Portsmouth Water Limited

Annual Performance Report 2022

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


Portsmouth
Water
Primayer

Portsmouth Water At A Glance

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

165 years

We are proud to have served the local community since 1857.

£103

On average our domestic customers paid £103 during 2021/22 for their water supply.

747,000

Over 747,000 people use our clean drinking water every day.

178m litres

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 178 million litres of water.

324,000

We provide clean drinking water to 324,000 homes and businesses in our area.

3,380km

Our area of supply has a network of over 3,380 kilometres of underground pipes.

We provide drinking water only. We do not provide sewerage services; these are 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.

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

Company Number
2536455

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Foreward from Bob Taylor, CEO

Bob Taylor
Chief Executive Officer

I have great pleasure to present the Annual Performance Report for second year of the AMP7 regulatory period. I am pleased to say we have continued to deliver on our commitments to our customers and now play a central role in securing water resources for the South East. Alongside this we have delivered strong financial performance and continue to make progress on our long-term plans.

We have made great progress on the new Havant Thicket reservoir. The reservoir will be built on the grassland site next to Havant Thicket, which sits in between Rowlands Castle, Leigh Park and Staunton Country Park in Havant. Its purpose is to protect world renowned chalk streams in Hampshire by supporting Southern Water to reduce their abstraction from the Rivers Test and Itchen; the scheme represents an important foundation towards future water security in the region.

In October 2021 we achieved a major milestone when we received formal planning permission for the reservoir. We have subsequently commenced the enabling works on site in preparation for the construction phase of the project.

This will be the first major new reservoir to be built in the UK since the 1980's. The progress made reflects the hard work of the Portsmouth Water led team but it is also the result of true collaboration with Ofwat, Southern Water and other stakeholders such as our customers, local authorities, community organisations, the Environment Agency, DEFRA, RAPID, Natural England and Forestry England. The project is a great example of how we are working together in the water stressed South East region to address the challenges posed by climate change and population growth in the longer term.

I am very proud that we continue to deliver a strong value proposition to our customers through having the lowest bill and highest standards of service nationally. At £103, our average bill in 2021/22 was the lowest in the sector by a considerable margin. However, we recognise the significant financial pressures on households at the moment in the post COVID economy; for this reason we chose to defer some of the ODI rewards from our strong performance in 2020/21 when we set our charges for 2022/23. We remain focused on supporting our customers who struggle to pay our bill. Our Helping Hand Social Tariff helps those on low incomes and capped our bill at £77.76 for the 2021/22 billing year. Numbers of households supported have grown from 9,327 in March 2021 to 10,254 in March 2022.

We expect that the cost of living crisis will continue to put pressure on our customers' living standards in 2022/23 and beyond. We are continuing to seek ways to further support our customers and are working hard to build relationships with partner organisations including local authorities, housing associations, Citizen's Advice Bureaux, charities and directly with vulnerable customers themselves; these relationships help us to quickly identify cases of economic vulnerability and provide proactive support.

We have continued our strong overall ODI performance, delivering on 18 of our 26 ODI targets. Some of the failed targets were marginal and there is little doubt that COVID has had an impact. In spite of this, overall we continued to deliver industry leading performance on key measures such as leakage, interruptions to supply and customer service in 2021/22. Specifically, we expect to be ranked 3rd for customer and developer services measures, we continue to outperform our leakage target and we delivered our best ever performance on supply interruptions (where we already led the industry in 2020/21).

We take performance against our ODIs very seriously and we have recovery plans in place where we have not met the targets. During the year we failed to deliver on our Per Capita Consumption (PCC) target. Our household usage patterns have been adversely impacted by the COVID pandemic. Whilst commercial use has almost returned to pre-pandemic levels, household use remains between 5 and 10% higher - driven by increased working from home. We remain committed to promoting ways to help our customers to be more efficient in their use of water, in order to benefit the environment and reduce water, waste water and energy bills.

We have commenced a £3.2m programme to improve water quality, working closely with the Drinking Water Inspectorate. We had 9 water quality failures in the 2021 calendar year; unfortunately, although most of these were minor and related to plumbing issues, we have failed our ODI target. The score has also been impacted by an issue involving aluminium based treatment byproducts in our network which we are actively investigating. Control measures have been put in place to ensure the water quality to customers is not impacted moving forwards.

Finally, and most importantly, I would like to sincerely thank our hugely dedicated work force and that of our supply chain partners. Covid continued to impact the company throughout 2021/22 but we have adapted well to new working arrangements and maintained our excellent levels of service to our customers throughout. It is through the commitment and resilience of our people that we have been able to maintain high standards of service in spite of challenging working conditions. It is an honour and a privilege to lead such a great team. Thanks to every single one of you.

Our Company Purpose

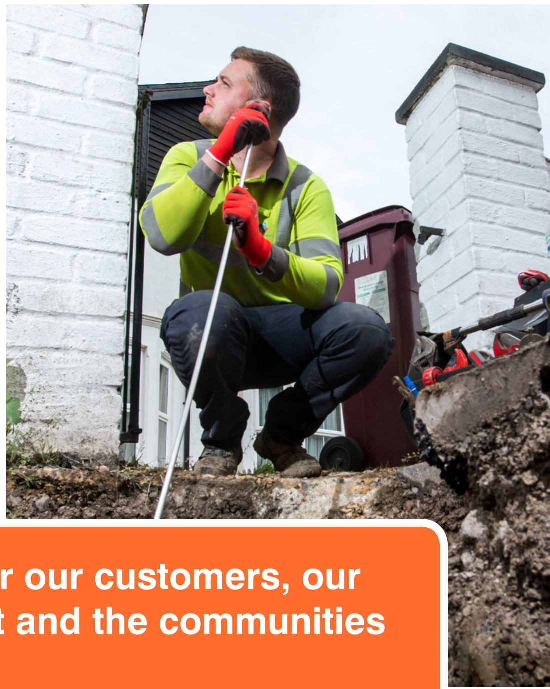
Our Board takes overall responsibility for developing the Company Purpose - including the strategy, objectives, values and culture that the business needs to deliver this successfully.

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 Future Innovators Board developed and launched the Portsmouth Water Community Partnership.

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



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

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 and Safety through all of our activities**

Corporate Governance

The Board of Portsmouth Water Limited, at 31 March 2022, 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 Chris Milner who is the CFO. The Independent Chairman is Christopher Deacon and Independent Non-Executive Directors are Lara Stoimenova and Angela Wilson. In addition, there is one Investor Director, Christopher Loughlin.

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

Portsmouth Water is committted 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 44-74 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 requirements in relation to leadership, transparency and governance and has, for ease of reference, summarised below how the key provisions have been met. Further information on Governance arrangements is included in the Annual Report and Accounts available on the company website.

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.	During the year and as preparation for PR24, we undertook work to update the Company Purpose. This is set out in more detail on page 10 in the Annual Report and Accounts. In parallel to this we also formalised our commitments to the communities that we serve through our Community Partnership. This has been carried out with the senior leadership team, and involves a 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" sections of our Annual Report and Accounts. We note the Board's plans to update this area in contemplation of the challenges of PR24 and 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. During 2022 we are introducing a new People Strategy which will 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.

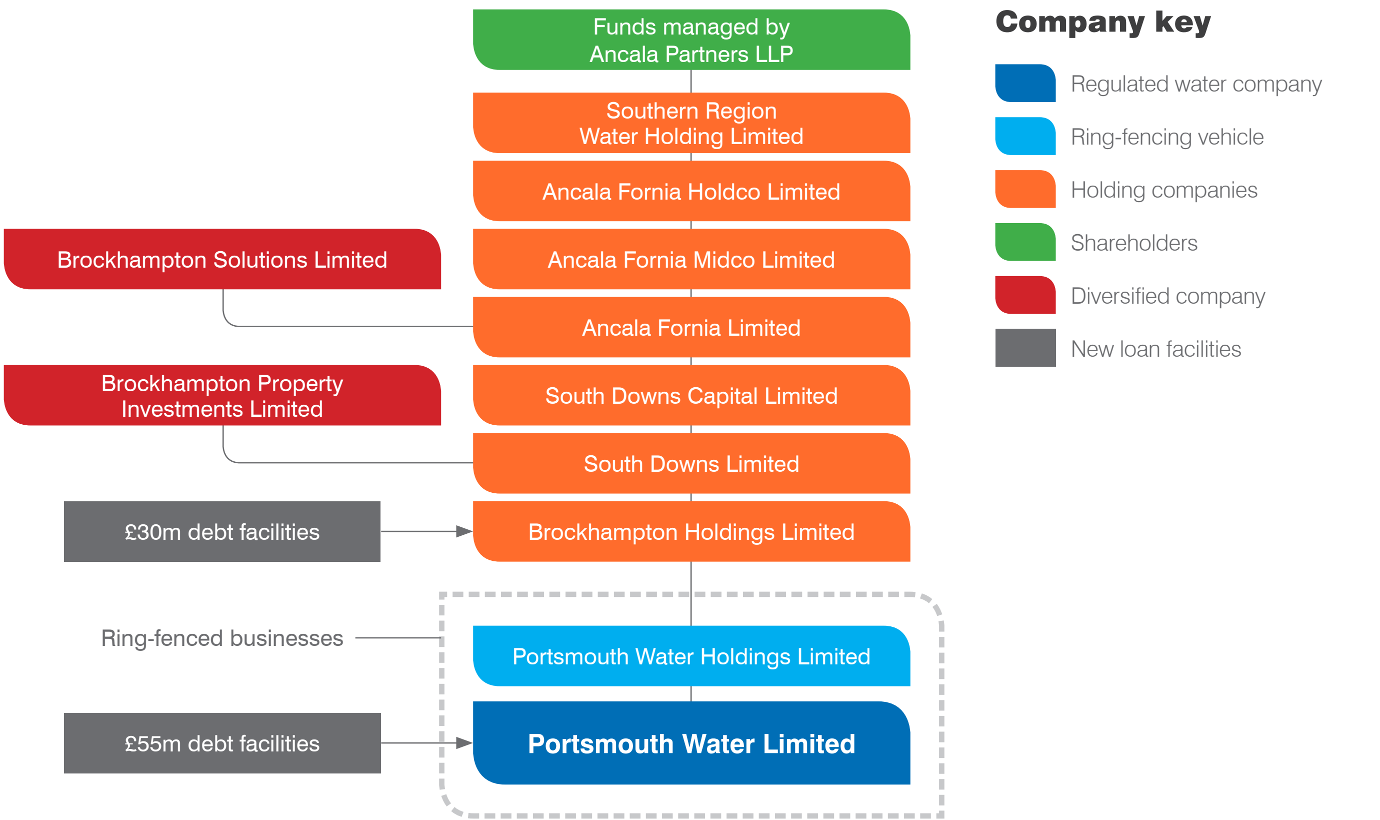
Provisions	
The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.	This is set out in the Corporate Governance section of the Annual Report and Accounts 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 of the Annual Report and Accounts 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 of the Annual Report and Accounts.

Corporate Governance

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 9.
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 13. This was updated as part of the PR19 Business Plan process.
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	The Principle risks and uncertainties faced by the business are covered both under "the issues that affect us" and "Principal risks and uncertainties" in the Annual Report and Accounts.
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 58 in the Annual Report and Accounts.
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 66 to 72 in the Annual Report and Accounts, 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 59 and 65 in the Annual Report and Accounts. 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 65 in the Annual Report and Accounts.
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 59 in the Annual Report and Accounts.
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 60 in the Annual Report and Accounts. The Board has also updated its skills matrix and has been mindful of the appropriate balance of skills and experience in making new appointments. The actions arising from the Governance Review after the previous Board Evaluation are detailed throughout this Governance section.
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 65 in the Annual Report and Accounts.
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 65 in the Annual Report and Accounts. 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 pages 56 and 57 and in the sections covering the Audit, Nomination and Remuneration Committees in the Annual Report and Accounts.

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 2022 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).

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 £116.0m (2021 - £111.6m).

