8,611	(1,656)
Total revenue from charges	33,540	34,391	(851)
Grants and Contributions	1,900	1,237	663
Third Party price control	55	-	55
Total revenue	35,495	35,628	(133)

We have compared actual revenue with that implicit in tariff setting for 2020/21, and this complied with the Final Determination.

The Wholesale revenue variance is -£0.133m reflecting reduced revenue from standard charges of £0.851m and more capital contributions from developers for mains of £0.663m.

The household measured wholesale revenue reflects significantly higher per property consumption than assumed. This was as a result of the Covid restrictions in place for the whole of the year, which meant that people were working from home more, and a hotter than average summer. This was partially offset by fewer meter optants in the year.

The household unmeasured wholesale revenue is slightly higher than the FD, due to fewer meter optants in the year.

Non-household wholesale revenue is significantly lower than the FD, also due to the Covid restrictions, which saw the closure of shops and restaurants for large parts of the year, as well as fewer staff in offices.

The amount of capital contributions was driven by high levels of activity in new developments. Given the size of our area of supply the profile of this can be "lumpy" and the timing is difficult to predict.

The variance of wholesale charges relative to the Final Determination is 0.4%.

The total variance of wholesale revenue relative to the Final Determination is 2.5%.

## 3A Outcome Performance - Water Common Performance Commitments

Table 3A - Outcome performance - Water common performance commitments

	Unique reference	Unit	decimal places	Performance level - actual		PCL met?	Outperformance or underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment	RAG 4 reference
				Previous reporting year	Current reporting year		£m	£m	
<b>Financial</b>									
Water quality compliance (CRI)	PR19PRT_PRT-Network Plus-01	nr	2	0.03	0.58	Yes	-	(0.226)	3A.1
Water supply interruptions	PR19PRT_PRT-Network Plus-02	hh:mm:ss		00:03:22	00:02:49	Yes	0.254	0.963	3A.2
Leakage	PR19PRT_PRT-Network Plus-07	%	1	n/a	10.6	Yes	0.281	1.414	3A.3
Per capita consumption	PR19PRT_PRT-Water Resources 03	%	1	n/a	(5.3)	No	(0.323)	(1.946)	3A.4
Mains repairs	PR19PRT_PRT-Network Plus-03	nr	1	50.0	76.0	No	(0.053)	(0.120)	3A.5
Unplanned outage	PR19PRT_PRT-Network Plus-04	%	2	1.02	1.25	Yes	-	-	3A.6
<b>Bespoke PCs - Water and Retail (Financial)</b>									
Water quality contacts	PR19PRT_PRT-Network Plus-06	nr	2	0.40	0.43	Yes	-	-	3A.7
Low pressure	PR19PRT_PRT-Network Plus-05	nr	0	70	60	Yes	-	-	3A.8
Catchment Management	PR19PRT_PRT-Network Plus-08	nr	0	n/a	10	Yes	-	-	3A.9
Abstraction Incentive Mechanism	PR19PRT_PRT-Water Resources-02	nr	1	0	0	Yes	-	-	3A.10
Biodiversity (reward)	PR19PRT_PRT-Water Resources-01	£m	3	n/a	0.050	Yes	-	-	3A.11
Biodiversity (penalty)	PR19PRT_PRT-Water Resources-06	%	1	n/a	30.0	No	(0.019)	(0.038)	3A.12
Voids	PR19PRT_PRT-Retail-02	%	2	2.56	2.36	No	(0.050)	(0.047)	3A.13
Affordability	PR19PRT_PRT-Retail-03	nr	0	8401	9327	Yes	-	-	3A.14
Water Industry National Environment Programme	PR19PRT_NEP02	nr	0	n/a	2	Yes	-	-	3A.15
Havant Thicket	PR19PRT_15	months		n/a	-	-	-	-	3A.16
Financial water performance commitments achieved		%				73			3A.27
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%				77			3A.28

# Outcome Performance Table

Table 3A provides stakeholders with information on the performance against each of our financial ODIs in 2020/21, excluding C-Mex and D-Mex.

We have met target 11 of the 15 financial ODIs. A 16th ODI is Havant Thicket, which does not apply in AMP7. We have used the associated Ofwat model to determine the relevant out / underperformance amounts due. All entries relating to £ are in 2017/18 prices. We have also provided an expectation for the whole of AMP7 based on our forecast for each ODI.

All of this data, excluding the AMP7 forecasts, has been audited by Jacobs.

Looking at each ODI in turn:

## Compliance Risk Index

We had 5 water quality failures in calendar year 2020. The first 4 were at the same time and following our investigations we have concluded that the issue was likely to be associated with our lab rather than the water itself. The DWI have confirmed that the failures will not be assessed under CRI. The 5th failure at the end of September and was excess aluminium detected in the network. The score for this failure is 0.58 so we have ensured we do not need to pay a penalty which applies if the score is greater than 2.0.

## Water supply interruptions

Interruptions are significantly better than expectation partly because we ceased a number of planned activities due to Covid in April – June but more importantly from good management of unplanned events in winter 2020-21. Our position at the end of year is 2 mins 49 seconds per property relative to the Ofwat annual target of 6 mins 30 secs. We have therefore significantly outperformed the target for 2020/21.

## Leakage

Leakage is significantly better than expectation, as we have maintained the level of resource on find and fix that successfully reduced leakage over the prior three years. Our spot year performance is 23.6MI/d. Our three year rolling average is 25.4 MI/d relative to the Ofwat target of 27.5 MI/d. We have therefore significantly outperformed the target for 2020/21.

## Per capita consumption

PCC is significantly worse than expectation, and is heavily influenced not only by many people being at home due to Covid but also the weather. Our spot year performance is 170.5 l/p/d. Our three year rolling average is 157.2 l/p/d relative to the Ofwat target 147.4 l/p/d. We have therefore significantly underperformed the target for 2020/21. Ofwat have recognised that there is an issue with this ODI, given the impact of Covid-19 and propose it will become an end of AMP ODI, as opposed to an annual ODI.

## Mains repairs

Mains repairs are higher (worse) than expectation as a result of the cold winter period in early 2021. In January 2021 mains repairs were 55% higher than the long term average, on which our target was derived. Our position at the end of year is 76.0 repairs per 1,000 km of mains against the Ofwat annual target of 73.8. We have therefore marginally missed this target, a risk we knew existed given this is heavily influenced by the weather.

## Unplanned outage

Unplanned outage is significantly better than expected in the year, as we have not experienced many outage incidents due to asset failure. Our position is at 1.25% of peak week production capacity compared to the Ofwat target of 2.34%. Therefore we do not need to pay an underperformance payment for 2020/21.

## Water quality contacts

Despite an increase in the number of water quality contacts during the hot weather earlier in 2020, we have met our target for Water Quality Contacts. Our performance is at 0.432 contacts per 1,000 customers served, which is 2% better than our target. Therefore we do not need to make an underperformance payment for 2020/21.

## Low Pressure

We have achieved our annual target this year reducing the number of customers at risk of low pressure from 70 to 60. We have significantly improved our monitoring of the network and therefore understanding of which customers experience long term issues associated with low pressure. Thus we have no penalty to pay.

## Catchment Management

We have actively engaged with a number of farmers over the year. Discussion focuses on the optimum time for soil sampling and analysis to be performed before crops are planted. We managed to meet the target of 10 farms for the whole of 2020/21 and thus no payment is required.

## Abstraction Incentive Mechanism

We monitor the level of the River Hamble at the EA gauging station called Frogmill. The flow at that point did not drop below the trigger level (of 104 l/sec) in the year and therefore no action has been required at Northbrook pumping station. For operational reasons abstraction at Northbrook has been significantly below the AIM target level.

**Biodiversity (reward)**

Our Grant Scheme (for biodiversity projects under taken by Third Parties) was launched in September 2020. We received 9 applications. All of these have been reviewed with 8 successful and therefore receiving grants, totalling £50,000. Awards have been made in Q4 and we have already launched our 2021/22 fund.

**Biodiversity (penalty)**

We have agreed with Natural England a programme of work on our sites to maintain the "good" status we achieved in AMP6. Much of the programme relies on operational staff to maintain sites in accordance with our grass cutting regime. Unfortunately due to Covid restrictions and reduced operation staff availability, we have failed this target. Measures have been put in place to improve performance in 2021/22.

**Voids**

We have not been able to reduce the number of household voids in the period as planned. This is partly because we ceased house to house visits in response to the Covid-19 restrictions. The average percentage for household voids was 2.36% against a target of 2.00%. We will need to pay a penalty for underperformance in the year.

**Affordability**

We now have over 9,300 customers on our social tariff relative to the Ofwat target of 8,000 for the year end 2020/21. We have seen an increase in 2020/21 due in part to Covid-19 and we expect a further increase as government support for the economy ceases. Therefore we do not need to make an underperformance payment for 2020/21.

**Water Industry National Environment Programme**

The programme is ambitious and requires us working with farmers on catchment management and with Southern Water on the River Itchen project. We have delivered our Eels screens in accordance with this requirement and have made good progress on all other elements of the WINEP programme.

**Havant Thicket**

We have made very good progress on Havant Thicket in the year. Significant milestones delivered in the year are as follows:

- Signature of the Bulk Supply Agreement (BSA) between Portsmouth Water (PW) and Southern Water (SWS) on 29 January 2021;
- Submission of the planning application to the Local Planning Authorities on 29 October 2020; and
- Launch of the procurement of the main works contracts and the associated positive response from the market.

This ODI does not apply until AMP8, where there are target dates for both dry and wet commissioning.

## 3C Customer Measure of Experience (C-MeX)

**Table 3C - Customer measure of experience (C-MeX) table**

Item	Unit	Value	RAG 4 reference
Annual customer satisfaction score for the customer service survey	Number	85.42	3C.1
Annual customer satisfaction score for the customer experience survey	Number	87.01	3C.2
Annual C-MeX score	Number	86.22	3C.3
Annual net promoter score	Number	51.50	3C.4
Total household complaints	Number	1,661	3C.5
Total connected household properties	Number	306,851	3C.6
Total household complaints per 10,000 connections	Number	54	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Table 3C shows our C-Mex performance for 2020/21. We are very proud to have been ranked first for C-Mex for 2020/21.

We were ranked second in the service survey and third in the experience survey, which when combined resulted in first place in the industry.

Independently in the year the Institute of Customer Service scored us at 83.2. We note the upper quartile performance for the 259 named organisations in the UKCSI is 81.1.

We await Ofwat analysis to confirm if the additional performance payment is applicable. We estimate that the full 12% uplift is appropriate.

All of this data has been audited by Jacobs.

Our quarterly survey scores are as follows:-

2020/21	Q1	Q2	Q3	Q4	Annual
Satisfaction	84.26	84.88	87.82	84.84	85.42
Experience	88.14	87.21	85.33	87.38	87.01
C-Mex	86.20	86.05	86.57	86.11	86.22

### Total household complaints for 2020/21 are as follows:-

Written	330
Telephony	1,303
Social media	3
Web chat	25
Twitter	0
SMS	0
Visits	0
<b>Total</b>	<b>1,661</b>

### The following communication channels are offered to customers:-

- Phone
- Email
- Post
- Web form
- Twitter (managed by wholesale service desk)
- Live chat
- Visits to our offices

## 3D Developer Services Measure of Experience (D-MeX)

Table 3D - Developer services measure of experience (D-MeX) table

Item	Unit	Value	RAG 4 reference
Qualitative component annual results	Number	82.78	3D.1
Quantitative component annual results	Number	95.62	3D.2
D-MeX score	Number	89.20	3D.3
Developer services revenue (water)	£m	1.900	3D.4
Developer services revenue (wastewater)	£m	-	3D.5

Calculating the D-MeX quantitative component					RAG 4 reference
Water UK performance metric	Unit	First reporting period (1 April to 30 September)	Second reporting period (1 October to 31 March)	Quantitative score (annual)	
W1.1 - Predevelopment enquiry	%	100.00%	88.89%		3D.W1
W3.1 - S45 quotations	%	99.48%	97.50%		3D.W2
W4.1 - S45 service pipe connections	%	99.06%	99.07%		3D.W3
W6.1 - mains designs less than 500 plots	%	100.00%	100.00%		3D.W4
W7.1 - mains designs more than 500 plots	%		100.00%		3D.W5
W8.1 - mains construction	%	93.75%	85.70%		3D.W6
W17.1 - mains diversions (without constraints)	%	75.00%	88.89%		3D.W7
W17.2 - mains diversions (with constraints)	%		100.00%		3D.W8
W18.1 - mains diversion construction / commissioning	%	-	-		3D.W9
W20.1 - self lay POC less than 500 plots	%	100.00%	100.00%		3D.W10
W21.1 - self lay POC more than 500 plots	%	-	-		3D.W11
W23.1 - self lay design and terms reports less than 500 plots	%	100.00%	100.00%		3D.W12
W24.1 - self lay design and terms reports more than 500 plots	%	-	-		3D.W13
W26.1 - self lay pressure / bacteriological testing	%	100.00%	75.00%		3D.W14
W27.1 - self lay permanent water supply	%	100.00%	100.00%		3D.W15
W30.1 - self lay plot and costing details	%	100.00%	100.00%		3D.W16
WN1.1 - NAV % of confirmation issued	%		100.00%		3D.W17
WN2.2 - NAV % of bulk supply letters issued	%		100.00%		3D.W18
WN4.1 - NAV % of main laying schemes constructed and commissioned	%		66.67%		3D.W19
WN4.2 - NAV % of testing supplies provided	%		100.00%		3D.W20
D-MeX quantitative score (for the relevant reporting period)	%	97.03%	94.22%		3D.6, 3D.7
D-MeX quantitative score (annual)	Number			0.96	3D.8

Table 3D shows our D-Mex performance for 2020/21. We are pleased to have been ranked third for D-Mex for 2020/21.

We were ranked first in the developer survey and eleventh for levels of service having struggled in Q3 in particular. Struggled in Q3 with staffing levels, which has been resolved now.

All of this data has been audited by Jacobs.

Our quarterly scores are as follows:

2020/21	Q1	Q2	Q3	Q4	Annual
Survey	82.50	84.29	79.73	84.69	82.78
Levels of service	97.25	97.64	93.31	94.28	95.62
D-Mex	89.87	90.97	86.52	89.48	89.20

The revenue to which any reward will apply is given in Table 2E line 14, in total £1.900m.