During the year changes were made to remove the sinking fund requirements of the loan to avoid the need to deposit significant cash sums over five years prior to 2032.

In 2020/21 the group 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

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

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

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

Within the water industry, customer service and experience is measured and compared via the Customer Measure of Experience (C-MeX). 2021/22 has been a challenging year with further lockdowns and COVID-19 outbreaks stretching operations. Despite these challenges we are very proud to report we have been ranked 3rd in the industry.

The number of written complaints per 10,000 connection is 9.43, a reduction on last year and expected to be upper quartile performance in the industry. We have seen a number of complaints this year as a result of the need to change our policies on meter reading in response to the restrictions required to meet the COVID-19 pandemic. Customers were unhappy that we had not read their meter but sent estimated bills out instead. We are once more able to read all meters as planned and expected by our customers.

We achieve a wider service comparison through our membership of the Institute of Customer Service. The Institute has over 400 members in the United Kingdom, representing a broad cross section of sectors. In 2021, we continued to receive great feedback from our customers and employees as we look to achieve Distinction in the Institute's Service Mark award. Customers were most satisfied with service reliability, helpfulness of staff and the competence of staff.

ServiceMark
Accredited from May '21 to May '24
The Institute of Customer Service

Affordability and Vulnerability
We have the most affordable bill in the industry, with our average bill in 2021/22 being £103, against an industry average of £189 and the next lowest to ours being £142. Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £77.76 for the 2021/22 billing year. Numbers supported have grown from 9,327 in March 2021 to 10,254 in March 2022.

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

We once again completed a piece of research focusing on how satisfied local organisations were with the support we offer for vulnerable customers. We achieved a satisfaction rate of 70% which is a drop in performance compared to the previous year. Whilst most organisations were satisfied with the service we provide to date, some have asked whether we can do more to assist during the current cost-of-living crisis.

Mains repairs
Contrary to 2021, we saw a significant reduction in mains repairs. For the reporting period of 2022 we recorded 160 mains failures compared to 257 for 2021. Whilst 2021 was an outlier in terms of a high number of recorded mains failures; conversely, 2022 was a lower than the forecast number of mains repairs, this we believe as a result of a benign winter. As with the previous reported period, our management of this activity again did not adversely impact our customers, as shown by the interruptions to supply ODI. Again, we have reduced the overall impact to our customers in the year and expect to be industry leading on this measure when comparisons are available.

Per Capita Consumption
As the pandemic has continued to impact our daily lives, so it has continued to affect our household usage patterns. Whilst commercial use has almost returned to pre-pandemic levels, household use remains between 5 and 10% higher - driven by increased working from home. There remains uncertainty in the future level of household demand we should expect as we 'learn to live with COVID-19' but we are well placed to accommodate any continuation of this step change.

We remain committed to promoting ways our customers can be more efficient in their use of water, to the benefit of the environment and possibly their own water and waste water bills.

Compliance Risk Index
The measure of water quality used by the Drinking Water Inspectorate (DWI) is the Compliance Risk Index (CRI). This is a composite measure which considers the nature of the failure and the scale of the risk to customers. We had 9 water quality failures in the calendar year which has impacted the CRI score. Unfortunately, this means we have failed our CRI target. The score has mainly been impacted by an issue with Aluminium in our network which we are actively investigating. Control measures have been put in place to ensure the Water Quality for to customers is not impacted.

Reportable Accidents
During the year we had no RIDDOR reportable accidents (an accident that has caused an individual to be off work for more than 7 days). Whilst we are pleased with this outcome we continue with the highest focus on Health, Safety and Wellbeing of our people, contractors and members of the public.

Guaranteed Standards Scheme
We are legally required to pay customers compensation where we do not meet the prescribed standards. This includes not responding to customer letters, not informing them that their supply may be interrupted as we work on the network and compensation if we miss an agreed appointment. In the year we made a total of 98 payments with 35 related specifically to one event in November 2021 where we

accidentally omitted to notify customers in advance of a planned interruption.

Non Household Retail Market
Performance of trading parties in the business retail market is measured against 19 Market Performance Standards (MPS) and 22 Operational Performance Standards (OPS). We have continued to perform well in both MPS and OPS metrics in 2021/22, and achieved sector leading performance is both metrics. Our MPS performance was 98.86%, and our OPS performance was 99.49%.

We have also continued to collaborate with retailers by offering a meter reading service, and an ad-hoc service to reduce long unread meters, which has been well received in the non-household retail market. September 2021 saw the first OPS process go live in the MOSL bilaterals Hub with an additional 11 OPS processes set to be implemented by November 2022, supporting the effective functioning of the market and providing a central location for bilateral requests.

We have continued our strong R-MeX performance throughout 2021/22 and achieved upper quartile performance. We are proactively engaging with retailers to see how we can improve our service offering, and some areas for improvement include changes to financial policies, offering additional services and complying with the good practice guides in areas where we are not entirely aligned.

Developer Services
We have continued our strong D-MeX performance throughout 2021/22. We were ranked 3rd overall with a score of 90.56, a 1.36% improvement on 2020/21.

We continue to implement improvements based on the feedback we receive from developers on our service delivery. Improvements in 2021/22 included the introduction of more applications to our online bilateral Portal. Alongside our Portal we are also redesigning the Developer section of our website to make it easier to navigate and to locate desired information.

During 2021/22 applications from Self-Lay providers has remained steady, whilst there has been an increase in the number of applications from New Appointments and Variations (NAVs).

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 (DWI). We have achieved our second-year target for AMP7 of 0.430 contacts per 1,000 population served. Our performance was industry leading for the last two years, 2020 and 2021, and we expect this to be the case again this year, 2022.

Leakage
We continue to maintain low leakage with a three-year average leakage figure of 25.0 Ml/d. This is 1.6 Ml/d below our regulatory target of 26.6 Ml/d and is expected to be upper quartile performance within the UK water industry.

We have seen a small rise in leakage in 2021/22, increasing from 23.6 Ml/d in 2020/21 to 26.9 Ml/d. This is a result of a harsh 2020/21 winter which significantly increased the number of leaks on our network going in to the current year. We have focused 2021/22 reduction activities on the development of a Digital Twin that will lead to more cost-effective leakage reduction in the long term, but we also understand the need to reduce leakage in the short term. We have put in place a Spring 2022 recovery programme that has been signed off by the Pressure and Leakage Steering Group and have already started to see a leakage reduction.

Around 50% of our network is now covered by the latest fixed acoustic noise logger technology, which allows us to find and fix leaks very quickly on metallic pipes. The remaining 50% of the network is made up of plastic pipes where traditional methods of leak detection are inefficient. The development of a Digital Twin, alongside the other areas of innovation, will result in a step change in performance as we continue to strive to reduce leakage.

Interruptions to supply
We continue to have one of the best levels of performance in the industry for interruptions to supply for customers. At an average of 2 minutes 21 seconds per property, compared to a target of 6 minutes 8 seconds, this is our best performance on record. 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 and techniques to make repairs to our network, so that customers are not impacted by any failure. We are well placed to achieve our regulatory targets for the remainder of AMP7.

Regulatory Outcome Delivery Incentive (“ODI”) performance
The Company has 26 ODI targets as part of the regulatory performance framework. These were set as part of the PR19 business plan process and reflect stretching performance targets. During the year, the Company has achieved 18 of 26 ODIs in total. We are very disappointed about the eight failures to meet these challenging standards and have action plans in place to address those not achieved. Further information can be found in section 3.

The challenging void target of 2% was not achieved this year and was adversely impacted by recruitment challenges during the first quarter of the year. We have subsequently put in place an action plan and have made good progress on this measure more recently.

We narrowly missed our targets on Water Industry National Environment Programme (WINEP) delivery and the biodiversity grant scheme. We completed three out of four required WINEP schemes within the year. The fourth scheme was completed in April 2022 and we are on target for 2022/23. We have provided a total of £99k of biodiversity grants against a target of £100k, a strong performance given that a number of organisations have had to temporarily reduce staff available for projects due to rising costs and COVID-19.

We also narrowly missed our resilience against severe restrictions during a drought target. Greater household usage has resulted in increased customer demand for water, and whilst we have worked hard to mitigate against this through the reduction in leakage, we have experienced an overall increase in the water needed. We are in the process of developing a new water resources model to provide greater understanding of water available, as well as continuing to be committed to reduced water usage and leakage.

Company Direction and Performance

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 relates to a legacy financing arrangement that has been in place since 2002.

The 'recirculating' dividend paid is received by the Company in the form of interest payments and does not result in any net cash outflow or distribution of value. Following feedback from Ofwat on the 2020/21 Annual Performance Report, management has committed to a review of the current structure to consider options and cost and benefits to efficiently remove the requirement for the recirculating dividend and unwind the loan structure.

Dividend policy
Dividend policy is set to align with the 5-year business plan agreed with Ofwat. A new dividend policy was adopted in April 2020 in line with the proposal in our PR19 business plan submission. The policy was set in line with regulatory guidance in Ofwat's PR19 Final Methodology and the Draft Determination.

The policy has been revised for the financial year 2021/22 to reflect additional guidance provided in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity (vs 5% in the previous published dividend policy).

In assessing our dividend policy and our proposed dividend the Board consider the following factors:

1. Performance against commitments to customer and stakeholders over a rolling 3-year period, this includes:
   - 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
2. Overall financial performance of the appointed and non-appointed business including performance against totex allowances and other regulatory financial incentives.
3. Financability tests on medium term liquidity and long-term financial viability testing to consider long-term financial resilience, including consideration of future capital requirements to supporting RCV growth and investment requirements.
4. Compliance with regulatory requirements in particular Licence Condition P and License Condition F.

The dividend is calculated in two components:

- A return on the equity component of the Regulatory Capital Value (RCV) and is calculated as 4% or the regulated component of the RCV at the end of the financial period in line with the PR19 FD guidance.
- A "recirculating" dividend in relation to a legacy financing structure which is value neutral where distributions are received back in intercompany interest receipts.

The company will adjust the dividend payable for:

- Interest payable in relation to subordinated intercompany loans to ensure overall distributions to holding companies are maintained in line with PR19 dividend guidance.
- Net financial penalties relating to in-period Outcome Delivery Incentives following publication of Ofwat's final determination on in-period Outcome Delivery Incentives (published in November following end of financial year).

The Board will consider any required further reduction to the dividend payable where:

- The company performance over a rolling 3-year performance does not deliver on commitments to customers and stakeholders.
- Financial performance does not support payment of a dividend.
- Forecast 5-year totex expenditure is higher than allowances in the PR19 final determination.
- Regulatory gearing is above the limits set in the Gearing Outperformance Sharing Mechanism.
- Real growth of the asset base within the AMP is not adequately support by shareholder funding.
- Financability tests on medium term liquidity and financial viability testing give rise to concerns on long term financial resilience.
- Non-compliance with regulatory license including License Condition P clauses on dividend policy and credit ratings / cash lock up and license Condition F Regulatory Accounting Statements.

The Board will consider further additions to the dividend proposal where:

- Profits are available from non-appointed activities.
- Net financial rewards are available through the in-period Outcome Delivery Commitments following consideration of projected future performance.
- Company share of property disposal proceeds.

Dividend Policy

The Board will consider further additions to the base dividend at the end of the 2020-2025 price control for:

- Outperformance against the wholesale five-year totex incentive mechanism.

The company will transparently set out and explain to stakeholders the application of the dividend policy each year and how it relates to performance in each year.

Dividends relating to financial year 2019/20 paid in year:
In relation to the year ended 31 March 2020 the Company declared a dividend of £3.930m in line with the dividend policy of 5% return on regulated equity and a recirculating dividend to service intercompany debt.

Interim dividends of £2.254m were paid during 2019/20 but the final dividend was deferred due to the uncertainties associated with the Covid pandemic in early 2020. A final dividend of £1.676m was paid in February 2022 after the Board were assured on 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. 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.

Dividends relating to financial year 2020/21 paid in year:
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. The company declared a final dividend of £3.454m. The company paid a core dividend of £3.199m and a further £0.240m recirculating dividend in February 2022 in relation to intercompany receivable from an intercompany loan. The dividends paid were within Board approval, the core dividend was recalculated to reflect Ofwat's published RCV value that was updated in June 2022 after the accounts were signed. As it was 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 did not choose to make any enhancement above the core dividend.

Further information on dividends paid in year relating to 2019/20 and 2020/21 are available in the disclosures set out in the 2020/21 Annual Performance Report

Proposed dividend for financial year 2021/22:
The dividend policy for financial year 2021/22 has been revised to reflect a change in Ofwat guidance within the PR19 Final Determination. The base dividend yield has been revised from 5% to 4% of regulated equity.

The Directors are recommending a dividend of £2.711m and a recirculating dividend of £0.686m for the financial year 2021/22 to be paid in June 2022.

In making this recommendation the Directors have carefully considered the relevant factors and believe a 4% dividend yield is appropriate;

- The company has delivered industry leading performance on customer service, leakage and supply interruptions over the last 3 years.
- Social tariff and vulnerable customer targets have been achieved and the company has maintained ROSPA gold award accreditation.
- Financial performance is in line with budget, all financial covenants have been met for the year and totex expenditure is projected with the Final Determination allowances for the current price control.
- Regulatory gearing is within the threshold of the PR19 Ofwat Gearing Outperformance Sharing Incentive, and
- AMP7 RCV growth has been supported by additional capital support from our Investors through equity and capital raised in 2020/21.

The Directors support two adjustments to the base dividend.

- The dividend proposal reflects an increase to base dividends of £0.530m (£0.473m 2017/18 prices) for In-period Outcome Delivery Incentive rewards earned in relation to financial year 2021/22 reflecting industry leading service performance.
- The dividend proposal also includes a reduction to base dividend of £0.690m in relation to intercompany interest payable. Interest relating to holding company intercompany loans is adjusted as part of our updated dividend policy to ensure total distributions to holding companies are in line with the PR19 guidance on yields.

The calculation of the proposed dividend for 2020/21 is shown in the table below.

Proposed Final Dividend for 2021/22		2021-22
	Total: Average total RCV (year average) - nominal (year average prices)	£179.441m
	Regulatory equity notional (PR19FD)	40%
	Regulatory equity notional (PR19FD)	£71.776m
	Dividend yield (per dividend policy)	4%
	Base Dividend - Return on Regulated Equity	£2.871m
	Base Dividend - Recirculating Dividend	£0.686m
	Base Dividend	**£3.557m**
Less	Adjustment for intercompany interest payable to holding companies	(£0.690m)
Less	Adjustment for in period Outcome Delivery Incentive penalties	£0.000m
Add	Adjustment for in period Outcome Delivery Incentive rewards	£0.530m
	Dividend Proposal	**£3.397m**
Other	Performance against commitments to customers and stakeholders	
Other	Financial performance supports dividend payment	
Other	5-year totex expected within PR19 Financial Determination limits	
Other	Regulatory gearing within limits of PR19 Gearing Outperformance Sharing Mechanism	
Other	Financial resilience: Medium term liquidity / Financial Viability Tests	
Other	Regulatory license compliance	
	Dividend Paid - Return on regulated equity - Paid Feb 2022	£0.000m
	Dividend Paid - Recirculating Dividend	£0.000m
	Interim Dividend Paid	**£0.000m**
	Final Dividend - Return on Regulated Equity	£2.711m
	Final Dividend - Recirculating dividend	£0.686m
	Final Dividend Proposed	**£3.397m**

Viability Statement

1. Assessment of prospects

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

Background information

The Company's business model and strategy are central to an understanding of its prospects. Further explanation of the business model and strategy can be found on pages 10 to 13. 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 page 37.

The Company has just completed the second 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 Havant Thicket reservoir and a more challenging regime of rewards and penalties.

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.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2022/23) 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.

It 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 CFO, 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 February 2022.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the recovery from the COVID-19 pandemic
- Increase in CPIH (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 2022. 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 44 and 45) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 61. 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 summarised in section 2 below.

The period of assessment

The Board conducted the assessment for a period of 10 years to 31 March 2032. 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 3 years remaining of the regulatory period and an assessment of the results for the successive 7 years; and for the Havant Thicket price control the 8 years to the end of the price control and the successive 2 years. 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 and 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 2032.

2. Assessment of viability

The Assessment of Viability therefore uses; for the "core business" a period of 3 years of regulatory business plan to 2025 and a further 7 years of projection to 2032; and for the Havant Thicket price control a period of 8 years of the regulatory business plan together with a further 2 years to 2032. 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 ("Artesian") and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover ("ICR"). These scenarios (which are summarised on pages 48 and 49), have been driven from the Boards assessment of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 44 and 45). 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. Credit facilities include the Revolving Credit Facility ("RCF") together with both external debt facilities available to Portsmouth Water ("Opco debt") and external debt passed down as Intercompany loans from Brockhampton Holdings ("Holdco debt").

It has also been assumed that adverse impacts, which may have an adverse but short lived (one 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 deferral 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 2032.

4. Going concern

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

For and on behalf of the Board

Bob Taylor
Chief Executive Officer
30 May 2022

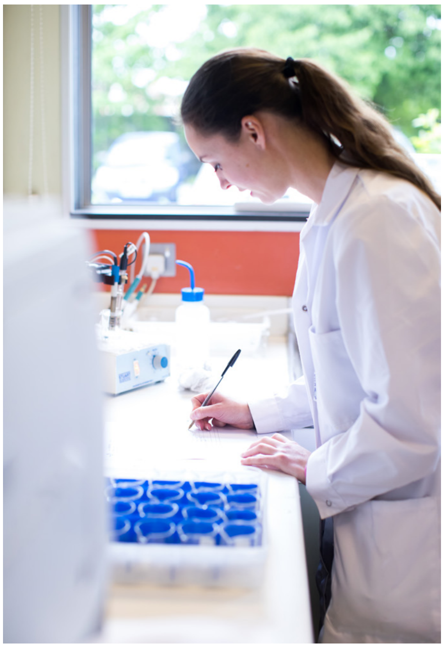
Viability Statement

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	Borrowing	Capital
Cost of living	Assumption that cost of living crisis leads to inflation being 5% higher than currently forecasted in FY23 and FY24 with a specific increase in input costs at a further £0.5m in FY23, representing pressures on electricity and chemicals. This is coupled with an increase of £0.5m in bad debt costs in FY24. This leads to failure on our Moodys ICR in FY23 (1.37x vs 1.50x Target), FY25 sees a failure on the Artesian ICR (0.07x vs 1.45x Target).	In line with the Company's response to COVID-19 in FY21, the infrastructure renewals programme could be reduced in year. A £0.7m reduction in FY23 ensures that the Moody's ICR is achieved. This can be fully recovered in FY26. Additional drawdown on the RCF in FY25 (£15m) ensures compliance with the Artesian ICR.	✓	✓	
SONIA + 150bps	Assumption that interest rates are 150bps higher than baseline assumptions. This reduces cash by £6.4m by the end of FY32 and causes the Moody's ICR to be failed in FY24 (1.44x), all of AMP8 (averaging at 1.32x) and FY30, FY31 and FY32 (averaging at 1.47x). The Artesian ICR is failed in FY27 (1.17x) and FY28 (1.39x).	Cost savings of £1.1m (AMP7), £12.3m (AMP8), £0.6m (AMP9), together with a combination of restricting dividends and additional Holdco debt amounting to £13m.	✓	✓	
Multiple ODI failures equal to 3% RoRE ODI penalty per annum	Based upon FY21 RoRE, a 3% penalty equates to £2m. This is assumed to apply from the middle of the next AMP (AMP8) and is assumed to continue in AMP9. The penalty is assumed to increase annually with CPIH. Such penalty every year causes Moody's ICR failures in FY29 and FY30 (1.43x and 1.39x respectively).	Cost reprofiling within years in AMP8, together with £5m of additional capital, arising from a combination of restricting dividends and additional Holdco debt.	✓	✓	
50bps reduction in WACC	Assumption that the WACC for AMP8/9 is 50bps lower than anticipated in the current model. This reduces EBITDA £2m-£3m per year from FY26 to FY32. The Artesian ICR is 1.24x in FY27, while the Moody's ICR is 1.41x, 1.48x, 1.40x and 1.36x in FY26, FY28, FY29 and FY30 respectively.	Cost reprofiling within AMP7, £3.45m cost saving over AMP8, of which £2m can be reprofiled to AMP9. £18.5m of additional capital, arising from a combination of restricting dividends and additional Holdco debt over AMP8.	✓	✓	
£5m pension deficit - caught up in increased annual contributions of £0.5m	Assumed pension deficit of £5m at the end of FY22, recovered through increased contributions of £0.5m (17/18 prices) per annum from FY23 to FY32. This causes the Artesian (1.43x) and Moody's (1.35x) ICRs to fail in FY27 and FY23 respectively.	Compliance with the ratios can be achieved through reprofiling £750k of cost from FY23 to FY25. A drawdown on the RCF of £2m in FY27 is required to deliver the Artesian ICR.	✓	✓	
2 Year Delay in HTWSR and 20% cost overruns	This scenario assumes that the HTWSR project is overspent by 20% (although risk sharing agreements with contractors mitigate this to 15% net impact to Portsmouth Water), together with a 2 year delay causing both dry and wet commissioning ODIs to be missed. This causes ODI penalties in 17/18 prices of £1.9m (in FY26) and £7.7m (FY30). In this scenario, the Moody's ICR is failed in FY26 and FY30 (1,25x and 0.72x respectively) due to the ODI penalty. The Artesian ICR is failed in FY23 (1.26x) and averages at 1.27x in AMP8.	Additional capital in the form of £24m of shareholder investment in AMP7, together with additional debt drawdown of £6m in AMP8 (Opco debt) and £13.7m capital, arising from a combination of restricting dividends and additional Holdco debt.		✓	✓
£1.5m cost shock in FY23	Assumed increase in costs of £1.5m in FY23 only. This causes the Artesian ICR to fail (1.21x) in the year. No impact in any other year.	A reduction in the infrastructure renewals programme of £1.5m in FY23, which can be recovered over the remainder of the AMP period (£0.5m in FY24, £1m in FY25).	✓		

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Borrowing	Capital
Combined scenario - Pension deficit, WACC reduction and loss of company premium	Assumed pension deficit of £5m at the end of FY22, recovered through increased contributions of £0.5m (17/18 prices) per annum from FY23 to FY32, together with a reduction in allowed Ofwat returns. This causes numerous instances of key ratios being failed- Moody's ICR in FY23 (1.29x) , FY24 (1.47x), FY26 (1.35x), FY28-FY30 (between 1.30x and 1.42x), Artesian in FY27 (1.17x).	This can be managed by cost reprofiling in AMP7 (allows for a net £0.9m increase in spend, bringing forward some AMP8 spend. £5m of cost saving over AMP8 of which £1.5m can be deferred into FY31 and FY32).	✓		
Combined scenario - Sonia plus ODI penalty	This scenario assumes that interest rates are 150bps higher than baseline assumptions together with ODI penalties at 3% of RoRE. This increase to interest charges puts strain on the key metrics, exacerbated by reduced EBITDA of £7.6m in AMP8, and a further £5.3m in FY31 and FY32. In this scenario the Artesian ICR is failed in FY27 (1.17x), FY28 (1.24x), 1.32x (FY29) and 1.38x (FY31). Moody's averages at 1.50x in AMP7, 1.23x in AMP8 and 1.33x in FY31 and FY32.	Cost savings of £1.5m in AMP7 and £6.7m in AMP8. Headroom in FY31 and FY32 means that an additional £2m of cost can be incurred, which could be deferred from AMP8. £8m of additional debt funding is also required.	✓	✓	

Tax Strategy



Corporate Structure

The Group structure is set out on page 55. 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 Chief Financial Officer 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 Chief Financial Officer
- 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 related to 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 Research and Development Tax Credits scheme to reduce our corporation tax charge and therefore continue to maintain one of the lowest total operating costs in the UK water industry.