## 3E Outcome Performance - Non Financial Performance Commitments

Table 3E - Outcome performance - Non financial performance commitments

	Unique reference	Unit	decimal places	Performance level - actual		PCL met?	RAG 4 reference
				Previous reporting year	Current reporting year		
<b>Common</b>							
Risk of severe restrictions in a drought	PR19PRT_PRT-Water Resources-04	%	1	n/a	84.0	Yes	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	PR19PRT_PRT-Retail-05	%	1	0.2	10.6	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	PR19PRT_PRT-Retail-05	%	1	n/a	80.2	-	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19PRT_PRT-Retail-05	%	1	n/a	19.3	-	3E.4
<b>Bespoke PCs</b>							
Resilience schemes to ensure peak demands can be met	PR19PRT_PRT-Network Plus-12	%	0	n/a	n/a	-	3E.6
Avoidance of water supply restrictions	PR19PRT_PRT-Water Resources-05	nr	0	0	0	Yes	3E.7
Carbon	PR19PRT_PRT-Network Plus-09	%	1	n/a	-24.7	Yes	3E.8
Addressing Vulnerability	PR19PRT_PRT-Retail-04	%	0	n/a	84	No	3E.9
RoSPA	PR19PRT_PRT-Network Plus-10	category	0	Order of Distinction	Order of Distinction	Yes	3E.10
WINEP Delivery	PR19PRT_NEP01	text	0	n/a	2	Yes	3E.11
Non-financial performance commitments achieved		%				86	3E.29



Table 3E provides stakeholders with information on the performance against each of our reputational ODIs in 2020/21.

We have passed 7 of the 8 reputational ODIs.

All of this data has been audited by Jacobs.

Looking at each ODI in turn:

### **Risk of severe drought**

This ODI relates to the number of customers at risk of severe restrictions in a 1 in 200 year drought event. It is an Ofwat metric to quantify how companies are delivering against their WRMPs. Our metric is driven by the commitment to give greater bulk supplies to Southern Water in AMP7 and AMP8 in particular. Whilst a number of supply actions we planned to undertake in 2020/21 have not been delivered such as refurbishment of a number of boreholes, our significant outperformance on leakage means we are almost exactly where we thought we would be at the end of 2020/21. We have therefore met this ODI.

### **Priority Services Register**

We have increased the number of customers we have on our PSR significantly in the year by writing to more than 32,000 customers over the age of 70 who were on the government shield list for Covid-19. We have therefore already achieved our end of AMP7 target of 9%, given we serve circa 300,000 households.

### **Resilience schemes to ensure peak demand can be met**

We propose to undertake three specific projects in AMP7 to enhance resilience of supplies to customers. These are:

- Installation of Volatile Organic Compound monitors at all works to prevent oil pollution affecting the works
- Hoads Hill to Gosport main to mitigate against a single point of failure at the A27 underpass
- Leigh Park Booster to mitigate the loss of the Nelson to Lovedean main

Each scheme will be reported as 33.3% delivery on completion later in AMP7.

### **Avoidance of water restrictions**

Ground water levels are normal relative to the long term trend. Despite high demands and greater bulk supplies to Southern Water, we did not need to introduce restrictions to customer use this year. We therefore met this ODI.

### **Carbon**

We have seen a 25% reduction in this measure in the year, so we have significantly outperformed our 1% reduction target this year despite the increase of grid electricity by 3% required to supply almost 6% more water to customers. The most significant contributions arise from the following:

- Moving all of our unmetered supplies to renewable energy
- Switching our Porchester booster to renewable energy
- Increasing the use of PV both to supply ourselves and export to the grid

Other items include:

- Reduction in business travel due to Covid-19 restrictions
- Reduction in outsourcing activities due to Covid-19 restrictions
- Reduction in burning of fossil fuel

Although we have met our ODI target, our performance will continue to be monitored for any operational fluctuation of usage as well as any change in Distribution Input.

### **Addressing Vulnerability**

Our survey results showed that 84% of all organisations were satisfied or very satisfied with the support we provide to customers who find themselves in a position of vulnerability in one way or another. We have just missed our challenging target of 85%. We therefore failed this reputational ODI.

### **RoSPA**

We submitted our application to RoSPA in January for calendar year 2020. For the second year in succession we achieved a 'distinction' award from RoSPA in recognition of long term high standards of health, safety and wellbeing performance.

### **WINEP Delivery**

We have 18 schemes in our agreed WINEP programme for AMP7. The installation of eel screens at our River Itchen site has been completed and signed off by the Environment Agency. Progress on all schemes is positive, including those being undertaken jointly with Southern Water and South East Water. The programme is ambitious and requires us working with farmers on catchment management and with Southern Water on the River Itchen project.

## 3F Underlying Calculations for Common Performance Commitments - Water and Retail

Table 3F - Underlying calculations for common performance commitments - water and retail

	Unit	Standardising data indicator	Standardising data numerical value	Performance level - Actual (current reporting year)	Performance level - Calculated (i.e. standardised)	RAG 4 reference			
<b>Performance commitments set in standardised units - Water</b>									
Mains repairs - Reactive	Mains repairs per 1000 km	Mains length in km	3,369.6	212	62.9	3F.1			
Mains repairs - Proactive	Mains repairs per 1000 km	Mains length in km	3,369.6	44	13.1	3F.2			
Mains repairs	Mains repairs per 1000 km	Mains length in km	3,369.6	256	76.0	3F.3			
Per capita consumption (PCC)	lpd	Total hh pop (000s) and hh consumption (Ml/d)	731.2	124.7	170.5	3F.4			
	Unit	Performance level - actual (2017-18)	Performance level - actual (2018-19)	Performance level - actual (2019-20)	Baseline	Performance level - actual (2020-21)	Performance level 3 year average	Calculated performance level to compare against PCLs	
<b>Performance commitments measured against a calculated baseline</b>									
Leakage	Ml/d	32.38	28.33	24.36	28.40	23.55	25.40	10.56	3F.5
Per capita consumption (PCC)	lpd	146.8	151.3	149.9	149.3	170.5	157.2	(5.3)	3F.6
	Unit	Standardising data indicator	Standardising data numerical value	Performance level - actual number of minutes lost	Number of properties supply interrupted	Calculated performance level			
<b>Water supply interruptions</b>									
Water supply interruptions	Average number of minutes lost per property per year	Number of properties	322.89	908597	3,310	00:02:49	3F.7		
	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %						
<b>Unplanned or planned outage</b>									
Unplanned outage	256.4	3.2	1.25%	3F.8					
	Total residential properties (000s)	PSR household over 2 years (on 31 March)	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts over a 2 year period	Attempted contacts %	Number of actual contacts over a 2	Actual contacts %	
<b>Priority services for customers in vulnerable circumstances</b>									
Priority services for customers in vulnerable circumstances	299.816	31,690	10.6%	419	336	80.2%	81	19.3%	3F.9

Table 3F provides stakeholders with supporting information on a number of the ODIs reported in Tables 3A and 3E

All of this data has been audited by Jacobs.

Looking at each component in turn:

#### **Mains repairs**

We have split our mains repairs between reactive and planned. In total we had 256 mains repairs in the year, and given our network length is 3,370km as at 31 March 2021, we determine our ODI performance at 76.0 mains repairs per 1,000 km.

#### **Per capita consumption**

Water delivered to households is 125 MI/d, which given the household population of 731k people results in an average household pcc of 170 l/p/d.

#### **Leakage and per capita consumption**

Details of our three year baseline calculation are given for both ODIs, with the actual performance for 2020/21 allowing for a new three year rolling average to be determined.

#### **Water supply interruptions**

The total minutes lost is shown as 908597, which given our total property count as at 31 March 2021 of 322,885 results in an ODI performance of 2 mins 49 secs. In total 3,310 properties experienced an interruption to supply of more than 3 hours.

#### **Unplanned outage**

Our reduction in capacity as a result of unplanned outage is 3.1 MI/d which results in a 1.25% reduction in Peak Week Production Capacity.

#### **Priority Service Register**

As at 31 March 2021 we have 31,690 customers on our PSR, which is 10.6 percent of our year end household base. We contacted 336 customers on our base over the prior two years and were successful with 81 customers.

## 3H Summary Information On Outcome Delivery Incentive Payments

**Table 3H - Summary information on outcome delivery incentive payments**

	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)	RAG 4 reference
<b>Initial calculation of in period revenue adjustment by price control</b>		
Water resources	(0.342)	3H.1
Water network plus	0.482	3H.2
Residential retail	(0.050)	3H.5
Dummy control	-	3H.7
<b>Initial calculation of end of period revenue adjustment by price control</b>		
Water resources	-	3H.8
Water network plus	-	3H.9
Residential retail	-	3H.12
Dummy control	-	3H.14
<b>Initial calculation of end of period RCV adjustment by price control</b>		
Water resources	-	3H.15
Water network plus	-	3H.16
Residential retail	-	3H.19
Dummy control	-	3H.21

Table 3H provides stakeholders with supporting information on the financial impacts of the ODIs on revenue.

Looking at each component in turn, in 2017/18 prices:-

Business Unit	ODI	Reward / penalty (£m)	Aggregate (£m)
Water Resources	PCC	(0.325)	(0.342)
	Biodiversity	(0.019)	
Network Plus	Interruptions	0.254	0.482
	Leakage	0.281	
	Mains repairs	(0.053)	
Household retail	Voids	(0.050)	(0.050)
<b>Total</b>			<b>0.090</b>

## 31 Supplementary Outcomes Information

**Table 31 - Supplementary outcomes information**

	Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %			RAG 4 reference	
Unplanned or planned outage							
Planned outage	256.39	0.08	0.03%			31.1	
Risk of severe restrictions in drought							
	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	
Risk of severe restrictions in drought	222.99	7.70	179.33	6.43	745.338	0	31.2

Table 31 provides stakeholders with further supporting information on the ODIs reported in Tables 3A and 3E.

Looking at each component in turn:

### Planned outage

Our reduction in capacity as a result of planned outage is 0.08 MI/d which results in a 0.03% reduction in Peak Week Production Capacity.

### Risk of severe drought

The table below compares our approved WRMP with the outturn for 2020/21. The Ofwat table asks for a comparison with a severe drought year, but the data requested relates to a dry year. It shows that in 2020/21 our water resource position was healthy, despite higher demand (distribution input). Predominantly this was because the bulk supply planned for in our WRMP was not required in full by Southern Water.

Annual Average	rWRMP19 Forecast 2020-21	Outturn Values 2020-21
Final Plan Deployable Output	226.39	222.99
Outage	6.70	7.70
Treatment works losses and operational use	2.40	4.07
Water Available For Use in a Dry Year (Own Sources) (DO-Outage-losses)	217.29	211.23
Potable water exported (bulk supplies to SWS)	30.00	5.08
Total Water Available for Use (WAFU-Exports)	187.29	206.14
Distribution Input	175.07	179.33
Target headroom	6.43	6.43
Supply Demand Balance (Total WAFU – DI – Target Headroom)	5.79	20.38

## 4A Water Bulk Supply Information

**Table 4A - Water bulk supply information  
for the 12 months ended 31 March 2021**

	Volume	Operating costs	Revenue	RAG 4 reference
	MI	£m	£m	
<b>Bulk supply exports</b>				
Southern Water - Sussex North	859.9	0.060	0.137	4A.1
Southern Water - Hampshire	934	0.057	0.212	4A.2
Leep - Graylingwell	76	0.039	0.051	4A.3
Leep - Bereswood	105	0.053	0.053	4A.4
Southern Water - Havant Thicket	-	-	0.220	4A.5
<b>Total bulk supply exports</b>	<b>1,975.2</b>	<b>0.209</b>	<b>0.673</b>	<b>4A.11</b>
<b>Bulk supply imports</b>				
Bulk supply 1	-	-		4A.12
Bulk supply 2				4A.13
Bulk supply 3				4A.14
Bulk supply 4				4A.15
<b>Total bulk supply imports</b>	<b>-</b>	<b>-</b>		<b>4A.22</b>

This table provides detail of the bulk supplies we made in 2020/21.

Historically we have only reported the well-established bulk supplies to Southern Water into Sussex North and Hampshire. For this APR we have included bulk supplies to NAVs.

We have one NAV operating in our region in 2020/21 and they have two discrete sites.

The volumes and revenues for all four of these bulk supplies are taken from invoicing of these two customers. We have determined the operating costs for the two Southern Water supplies in accordance with the specific operating and depreciation costs relating to the supplies. For the Leep supplies we have assumed that their cost is consistent with the generality of charges to our customers. This is because both are located within our general network and do not have dedicated infrastructure to enable the supply.

Finally we have been instructed by Ofwat to include the future bulk supply to Southern Water which will be available in 2029 when Havant Thicket is constructed. The sum of £220,000 relates to the payment by Southern Water in the year.

This data has been audited by Jacobs.

## 4B Analysis of Debt

Table 4B has been published as a separate addition to this document, due to its size and complexity.

## 4C Impact of Price Control Performance to Date on RCV

**Table 4C - Impact of price control performance to date on RCV**

	12 months ended 31 March 2021			RAG 4 reference
	Water resources	Water network plus	Havant Thicket	
<b>Totex (net of business rates, abstraction licence fees and grants and contributions)</b>				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	6.101	29.768	10.581	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	4.061	25.528	6.802	4C.2
Transition expenditure	-	-	5.029	4C.3
Disallowable costs	(0.006)	(0.067)	-	4C.4
<b>Total actual totex (net of business rates, abstraction licence fees and grants and contributions)</b>	<b>4.067</b>	<b>25.595</b>	<b>11.831</b>	<b>4C.5</b>
Variance	(2.034)	(4.173)	1.250	4C.6
Variance due to timing of expenditure	(1.747)	(3.386)	1.250	4C.7
Variance due to efficiency	(0.287)	(0.787)	-	4C.8
Customer cost sharing rate	40.00%	40.00%	0.00%	4C.9
Customer share of totex over/underspend	(0.115)	(0.315)	-	4C.10
Company share of totex over/underspend	(0.172)	(0.472)	-	4C.11
<b>Totex - business rates and abstraction licence fees</b>				
Final determination allowed totex - business rates and abstraction licence fees	1.756	1.681	-	4C.12
Actual totex - business rates and abstraction licence fees	1.803	1.754	-	4C.13
Variance - business rates and abstraction licence fees	0.047	0.073	-	4C.14
Customer cost sharing rate - business rates and abstraction licence fees	25.00%	25.00%	0.00%	4C.15
Customer share of totex over/underspend - business rates and abstraction licence fees	0.012	0.018	-	4C.16
Company share of totex over/underspend - business rates and abstraction licence fees	0.035	0.055	-	4C.17
<b>Totex not subject to cost sharing</b>				
Final determination allowed totex - not subject to cost sharing	-	(0.969)	-	4C.18
Actual totex - not subject to cost sharing	0.032	(0.930)	-	4C.19
Variance - 100% company allocation	0.032	0.039	-	4C.20
<b>Total company share of totex over/under spend</b>	<b>(0.105)</b>	<b>(0.378)</b>	<b>-</b>	<b>4C.21</b>
<b>RCV</b>				
Total customer share of totex over/under spend	(0.103)	(0.297)	-	4C.22
PAYG rate	70.65%	68.89%	0.00%	4C.23
RCV element of totex over/underspend	(0.030)	(0.092)	-	4C.24
Adjustment for ODI out/under performance payment	-	-	-	4C.25
RCV determined at FD at 31 March	6.625	150.948	10.596	4C.26
Projected 'shadow' RCV	6.595	150.856	10.596	4C.27





# Wholesale Totex Analysis

## Totex variance analysis

In the Final Determination, the allowed Totex expenditure is £38.337m, in 2020/21 prices. This is before the ex-ante adjustment of £1.587m, and gives a favourable variance to actual totex in the year of £6.016m. The following table shows this variance for each element of totex, and the total actual costs reconcile to Table 4D Line 18. Havant Thicket is excluded from this table.