Capital Allowances

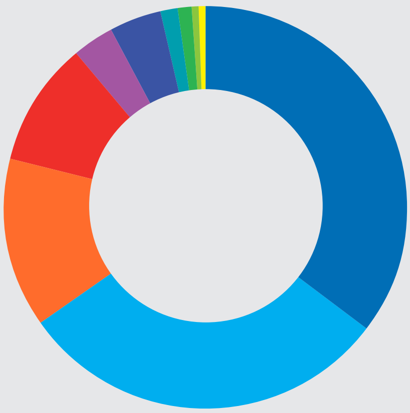
As with all large infrastructure companies, we manage our application of Capital Allowances carefully. This ensures we maximise legitimate taxation opportunities where possible.

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 occasionally 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.

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



Business Rates	£2,422k
PAYE	£2,038k
Employer's NI	£932k
Employee's NI	£676k
Climate Change Levy	£233k
Permit Schemes	£290k
Fuel Duty	£98k
Insurance Premium Tax	£71k
Road Fund Licence	£35k
Apprenticeship Levy	£31k

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 and 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 Chief Financial Officer 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 suspect tax evasion may be taking place;
- We will not do business with others who do not also hold themselves 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-19
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.

Chris Milner
Chief Financial Officer

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 66 to 72. 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 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 lowest price 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.

In 2020 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 discussed 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 (2021/22)
- Determining performance targets in respect of 2022/23 annual incentive bonus plan
- Assessment of the annual incentive scheme for the Company's senior leadership team
- Continued 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, includes 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, limited to 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 of 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.

Mr. J. C. Milner currently has no other Directorships.

The Chair 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:

Remuneration Policy Table

Element, purpose and link to strategy	Operation, performance measures, deferral	Maximum opportunity	Performance metric
Base Salary (Fixed Pay) 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.	Reviewed annually, taking account of market salary levels, Company performance, individual performance, changes in responsibility and levels of increase for the broader employee population. The remuneration committee considers the impact of any base salary increase on the total remuneration package.	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. Details of the outcome of the most recent salary review are provided in the annual report on remuneration.	None
Benefits (Fixed Pay) To provide cost-effective taxable benefits and to support the wellbeing of employees.	The Company currently provides a range of taxable benefits such as medical insurance, car allowance, life insurance and paid holiday. Specific benefits provision may be subject to minor change from time to time, within this policy.	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.	None
Pension (Fixed Pay) To provide market competitive pension arrangements, to assist with recruitment and retention.	Employer contributions made in respect of Executive Directors are paid to an appropriate defined contribution pension scheme. Effective February 2022, Mr. C. R. Taylor now receives his employers pension contribution as salary.	10% of salary into a defined contributions scheme, or equivalent amount paid as salary.	None
Annual bonus (Variable Pay) 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.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. A significant portion (66.6%) of executive bonus awards are linked to stretching performance levels for the relevant financial year together with personal performance objectives. Details of the performance levels for the most recent financial year and performance against them are provided below.	The maximum bonus potential is 60% (CEO) / 30% (CFO) of base salary of which two thirds is payable during the first half of the following financial year and one third is payable at the end of the AMP period (see Long-term incentive scheme (Variable Pay) (1) below).	The incentive scheme is split between; Stretching delivery targets (operational and financial) 66.6% and personal performance objectives 33.3%.
Long-term incentive scheme (Variable Pay) (1) - "LTIP1" To incentivise Executive Directors to deliver sustained long-term performance	Long term bonus awards to Executive Directors calculated on an annual basis and paid out at the end of the Asset Management Plan ("AMP") (the five year period ending 31 March 2025), subject to the achievement of performance conditions.	20% (CEO) / 10% (CFO) of salary per year paid at the end of year five.	The incentive targets are as set out for the Annual Bonus award. A discretionary 25% uplift is determined by successful outcome at PR24.
Long-term incentive scheme (Variable Pay) (2) - "LTIP2" 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 AMP period. Annual assessment of likely performance conducted, with a provision for one fifth 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 period, together with 30% of non regulated EBITDA in excess of £4.75m target for the AMP period. 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 CFO respectively.	Totex and EBITDA from the non regulated business.

Remuneration Report

Long-term incentive scheme (Variable Pay) (3) 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.
Employment contracts, and loss of office 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
New Executive Director appointments 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
New Executive Director appointments 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. There is a separate bonus scheme associated with property sales for the Chief Executive Officer and Chief Financial Officer there were no property sales with Portsmouth Water Limited during 2021/22.

The scheme pays up to the following percentage of base pay;	Total Maximum Variable Element	Annual Variable Element	Long Term Variable Element
Total maximum variable bonus allowance (%)			
Chief Executive Officer	60%	40%	20%
Chief Financial Officer / Commercial Director	30%	20%	10%
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 and 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, two thirds will be paid during the first half of the following financial year, and the remaining one third 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	
Service objectives	20%	6.7%	Achievement of the 10 stretching performance measures (See Service metric targets table below with further information on targets).	10 measures met 8 measures met 6-7 measures met <6 measures	100% 75% 50% 0%
Financial objectives	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 Capex Cash flow	up to 40% up to 40% up to 20%
Personal objectives	20%	6.7%	Personal objectives (approved by the Remuneration Committee) linked directly to strategic business objectives.	Full or substantial Partial Some progress Incomplete	100% 75% 50% 0%
Total	**60%**	**20%**			

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2021/22 spot target
Compliance Risk Index	0	< 2.0 reducing to < 1.5 in year 3	< 2.0
Interruptions	6 mins 30 to 5 mins over AMP7	4 mins to 3 mins over AMP7	3 mins 32 secs per property
Leakage	15.2% reduction over AMP7	15.2% by year 2022/23	6.2% reduction in the year
PCC	6.3% reduction over AMP7	3.6% reduction over AMP7	2.5% reduction in the year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	72.4 repairs per 1,000km
Unplanned Outage	2.34% pa	2.34% pa	2.34% pa
C-MeX	No explicit target	Reward equating to 4% pa	Upper quartile
D-MeX	No explicit target	Reward equating to 2% pa	Upper quartile
Priority Services	2% to 9% over AMP7	2% to 9% over AMP7	3.7%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	80%

Financial objectives	Target
EBITDA (before exceptional items)	£15.2m
Capex - programme	£20.9m
Capex - efficiency	5%
Cash generated from operations - half year	Greater than £6.4m
Cash generated from operations - full year	Greater than £13.3m

- ***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.

Remuneration Report

- ***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	2021/22 spot target	Achieved
Compliance Risk Index	< 2.0	✗
Interruptions	3 minutes 32 seconds per property	✓
Leakage	6.2% reduction compared to 2019/20	✓
PCC	2.5% reduction compared to 2019/20	✗
Mains repairs	72.4 repairs per 1,000km	✓

Unplanned Outage	2.34% pa	✓
C-MeX	Upper quartile	✓
D-MeX	Upper quartile	✓
Priority Services	3.7%	✓
Severe Drought	80%	✗

Financial objectives	Target	Achieved
EBITDA (before exceptional items)	£15.2m	✗
Capex - programme	£20.9m	✗
Capex - efficiency	Better than 3%	✓
Cash generated from operations - half year	Greater than £6.4m	✗
Cash generated from operations - full year	Greater than £13.3m	✗

Statement of Consideration of Employment Conditions Elsewhere in the Company
The remuneration approach for the Executive Directors is broadly consistent with that for employees across the Company as a whole. However, the exception is that employees do not receive an annual performance related bonus.

Annual Report on Remuneration

Directors Remuneration as a Single Figure (Audited Information)

Remuneration is analysed by Director below:

	Salary/Fees £000	Benefits £000	Bonus Scheme £000	Pension £000	**Total 2022 £000**	Total 2021 £000
Executive:						
C. R. Taylor	198	8	81	16	**303**	292
J. C. Milner (Appointed October 2021)	67	10	14	7	**98**	-
H. M. G. Orton (Resigned September 2021)	66	7	-	18	**91**	225
Non-Executive:						
C. Deacon	47	-	-	-	**47**	42
A. Wilson	27	-	-	-	**27**	20
Dr. L. Stoimenova (Appointed January 2022)	7	-	-	-	**7**	-
M. Coffin (Resigned December 2021)	20	-	-	-	**20**	27
	432	25	95	41	**593**	606

The Investor Director, Mr. C. Loughlin is not remunerated by Portsmouth Water Ltd as his primary employer is Ancala Partners LLP.

Mrs. H. M. G. Orton and Mr. M. Coffin resigned in 2021. Dr. L. Stoimenova was appointed in 2022 and Mr. J. C. Milner in 2021.

Directors' emoluments waived during the year
There were no Directors' emoluments waived during the year.

Other payments to Directors
An amount of £122,566 was paid in September 2021 to Mrs. H. M. G. Orton, a former Director, relating to her service and previous accrued bonus.

Taxable benefits
Benefits comprise company car (taken in cash and as a benefit in kind), medical insurance and relocation expenses.

Remuneration Report

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

	2022 £000	2021 £000
Car benefit	**15**	17
Medical insurance	**3**	5
Other	**7**	-
Total	**25**	22

Performance related award schemes (Annual bonus (Variable pay) and LTIP1)
As explained above the remuneration package of the Executive Directors, as reported in the notes to the financial statements, 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 and 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.

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.

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

	Weighting (%)	% of targets achieved	% of bonus provision earned	Weighted % bonus earned
Service objectives		80 (8/10 ODIs)	75	
Financial objectives:				
EBITDA (before exceptional items)	40	95	100	40
Capex - programme	20	56	-	-
Capex - efficiency	20	74	90	18
Cash generated from operations	20	-	-	-
				58
Personal objectives:				
J. C. Milner (Appointed October 2021)		75	75	
C. R. Taylor		75	75	

Accordingly, the following performance related awards were made in respect of the current financial period.

Performance related bonus achieved 2021/22:

	% of base salary achievable	% of base salary	Bonus £
J. C. Milner (Appointed October 2021)	30.0	20.8	13,520
C. R. Taylor	60.0	41.6	81,120

Annual bonus (Variable pay)

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

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total %
J. C. Milner (Appointed October 2021)	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 %
J. C. Milner (Appointed October 2021)	6.7	6.7	6.7	20
C. R. Taylor	13.3	13.3	13.3	40

Summary of Directors’ performance targets and maximum Annual bonus (Variable pay) achievable:

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum Annual bonus (Variable pay) £
J. C. Milner (Appointed October 2021)	6.7	4,333	6.7	4,333	6.7	4,333	13,000
C. R. Taylor	13.3	26,000	13.3	26,000	13.3	26,000	78,000

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	Annual bonus (Variable pay) Achieved £
J. C. Milner (Appointed October 2021)	5.0	3,250	3.9	2,513	5.0	3,250	9,013
C. R. Taylor	10.0	19,500	7.7	15,080	13.3	26,000	54,080

Long term incentive scheme 1 (LTIP1)

The maximum percentages of salary payable under the LTIP1 scheme were as follows:

	Service Objectives %	Financial Objectives %	Personal Objectives %	Total per annum %	5 Year Total %
J. C. Milner (Appointed October 2021)	3.3	3.3	3.3	10	50
C. R. Taylor	6.6	6.6	6.6	20	100

Summary of Directors’ performance targets and maximum LTIP1 (Variable pay) achievable:

	Target %	Service Objectives £	Target %	Financial Objectives £	Target %	Personal Objectives £	Maximum LTIP1 (Variable pay) £
J. C. Milner (Appointed October 2021)	3.3	2,167	3.3	2,167	3.3	2,167	6,500
C. R. Taylor	6.6	13,000	6.6	13,000	6.6	13,000	39,000

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

	Achieved %	Service Objectives £	Achieved %	Financial Objectives £	Achieved %	Personal Objectives £	LTIP1 (Variable pay) Achieved £
J. C. Milner (Appointed October 2021)	2.5	1,625	1.9	1,257	2.5	1,625	4,507
C. R. Taylor	5.0	9,750	3.9	7,540	5.0	9,750	27,040

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 (LTIP2)

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.