2020/21 prices	Allowed	Actual	Variance
	Totex 2020/21	2020/21	2020/21
Operating expenditure	18,759	17,583	1,176
Abstraction costs and Rates	3,437	3,557	(120)
Renewals	4,375	2,317	2,058
Capital expenditure	12,735	9,762	2,973
Grants and Contributions	(1,223)	(1,900)	677
Third Party costs	254	959	(705)
Disallowed costs	0	43	(43)
Wholesale Totex	38,337	32,321	6,016

## Operating Expenditure

Actual performance is favourable to the Final Determination by £1.056m, including abstraction costs and business rates. In the PR19 Business Plan, the Company submitted operating costs which were lower than those in the FD. As a result, there is an ex-ante cost sharing adjustment of -£1.587m, to the FD totex. The Company is targeting a lower level of opex expenditure than in the FD, to reflect this adjustment and to deliver outperformance. In 2020/21 the actual operating expenditure is at a reduced level, which is an efficiency saving to the FD, and not a result of timing differences.

Operating costs include a recharge to Retail Household of £0.156m. This relates to principal use assets in Wholesale, and is a rental charge at market rate.

## Renewals

The renewals expenditure for the year was less than the Business Plan by £2.058m. Activity in the year was less than expected, with only 8.1km of pipe being renewed, compared to 14km in the FD. The work was impacted by Covid restrictions, but there is a plan in place to catch up with the FD programme, within the AMP.

## Capital Expenditure

Capital expenditure is lower than the Business Plan by £2.973m. The significant variances are as follows:

- A number of capital schemes were delayed due to the Covid restrictions. In particular, all the non-infrastructure maintenance work was postponed, as well as work on meter replacements and enhancement schemes relating to raw water deterioration and WINEP/NEP. All these amount to £3.905m of delayed expenditure.
- Eel screens were purchased in 2019/20, costing £1.555m. This expenditure was included in the FD for 2020/21, but was brought forward a year. This gives a favourable variance of £0.900m in 2020/21.
- New mains expenditure was £2.358m, compared to £1.030m in the FD, giving an adverse variance of £1.328m.
- Optional metering expenditure was lower than the Business plan by £666k, and this is customer driven.
- There were a number of schemes not included in the Final Determination, but completed in 2020/21, including SEMD work costing £0.319m.
- Itchen membrane replacements were brought forward to 2020/21, giving an adverse variance of £0.668m.

## Third Party Costs

The actual costs include expenditure on mains diversions, which were not known about when the Business Plan was submitted. This amounts to £0.959m and these are non-s185 diversions.

## Havant Thicket

Havant Thicket Winter Storage Reservoir project work continued in 2020/21, and the costs amounted to £6.028m. There was also transition expenditure from 2019/20 of £5.028m, which was included in the FD Totex for 2020/21. Over the 2 years, there is additional expenditure to the FD of £1.250m. This is all timing variance.

- We have brought forward some survey and design works that were originally expected to be undertaken as part of the construction packages, to allow for improved accuracy of pricing from contractors.
- We have incurred additional expenditure on the finalisation of the bulk supply agreement that was not expected at PR19.
- We have incurred additional expenditure on the planning commitments that was not expected at PR19.

## 4H Financial Metrics

Table 4H - Financial metrics for the 12 months ended 31 March 2021

	Units	Current year	AMP to date	RAG 4 reference
<b>Financial indicators</b>				
Net debt	£m	118.274		4H.1
Regulatory equity	£m	49.895		4H.2
Regulatory gearing	%	70.33%		4H.3
Post tax return on regulatory equity	%	5.48%		4H.4
RORE (return on regulatory equity)	%	1.07%	1.07%	4H.5
Dividend yield	%	2.21%		4H.6
Retail profit margin - Household	%	2.49%		4H.7
Retail profit margin - Non household	%	n/a		4H.8
Credit rating - Fitch	Text	n/a		4H.9
Credit rating - Moody's	Text	Baa1 (Negative)		4H.10
Credit rating - Standard and Poor's	Text	n/a		4H.11
Return on RCV	%	4.70%		4H.12
Dividend cover	dec	1.772		4H.13
Funds from operations (FFO)	£m	9.492		4H.14
Interest cover (cash)	dec	3.33		4H.15
Adjusted interest cover (cash)	dec	1.54		4H.16
FFO/Debt	dec	0.080		4H.17
Effective tax rate	%	6.55%		4H.18
RCF	£m	8.389		4H.19
RCF/Net debt	dec	0.071		4H.20
<b>Revenue and earnings</b>				
Revenue (actual)	£m	38.343		4H.21
EBITDA (actual)	£m	10.563		4H.22
<b>Borrowings</b>				
Proportion of borrowings which are fixed rate	%	17.21%		4H.23
Proportion of borrowings which are floating rate	%	5.66%		4H.24
Proportion of borrowings which are index linked	%	77.12%		4H.25
Proportion of borrowings due within 1 year or less	%	1.36%		4H.26
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%		4H.27
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	21.90%		4H.28
Proportion of borrowings due in more than 5 years but no more than 20 years	%	76.54%		4H.29
Proportion of borrowings due in more than 20 years	%	0.20%		4H.30

# Commentary on the RoRE Financial Metric

## RoRE movements compared to base RoRE set at PR19

The following table shows the metric calculation in each year, and the cumulative AMP position. These calculations are consistent with Table 1F, lines 1 – 17, where there is also a detailed commentary for each actual adjustment to the FD RoRE.

In 2020/21, the Return on regulatory equity of 4.12% is based on the notional gearing of 60%, and is before the actual performance adjustments relating to 2015-20.

2017/18 PRICES	2020/21	AMP	
Return of Regulatory Equity	4.12%	4.12%	Final Determination
NET INCOME - FD	2.517	2.517	Used to calculate FD RoRE %'s
Adjustment for actual equity	-0.704	-0.704	FD return applied to actual equity
TOTEX PAYG adjustments	0.265	0.265	Including customer cost sharing
Retail cost adjustments	-0.376	-0.376	
ODI reward/penalty	0.090	0.090	Included on an accruals basis
C-Mex	-	-	Reported one year in arrears
D-Mex	-	-	Reported one year in arrears
Exceptional items	-0.087	-0.087	Covid bad debt provision
Cost of Debt	-0.942	-0.942	Based on real cost of debt of 3.8%
Gearing	0.704	0.704	
Tax on adjustments	-0.059	-0.059	Tax rate of 19%
NET INCOME - Adjusted	1.408	1.408	Used to calculate adjusted RoRE %'s
REGULATED EQUITY	61.104	61.104	Notional regulatory equity
RoRE %	2.31%	2.31%	



## 4L Enhancement Capital Expenditure by Purpose - Wholesale Water

Table 4B has been published as a separate addition to this document, due to its size and complexity.

## 4N Developer Services Expenditure - Water Resources and Water Network+

Table 4N - Developer services expenditure for the 12 months ended 31st March 2021 - water resources and water network+

£m	Expenditure in report year						RAG 4 reference
		Water resources	Water network+			Total	
			Raw water transport	Raw water storage	Water treatment		
New connections	Capex	-	-	-	-	-	4N.1
New connections	Opex	-	-	-	-	0.714	4N.2
Requisition mains	Capex	-	-	-	-	1.639	4N.3
Requisition mains	Opex	-	-	-	-	-	4N.4
Infrastructure network reinforcement	Capex	-	-	-	-	0.718	4N.5
Infrastructure network reinforcement	Opex	-	-	-	-	-	4N.6
s185 diversions	Capex	-	-	-	-	-	4N.7
s185 diversions	Opex	-	-	-	-	0.261	4N.8
Other price controlled activities	Capex	-	-	-	-	-	4N.9
Other price controlled activities	Opex	-	-	-	-	0.020	4N.10
<b>Total developer services expenditure - capex</b>	<b>Capex</b>	-	-	-	-	<b>2.357</b>	<b>4N.11</b>
<b>Total developer services expenditure - opex</b>	<b>Opex</b>	-	-	-	-	<b>0.995</b>	<b>4N.12</b>
<b>Total developer services expenditure</b>	<b>Totex</b>	-	-	-	-	<b>3.352</b>	<b>4N.13</b>

## 4P Expenditure on Non-Price Control Diversions

**Table 4P - Expenditure on non-price control diversions  
for the 12 months ended 31 March 2021**

£m	Water resources	Water network+	Total	RAG 4 reference
<b>Non-price control diversions</b>				
Diversions - NRSWA	-	0.959	0.959	4P.1
Diversions - other non-price control	-	-	-	4P.2
<b>Total expenditure on non-price control diversions</b>	-	0.959	0.959	4P.3



## 4Q Developer Services - New Connections, Properties and Mains

**Table 4Q - Developer services - New connections, properties and mains**

	Water	Total	RAG 4 reference
<b>Connections volume data</b>			
New connections (residential – excluding NAVs)	1,900	1,900	4Q.1
New connections (business – excluding NAVs)	84	84	4Q.2
<b>Total new connections served by incumbent</b>	<b>1,984</b>	<b>1,984</b>	<b>4Q.3</b>
<b>New connections – SLPs</b>	<b>486</b>		<b>4Q.4</b>
<b>Properties volume data</b>			
New properties (residential - excluding NAVs)	1,900	1,900	4Q.5
New properties (business - excluding NAVs)	84	84	4Q.6
<b>Total new properties served by incumbent</b>	<b>1,984</b>	<b>1,984</b>	<b>4Q.7</b>
New residential properties served by NAVs	42	42	4Q.8
New business properties served by NAVs	2	2	4Q.9
<b>Total new properties served by NAVs</b>	<b>44</b>	<b>44</b>	<b>4Q.10</b>
<b>Total new properties</b>	<b>2,028</b>	<b>2,028</b>	<b>4Q.11</b>
<b>New properties – SLP connections</b>	<b>486</b>		<b>4Q.12</b>
<b>New water mains data</b>			
Length of new mains (km) - requisitions	7,866		4Q.13
Length of new mains (km) - SLPs	4,845		4Q.14

This table relates to new connections, properties and new mains in the year 2020/21. It allows third parties to understand the impact of both NAVs and self-lay providers in our region. We have seen a significant increase in activity from both in the year.

This data has been audited by Jacobs.

## 4R Connected Properties, Customers and Population

Table 4R - Connected properties, customers and population

	Units	Unmeasured	Measured	Total	Voids	RAG 4 reference
<b>Customer numbers - average during the year</b>						
Residential water only customers	000s	199.490	99.516	299.006	7.219	4R.1
Residential wastewater only customers	000s	-	-	-	-	4R.2
Residential water and wastewater customers	000s	-	-	-	-	4R.3
<b>Total residential customers</b>	<b>000s</b>	<b>199.490</b>	<b>99.516</b>	<b>299.006</b>	<b>7.219</b>	<b>4R.4</b>
Business water only customers	000s	1.937	14.118	16.055	-	4R.5
Business wastewater only customers	000s	-	-	-	-	4R.6
Business water & wastewater customers	000s	-	-	-	-	4R.7
<b>Total business customers</b>	<b>000s</b>	<b>1.937</b>	<b>14.118</b>	<b>16.055</b>	<b>-</b>	<b>4R.8</b>
<b>Total customers</b>	<b>000s</b>	<b>201.427</b>	<b>113.634</b>	<b>315.061</b>	<b>7.219</b>	<b>4R.9</b>

Property numbers - average during the year	Units	Water			Wastewater			RAG 4 reference
		Unmeasured	Measured	Total	Unmeasured	Measured	Total	
Residential properties billed	000s	199.490	99.516	299.006	-	-	-	4R.10
Residential void properties	000s	-	-	7.219	-	-	-	4R.11
<b>Total connected residential properties</b>	<b>000s</b>			<b>306.225</b>			<b>-</b>	<b>4R.12</b>
Business properties billed	000s	1.937	14.118	16.055	-	-	-	4R.13
Business void properties	000s	-	-	-	-	-	-	4R.14
<b>Total connected business properties</b>	<b>000s</b>			<b>16.055</b>			<b>-</b>	<b>4R.15</b>
<b>Total connected properties</b>	<b>000s</b>			<b>322.280</b>			<b>-</b>	<b>4R.16</b>

Property and meter numbers - at end of year (31st March)	Units	Water									RAG 4 reference
		Unmeasured				Measured				Total	
		No meter	Basic meter	Smart meter	Total	No meter	Basic meter	Smart meter	Total		
Total new residential properties connected in year	000s	-	-	-	-	-	1.900	-	1.900	1.900	4R.17
Total new business properties connected in year	000s	-	-	-	-	-	0.084	-	0.084	0.084	4R.18
Residential properties billed at year end	000s	199.247	-	-	199.247	-	100.569	-	100.569	299.816	4R.19
Residential void properties at year end	000s	-	-	-	4.815	-	-	-	2.220	7.035	4R.20
<b>Total connected residential properties at year end</b>	<b>000s</b>				<b>204.062</b>				<b>102.789</b>	<b>306.851</b>	<b>4R.21</b>
Business properties billed at year end	000s	1.934	-	-	1.934	-	14.100	-	14.100	16.034	4R.22
Business void properties at year end	000s	-	-	-	-	-	-	-	-	-	4R.23
<b>Total connected business properties at year end</b>	<b>000s</b>				<b>1.934</b>				<b>14.100</b>	<b>16.034</b>	<b>4R.24</b>
<b>Total connected properties at year end</b>	<b>000s</b>				<b>205.996</b>				<b>116.889</b>	<b>322.885</b>	<b>4R.25</b>

Population data	Units	Water	Wastewater	RAG 4 reference
Resident population	000s	745.338	-	4R.26
Non-resident population	000s	-	-	4R.27

This table shows the number of properties, customers and population for the year 2020/21. Data is provided for both year average and year end. Our year average calculation is the simple average of the start and end of the year.