	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

The projected bonus is set out below.

	Maximum %	Projected 5 Year Bonus £	LTIP2 - earned in year £
J. C. Milner (Appointed October 2021)	25[1]	6,930[2]	990
C. R. Taylor	50	19,800	3,960

[1] Note, the remaining 25% bonus is payable to a member of the Senior Leadership Team.
[2] Note, J. C. Milner bonus pro-rated for length of service.

Remuneration Report

Long term incentive scheme 3 (LTIP3)

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.

Summary of total bonus earned in year

	Annual bonus (Variable pay) achieved £	LTIP1 (Variable pay) achieved £	LTIP2 earned in year £	Total bonus earned in year £
J. C. Milner (Appointed October 2021)	9,013	4,507	990	14,510
C. R. Taylor	54,080	27,040	3,960	85,080

Pension Entitlements (Audited Information)

The Company participates in two pension schemes, a defined benefit scheme and a defined contribution scheme, to provide pension benefits for its employees. At the year end no Executive Directors were members of or have accrued pension benefits under the Brockhampton Pension Scheme, which is a defined benefit scheme.

Mr. J. C. Milner (previously Mrs. H. M. G. Orton) and Mr. C. R. Taylor are all members of the defined contribution scheme. Contributions amounting to £31,506 were made on their behalf by the Company in the year. The Non-Executive Directors are not members of either of the pension schemes. Benefits in kind relating to company cars are considered to be part of pensionable pay for all employees.

No additional benefits will become available to Directors who retire early. For further details regarding each of the pension schemes, please refer to note 22 on page 59.

Remuneration of the Chief Executive Officer

The table below summarises the remuneration of the Chief Executive Officer for each of the last six financial years.

Year ending 31 March:	2017	2018	2019	2020	2021	**2022**
Total remuneration excluding pension (£000)	161	164	167	240	275	**287**

Percentage Change in Remuneration of the Chief Executive Officer

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

% change in:	Chief Executive Officer	Average for all employees
Base salary[1]	13.3%	3.4%
Benefits[2]	0%	0%

[1]This increase represents the annual pay award.
[2]There were no changes made to the underlying value of benefit payments provided during the year.

CEO Ratio Reporting for the Year Ended 31 March

CEO total pay as a ratio of the following:	**2022**	2021
25th percentile	**1 : 6.31**	1 : 6.93
50th percentile	**1 : 8.61**	1 : 9.06
75th percentile	**1 : 11.48**	1 : 11.79

The calculation does not include the benefit of pension contributions as this is complex to ascertain for all employees given the two schemes in operation.

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

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.
(d) Portsmouth Water confirms that the company has sufficient rights and resources other than financial resources

(e) Portsmouth Water has ensured that the Licence Condition P has been subject to auditor assurance by KPMG and the auditor assurance is published alongside the Annual Performance Report on our website https://www.portsmouthwater.co.uk/about-us/accounts/

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
Financial Position	A detailed review and consideration of the year-end financial statements with particular attention to available cash and short-term facilities. 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. Close involvement and approval of the additional financial facilities, of up to £105m, raised in March 2021 and amendment to the covenants of Artesian index linked debt in March 2022. Consideration of ratings agency position and credit rating.
Performance against PR19 business plan and Final Determination	Routine Board reporting of key PR19 delivery metrics, including P&L and Outcome Delivery Incentives. Routine reporting of Totex outturn. 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.
Credit related factors	The Board approved the company's "Investor Report" including headroom against financial covenants and key financial ratios at both 31 March 2022 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 execution of up to an additional £105m of financing – primarily in support of the Havant Thicket reservoir programme in Mar 2021. The Board approved amendments to the consents on the Artesian indexed linked loan to remove sinking fund clauses to reduce risk of refinancing and proposal to reduce size of the Revolving Credit Facility following reduction of risk in Covid.
Business plans & long-term viability statements	Board approval of PR19 Business Plan, acceptance of the Final Determination and approval of management plans & 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 continuing impact of Covid-19 as set out further below.
Any relevant reports – internal or third-party	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.

MANAGEMENT RESOURCES

Factors	Summary of Board considerations
Management skills, experience and relevant qualifications. Recruitment process, staff engagement	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 & 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 & 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.
Succession planning for key management/staff;	An independent review of the Board performance was undertaken during 2021. 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.
Quality of management/staff induction and other training and development;	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. 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.
Process for ensuring diversity of perspectives;	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 Innovator'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.
Board or management activities, reports or statements;	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 the Board has created a steering group to provide oversight to the PR24 programme which meets monthly. 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.
Independence of Board	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).

SYSTEMS OF PLANNING AND INTERNAL CONTROL

Factors	Summary of Board considerations
Governance procedures; risk management frameworks, oversight procedures. Internal and/or external audit policies, processes, activities and/ or reports.	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.
Systems for maintaining supply/ business continuity, stated action plans.	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. The Board undertook reviews of the Company's approach to IT and Operational Technology in the context of cyber security risks.
Policies to prevent fraud and other unethical behaviour; whistleblowing policy;	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.
Risk, compliance other assurance statements	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
Corporate purpose, vision and values.	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.
Technology and other systems for ensuring checks and balances. Policies to encourage an integrated approached and 'systems thinking'. Planning systems.	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 Chief Information Officer 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. During the year the company commissioned additional external support to undertake penetration testing of our information systems to enhance our risk management against cyber threats.
Assets maintenance/insurance factors.	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
Position/status of key contracts in place.	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" in 2020/2021 and oversight of the award of planning permission in 2021/22. The Board has maintained oversight of the procurement of main works contracts for the pipeline and the reservoir and maintains oversight of decisions and assurance supporting the secondary scheme under consideration through RAPID.
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.	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**
Covid-19 impact	The Board considered the impact of the current Covid-19 pandemic upon the Company's sufficiency of financial resources at the beginning of the pandemic in 2020. 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. The Revolving credit facility is subsequently being reviewed and planned to be resized to £15m in July 2022. Further detail in relation to the Covid-19 response is set out in the Annual Report and Accounts and the Annual Performance Report.
Havant Thicket Winter Storage Reservoir (HTWSR)	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. This has included Board approval of the critical Havant Thicket "Bulk Supply Agreement" in 2020/2021 and oversight of the award of planning permission in 2021/22. The Board has maintained oversight of the procurement of main works contracts for the pipeline and the reservoir which are planned to conclude in 2022. 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 have been consulted on the upward pressures on costs due to the unprecedented inflation and resource pressures on the construction market and the associated dialogue with Ofwat and Southern Water. Going concern analysis presented to the Board as part of the Annual Report and Accounts provides assurance that the company has sufficient financial resources for the next twelve months and the Board has considered the future financing requirements of the programme in context of the provision for a Cost Adjustment Mechanism in PR19 determination to review the cost of programme at planning and procurement gateways. Further detail in relation to the HTWSR project is set out in the Annual Report and Accounts.

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 periodically 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 last published its annual Assurance Plan for 2020/21. The company 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 and reviewed progress at the meeting in November 2021.

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 2021/22.

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.
- 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.

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 Chief Financial Officer has specific responsibility to the Audit & Risk 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;
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.

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.

Directors' Statements and Responsibilities

We publish 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. We plan to consult again in November 2022 with a view to updating our Company Monitoring Plan in 2023. It is no longer a regulatory requirement to publish a company monitoring plan but the Board feel it reflects good practise and we intend to continue the exercise biannually.

This process is the responsibility of the Audit & Risk Committee and is signed off by the Chairman of the Audit & Risk Committee and Chief Financial Officer, 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;
- reviews and scrutinises the Company's business plans; and
- 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 2021/22.

Signed on Thursday 7 July 2022 by:

Mr. C. Deacon
Independent Chairman

Dr. L. Stoimenova
Independent Non-Executive Director

Mrs. A. Wilson
Independent Non-Executive Director

Mr. C. R. Taylor
Chief Executive Officer

Mr. J. C. Milner
Chief Financial Officer

Mr. C. Loughlin
Investor Representative

1A Income Statement

Table 1A - Income statement for the 12 months ended 31 March 2022

£m	Note	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities	RAG 4 reference
Revenue	2	42.670	(2.066)	0.324	(2.390)	40.280	1A.1
Operating costs	3	(34.180)	0.160	(0.017)	0.177	(34.003)	1A.2
Other operating income	4	(0.062)	-	-	-	(0.062)	1A.3
Exceptional items	4	(4.519)	-	-	-	(4.519)	
Operating profit		3.909	(1.906)	0.307	(2.213)	1.696	1A.4
Other income	5	-	2.600	-	2.600	2.600	1A.5
Interest income	6	0.686	-	-	-	0.686	1A.6
Interest expense	7	(10.073)	-	-	-	(10.073)	1A.7
Other interest income	6	0.448	-	-	-	0.448	1A.8
Profit before tax and fair value movements		(5.030)	0.694	0.307	0.387	(4.643)	1A.9
Fair value gains/(losses) on financial instruments		-	-	-	-	-	1A.10
Profit before tax		(5.030)	0.694	0.307	0.387	(4.643)	1A.11
UK Corporation tax	8	0.143	-	-	-	0.143	1A.12
Deferred tax	8	(1.329)	-	-	-	(1.329)	1A.13
Profit for the year		(6.216)	0.694	0.307	0.387	(5.829)	1A.14
Dividends	9	(5.115)	-	-	-	(5.115)	1A.15
Tax analysis							
Current year	8	-	-	-	-	-	1A.16
Adjustments in respect of prior years	8	(0.143)	-	-	-	(0.143)	1A.17
UK Corporation tax		(0.143)	-	-	-	(0.143)	1A.18

Analysis of non-appointed revenue	Non-appointed	RAG 4 reference
Imported sludge	-	1A.19
Tankered waste	-	1A.20
Other non-appointed revenue	0.324	1A.21
Revenue	0.324	1A.22

1B Statement of Comprehensive Income

Table 1B - Statement of comprehensive income for the 12 months ended 31 March 2022

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year		(6.216)	0.694	0.307	0.387	(5.829)	1B.1
Actuarial gains/(losses) on post-employment plans	22	(7.174)	-	-	-	(7.174)	1B.2
Other comprehensive income	20	0.489	-	-	-	0.489	1B.3
Total Comprehensive income for the year		(12.901)	0.694	0.307	0.387	(12.514)	1B.4

1C Statement of Financial Position

Table 1C - Statement of financial position for the 12 months ended 31 March 2022

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Non-current assets							
Fixed assets	10	172.394	-	-	-	172.394	1C.1
Intangible assets	11	1.575	-	-	-	1.575	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	10.996	-	-	-	10.996	1C.6
Total		240.774	-	-	-	240.774	1C.7
Current assets							
Inventories		0.575	-	-	-	0.575	1C.8
Trade & other receivables	13,14	11.298	-	-	-	11.298	1C.9
Financial instruments		-	-	-	-	-	1C.10
Cash & cash equivalents	15	25.694	-	-	-	25.694	1C.11
Total		37.567	-	-	-	37.567	1C.12
Current liabilities							
Trade & other payables	17	(16.581)	0.106	-	0.106	(16.475)	1C.13
Capex creditor	17	(3.214)	-	-	-	(3.214)	1C.14
Borrowings	16	(17.144)	-	-	-	(17.144)	1C.15
Current tax liabilities	17	(0.384)	-	-	-	(0.384)	1C.17
Provisions	17	-	-	-	-	-	1C.18
Total		(37.323)	0.106	-	0.106	(37.217)	1C.19
Net Current assets/(liabilities)		0.244	0.106	-	0.106	0.350	1C.20
Non-current liabilities							
Borrowings	18	(148.155)	-	-	-	(148.155)	1C.22
Deferred income - G&C's	19	(34.737)	0.588	-	0.588	(34.149)	1C.26
Deferred tax	20	(9.834)	-	-	-	(9.834)	1C.29
Total		(192.726)	0.588	-	0.588	(192.138)	1C.30
Net assets		48.292	0.694	-	0.694	48.986	1C.31
Equity							
Called up share capital	21	1.078	-	-	-	1.078	1C.32
Retained earnings & other reserves	21	47.214	0.694	-	0.694	47.908	1C.33
Total Equity		48.292	0.694	-	0.694	48.986	1C.34