Residential data is determined directly from our billing system. Business data is derived from that provided by MOSL.

For residential data we differentiate between billed and connected properties. The data we have for business properties does not provide a similar split and thus we do not report any business voids. We acknowledge there is a temporary vacant flag in MOSL's figures, but guidance instructs that this is included in billed.

This data has been audited by Jacobs.

## 5A Water Resources Asset and Volumes Data

**Table 5A - Water resources asset and volumes data for the 12 months ended 31st March 2021**

	Units	Input	RAG 4 reference
<b>Water resources</b>			
Water from impounding reservoirs	MI/d	0.0	5A.1
Water from pumped storage reservoirs	MI/d	0.0	5A.2
Water from river abstractions	MI/d	30.6	5A.3
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	MI/d	157.2	5A.4
Water from artificial recharge (AR) water supply schemes	MI/d	0.0	5A.5
Water from aquifer storage and recovery (ASR) water supply schemes	MI/d	0.0	5A.6
Water from saline abstractions	MI/d	0.0	5A.7
Water from water reuse schemes	MI/d	0.0	5A.8
Number of impounding reservoirs	nr	0	5A.9
Number of pumped storage reservoirs	nr	1	5A.10
Number of river abstractions	nr	1	5A.11
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	20	5A.12
Number of artificial recharge (AR) water supply schemes	nr	0	5A.13
Number of aquifer storage and recovery (ASR) water supply schemes	nr	0	5A.14
Number of saline abstraction schemes	nr	0	5A.15
Number of reuse schemes	nr	0	5A.16
Total number of sources	nr	22	5A.17
Total number of water reservoirs	nr	1	5A.18
Total volumetric capacity of water reservoirs	MI	135	5A.19
Total number of intake and source pumping stations	nr	21	5A.20
Total installed power capacity of intake and source pumping stations	kW	6100	5A.21
Total length of raw water abstraction mains and other conveyors	km	25.39	5A.22
Average pumping head – raw water abstraction	m.hd	26.47	5A.23
Energy consumption - raw water abstraction	MWh	9888	5A.24
Total number of raw water abstraction imports	nr	0	5A.25
Water imported from 3rd parties' raw water abstraction systems	MI/d	0.0	5A.26
Total number of raw water abstraction exports	nr	0	5A.27
Water exported to 3rd parties' from raw water abstraction systems	MI/d	0.0	5A.28
Water resources capacity (measured using water resources yield)	MI/d	223.0	5A.29

This table provides detail of our Water Resources assets and associated volumes for 2020/21. This data has been provided to Ofwat in previous APRs in Table 4P.

There are no significant issues to raise in this commentary.

Water abstracted from our river and bore holes sites increased significantly in the year. Our water capacity measure has been updated as we prepare for WRMP24

This data has been audited by Jacobs.

## 5B Water Resources Operating Cost Analysis

Table 5B - Water resources operating cost analysis for the 12 months ended 31st March 2021

£m	Impounding Reservoir	Pumped Storage	River Abstractions	Groundwater , excluding MAR water supply schemes	Artificial Recharge (AR) water supply schemes	Aquifer Storage and Recovery (ASR) water supply schemes	Other	Total	RAG 4 reference
Power	-	-	0.108	0.907	-	-	-	1.015	5B.1
Income treated as negative expenditure	-	-	-	-	-	-	-	-	5B.2
Abstraction charges/ discharge consents	-	-	0.237	1.085	-	-	-	1.322	5B.3
Bulk supply	-	-	-	-	-	-	-	-	5B.4
<b>Other operating expenditure</b>									
Renewals expensed in year (Infrastructure)	-	-	-	-	-	-	-	-	5B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	-	-	-	-	5B.6
Other operating expenditure excluding renewals - direct	-	-	-	0.049	-	-	-	0.049	5B.7
Other operating expenditure excluding renewals - indirect	-	-	-	1.924	-	-	-	1.924	5B.8
Local authority and Cumulo rates	-	-	-	0.481	-	-	-	0.481	5B.9
Total operating expenditure (excluding 3rd party)	-	-	0.345	4.446	-	-	-	4.791	5B.10

## 6A Raw Water Transport, Raw Water Storage and Water Treatment Data

**Table 6A - Raw water transport, raw water storage and water treatment data for the 12 months ended 31st March 2021**

	Units	Input	RAG 4 reference		
<b>Raw water transport and storage</b>					
Total number of balancing reservoirs	nr	0	6A.1		
Total volumetric capacity of balancing reservoirs	MI	0.0	6A.2		
Total number of raw water transport stations	nr	0	6A.3		
Total installed power capacity of raw water transport pumping stations	kW	0.0	6A.4		
Total length of raw water transport mains and other conveyors	km	0.0	6A.5		
Average pumping head ~ raw water transport	m.hd	0.0	6A.6		
Energy consumption ~ raw water transport	mWh	0.0	6A.7		
Total number of raw water transport imports	nr	0	6A.8		
Water imported from 3rd parties' raw water transport systems	MI/d	0.0	6A.9		
Total number of raw water transport exports	nr	0	6A.10		
Water exported to 3rd parties' raw water transport systems	MI/d	0.0	6A.11		
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	km	0.0	6A.12		
<b>Water treatment - treatment type analysis</b>					
	Surface water		Ground water		
	Water treated MI/d	Number of works	Water treated MI/d	Number of works	
All simple disinfection works	0.0	0	52.7	10	6A.13
W1 works	0.0	0	0.0	0	6A.14
W2 works	0.0	0	11.9	1	6A.15
W3 works	0.0	0	0.0	0	6A.16
W4 works	0.0	0	64.4	6	6A.17
W5 works	30.6	1	0.0	0	6A.18
W6 works	0.0	0	0.0	0	6A.19
<b>Water treatment - works size</b>					
	% of total DI	Number of works			
WTWs in size band 1	0.0%	1		6A.20	
WTWs in size band 2	0.0%	1		6A.21	
WTWs in size band 3	11.8%	5		6A.22	
WTWs in size band 4	30.1%	7		6A.23	
WTWs in size band 5	21.5%	2		6A.24	
WTWs in size band 6	19.2%	1		6A.25	
WTWs in size band 7	17.4%	1		6A.26	
WTWs in size band 8	0.0%	0		6A.27	
<b>Water treatment - other information</b>					
	Units	Input			
Total water treated at more than one type of works	MI/d	0.0		6A.28	
Number of treatment works requiring remedial action because of raw water deterioration	nr	0		6A.29	
Zonal population receiving water treated with orthophosphate	000's	656.592		6A.30	
Average pumping head – water treatment	m.hd	2.18		6A.31	
Energy consumption ~ water treatment	mWh	4574.3		6A.32	
Total number of water treatment imports	nr	0		6A.33	
Water imported from 3rd parties' water treatment works	MI/d	0.0		6A.34	
Total number of water treatment exports	nr	0		6A.35	
Water exported to 3rd parties' water treatment works	MI/d	0.0		6A.36	

This table provides detail of our raw water assets (of which we have none), our water treatment assets and other associated data for 2020/21. This data has been provided to Ofwat in previous APRs in Table 4P.

There are no significant issues to raise in this commentary.

We have no raw transport or storage. Water treatment has been classified by complexity of the treatment process.

This data has been audited by Jacobs.

## 6B Treated Water Distribution - Assets and Operations

**Table 6B - Treated water distribution - assets and operations for the 12 months ended 31st March 2021**

	Units	Input	RAG 4 reference
<b>Assets and operations</b>			
Total installed power capacity of potable water pumping stations	kW	2069	6B.1
Total volumetric capacity of service reservoirs	MI	471.0	6B.2
Total volumetric capacity of water towers	MI	0.0	6B.3
Distribution input	MI/d	179.33	6B.4
Water delivered (non-potable)	MI/d	0.00	6B.5
Water delivered (potable)	MI/d	164.06	6B.6
Water delivered (billed measured residential)	MI/d	35.27	6B.7
Water delivered (billed measured business)	MI/d	27.40	6B.8
Total annual leakage	MI/d	23.55	6B.9
Distribution losses	MI/d	11.86	6B.10
Water taken unbilled	MI/d	3.41	6B.11
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.000	6B.12
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.000	6B.13
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.163	6B.14
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.837	6B.15
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	0.000	6B.16
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	0.000	6B.17
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	0.000	6B.18
Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	0.000	6B.19
Total number of potable water pumping stations that pump into and within the treated water distribution system	nr	40	6B.20
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	16	6B.21
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	1	6B.22
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	23	6B.23
Number of potable water pumping stations that pump water imported from a 3rd party supply into the treated water distribution system	nr	0	6B.24
Total number of service reservoirs	nr	17	6B.25
Number of water towers	nr	0	6B.26
Energy consumption ~ treated water distribution	mWh	18310	6B.27
Average pumping head – treated water distribution	m.hd	36.15	6B.28
Total number of treated water distribution imports	nr	0	6B.29
Water imported from 3rd parties' treated water distribution systems	MI/d	0.0	6B.30
Total number of treated water distribution exports	nr	3	6B.31
Water exported to 3rd parties' treated water distribution systems	MI/d	5.01	6B.32

This table provides detail of our water distribution assets and other associated data for 2020/21. This data has been provided to Ofwat in previous APRs in Table 4P.

There are no significant issues to raise in this commentary.

Our water balance shows an overall increase in the year for Distribution Input. Whilst NHH demand reduced, HH demand increased significantly, reflecting not only the impact of restrictions due to Covid-19 but also the long dry hot period in April and May 2020.

This data has been audited by Jacobs.

## 6C Water Network+ - Mains, Communication Pipes and Other Data

Table 6C - Water network+ - Mains, communication pipes and other data for the 12 months ended 31st March 2021

	Units	Input	RAG 4 reference
<b>Treated water distribution - mains analysis</b>			
Total length of potable mains as at 31 March	km	3369.6	6C.1
Total length of potable mains relined	km	0.0	6C.2
Total length of potable mains renewed	km	8.5	6C.3
Total length of new potable mains	km	12.9	6C.4
Total length of potable water mains (<= 320mm)	km	3059.1	6C.5
Total length of potable water mains >320mm and <= 450mm	km	169.7	6C.6
Total length of potable water mains >450mm and <= 610mm	km	94.2	6C.7
Total length of potable water mains > 610mm	km	46.3	6C.8
<b>Communication pipes</b>			
Number of lead communication pipes	nr	80659	6C.9
Number of galvanised iron communication pipes	nr	17964	6C.10
Number of other communication pipes	nr	223657	6C.11
<b>Treated water distribution - mains age profile</b>			
Total length of potable mains laid or structurally refurbished pre-1880	km	58.7	6C.12
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	68.3	6C.13
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	159.2	6C.14
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	342.5	6C.15
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	344.9	6C.16
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	801.0	6C.17
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	960.6	6C.18
Total length of potable mains laid or structurally refurbished post 2001	nr	634	6C.19
<b>Other</b>			
Company area	km <sup>2</sup>	864	6C.20
Number of lead communication pipes replaced for water quality	nr	7	6C.21
Supply-side improvements delivering benefits in 2020-25	MI/d	0.0	6C.22
Demand-side improvements delivering benefits in 2020-25 (excluding leakage and metering)	MI/d	0.0	6C.23
Leakage improvements delivering benefits in 2020-25	MI/d	0.8	6C.24
Internal interconnectors delivering benefits in 2020-25	MI/d	0.0	6C.25
Event Risk Index	nr	0.0	6C.26

This table provides detail of our network plus assets and other associated data for 2020/21. This data has been provided to Ofwat in previous APRs in Table 4P.

There are no significant issues to raise in this commentary.

We have improved our methodology for assessing the age and diameter of the potable mains. Specifically we have undertaken further analysis on those mains where we did not know these characteristics.

This data has been audited by Jacobs.

## 6D Demand Management - Metering and Leakage Activities

**Table 6D - Demand management - Metering and leakage activities for the 12 months ended 31 March 2021**

	Units	Basic meter	Smart meter	RAG 4 reference
<b>Metering activities - Totex expenditure</b>				
New optant meter installation	£m	0.428	-	6D.1
New selective meter installation	£m	0.188	-	6D.2
New business meter installation	£m	-	-	6D.3
Residential meters renewed	£m	0.037	-	6D.4
Business meters renewed	£m	0.008	-	6D.5
<b>Metering activities - Explanatory variables</b>				
New optant meters installed	000s	1.269	-	6D.6
New selective meters installed	000s	-	-	6D.7
New business meters installed	000s	-	-	6D.8
Residential meters renewed	000s	0.964	-	6D.9
Business meters renewed	000s	0.279	-	6D.10
New residential meters installation – supply-demand balance benefit	MI/d	0.06	-	6D.11
New business meters installation – supply-demand balance benefit	MI/d	-	-	6D.12
Residential meters renewed - supply-demand balance benefit	MI/d		-	6D.13
Business meters renewed - supply-demand balance benefit	MI/d		-	6D.14
Residential properties - meter penetration	%	33.2%	-	6D.15
<b>Leakage activities - Totex expenditure</b>				
	Units	Maintaining leakage	Reducing leakage	Total
Total leakage activity	£m	2.058	0.826	2.884
<b>Per capita consumption (excluding supply pipe leakage)</b>				
Per capita consumption (measured customers)	l/h/d	149.3		6D.17
Per capita consumption (unmeasured customers)	l/h/d	179.4		6D.18

This table provides detail of our demand management and metering data for 2020/21. This data has been provided to Ofwat in previous APRs in Table 4Q.

There are no significant issues to raise in this commentary.

Our household meter penetration remains low. We continue to struggle to encourage customers to switch to a meter. We therefore welcome the current Defra review of water scarcity status.

The cost of leakage has been allocated between maintenance and enhancement as requested.

The unmeasured and measured PCCs are provided which, when weighted by number, give the average household PCC of 170.5 l/p/d

This data has been audited by Jacobs.