1D Statement of Cashflows

Table 1D - Statement of cashflows for the 12 months ended 31 March 2022

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Operating activities							
Operating profit		3.909	(1.906)	0.307	(2.213)	1.696	1D.1
Other income		-	2.600	-	2.600	2.600	1D.2
Depreciation		5.990	-	-	-	5.990	1D.3
Amortisation - G&C's		(0.672)	(0.588)	-	(0.588)	(1.260)	1D.4
Changes in working capital		(3.352)	(0.106)	-	(0.106)	(3.458)	1D.5
Pension contributions		0.352	-	-	-	0.352	1D.6
Movement in provisions		4.365	-	-	-	4.365	1D.7
Loss on sale of fixed assets		0.062	-	-	-	0.062	1D.8
Cash generated from operations		10.654	0.000	0.307	(0.307)	10.347	1D.9
Net interest paid		(4.688)	-	-	-	(4.688)	1D.10
Tax paid		-	-	-	-	-	1D.11
Net cash generated from operating activities		5.966	0.000	0.307	(0.307)	5.659	1D.12
Investing activities							
Capital expenditure		(17.642)	-	-	-	(17.642)	1D.13
Grants & Contributions		0.865	-	-	-	0.865	1D.14
Disposal of fixed assets		0.003	-	-	-	0.003	1D.15
Other		0.240	-	-	-	0.240	1D.16
Net cash used in investing activities		(16.534)	-	-	-	(16.534)	1D.17
Net cash generated before financing activities		(10.568)	0.000	0.307	(0.307)	(10.875)	1D.18
Cashflows from financing activities							
Equity dividends paid		(5.115)	-	-	-	(5.115)	1D.19
Net loans received		13.000	-	-	-	13.000	1D.20
Cash inflow from equity financing		-	-	-	-	-	1D.21
Net cash generated from financing activities		7.885	-	-	-	7.885	1D.22
Increase (decrease) in net cash		(2.683)	0.000	0.307	(0.307)	(2.990)	1D.23

1E Net Debt Analysis (Appointed Activities)

Table 1E - Net debt analysis (appointed activities) at 31 March 2022

	*Fixed rate	**Floating rate	Index linked		Total	RAG 4 reference
			RPI	CPI/CPIH		
Interest rate risk profile	£m	£m	£m	£m	£m	
Borrowings (excluding preference shares)	24.906	22.500	116.556	-	163.962	1E.1
Preference share capital					-	1E.2
Total borrowings					163.962	1E.3
Cash					(25.694)	1E.4
Short term deposits					-	1E.5
Net Debt					138.268	1E.6
Gearing						
Gearing					72.99%	1E.7
Adjusted Gearing					59.99%	1E.8
Interest						
Full year equivalent nominal interest cost	0.749	0.301	15.060	-	16.110	1E.9
Full year equivalent cash interest payment	0.749	0.301	4.237	-	5.287	1E.10
Indicative interest rates						
Indicative weighted average nominal interest rate	3.006%	1.338%	12.987%	0.000%	9.861%	1E.11
Indicative weighted average cash interest rate	3.006%	1.338%	3.654%	0.000%	3.236%	1E.12
Time to maturity						
Weighted average years to maturity	3.251	1.444	10.000	0.000	7.793	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. This facility matures in March 2025. Interest is now payable at SONIA (Sterling Overnight Index Average), plus an adjustment dependent upon the term of any drawdowns plus a 1.25% margin. This margin is subject to an assessment of sustainability.

Total Borrowings difference between 1C and 1E is the deferred arrangement costs of £1.137m. Of this, £0.596m relates to the index linked loan and £0.541m 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 2022
(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			
Return on regulatory equity							
Regulatory equity £m	66.129	66.129	46.591	66.129	66.129	46.591	1F.1
Return on regulatory equity	4.18%	2.95%	4.18%	2.764	1.948	1.948	1F.2
Financing							
Impact of movement from notional gearing		1.23%	0.61%		0.817	0.286	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		0.37%	0.52%		0.244	0.244	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-1.40%	-2.37%		(0.924)	(1.105)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.18%	3.15%	2.95%	2.764	2.084	1.373	1F.9
Operational Performance							
Totex out / (under) performance		1.70%	2.41%		1.122	1.122	1F.10
ODI out / (under) performance		-0.29%	-0.42%		(0.195)	(0.195)	1F.11
C-Mex out / (under) performance		0.43%	0.61%		0.283	0.283	1F.12
D-Mex out / (under) performance		0.15%	0.21%		0.099	0.099	1F.13
Retail out / (under) performance		-0.19%	-0.27%		(0.124)	(0.124)	1F.14
Other exceptional items		-6.30%	-8.94%		(4.163)	(4.163)	1F.15
Operational performance total		-4.50%	-6.39%		(2.978)	(2.978)	1F.16
RoRE (return on regulatory equity)	4.18%	-1.35%	-3.45%	2.764	(0.894)	(1.605)	1F.17
RCV growth from inflation	7.17%	7.17%	7.17%	4.741	4.741	3.341	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	11.35%	5.82%	3.72%	7.506	3.848	1.735	1F.20
Dividends							
Gross Dividend	4.19%	7.13%	10.12%	2.771	4.713	4.713	1F.21
Interest Received on Intercompany loans	0.00%	-0.96%	-1.36%	-	(0.632)	(0.632)	1F.22
Retained Value	7.16%	-0.35%	-5.04%	4.735	(0.233)	(2.346)	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.23%	-0.33%		(0.152)	(0.152)	1F.24
ODI out / under performance		-1.00%	-1.42%		(0.662)	(0.662)	1F.25
Total out / under performance		-1.23%	-1.75%		(0.814)	(0.814)	1F.26

1F Financial Flows

Table 1F - Financial flows average for the years 2021-2022
(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			
Return on regulatory equity							
Regulatory equity £m	63.617	63.617	45.306	63.617	63.617	45.306	1F.1
Return on regulatory equity	4.15%	2.96%	4.15%	2.640	1.880	1.880	1F.2
Financing							
Impact of movement from notional gearing		1.19%	0.57%		0.760	0.259	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		0.15%	0.21%		0.093	0.093	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-2.06%	-3.44%		(1.311)	(1.559)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.15%	2.24%	1.49%	2.640	1.423	0.673	1F.9
Operational Performance							
Totex out / (under) performance		1.09%	1.53%		0.694	0.694	1F.10
ODI out / (under) performance		-0.08%	-0.12%		(0.053)	(0.053)	1F.11
C-Mex out / (under) performance		0.22%	0.31%		0.142	0.142	1F.12
D-Mex out / (under) performance		0.08%	0.11%		0.050	0.050	1F.13
Retail out / (under) performance		-0.39%	-0.55%		(0.250)	(0.250)	1F.14
Other exceptional items		-3.34%	-4.69%		(2.125)	(2.125)	1F.15
Operational performance total		-2.42%	-3.40%		(1.542)	(1.542)	1F.16
RoRE (return on regulatory equity)	4.15%	-0.19%	-1.92%	2.640	(0.119)	(0.869)	1F.17
RCV growth from inflation	4.09%	4.09%	4.09%	2.602	2.602	1.853	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	8.24%	3.90%	2.17%	5.242	2.482	0.984	1F.20
Dividends							
Gross Dividend	4.19%	4.53%	6.37%	2.666	2.884	2.884	1F.21
Interest Received on Intercompany loans	0.00%	-1.10%	-1.55%	-	(0.700)	(0.700)	1F.22
Retained Value	4.05%	0.47%	-2.65%	2.576	0.298	(1.200)	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.24%	-0.33%		(0.150)	(0.150)	1F.24
ODI out / under performance		-1.02%	-1.44%		(0.652)	(0.652)	1F.25
Total out / under performance		-1.26%	-1.77%		(0.802)	(0.802)	1F.26

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 "RCV-PR19-2022".
- The gearing and cost of debt calculations use the year-end RCV numbers published by Ofwat in "RCV-PR19-2022". The gearing calculation adjusts the actual return on net debt by average CPIH for 2021/22.
- Actual returns include the exceptional item for the artesian restructuring fees.

Variances between the Final Determination and the results for 2021/22
We have considered the significant variances arising between the return assumed in the Final Determination and the actual return for 2021/22. In overall terms the actual total shareholder return is £1.735m and the dividend paid is £4.713m, compared to the notional total shareholder return of £7.506m and notional net dividend paid of £2.771m, based upon the Final Determination.

The material differences are driven by;

- higher gearing than the notional company
- lower 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 (including C-MeX and D-MeX)
- higher net dividend levels than assumed in the Final Determination

Gearing
Actual average gearing of 71.7% is above the notional gearing of 60% by 11.7 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 28.3% 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 73% in 2021/22. Portsmouth Water gearing is 71.7%, 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		112
Tax payable on appointed loss at the standard rate of Corporation Tax	(881)	
Adjusted for the tax impact of:		
Difference between depreciation and capital allowances	(1,563)	
Pensions deduction	(17)	
Corporate Interest Rate adjustment	(131)	
Other tax adjustments	(8)	
Tax losses (utilised)/generated in the year	138	
Losses for the period carried forward	2,462	
CT charge for the year - 2017/18 prices	-	
Prior year adjustment - 2017/18 prices	(132)	
Total tax charge for the year		(132)
Difference (adverse)		244

The above reconciliation, in 2017/18 price base, sets out the key reasons for the lower tax charge outturn relative to the FD. This is primarily driven by a trading loss as a result of exceptional artesian loan restructuring fees, but has been offset by the factors shown above resulting in tax charges relating only to the prior year adjustment. 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 3.5% (mainly index linked debt), and exceeds the allowed cost of debt of 2.58% (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 2021/22 variance on capital expenditure is £1.250m, after an adjustment for timing differences of -£2.183m. The variance on operating expenditure is -£5.608m, after an adjustment for timing differences of £0.959m. The timing differences are mainly due to the Covid restrictions in place in the prior 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 89 for more details on the Totex expenditure variances.

Retail out/under performance

The 2021/22 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 73.

ODI rewards and penalties (including C-MeX and D-MeX)

There are a number of ODI rewards and penalties relating to 2021/22. 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 £0.227m, in 2017/18 prices.

Porstmouth Water ODI performance 2021/22

2017/18 prices	Target	Reward (£m per unit)	Penalty (£m per unit)	Deadband	Performance	Payment (£m)	Water Resources	Network Plus	Retail
Compliance Risk Index	0		-0.113	2.00	3.741	-0.197		-0.197	
Interruptions	06:08	0.069	-0.069		02:21	0.253		0.253	
Leakage	26.60	0.134	-0.160		25.00	0.214		0.214	
Household Voids	2.00%	0.140	-0.140		2.28%	-0.039			-0.039
Per Capita Consumption	145.6	0.028	-0.033		160.2	-0.404	-0.404		
WINEP (timing)	4		-0.022		3	-0.022	-0.022		
ODI's (exclu. C-Mex and D-Mex)						-0.195	-0.426	0.270	-0.039
C-Mex (2020/21 performance)	Potential up to 12%				1st giving 6%	0.283			0.283
D-Mex (2020/21 performance)	Potential up to 6%				3rd	0.099		0.099	
					Total ODI's	0.187	-0.426	0.369	0.244

The C-MeX and D-MeX rewards are not reported in the year, in Table 1F, but are reported one year in arrears. Therefore, the values in the table relate to 2020/21; and these are published by Ofwat in the Financial Flows Data Source file.

The PCC penalty will be applied at the end of the AMP.

Reconciliation between Statutory Accounts and Regulatory Accounts

For the year ended 31 March 2022

	Statutory £'000	Regulatory £'000	Commentaries
Income statement			
Revenue	42,670	40,280	See a) below
Operating profit	3,909	1,696	See b) below
Statement of financial position			
Tangible fixed assets (net book value)	172,394	172,394	

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, £0.168m of which relates to Commercial Services, and £0.156m 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	42,670
Amortisation of Developer Contributions	(630)
Income from Connection Charges	(937)
Income from Mains Diversions	(1,033)
Non-appointed revenue	(168)
Non-appointed meter reading revenue	(156)
Void debt provision	(54)
Havant Thicket bulk supply revenue	588
Regulatory revenue	40,280

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 £0.168m, 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.

The provision made in the Statutory Accounts of £0.106m, to offset the Innovation allowed revenue, is excluded in the Regulatory Accounts.

	£'000
Statutory operating profit	3,909
Amortisation of Developer Contributions	(630)
Income from Connection Charges	(937)
Income from Mains Diversions	(1,033)
Non-appointed commercial profit	(168)
Non-appointed meter reading revenue	(156)
Non-appointed rents receivable	(102)
Non-Household meter reading costs	28
Non-appointed Commercial department	91
Innovation cost provision	106
Havant Thicket bulk supply revenue	588
Regulatory operating profit	1,696

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 commenting 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.

Notes to the Accounts

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.

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.

Notes to the Accounts

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.

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.

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 2021/22

Direct costs	**Basis of Allocation**
Employment Costs	Direct and management estimate
Power	Pumping Head
Hired & Contracted Services	Direct
Materials & Consumables	Direct
Service Charges	Direct
Other Direct Costs	Direct

General & support activities	**Basis of Allocation**
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

General admin	**Basis of Allocation**
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.

(l) 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 2022 £000**	**Non Appointed 2022 £000**	**Total 2022 £000**	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000
Unmeasured household supplies	**19,898**	**-**	**19,898**	20,114	-	20,114
Measured household supplies	**11,110**	**-**	**11,110**	11,000	-	11,000
Non-household supplies	**8,099**	**-**	**8,099**	7,174	-	7,174
*Third party services	**559**	**324**	**883**	573	367	940
Havant Thicket bulk supply	**588**	**-**	**588**	220	-	220
Other sources	**26**	**-**	**26**	55	-	55
	40,280	**324**	**40,604**	39,136	367	39,503

*Appointed Third Party services includes Bulk Supply revenue of £503k, but the Havant Thicket Bulk supply revenue is shown on a separate line.

Notes to the Accounts

Measured Income Accrual
For the year 2020/21 the measured income accrual was £2,458,696, and the corresponding actual billed revenue was £2,577,972. This is a difference of £119,276.

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

	Appointed 2022 £000	**Non Appointed 2022 £000**	**Total 2022 £000**	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000
Manpower costs	**9,267**	**137**	**9,404**	10,258	207	10,465
Other costs of employment	**337**	**-**	**337**	330	-	330
Power	**2,822**	**-**	**2,822**	2,711	-	2,711
Rates	**2,423**	**-**	**2,423**	2,426	-	2,426
Hired and contracted services	**7,483**	**37**	**7,520**	7,131	11	7,142
Materials and consumables	**2,291**	**-**	**2,291**	1,930	-	1,930
Service charges	**1,322**	**-**	**1,322**	1,322	-	1,322
Renewals expensed	**2,360**	**-**	**2,360**	1,234	-	1,234
Provision for bad and doubtful debts	**26**	**-**	**26**	171	-	171
Other operating costs	**(318)**	**(157)**	**(475)**	220	(146)	74
Depreciation and Amortisation	**5,990**	**-**	**5,990**	6,240	-	6,240
	34,003	**17**	**34,020**	33,973	72	34,045

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:

	2022 £000	2021 £000
Manpower as reported	**9,267**	10,258
Notional Pension Cost	**(352)**	91
Manpower Cost for Efficiency and Price Determination purposes	**8,915**	10,349

4. Other operating income

	Appointed 2022 £000	**Non Appointed 2022 £000**	**Total 2022 £000**	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000
Profit/(loss) arising on disposal of fixed assets	**(62)**	**-**	**(62)**	(13)	-	(13)
Exceptional item - artesian restructure fees	**(4,519)**	**-**	**(4,519)**	-	-	-
Exceptional item - COVID-19 related bad debt provision	**-**	**-**	**-**	(91)	-	(91)

5. Other income

	Appointed 2022 £000	**Non Appointed 2022 £000**	**Total 2022 £000**	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000
Amortisation of Developer Contributions	**630**	**-**	**630**	681	-	681
S45 Connection Charges	**937**	**-**	**937**	908	-	908
Mains Diversions	**1,033**	**-**	**1,033**	1,050	-	1,050
	2,600	**-**	**2,600**	2,639	-	2,639

6. Interest income

	2022 £000	2021 £000
Loan to Group Company	**686**	803
Other Interest Income (see note 22)	**448**	479

7. Interest expense

	2022 £000	2021 £000
£66.5m loan - interest	**4,161**	4,051
- indexation	**4,311**	1,793
- amortisation of fees	**57**	57
- administration expenses	**89**	111
	8,618	6,012
Revolving loan facility - interest	**331**	-
Revolving loan facility - amortisation of fees	**297**	27
Intercompany loan - interest	**690**	61
Revolving credit facility and other	**123**	194
Debenture stocks	**10**	14
Other interest payable	**4**	-
	10,073	6,308

8. Taxation (appointed business only)

	2022 £000	2021 £000
Current tax		
United Kingdom corporation tax at 19% (2021 - 19%)	**-**	175
Adjustment in respect of prior periods	**(143)**	-
	(143)	175
Deferred tax		
Origination and reversal of timing differences	**(2,637)**	535
Effect of tax rate change on opening balance	**3,990**	-
Adjustment in respect of prior periods	**(24)**	7
	1,329	542
Tax on profit on ordinary activities	**1,186**	717
The tax charge for the year is higher (2021 - higher) than the standard rate of Corporation tax in the UK of 19% (2021 - 19%), explained as follows:		
Profit/(loss) on ordinary activities before tax	**(5,030)**	2,747
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	**(956)**	522
Effect of:		
Depreciation on assets not qualifying for capital allowances	**(57)**	188
Effect of change in tax rate	**3,240**	-
Prior year adjustments - deferred tax	**(24)**	7
Prior year adjustments - current tax	**(143)**	-
Other tax adjustments	**(874)**	-
Current tax charge for the year	**1,186**	717

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	(5,030)	307	(5,337)	(1,108)	-	804
Profit per FD - Retail	a	-	-	-	-	715	136
Other table income (grants & contributions)	a	-	-	-	638	-	121
Additional interest - notional to actual	a	-	-	-	(931)	-	(177)
Earnings before tax	a	(5,030)	307	(5,337)	(1,401)	715	884
Disallowable items:							
Add depreciation	b	5,990	-	5,990	6,670	-	129
Less Capital allowances	b	(14,917)	-	(14,917)	(7,643)	-	1,382
Pensions deduction	c	(96)	-	(96)	-	-	18
Corporate Interest Rate adjustment	d	(751)	-	(751)	1,045	-	341
Other tax adjustments	e	(48)	-	(48)	29	-	15
Tax losses (utilised)/generated in the year	f	788	(307)	1,095	1,300	-	39
Loss in the year carried forward	f	(14,064)	-	(14,064)	-	-	(2,672)
Adjusted (loss) chargeable to CT	g	-	-	-	-	715	136
Difference in tax rate - 19% vs FD tax @17%		-	-	-	-	-	(14)
Current Tax charge		-	-	-	-	-	-
Prior year adjustment	h	(143)	-	-	-	-	-
Tax charge for the period		-	-	-	-	122	122

Notes to the Accounts

We have analysed the difference between the tax charge for the year of (£0.143m) for the appointed business against the charge calculated in the Final Determination of £0.122m. 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 £0.931m. The actual resultant adjusted PBT is lower in the current year as a result of exceptional loan restructuring fees offset by lower operating costs as explained in the Totex narrative. This drives a significant tax difference of £0.884m as we compare an outturn loss for the year of (£5.337m) versus a net loss before tax per the FD of (£0.686m).

b) Depreciation & capital allowances
There are differences in the levels of depreciation and capital allowances resulting in a net tax difference of £1.382m.

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 £0.096m must be reversed in line with the tax treatment. This results in a tax difference of £0.018m.

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 in the last financial year the company made the Public Benefit Infrastructure election. This results in a different CIR adjustment of £0.751m tax deduction in the current year versus an expected interest restriction of £1.045m at the time of the FD. This drives a significant difference in the tax charge of £0.341m.

e) Other tax adjustments
Other tax adjustments in the current year relate primarily to profit from rental properties of £0.102m and deductions for capitalised items of £0.065m. This results in a difference in the tax charge of £0.015m.

f) Tax losses utilised/generated
The tax calculation for the year results in on overall chargeable loss in the appointed business of £14.064m which is offset by utilising tax losses. Whereas in the FD, the tax calculation results in an overall tax loss of £1.300m which increases overall tax losses. This results in a difference in the tax charge between the current year and the FD of (£2.672m).

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 £0.014m.

h) Prior year adjustment
The final tax charge for the year of (£0.143m) is driven by a prior year adjustment.

9. Dividends

Equity: Ordinary/'A' Ordinary

	2022 £000	2021 £000
Interim paid	**-**	559
Final paid	**5,115**	544
Total Dividends	**5,115**	1,103

	2022 £000	2021 £000
Dividend ultimately for group shareholders*	**4,875**	-
Servicing of intercompany debt net of tax	**240**	1,103
Total Dividends	**5,115**	1,103

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

* Of this amount £3.199m is the final payment for FY21, and £1.676m is the final payment for FY20.

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
Cost					
At 1 April 2021	71,468	71,267	67,719	28,087	238,541
Additions	6,761	3,050	4,320	2,681	16,812
Disposals	-	(90)	-	(238)	(328)
At 31 March 2022	78,229	74,227	72,039	30,530	255,025
Depreciation					
At 1 April 2021	15,128	8,134	34,450	19,447	77,159
Charge for year	543	1,182	2,220	1,790	5,735
Disposals during year	-	(50)	-	(213)	(263)
At 31 March 2022	15,671	9,266	36,670	21,024	82,631
Net book value					
At 31 March 2022	62,558	64,961	35,369	9,506	172,394
At 1 April 2021	56,340	63,133	33,269	8,640	161,382

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
Cost					
At 1 April 2021	15,284	5,399	2,875	280	23,838
Additions into WIP during the year	6,841	3,340	4,481	1,676	16,338
Transferred into fixed assets	(1,062)	(3,937)	(3,424)	(1,778)	(10,201)
At 31 March 2022	21,063	4,802	3,932	178	29,975
Depreciation					
At 1 April 2021	-	-	-	-	-
At 31 March 2022	-	-	-	-	-
Net book value					
At 31 March 2022	21,063	4,802	3,932	178	29,975
At 1 April 2021	15,284	5,399	2,875	280	23,838

No depreciation has so far been provided on the above cost and £17.6m of the balance relates to Havant Thicket.

11. Intangible fixed assets

	Software, consultancy and internal costs £000
Cost	
At 1 April 2021	4,045
Additions (WIP completed assets)	618
Disposals	-
At 31 March 2022	4,663
Amortisation	
At 1 April 2021	2,833
Disposals	-
Charge for year	255
At 31 March 2022	3,088
Net book value	
At 31 March 2022	1,575
At 1 April 2021	1,212

Included in the above table are assets in the course of construction with a net book value of £1.089m.

Notes to the Accounts

12. Fixed asset investment

	Loan to Group Undertakings £000
At 1 April 2021	55,484
At 31 March 2022	55,484

Non-current asset investments represent a loan to the parent entity South Downs Limited. 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 2021	325
At 31 March 2022	325

The historic cost of the investment properties at 31 March 2022 was £0.195m (2021 - £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

	2022 £000	2021 £000
Trade debtors	**4,099**	2,822
*Amounts owed by Group companies	**2,071**	1,780
Prepayments and accrued income	**4,565**	3,930
Other debtors	**561**	350
	11,296	8,882

* Amounts owed by Group companies excludes the notional intercompany payable of nil (2021 - £0.154m), 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 2022, trade debtors had a carrying value of £7.881m (2021 - £7.262m) before provision for bad debt. Trade debtors in arrears are provided for on a sliding scale depending on age of debt. The amount of the provision was £3.782m as at 31 March 2022 (2021 - £4.440m).