## 9A Innovation Competition

**Table 9A - Innovation competition**

£m	Current year 2017/18 prices							RAG 4 reference	
<b>Allowed</b>									
Allowed innovation competition fund price control revenue	0.130							9A.1	
<b>Revenue collected for the purposes of the innovation competition</b>									
Price control revenue collected from customers	0.130							9A.2	
Non-price control revenue (e.g. royalties)	-							9A.3	
Revenue collected from customers and transferred into the innovation competition fund	0.130							9A.4	
		Bids accepted and awarded funding for innovation competition	Forecast expenditure on innovation projects funded through the innovation competition	Actual expenditure on innovation projects funded through the innovation competition in year	Difference between actual and forecast expenditure	Cumulative spend on innovation projects	Allowed future expenditure on innovation projects funded through the innovation competition	Expenditure on innovation projects funded by shareholders	
Innovation project 1		-	-	-	-	-	-	-	9A.5
Innovation project 2		-	-	-	-	-	-	-	9A.6
Innovation project 3		-	-	-	-	-	-	-	9A.7
Innovation project 4		-	-	-	-	-	-	-	9A.8
Innovation project 5		-	-	-	-	-	-	-	9A.9
Innovation project 6		-	-	-	-	-	-	-	9A.10
Innovation project 7		-	-	-	-	-	-	-	9A.11
Innovation project 8		-	-	-	-	-	-	-	9A.12
Innovation project 9		-	-	-	-	-	-	-	9A.13
Innovation project 10		-	-	-	-	-	-	-	9A.14
<b>Total</b>		-	-	-	-	-	-	-	9A.20
<b>Administration</b>									
Administration charge for innovation partner	-							9A.21	

This table provides detail of the outcome of the innovation competition for 2020/21.

We were unsuccessful in 2020/21 and thus have only entered our contribution in the table, which is in 2017/18 price base.

# Disclosure of Transactions with Associates

The transactions required to be disclosed under Condition F of the Company's Instrument of Appointment are set out below:

## Borrowings or Sums Lent

### South Downs Limited

There is a loan outstanding made to a Group Company, South Downs Limited, in June 2002. The balance of the loan, consisting of the principal amount and accrued interest to date, amounts to £55.484m. No repayment was made by South Downs Limited in the year, or in the previous year. This loan was made as a part of the refinancing package which was carried out in the financial year 2002/03. The interest rate for the loan is based on LIBOR plus a margin. Loan interest is serviced through the receipt of a dividend from Portsmouth Water Limited as explained in the dividend policy.

### Portsmouth Water Holdings Limited

On 2 March 2021 Portsmouth Water Limited entered into an intercompany loan agreement with Portsmouth Water Holdings Limited permitting borrowing to a total facility value of up to £50m, initially drawing down £24,622m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan has a five-year term, maturing in 31 March 2025.

## Interest Received

A receipt of interest amounting to £1,103,097.58 in respect of the inter-company loan made to South Downs Limited in 2002 (as covered above) was received from South Downs Limited. This is funded through "recirculating" dividend payments from Portsmouth Water as explained in the dividend policy.

## Dividends paid to Associated Undertakings

Dividend payments are consistently calculated based upon two elements – a return on the equity component of the Regulatory Capital Value (RCV) and a "recirculating" element which permits interest on certain intercompany loans receivable to be serviced. This second element is received by the Company in the form of interest payments and does not result in any net cash outflow.

Following the emergence of the Covid-19 global pandemic in early 2020, the Board confirmed its intention to suspend dividend payments until the full effect was better understood and there was greater clarity as to the potential Covid financial impact upon the business. As a consequence, no further dividend was declared in respect of the year ended 31 March 2020 when those accounts were approved. Interim dividends declared & paid during the period ended 31 March 2021 related solely to the recirculating amounts explained above totalling £1.103m.

The Board has kept the business impact of Covid-19 under close review together with the performance of the business – including mitigating actions available. Based upon national progress in relation to managing the pandemic, the Company's ongoing business performance & Covid response, financial & cash flow headroom and the availability of mitigating actions, the Board has concluded that dividend payments can be resumed. In reaching this decision the Board also concluded that it was appropriate to first repay amounts received by the Company under furlough arrangements, totalling £220,000, before dividend payments were resumed.

Accordingly, the Board has approved dividend payments in relation to the remaining (final) dividend in respect of financial year 2019/20 and a final dividend in respect of the financial year 2020/21. These dividends were approved on 27 May 2021 and are expected to be paid during July 2021.

In relation to the year ended 31 March 2020 the Company set a dividend policy based upon a 5% return on equity regulatory capital value and has consistently applied this policy in declaring a final shareholder dividend of £1.676m. As part of the Company's PR19 business plan submission a revised Dividend Policy was adopted. This is centred upon a base dividend reflecting a 5% return on the average equity RCV for the year. This is then further adjusted (upwards or downwards) depending upon factors which reflect financial resilience and overall Company performance and is explained further in the Dividend Policy on pages 12 and 13.

In making a recommendation of a final dividend payment in respect of the year ended 31 March 2021 the Company has applied this policy and the Directors have carefully considered the factors set out above. Further detail in relation to these considerations has been included in the Company's Annual Performance Report. As this is the first year in the new regulatory cycle, although in overall terms the company has met all of the above tests and has shown strong performance in commitments to customers and stakeholders, the Directors have not chosen to make any enhancement above the base dividend. Accordingly, the directors have proposed a base dividend for the period of £3.210m.

The final dividend proposed in relation to the 2020/21 financial period also includes a further £0.244m of recirculating dividend in relation to the servicing of intercompany debt and this will be made as a distribution in specie with the related asset being the cancellation of intercompany interest receivable. This results in a total final dividend proposed for the period ended 31 March 2021 of £3.454m.

## Payments for Tax Losses

During the year Portsmouth Water settled the surrender of tax losses from Group companies totaling £175,000, net through intercompany balances.

### Supply of Services

Details of services supplied to the Appointee by associates during the year are disclosed below:

Service	Associate Company	Turnover of Associate (£000's)	Terms of Supply	Value (£000's)
Rent of operational sites	Brockhampton Holdings Limited	256*	Market Tested	0
Solar power income	Brockhampton Holdings Limited	256*	Market Tested	16

\*Brockhampton Holdings Limited accounts do not include any amounts classified as turnover. Amounts relating to rent and solar power income are included within other operating income totalling £256k of which £104k relates to total rental income and £152k relates to total income from solar power.

### Directors Remuneration

There is a recharge of Directors salaries amounting to £21,769 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

An amount of £7,601 has been charged to Brockhampton Property Limited from Portsmouth Water Limited relating to bonus scheme amounts accrued in FY21 for performance associated with the sale of properties.

An amount of £19,205 has been charged to Brockhampton Solutions Limited from Portsmouth Water Limited relating to bonus scheme amounts accrued in FY21 for solar power project advancements.

There is also a recharge into the following entities relating to administrative time spent on Group matters:

Brockhampton Pension Scheme	£26,496
Brockhampton Holdings Ltd	£29,944
Brockhampton Property Ltd	£29,944
South Downs Ltd charged into Brockhampton Property Ltd	£8,420
South Downs Capital Ltd charged into Brockhampton Property Ltd	£4,378
Ancala Mid Co	£4,715
Ancala Bid Co	£4,715
Ancala Hold Co	£4,715

### Statement by Board of Directors

To the best of their knowledge, the Directors of the Company declare that all appropriate transactions with associated companies have been disclosed.

### Price Control Units

Portsmouth Water has closely followed the Ofwat guidance for the allocation of costs and assets between price control units. It believes that the only cross subsidy between them is the cost associated with the Head Office building. The market for rental in the local area has been studied in the past year, as part of a project to establish the options for the future leasing/purchase of a new Head Office building. An estimate of the annual leasing cost is £332k, and this has been allocated to the Retail and Water Resources business units on the basis of actual floor space.

# Report of the Independent Auditor

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and Portsmouth Water Limited (the "Company").

## Opinion

We have audited the sections of/tables within Portsmouth Water Limited's Annual Performance Report for the year ended 31 March 2021 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3I) and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6D, 7A to 7E, 8A to 8D and 9A. We have also not audited tables 2F and 2N on the basis that these contain non-financial information.

In our opinion, Portsmouth Water Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.12, RAG 4.09 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2), set out on pages 44 to 48.

## Basis for opinion

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

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

## Emphasis of matter – special purpose basis of preparation

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

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and the Companies Act 2006. Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 35 to 39 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

## Conclusions relating to going concern

The directors have prepared the Regulatory Accounting 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 Regulatory Accounting Statements ("the going concern period").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

#### **Other information**

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

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

We have nothing to report based on these responsibilities.

#### **Responsibilities of the Directors for the Annual Performance Report**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 29 to 35, the directors are responsible for the preparation of the Annual Performance Report in accordance with the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2).

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

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

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

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

#### **Fraud and breaches of laws and regulations – ability to detect**

##### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
  - Reading board and audit committee minutes.
  - Considering any remuneration incentive schemes and performance targets for management and directors.
  - Using analytical procedures to identify any unusual or unexpected relationships.
- We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.
- As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud

# Report of the Independent Auditor

risk related to revenue recognition because of the regulated nature of the revenues recognised and limited opportunity or incentive for management to manipulate these revenues.

We did not identify any additional fraud risks.

- We performed procedures including:
  - Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included fixed asset, and cash entries made to unexpected accounts.
  - Assessing significant accounting estimates for bias.

## *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Regulatory Accounting Statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Accounting Statements including regulatory accounting guidelines distributable profits legislation, taxation legislation, pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Regulatory Accounting Statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: compliance with OFWAT regulatory legislation, environmental legislation, water quality, health and safety, anti-bribery, employment law, GDPR compliance and certain aspects of company legislation recognising the nature of the Company's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

## *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Regulatory Accounting Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Regulatory Accounting Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report, except for the following:

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, the Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 1 (k) and its accounting methodology statement. We are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under ISAs (UK).

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the Company.

## **Use of this report**

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2021 on which we reported on 27 May 2021, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**James Ledward**

For and on behalf of  
**KPMG LLP**  
Chartered Accountants  
Gateway House  
Tollgate  
Chandlers Ford SO53 3TG

24 June 2021

# Reporting On and Accounting for the Impacts of Covid-19

## Overview

This report is prepared specifically for Ofwat in response to their invitation in IN21/01, Expectations for Monopoly Company Annual Performance Reporting 2020/21, that companies explain (in their 2020/21 APRs) how Covid-19 has influenced performance and to make a case where we consider there has been a material impact on performance. We very much welcome Ofwat's invitation on this issue.

We have reviewed each of our 26 ODIs and concluded that although almost all of our ODIs have been impacted as a result of us changing our operating processes to meet government requirements, the only ODI to be affected materially by Covid-19 has been the ODI related to household consumption of water, per capita consumption.

## Per capita consumption

This paper focuses on PCC and quantifies the impact the restrictions imposed by government have resulted in, i.e. a significant increase in household demand in 2020/21. We also recognise that 2020/21 was not only impacted by Covid-19 but also by some long dry hot periods in the year, when we would expect demand to increase.

We are therefore sharing our initial work in this area with Ofwat on the subject of PCC in particular, and our water balance more generally. We also provide some detailed maps which show where, geographically, the increase in demand has been located and provide detail of which parts of customer base these customers are from.

## Other impacts

There is no doubt that the impact of Covid-19 was significant on the operation of our business. We had to rapidly change the way we operate, with all staff who could work from home doing so. Operationally we ceased what we considered to be non-essential activities. This included meter-reading, some repairs at households, water quality sampling at households and mains renewals activity. Further, all of our developer customers ceased work in the initial part of 2020/21. In addition to focusing on PCC we wish to identify the following as having key impacts on the business in 2020/21 – and these are likely to continue into the medium term.

## Bad Debt

At the end of 2019/20 financial year the Covid-19 pandemic was just emerging and the full impact was uncertain. In the 2019/20 financial statements the Company made an additional bad debt provision of £1,494,571 relating to Covid 19, broken down between HH customers (£874,571), measured income accrual (£400,000) and NHH retail customers (£220,000).

During the year we have committed additional resources to supporting customers impacted by Covid-19 – both in terms of financial support (e.g. social tariff, arrears assist and write off of debt) but also in relation to the cost of additional support for new debt management and recovery approaches. We have tracked feedback from customers in relation to Covid-19 debt issues and have separately recorded account adjustments and write offs arising as a result of the customer being impacted financially by Covid-19. Whilst "current" (< 1 year) debt collections have generally been maintained at levels reflecting the long term average this has been at a higher administrative cost. We have, however, seen a deterioration in the collections of aged arrears (> 1 year) despite a higher level of collections activity.

Debt written off in the year totalling £85,000 was specifically identified as attributable to Covid. This represents a 25% increase on historical averages. It was identified that a significant portion of this debt related to the student population in the region. In terms of collection of aged arrears (> 1 year) the deterioration in collection rates relative to the long term average resulted in a bad debt impact of £538,000 which has been attributed to the impact of Covid on the collection of historical debts. These have been treated as exceptional items for statutory reporting purposes.

## Non-household Income

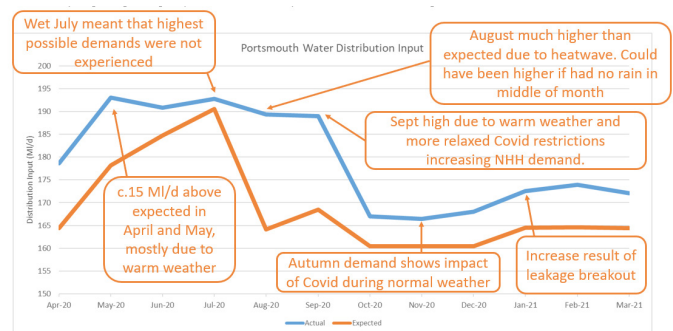
Finally there has been a significant reduction in the consumption charge generated from Non Household water customers who have required less water whilst Covid-19 lockdown restrictions have been in force. This equates to a £1.9m reduction in revenue.

Offsetting this is an increase of £0.8m generated from higher consumption by household measured customers driven by consumption patterns during Covid when customers were advised to stay at home.

This is an issue both we and Ofwat have been monitoring closely over the and one which the Revenue Forecasting Incentive mechanism should address subsequently.

## Distribution Input

We saw a 6% increase in Distribution Input (DI) demand vs expected in the year. We estimate that this is split 4% increase due to Covid restrictions, 2% increase due to weather.

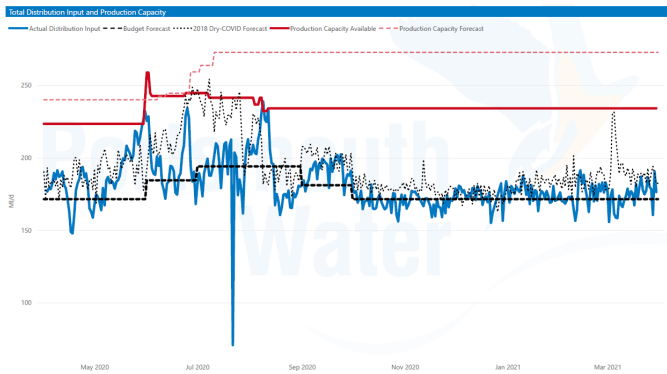


## Water balance

Household demand is 14% higher on average in 2020/21, though higher during periods of stricter Covid restrictions. Non-Household demand is 14% lower on average in 2020/21, with higher usage when Covid restrictions lifted during summer 2020. Leakage increased due to a dry summer and harsh winter, but we were still able to achieve reduction on 2019/20. Overall DI increased by 6%, but higher at the peak. This has continued through Spring 2021 and expected to continue through the rest of year 2021/22.

The graph shows demand in blue and available supply in red. There were two points in the year 2020/21 when our production assets were working at full capacity to meet demand. Fortunately the weather changed, resulting in reductions in demand.





The table shows our estimates of the changes in demand by class of customer for each month. Note that household demand is consistently higher than expectation whilst Non-household demand is generally lower.

### Effect of Covid and Weather

Month	HH Demand	NHH Demand	Leakage	DI
April 2020	22%	-30%	7%	9%
May 2020	14%	-10%	10%	8%
June 2020	6%	-1%	-4%	3%
July 2020	0%	12%	-10%	1%
August 2020	21%	9%	-1%	15%
September 2020	11%	23%	2%	12%
October 2020	13%	-18%	-3%	4%
November 2020	15%	-30%	2%	4%
December 2020	15%	-27%	9%	5%
January 2021	16%	-30%	8%	5%
February 2021	17%	-34%	12%	6%
March 2021	17%	-35%	9%	5%
<b>Average</b>	<b>14%</b>	<b>-14%</b>	<b>3%</b>	<b>6%</b>

#### Water balance – Split between Covid and weather effect

- We then split the overall impact on demand between the Covid-19 effect and the weather.
- Covid restrictions have resulted in a volumetric step up in household usage. Higher percentage in winter as a higher proportion of demand.
- Non-household demand was heavily impacted by strictness of restrictions, and also likely by data catch up from MOSL in Jan-Mar 21.
- Weather impact was 2% overall, but significant impact during peak demand periods.
- Concern should hot weather occur at same time as Covid restriction relaxing in 2021/22.

### Effect of Covid

Month	HH Demand	NHH Demand	Leakage	DI
April	13%	-38%	0%	1%
May	9%	-14%	0%	3%
June	6%	-1%	0%	4%
July	0%	12%	0%	2%
August	13%	1%	0%	9%
September	11%	23%	0%	12%
October	13%	-18%	0%	4%
November	15%	-30%	0%	3%
December	15%	-27%	0%	4%
January	16%	-30%	0%	4%
February	17%	-34%	0%	4%
March	17%	-35%	0%	3%
<b>Average</b>	<b>12%</b>	<b>-16%</b>	<b>0%</b>	<b>4%</b>

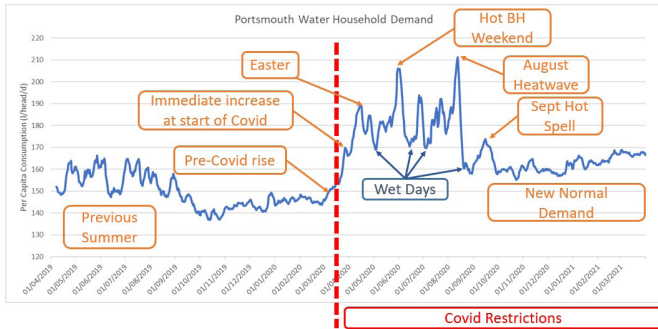
### Effect of Weather

Month	HH Demand	NHH Demand	Leakage	DI
April	8%	8%	7%	8%
May	4%	4%	10%	5%
June	0%	0%	-4%	-1%
July	0%	0%	-10%	-1%
August	8%	8%	-1%	7%
September	0%	0%	2%	0%
October	0%	0%	-3%	0%
November	0%	0%	2%	0%
December	0%	0%	9%	1%
January	0%	0%	8%	1%
February	0%	0%	12%	2%
March	0%	0%	9%	1%
<b>Average</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>	<b>2%</b>

#### Household Demand

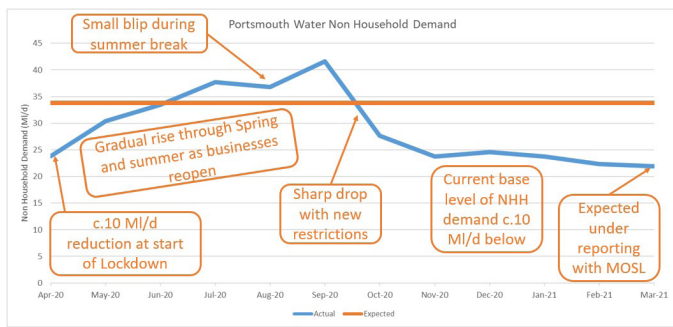
We have seen a 14% increase in household demand vs expected. 12% of the increase is due to Covid restrictions, 2% due to weather. This equates to an increase of c.20 litres per person per day in normal water usage, significantly higher during peak demands.

# Reporting On and Accounting for the Impacts of Covid-19



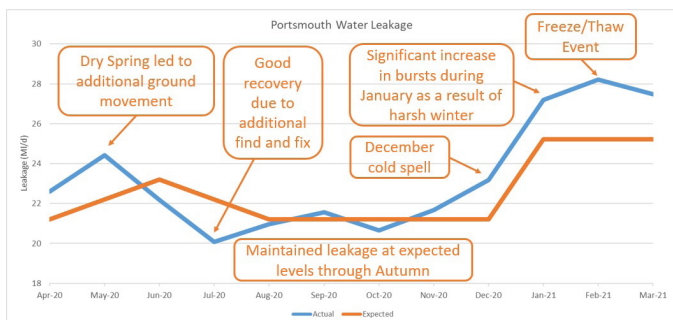
- We have seen a 14% increase in household demand vs expected.
- 12% increase due to Covid restrictions, 2% increase due to weather.
- Our reported spot year PCC is 170.5 litres per person per day, up from 149.9 in 2019/20.
- Increase of c.20 litres per person per day in normal water usage, significantly higher during peak demands.

## Non-household Demand



- We have seen a 14% reduction in non-household demand vs expected. Of this, 16% decrease due to Covid restrictions, 2% increase due to weather.
- Covid has resulted in a reduction of c.10 Ml/d in Covid demand during restrictions periods. Peak period saw increase due to added tourism (staycations).
- PW can expect a bounce-back in demand as restrictions ease during 2021, as seen in the Spring/Summer of 2020. Expect increased demand in peaks if holidays abroad still restricted.
- Heavily reliant on MOSL for accurate data readings to understand how this class of customer is behaving.

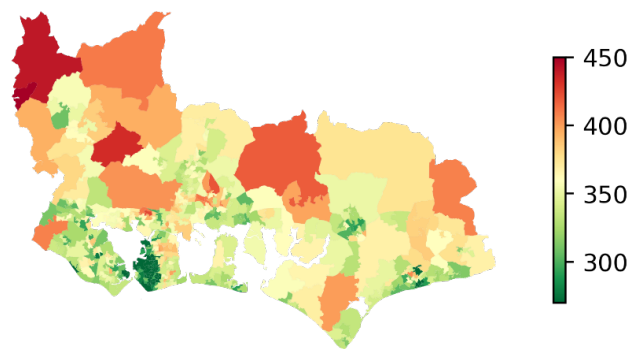
## Leakage



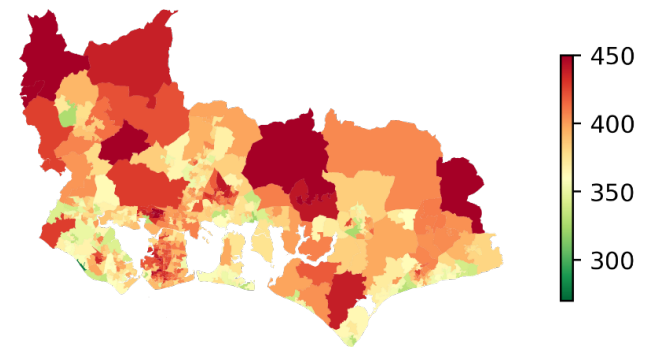
- We have seen a 6% increase in leakage vs expected. All 6% increase due to weather. No Covid impact.
- Despite the harsh winter and dry summer we have continued to reduce leakage compared to previous years.
- Leakage is now over 10% below ODI target.
- Full recovery in Spring 2021. Leakage now back to Autumn 2020 levels of c.21 Ml/d.

## Demographics

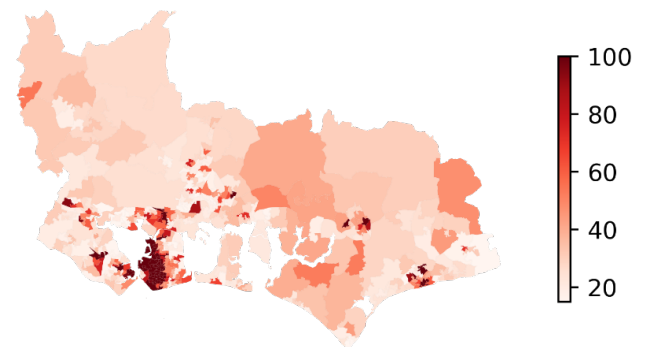
PHC 2019/20



PHC 2020/21



PHC Increase



- The "heat" maps above have been developed using data from our billing system and our household monitors.
- It allows us to understand what local demand is in any area, and how it is changing. This allows us to focus our water efficiency messaging.

- As we have stated a number of times in this presentation, the difference between 2019/20 and 2020/21 is more than just due to Covid.
- The maps show per household consumption. We also have analysis for per person consumption.
- The units are litres per property per day for all three graphs.
- In general, our more rural / affluent customers are located in the northern part of our supply area and their PHC is typically about 400 litres per property per day compared to those in the more urban / coastal customers with demand often less than 300 litres per day.
- Looking at 2020/21 you can see the increase in demand overall but significant increases in the urban / coastal areas.
- The largest increases are focused in urban areas, Portsmouth in particular, but also Gosport and Bognor.
- The increases have taken place in areas where many working aged people live and would in normal conditions not be at home but at their place of work.
- We will continue to monitor this issue over time.

### Conclusions and next steps

We have identified PCC to be the main ODI which has been affected by Covid-19.

In general, our more rural / affluent customers are located in the northern part of our supply area and their PHC is typically about 400 litres per property per day compared to those in the more urban / coastal customers with demand often less than 300 litres per day. In 2020/21 we saw general increases in demand with significant increases in the urban / coastal areas.

The largest increases are focused in urban areas, Portsmouth in particular, but also Gosport and Bognor. This reflects areas where many working aged people live and would in normal conditions not be at home but at their place of work.

Therefore we estimate household demand in 2020/21 was 14% higher than expected and even higher during periods of stricter restrictions. This equates to an overall increase in PCC of circa 20 litres per person per day and this can be higher during peak demands.

We estimate that Covid-19 can explain 12% of the uplift. *Ceteris Paribus*, we would have expected our PCC to increase from 149.9 litres per person per day in 2019/20 to 152.9 litres per person per day in 2020/21. Our reported PCC for 2020/21 is 170.5 l/p/d which is an increase of circa 20 l/p/d in the year reflecting both the weather impact and the significant impact Covid restrictions had on the demand of household customers.

Whilst in 2020 our response / initiatives were very much reactive and related to communications we have already planned a number of activities for 2021. These include:

- A Summer communication campaign, linked in with the more high level WaterUK campaign
- Launching the Getwaterfit website (with community based incentives),
- A smart metering trial

We will continue to closely monitor this issue and engage with Ofwat and other stakeholders to ensure we all understand what has been the impact of Covid-19 restrictions on this ODI.

# Havant Thicket Winter Storage Reservoir

## Executive Summary

The financial year to 31 March 2021 (FY21) has seen very significant developments for the Havant Thicket Reservoir Project (the Project); some of the most notable milestones achieved for the year were:

- Signature of the Bulk Supply Agreement (BSA) between Portsmouth Water (PW) and Southern Water (SWS) on 29 January 2021;
- Submission of the planning application to the Local Planning Authorities on 29 October 2020; and
- Launch of the procurement of PW's main works contracts and the associated positive response from the market.

Considerable efforts have gone into the Project to meet these key milestones; in this report further details are provided of:

- Consultations with customers and stakeholders in support of the planning application, with no objections from the statutory consultees.
- Progress with the design of the Project to meet the planning, delivery, environmental and budgetary constraints. In support of the design, PW has undertaken further ground investigations and site surveys to assess this key area of risk for the Project.
- The development of the Biodiversity Mitigation and Compensation Strategy which is a critical component of PW's planning application.

The Project has progressed well despite the impact of Covid-19. The planning consultations and market engagement activities were amended so that these activities could be undertaken remotely, and site investigations went ahead largely as planned, with some additional protection measures for Covid-19 compliance.

PW welcomes Ofwat's support on the Project, particularly in relation to the positive engagement on the BSA, where PW has worked with Ofwat and SWS to implement licence changes and a regulatory guidance note to support the financing of the Project on a basis that is consistent with water sector norms.

## Introduction

This report provides a summary of the key activities undertaken during the year to 31 March 2021 on the Project. It is intended to provide Ofwat with a high-level summary of the progress that has been made on the Project during the year and a description of the main activities undertaken.

The report has been prepared by PW and has been structured around the key workstreams within the project:

- Bulk Supply Agreement
- Planning
- Design Development
- Procurement
- Consultation with Customers and Stakeholders
- Biodiversity Mitigation and Compensation Strategy
- Ground Investigations
- Ofwat Engagement
- Governance

## Bulk Supply Agreement

On 29 January 2021, PW and SWS signed an 80-year BSA which governs the supply of water from PW to SWS. Under the BSA, PW will be able to supply up to 21 million litres of water per day to SWS from the date the Project is completed in April 2029, until the expiry of the BSA in 2100.

During the year to 31 March 2021, there was a significant workstream to finalise the terms of the BSA. The signature of the BSA provides PW with the confidence to develop the Project. As such, this was a critical workstream for PW and a key area of focus for management and the Board.

The key activities undertaken during the year included:

- Reflecting the bespoke regulatory framework for the Project in the BSA.
- Resolution of outstanding key commercial positions with SWS.
- Adapting the BSA to allow flexibility for future SWS 'Direct Pipe' proposals into the arrangements.



### Regulatory Alignment

A regulatory framework for the delivery of the Project was agreed with Ofwat at the PR19 Final Determination (December 2019) which allows PW to spend £123.6m over the period from 2020-2030 to develop and construct the Project and the supporting infrastructure to enable the supply of water to SWS. This investment will be made by PW and will form part of the company's overall Regulatory Capital Value (RCV).

During the early part of the year, the commercial arrangements were updated to reflect the outcome of the Final Determination; particularly the separate wholesale price control, Outcome Delivery Incentives (ODIs) and the Efficiency Challenge that was introduced at the Final Determination.

### Commercial Negotiations

Intensive final negotiations took place on the BSA in the first half of the year involving the CEO and CFO of PW and the core negotiating team of Agilia (Commercial) and Sharpe Pritchard (Legal). Agreement on the key commercial principals was reached in September 2020 and legal drafting followed in the period through to BSA signature in January 2021.

There were some complex commercial challenges with the BSA including how to implement a project where there was a financing and funding split which could potentially lead to scenarios in which the funding source could be detached from the financing. There were also challenges in ensuring that there was an appropriate risk / reward balance between PW and SWS.

### Direct Pipe Proposals

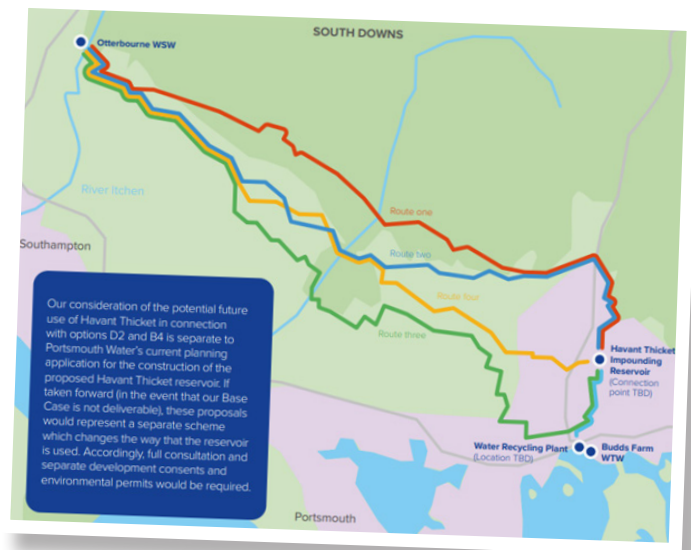
In early 2020, SWS was developing a strategy for regional resilience ("Water for Life Hampshire Programme") which would potentially require changes to the operation of the reservoir by introducing a direct pipe to transfer raw water from the reservoir to SWS treatment works at Otterbourne (see diagram below extracted from SWS documents).

Several changes were made to the BSA to incorporate flexibility so that future changes can be made to the physical infrastructure of the Project and to associated operational requirements.

### Planning

During FY21 three planning applications were submitted by PW on 29th October 2020:

- for the reservoir and associated buildings and facilities
- for the connecting fill / draw pipeline between the reservoir and Bedhampton Springs
- for improvements to Farlington Water Treatment Works (WTW).



The reservoir site is split along a north south alignment between the two local planning authorities (LPA) of Havant Borough Council (HBC) and East Hampshire District Council (EHDC), both within Hampshire County Council (HCC). The fill / draw pipeline corridor is located in HBC. Farlington WTW is located within Portsmouth City Council's area.

A hybrid planning application has been submitted for development of a reservoir and a separate outline planning application for the fill / draw pipeline. As the reservoir site and pipeline corridor are a 'single Project' (i.e., inextricably linked) they are supported by one Environmental Statement which assesses both the reservoir and fill / draw pipeline as one project. Both applications will be determined together. The level of detail required for different elements of the Project has been discussed and agreed with HBC and EHDC, the host Local Planning Authorities (LPA).

In FY21 a significant amount of pre-planning engagement activity was carried out. This was to ensure all information submitted as part of the planning application had the support and included the expertise of key stakeholders such as:

- Natural England
- Environment Agency
- Historic England
- Forestry Commission
- County Highways
- Hampshire and Isle of Wight Wildlife Trust.

This is explained in more detail in Section 6 Consultation with Customers and Stakeholders.

# Havant Thicket Winter Storage Reservoir

## Design Development

There has been significant progress with developing the design of the Project from outline design to design for tender.

Design for planning was completed at the end of May 2020 to allow for the planning consultation and planning application documents to be prepared for planning submission in October 2020.

A further round of design for tender was completed in November 2020, taking account of results of ground investigations.

The main areas of the design that have been developed during FY21 include ecological, sustainability, heritage, traffic, health and safety, buildability and stakeholder feedback, all of which was incorporated into the Design for Planning.

PWs design team has spent time to incorporate cost savings to deliver on Ofwat's efficiency challenge in the Final Determination, including considering alternative options, particularly in respect of the fill / draw pipeline.

Considerable effort has been made into understanding the key ground condition risks, and a 3D geotechnical model has been developed to support the design of the embankment which has been assured by a Panel of Experts. The additional effort to determine and analyse the ground conditions risks has been done to ensure that contractors have detailed analysis so that contractors can assess and price risks effectively during the procurement process.

## Procurement

During the year to 31 March 2021, PW has undertaken the following key procurement activities:

- Procurement of Geotechnical contractors to undertake investigations for the design and for the procurement process.
- Preparation for the launch of the procurements which required intensive development to obtain feedback from the market engagement exercise to take account of the challenging current market conditions that the Project faces (Covid-19)
- Launch of the main works contract procurements (4 January 2021), including clarification responses and commenced the Pre-qualification (PQQ) evaluation process (23 February 2021).

### Ground Investigations Procurements

In FY2021 PW ran three procurements to appoint contractors for three separate packages of ground and site investigations:

- PW appointed Structural Soils to undertake further ground investigations and the works included:
  - Geophysical survey at the reservoir site.
  - A Ground Penetrating Radar survey (GPR) at the disused slow sand filter bed where Dissolved Air Flotation (DAF) plant will be located.
  - Boreholes in the vicinity of the slow sand filter bed.
  - Borehole and window samples along the route of the fill / draw pipeline for Bedhampton to the reservoir, and
  - Boreholes and window samples along the route of the pipeline for Farlington to Nelson (although this work will be deferred to FY2022).
- During the design phase, PW identified the need to undertake GPR investigations for the fill / draw pipeline route due to the potential conflict of the pipeline route with the existing buried services. This contract was awarded to Geotec in Summer 2020.
- PW appointed PJ Carey in the summer of 2020 to undertake seven deep observation pits at the reservoir site. These pits were made safe for personnel entry and allowed PW engineers to study close-up the geology at varying depths.

### Preparation for Procurement

During the year PW finalised its approach to the main works procurement so that it could launch the procurements. There was considerable effort associated with developing the prequalification procurement documentation (pre-qualification pack) in the final months of 2020. A critical aspect of the preparation for procurement was to get a detailed understanding of the impact of Covid-19 on the construction market prior to the launch, so that this could be reflected in PWs procurement approach.

The key areas of focus in the development of the procurements were:

- Three rounds of market engagement were held during the year, initially to determine market appetite for the Project, secondly to obtain feedback on the commercial proposals and thirdly to obtain feedback on the impact of Covid-19 on the Project.
- Aligning of the commercial proposals to the Regulatory Framework that was set at the Final Determination and requirements of the BSA. For example, aligning the contractors' objectives with the ODIs and cost sharing incentives.
- Aligning the packaging strategy with the challenges identified as part of the design works. PW proposes to undertake the works as two main works packages; one for the pipeline works (MPW) and a second package for the reservoir works and all other main works, mainly comprising pumps / pumping station, treatment plant and MEICA (Mechanical, Electrical, Instrumentation, Controls and Automation) (MRW+).
- A key benefit of the two main works packages approach provides is that different skill sets are needed for the pipeline work due to the different challenges exist in the pipeline package – in particular, much of the pipeline work is to be carried out in the public eye in residential streets – a separate package allows a focus on the important community aspects. PW has an excellent relationship with the

local community and is seeking to protect and enhance its reputation; there is also a considerable community sensitivity aspect to the pipeline works. Some disruption to residents to deliver the pipeline works is unavoidable, but the works must be performed with great sensitivity, consideration and innovation to minimise the impact of such disruption so far as possible and maintaining the support of the local community whilst disrupting their daily lives is a significant challenge.

### **Main Works Procurement Launch**

Both main work's procurements were launched on 4 January 2021 and prequalification responses were returned to PW in late February 2021. The tender evaluations and economic and financial standing test assessments commenced in late February 2021 were completed in April 2021.

The Invitation to Tender (ITT) was issued on 5 May 2021 and considerable effort went into the development of this documentation over the first three months of 2021; focussing on the following main areas:

- Finalisation of the conditions of contract – reflecting the commercial and procurement strategy within the standard NEC3 terms;
- Development of the Project Scope documents to reflect the design works undertaken over the year;
- Finalising the Instructions to Tender (ITT) including the evaluation criteria; and
- Finalising the information to be provided to tenderers on the existing site information. PW has developed a Geotechnical Baseline Report for the Project (GBR). GBRs have been used extensively on tunnelling projects (e.g., Thames Tideway Tunnel) where ground conditions have a significant impact on cost and schedule. PW will use a GBR for the MWR+ package given the importance of ground conditions to the embankment design.

### **Consultation with Customers and Stakeholders**

It was important pre-planning to run an extensive consultation programme in the first half of the year. The aim was to ensure the Project had strong support before submitting the application, while ensuring PW had time to obtain feedback, analyse the feedback and make amendments to increase confidence that the planning application would be accepted, and permission granted.

The Project has had a successful year engaging with customers and stakeholders. This has been demonstrated through maintaining the strong level of support provided to the Project through consultations and approvals from key regulatory consultees such as Environment Agency, Natural England and Highway Authorities.

In FY21 PW has continued to engage with local interest and community groups by providing presentations and given groups an opportunity to be heard. It was important that PW gathered evidence and views from a wide demographic, a normal challenge for infrastructure. To counter a problem of low levels of participation from young people a school engagement programme was run. This included an activity sheet sent to primary schools and a survey of secondary school students aged 11 to 18. Presentations were also carried out at local schools.

A key source of feedback is the Havant Thicket stakeholder group which has continued to meet virtually in FY21. Membership has been refreshed to ensure appropriate representation from the local community, environmental groups, planning authorities and regulators and it will continue to play a key role in informing and reviewing the design. The format of the groups has been reviewed and in line with best practice, an independent chair has been appointed. There will be further opportunities for stakeholders to input into the design, raise new issues and influence the design and construction of the Project as it continues to develop.

PW has used a range of communications channels to keep a wide variety of stakeholders (from members of the public to UK government officials) updated and able to engage on the Project in a way that suits them. This has included increasing its use of digital platforms. For example, it created a dedicated Havant Thicket Reservoir Facebook page, which attracted more than 102,000-page impressions during the May / June 2020 public consultation on the Project alone.

National, regional, local and trade media have all been briefed and updated on progress with the Project at regular intervals, resulting in good coverage of the Project – for example, on BBC South Today TV and BBC Radio Solent and in the Portsmouth News newspaper / website. Features in the Portsmouth News on the Project, to highlight the May / June 2020 consultation, reached a total of 102,000+ people.

Key engagement activities as part of the formal planning consultation process over the last year has included:

#### **January-April 2020**

- A workshop was held with the Havant Thicket Stakeholder Group to discuss options (e.g., access, car park locations, visitors centre).
- Ongoing meetings with stakeholders in the Hampshire area.
- Ongoing engagement with key statutory consultees, including the LPAs, Hampshire County Council, Natural England, Historic England and Environment Agency, to address specific design issues and discuss mitigation and compensation proposals.

#### **May/June 2020**

- Due to the Covid-19 situation, PW was no longer able to hold face to face public engagement. PW revised its plans to include a comprehensive suite of consultation materials on the Project website via a digital exhibition section (including an animated fly-through, interactive consultation booklet, complete with maps, images, and videos/podcasts with the specialists on different elements of the Project).

# Havant Thicket Winter Storage Reservoir

The consultation was successful, gathering a good level of feedback which showed general support for the Project. In total, 1,953 items of feedback were received which included 301 feedback forms, and 277 comments via other channels (post, phone, email, website, and social media). Analysis of the feedback forms received has shown that 80 per cent of responders either strongly agreed or agreed with the overall Project.

Following the 2020 consultation, an in-depth review of all feedback received was carried out. This included a “You said, we did” section. The report was shared with all consultees and wider stakeholders during August 2020. On 14 September 2020 a stakeholder webinar was held to present the “You said, we did” report and key information on the planning applications.

Key changes and additions to the design, emerging from the consultation have been summarised in the table below.

Concern about...	Our design response
The impact of construction, on residents, the environment and transport	Developed a combination of both access options proposed, doubling our options for construction traffic coming in and out of the site, creating opportunities to reduce the impact on local communities.
The loss of ancient woodland	Updated the design of the northern access road, to a single lane single carriageway with passing bays, halving the width of the road and reducing the associated loss of ancient woodland by 45%.
Traffic impacts of either access option on local roads and the loss of ancient woodland from the northern option	Developed a combination of both the northern and southern options, to 'dilute' the impact of either route on local roads. Splitting the traffic between two access points also made the reduction of the northern access to a single lane possible, reducing the associated loss of ancient woodland by 45%.
A combined access becoming a 'rat run' and endangering wildlife	The revised, single lane northern route will deter rat runners and both roads will lead to a wooded car park, rather than create a direct route through the site; slowing down traffic and ensuring connectivity for wildlife.
Trails being shared by walkers, cyclists and horse riders	Designed the main circuit to be 4m wide, rather than the 3m minimum recommended by Hampshire County Council guidance. A separated track of the same width will also run alongside the southern vehicle access route.
The development not blending in with the landscape.	Inclusion of a 'green roof' for the visitor centre, providing a more natural look and additional habitat; and a topsoil brush for parts of the rocky embankment, creating a greener appearance, with reeds and sedge grasses.
The impacts of visitors on wildlife and habitats on the site.	Inclusion of gated pathways to stop dogs accessing the wetland viewing areas; and banks, barriers and planting, to keep people away from the most sensitive habitats.
Antisocial behaviour on the site	Consideration of special access gates for bridleways, designed to stop motorcycles; security fencing around the control house; and safety equipment for accidents occurring from unauthorised swimming.

In August, the Project made significant progress towards securing the long-term management of the site. A Memorandum of Understanding (MoU) was signed between Forestry England (Landowner of Havant Thicket, north of the reservoir); Hampshire County Council (landowner of Staunton Country Park to the south of the reservoir) and PW. The MoU is the framework for a future management agreement between the parties to deliver the environmental commitments of the Project and long-term management of the recreational facilities.

## Biodiversity Mitigation and Compensation Strategy

The environmental considerations are necessarily at the core of the Project. The Project will support reduced abstraction from local chalk streams, the internationally designated River Itchen and the nationally designated River Test, which will have a significant positive environmental benefit on these watercourses. It will also result in a reduction in nitrogen loads to the internationally designated Chichester and Langstone Harbours and deliver improvements to water quality and aquatic ecology in the Hermitage Stream.

The Project results in the unavoidable loss of ancient woodland with associated impacts on dormice and roosting, foraging and commuting bats. The overriding need for the Project is articulated in the planning application and a bespoke approach to compensation has been designed in consultation with key stakeholders, this has resulted in Natural England confirming as part of the Planning Consultation their support for the Compensation and Mitigation Strategy. One of the of the key Project design principles was to minimise loss of ancient woodland as far as practicable and design optimisation has further reduced the loss by 1.5 hectares.



### ***Ecological Design***

The design of the reservoir has been environmentally led and, wherever possible, measures have been taken to avoid impacts on environmental assets and designated sites. During FY21 the following changes to the 2009 Outline Masterplan were made:

- Re-alignment of the embankment to minimise the loss of ancient woodland at the Avenue and Round Wood.
- Realignment of the embankment to avoid ancient woodland on the western site boundary through the inclusion of a 15m no-dig zone and avoidance of root protection zones.
- Re-locating the car park within the north west corner of the Site avoiding Bell's Corpse ancient woodland.
- Retaining an area of ancient woodland within the wetland area along the northern shore of the reservoir as 'wet woodland'.
- Including two access points (from the north and south) in the Project to enable a reduction in footprint of the northern access route minimising loss of ancient woodland and use of ancient woodland soil arising from loss elsewhere to form the access road embankment slopes. Further measures to minimise impacts on ancient woodland along this route will be investigated at the detailed design stage.

### ***A New Wetland***

During FY21 the Project has developed the design for the new wetland at the north end of the reservoir. The creation of a new wetland along the northern edge of the reservoir will provide an exciting new leisure facility and wildlife conservation area for local communities. In combination with the overall mitigation package, the wetland will ensure the delivery of a diverse array of wetland habitats that will support a wide range of wetland species. The wetland will be retained when the reservoir is drawn down and the ephemeral stream to the north will drain into the new wetland.

### ***Mitigation and Compensation Strategy***

During FY21 there has been considerable effort to agree the necessary Habitat and Mitigation Strategy with regulators so that a positive planning outcome can be achieved. Objections or delays in planning are likely without approval from Natural England or the Environment Agency on the mitigation or compensation measures.

The Strategy is based on six core elements:

- An environmentally led design based on the mitigation hierarchy approach of Avoid, Mitigate and then Compensate.
- Creation of a mosaic of new and high-quality habitats on the site, including a new open waterbody with a retained wetland offering variable water depths, a variety of vegetation types and islands for added habitat complexity and to act as for roosting and nesting sites for birds. New woodland/parkland planting has also been undertaken as advance works.
- Enhanced land and environment management for biodiversity on the wider site through collaboration with Forestry England and Hampshire County Council land including a long-term site management plan.
- Support for others to create new high bio-diversity value habitats off-site, such as through provision of long-term capital grants.
- Ensure appropriate mitigation and compensation is implemented for protected and notable species. European Protected Species licences will be obtained where required.
- Allow significantly greater protection of nationally and internationally important chalk stream habitat by reducing water abstraction from the Rivers Test and Itchen.

PW is committed to a minimum of 180ha of compensatory measures relating to the loss of ancient woodland. This includes on-site woodland/ wood pasture creation and on-site ancient woodland enhancement. It also includes off-site creation and/ or enhancement to deliver the minimum of 180ha of woodland interventions. Compensation for the loss of purple moor grass rush pasture will comprise bespoke on-site habitat creation. For all other habitats affected by the Project, losses will be minimised and opportunities for compensation on the Site would be taken as far as practicable, and the priorities for targeting offsite capital funding will take account of the habitat types to be lost.

The Project will cause the loss of watercourses, ditches, and the Upper Lake within the reservoir site. This impact was deemed to have a risk of significant effect at waterbody level as detailed in the Water Framework Directive, as such the planning application could not be approved without an Article 4.7 derogation. The team worked closely with the Environment Agency and following the identification of an enhanced mitigation strategy, a derogation was formally approved in April 2021.

The Project results in the unavoidable loss of ancient woodland with associated impacts on dormice and roosting, foraging and commuting bats, especially Bechstein's bat. The loss of these habitat to Dormice and Bats means the Project requires European Protected Species Mitigation (EPSM) Licenses before any action can be taken. During FY21 the Project entered into a pre-license application engagement with Natural England. This includes two rounds of pre-screening where a draft is reviewed to improve the likelihood the application will be accepted. The application will be submitted once planning permission has been granted in FY2022.

### ***Advanced planting***

During FY21 PW planted hundreds of trees and created new ponds and hedgerows on the edge of the reservoir site to improve habitats for wildlife. This has included a mixture of more than 3,000 trees to create a memorial woodland in partnership with Havant Borough Council as a place for quiet reflection and a valuable new habitat to connect other areas of woodland nearby so birds and mammals can move around and feed more easily.

# Havant Thicket Winter Storage Reservoir

## Ground Investigations

Following on from work completed by Socotec on the reservoir site at the end of 2019, PW carried out additional ground investigations in the middle of 2020 to help PW to refine the design and planning application for the reservoir. The outputs of the surveys were incorporated into a 3D model of the Geotechnical Design which will also be provided to the contractor as part of the procurement.

### *Deep Observation Pits*

Seven observation pits were excavated by the subcontractor, Careys, to allow geotechnical engineers and experts to gain further information on the ground conditions. These pits have now been fully reinstated, and the areas reseeded.

### *Geophysical surveys*

The contractor, Structural Soils, undertook a geophysical survey of the reservoir site to allow PW to look beneath the surface without breaking the ground. A small van was used to follow a defined route around the reservoir site to make sure PW has identified all the features below the surface, for example archaeological features. The route was agreed with PW's ecologist to cause minimal impact to the ecology on the site.

### *Geology surveys*

Structural Soils also undertook borehole surveys at seven locations within the site, to allow PW to analyse the different layers of materials below the surface. Core samples were taken at the locations using a specialist machine.

### *Ground Penetrating Radar Survey*

In mid-2020, Geotech carried out surveys along the proposed route of the fill / draw pipeline to help confirm the location of existing underground pipes and cables and enable PW to refine the design for the planning application.

Specialist contractors used hand-held and van-mounted radar equipment and lifted manholes covers to look below the surface. To minimise the impact to traffic on busier roads, PW carried out some surveys overnight, with temporary traffic lights in place to protect those working.

### *Water Level Monitoring*

In October 2020, Structural Soils installed three boreholes along the proposed fill / draw pipeline route to allow PW to gather more information about water levels underground. Water levels continue to be monitored at the reservoir site, with the data feeding into the groundwater model.

## Ofwat Engagement

PW has engaged extensively with Ofwat following the PR19 Final Determination to provide Ofwat with visibility of progress on the Project and to ensure that the regulatory framework aligns with the BSA, particularly in relation to stranded asset risk, especially in the remote circumstances where either PW or SWS enters Special Administration.

PW has kept Ofwat apprised of the progress of the Project in FY21, particularly in relation to the signature of the BSA.

This engagement has allowed PW to sign the 80-year BSA with SWS on 29 January 2021. All conditions precedent were satisfied (e.g. PW financing completed) and the BSA became effective on 30 March 2021.

## Governance

### *Portsmouth Water Governance*

PW has continued to develop and enhance PW's internal Project reporting and governance structures.

Specific Board oversight for the Project is provided by a Steering Committee, comprising the CEO, CFO and representatives of the Board together with the Project Team. The Steering Committee meets monthly as an informal sub-committee of the Board.

In addition, a Commercial Group has been formed to oversee the development of the BSA and commercial arrangements for the procurements. The Commercial Group also includes the CEO, CFO, Board Representatives and the Project Team.

Both Steering Committee and Commercial Group continued throughout FY21.

### *Southern Water Governance*

During FY21 PW has extensively engaged with SWS colleagues on the finalisation of the BSA and PW has developed a governance structure for the Project for the next 80 years.

Under the BSA PW and SWS have developed effective Project governance arrangements to provide oversight of the Project and to provide SWS with the necessary protections for its customers.

## Conclusion and Next Steps

FY21 has been a critical year in the development of the Project, which now has demonstrable support from Ofwat, SWS, key regulators and the local community. In FY2022 the project takes the next steps forward in the planning determination in summer 2021 and appointment of main works contractors in spring 2022.



# Greenhouse Gas Emissions

This section provides stakeholders with an understanding of the Greenhouse gas emissions of the business for 2020/21. Specifically it is included in our APR following instruction from Ofwat in IN21/02 – Further guidance on reporting of greenhouse gas emissions.

Operational greenhouse gas emissions are calculated through the UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook. Portsmouth Water will use the latest released version available at the time of reporting, for this year we have utilised V15 released in March 2021.

The operational emissions are measured in tonnes carbon equivalent (tCO<sub>2</sub>e) which we convert to kilograms carbon equivalent (kgCO<sub>2</sub>e) per million litres (Ml) of water put into supply and in relation to £m turnover. Please note this report on greenhouse gases is different to the ODI reported in Section 3E.

Section	Description	Value tCO <sub>2</sub> e
<b>A</b>	<b>GROSS ANNUAL OPERATIONAL GHG EMISSIONS</b>	
<b>(i)</b>	<b>Scope 1 emissions</b>	
<b>1</b>	Direct emissions from burning of fossil fuels (including CHP generated onsite)	220
<b>2</b>	Process and fugitive emissions	0
<b>3</b>	Transport: Company owned or leased vehicles	310
<b>(ii)</b>	<b>Scope 2 emissions</b>	
<b>4</b>	Purchased electricity	5,440
<b>(iii)</b>	<b>Scope 3 emissions</b>	
<b>8</b>	Business travel on public transport and private vehicles used for company business	2
<b>9</b>	Outsourced activities (if not included in Scope 1 or 2) Energy and other	186
<b>10</b>	Purchased electricity – Transmission and Distribution	468
<b>12</b>	Gross operational emissions	6,626
<b>B</b>	<b>NET ANNUAL OPERATIONAL GHG EMISSIONS</b>	
<b>(i)</b>	<b>Emissions reductions/accounting</b>	
<b>13a</b>	Exported renewables (generated onsite and exported)	-12
<b>13b</b>	Exported fuel (generated onsite and exported)	0
<b>14</b>	Green Tariff electricity purchased	-5,390
<b>15</b>	Net operational emissions	1,230
<b>C</b>	<b>ANNUAL OPERATIONAL GHG INTENSITY RATIO VALUES</b>	
<b>16</b>	Operational GHG emissions per Ml of treated water	880
<b>17</b>	Operational GHG emissions in relation to wholesale turnover £000s	1,525

Line 16 is calculated as Scope 1 + Scope 2 relative to distribution input plus bulk supplies of 185 Ml/d in 2020/21 and shown as kg CO<sub>2</sub>e / Ml.

Line 17 is calculated as Scope 1 + Scope 2 relative to appointed income of £39,136,000 in 2020/21 and shown as kg CO<sub>2</sub>e / £000s.

The table below provides the breakdown of each scope criterion by GHG type. Again this data is derived from the UKWIR Carbon Accounting Workbook, CAW15.

Direct GHG emissions quantified separately	CO2e Tonnes	CO2 tCO2e	CH4 tCO2e	N2O tCO2e
<b>Scope 1 (excluding refrigerants)</b>	530	524	0	5
<b>Scope 1 (including refrigerants, except R22)</b>	0	0	0	0
<b>Scope 2</b>	5,440	5,390	17	32
<b>Scope 3</b>	656	650	1	5
<b>Gross total</b>	6,626	6,556	19	43
<b>Reduction</b>	-5,410	-5,360	-17	-32
<b>Net total</b>	1,230	1,210	2	11

Our data has been assured by Jacobs as part of their annual assurance exercise on behalf of the Board.

2020/21 reporting year has seen an increase in use of grid electricity by 2.5% due to increased demand for water from customers but a healthy reduction in Net Carbon/MI overall, this is due to a number of factors. The most significant contributions arise from the following:-

- Moving all of our unmetered supplies to renewable energy
- Switching our Porchester booster to renewable energy
- Increasing the use of PV both to supply ourselves and export to the grid

Other items include:-

- Reduction in business travel due to Covid-19 restrictions
- Reduction in outsources activities due to Covid-19 restrictions
- Reduction in burning of fossil fuel

We have also undertaken a SWOT Analysis of our data and methodology as shown in the table below.

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Good operational performance</li> <li>• Improved data monitoring and reporting within the business</li> <li>• Green energy purchase coverage 99% currently</li> </ul>
<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Reliance on green energy purchase</li> <li>• Restricted technology and recovery being a Water only company</li> <li>• Current resource restriction to be able to perform some favourable site audits</li> </ul>
<b>Opportunities</b>
<ul style="list-style-type: none"> <li>• Pushing forward with SPORT (Storage Production Optimisation Real Time) automating our plant to calculate a more efficient running pattern</li> <li>• Pump condition monitoring</li> <li>• Increasing data availability for more regular reporting</li> <li>• Installation of solar cells on our sites</li> </ul>
<b>Threats</b>
<ul style="list-style-type: none"> <li>• Cost implications of purchasing green energy due to potential market need for net zero</li> <li>• Weather dependant relating to heating and PV generation as an example</li> <li>• Reduction in DI causing kgCO2/MI to increase and operational emissions are not necessarily linear to DI</li> </ul>