The ageing of these debtors was as follows:

	2022 £000	2021 £000
Up to 12 months	**5,042**	4,705
Over 12 months	**2,839**	2,557
	7,881	7,262

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 £3,782k provision (2021 - £4,440k) £257k (2021 - £792k) relates to non-household debtors and £3,525k (2021 - £3,648k) relates to household debtors.

	2022 £000	2021 £000
At 1 April 2021	**4,440**	4,823
Provision for bad debt required in the year - charged to income statement	**138**	228
Provisions released in year	**(409)**	-
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(387)**	(611)
At 31 March 2022	**3,782**	4,440

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.

	2022 £000	2021 £000
Total Debtors Outstanding > 30 days		
Household	**4,793**	5,091

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%

Projected Macro Economic Environment
The Company also provides for an assessment of the projected macro-economic environment on the current debt book. This review centres on local socio-economic data and published unemployment forecasts (as the most significant, quantifiable influencer of customer behaviour). In the year ended 31 March 2022 a provision of £0.2m was made to reflect unemployment expectations, with a further £0.3m provided against currently unbilled measured customer revenue. This reflects an expectation that a portion of this debt will become overdue (by one year), based upon the unemployment projections and more qualitative macro-economic expectations.

14. Investments

	2022 £000	2021 £000
Unlisted investments	**2**	2

15. Cash at bank and in hand
Of the total amount shown of £25.694m (2021 - £28.377m), £2.209m (2021 - £2.049m) is held specifically for the payment of the next half yearly loan interest charges.

16. Borrowings: due within one year

	2022 £000	2021 £000
3% Perpetual debenture stock	**-**	60
3½% Perpetual debenture stock	**-**	185
4% Perpetual debenture stock	**-**	39
Balance outstanding on revolving credit facility	**-**	2,000
Bank facility	**17,500**	-
Less deferred arrangement costs	**(356)**	-
	17,144	2,284

Notes to the Accounts

17. Other current liabilities

	Appointed 2022 £000	**Non Appointed 2022 £000**	**Total 2022 £000**	Appointed 2021 £000	Non Appointed 2021 £000	Total 2021 £000
Payments received on account	**1,426**	**-**	**1,426**	1,697	-	1,697
Trade creditors	**3,541**	**-**	**3,541**	3,502	-	3,502
Amounts owed to Group companies	**2,711**	**-**	**2,711**	688	-	688
Other creditors	**482**	**-**	**482**	460	-	460
Accruals	**1,245**	**-**	**1,245**	1,029	-	1,029
Water rates in advance	**7,070**	**-**	**7,070**	7,103	154	7,257
Trade and other payables	**16,475**	**-**	**16,475**	14,479	154	14,633
Provisions	**-**	**-**	**-**	1,412	-	1,412
Capex creditor	**3,214**	**-**	**3,214**	3,426	-	3,426
Other taxation and social security	**384**	**-**	**384**	327	-	327
	20,073	**-**	**20,073**	19,644	154	19,798

18. Non-current liabilities

	2022 £000	2021 £000
In five years or more:		
3% Perpetual debenture stock	**60**	-
3½% Perpetual debenture stock	**185**	-
4% Perpetual debenture stock	**38**	-
Bank loan	**116,556**	112,245
Accrued bank loan refinance fees	**2,830**	-
Bank facility	**5,000**	7,500
Less: deferred arrangement costs	**(1,137)**	(1,958)
Intra-group subordinated creditor	**24,623**	24,622
	148,155	142,409

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 £0.596m (2021 - £0.653m).

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.

Intra-group subordinated creditor please refer to note at bottom of Table 1E for details of the £24.623m.

Bank facility

On 2 March 2021 Portsmouth Water Limited entered into a £55m Bank Facility. This facility matures in March 2025.

The terms of the facility were updated on 24 December 2021 to reflect the cessation of the London Interbank Offer Rate ("LIBOR"), which has been replaced by Sterling Overnight Index Average ("SONIA"), plus a Credit Adjustment Spread in the amended agreement. The impact of the change in interest terms has not been material. The practical expedient in relation to IBOR reform has been taken, on the basis that the amendments have been on an economically equivalent basis. Interest is accounted for using the effective interest rate.

Interest is now payable at SONIA plus an adjustment dependent upon the term of any drawdowns plus a 1.25% margin. 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 against five sustainability linked ODIs.

Fees associated with the loan are amortised over the duration of the facility. 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 £50m, initially drawing down £24.623m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan matures in March 2025.

19. Deferred income: capital contributions

	2022 £000	2021 £000
Capital Contributions	**35,409**	35,268
Release of Capital Contribution to Turnover	**(672)**	(723)
	34,737	34,545

20. Provisions for liabilities

	2022 £000	2021 £000
Deferred taxation:		
At 1 April 2021	**8,529**	8,094
Charged during the year in profit and loss account	**1,305**	435
At 31 March 2022	**9,834**	8,529

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.

	2022 £000	2021 £000
Deferred tax including that relating to pension asset:		
Accelerated capital allowances	**13,630**	9,614
Other timing differences	**(3,797)**	(1,085)
Pension asset (note 22)	**3,666**	4,130
Total provision for deferred tax	**13,499**	12,659
At 1 April 2021	**12,657**	11,741
Deferred tax charge in profit and loss account (note 8)	**1,329**	542
Deferred tax credited to the statement of comprehensive income	**(489)**	376
At 31 March 2022	**13,499**	12,659

The UK Finance Bill 2021 was published on 11 March 2021 and substantively enacted on 24 May 2021. The bill provides for an increase in the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

The closing UK deferred tax asset as at 31 March 2022 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

21. Changes in equity (Statutory Accounts)

	Called up Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
Balance at 1 April 2021	1,078	9,382	3,250	52,598	66,308
Profit for Financial Year	-	-	-	(6,216)	(6,216)
Remeasurement of net defined benefit asset	-	-	-	(7,174)	(7,174)
Movement on deferred tax relating to pension scheme	-	-	-	489	489
Total comprehensive profit for the year	-	-	-	(12,901)	(12,901)
New share capital/share premium issued	-	-	-	-	-
Dividends	-	-	-	(5,115)	(5,115)
Balance at 31 March 2022	1,078	9,382	3,250	34,582	48,292

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.

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 2021 was updated to 31 March 2022 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.

Notes to the Accounts

The estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the 2023 year, commencing 1 April 2022 is £1.2m (2022 actual - £1.2m). Of this amount, £1.05m is contributed directly by that Company and £0.15m is contributed by employees by salary sacrifice under the SMART arrangement.

Employer contributions for the remainder of the AMP are projected to be FY23 - £1.2m, FY24 - £1.2m, FY25 - £1.2m.

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

	2022	2021	2020
	% per annum	% per annum	% per annum
RPI inflation	**3.7**	3.2	2.5
CPI inflation	**3.3**	2.7	1.9
Discount Rate	**2.8**	2.0	2.4
Pension increases	**3.3**	2.7	2.0
Salary growth	**3.4**	2.8	2.0

Assumption	31 March 2022	31 March 2021	Comments on assumptions
RPI inflation	3.7% pa	3.2% pa	• The assumption for future RPI inflation is derived from the breakeven measure implied by the difference between nominal yields on fixed interest gilts and real yields on RPI linked gilts. The single equivalent breakeven inflation rate, weighted by Scheme cash flows, is 4.0% pa. • Consistent with the approach taken last year, a deduction of 0.3% pa has been applied to allow for an assumed inflation risk premium.
CPI inflation	3.3% pa	2.7% pa	• As an approximation to reflect the differences pre/post 2030 from the upcoming 2030 RPI reform, a reduction of 0.4% pa has been applied. • This reflects the average expected reduction in RPI - CPI gap, giving broadly equivalent results to a stepped gap of 1.0% / 0.1% pa pre/post 2030. • This is an update to last year's assumption of 0.5%, reflecting the reduced timeframe to 2030.

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 23.3 years (2021 - 23.7 years) and for a female is 25.9 years (2021 - 26.2 years).

The projections model used in the pension valuation also includes a weighting (or 'w') parameter, referred to as w2020. This parameter is used to vary the weight that is placed on the nation's mortality experience for 2020 to avoid the unusually high mortality experience due to the COVID-19 pandemic, skewing the projections. The default 'core' model places no weight on the data for 2020. In our view, some weight can be given to allow for the direct and indirect impact of the pandemic. It is evident that, despite the wide-spread vaccination program in the UK, there has continued to be repercussions for the nation's health due to the COVID-19 pandemic. In addition to deaths directly associated with COVID-19, we are seeing delayed diagnoses of chronic conditions, disrupted treatment within the health care system and more deaths at home, as opposed to in hospitals and care homes. This is expected to have implications for mortality experience for future waves of the pandemic. In our view, these factors point to a strong likelihood of increased mortality rates for a number of years, given the wider indirect impacts of the pandemic on the nation's general health, habits and the pressures on the healthcare system. While the longer-term impact of COVID-19 is still uncertain, we have proposed a modest reduction in life expectancies due to the future direct and indirect effects of the pandemic. We have allowed for the above by using a w2020 parameter of 10%.

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 £2.1m.
- An increase in the CPI inflation rate of 0.1% per annum would increase the defined benefit obligation by around £1.8m.
- A 5% fall in performance asset values would reduce the assets by around £3.5m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £5m.

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:

	%	2022 Fair Value £000	%	2021 Fair Value £000	%	2020 Fair Value £000
Equities	**25**	**41,752**	24	38,643	17	23,783
Absolute Return Bonds	**13**	**21,108**	11	18,875	13	18,158
Liability Driven Investments	**11**	**18,896**	9	14,106	10	13,957
Property	**5**	**8,487**	8	12,892	12	17,404
Cash	**4**	**6,845**	4	5,938	3	4,565
Buy-in policy	**42**	**68,773**	44	71,867	45	64,162
	100	**165,861**	100	162,321	100	142,029

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 £77.260m (2021 - £84.759m) classified as level 3 financial assets, these are considered to be the least liquid and hardest to value, and are therefore subject to a higher degree of estimation. See also the critical accounting estimates in note 1. 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 2021. In line with industry practice and the approach taken in previous years, the liabilities are then estimated by rolling forward the 31 March 2021 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.

	2022 £000	2021 £000
Total fair value of scheme assets	**165,861**	162,321
FRS 102 value of scheme defined benefit obligation	**(128,606)**	(138,348)
Impact of asset ceiling	**(22,593)**	(2,233)
Pension asset	**14,662**	21,740
Related deferred tax liability	**(3,666)**	(4,131)
Net pension asset	**10,996**	17,609

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2022 by an asset of £14.662m (2021 - £21.740m), which amounts to £10.996m net of deferred tax (2021 - £17.609m).

Portsmouth Water Limited paid contributions at a rate of 28.9% 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 £435,989 (2021 - £372,033).

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	2022 £000	2021 £000
Opening asset	**21,740**	19,193
Expense charged to profit and loss	**(1,203)**	(872)
Gain/(loss) recognised outside of profit and loss	**(7,174)**	1,976
Employer contributions	**1,299**	1,443
Closing asset	**14,662**	21,740

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	2022 £000	2021 £000
Opening scheme liabilities	**138,348**	113,826
Employer's part of current service cost	**1,651**	1,351
Interest on scheme liabilities	**2,719**	2,666
Benefits paid and running costs	**(4,798)**	(5,504)
Actuarial loss/(gain)	**(9,314)**	26,009
Closing scheme defined benefit obligation	**128,606**	138,348

Notes to the Accounts

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	**2022 £000**	2021 £000
Opening fair value of scheme assets	**162,321**	142,029
Interest on scheme assets	**3,212**	3,360
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,299**	1,443
Benefits paid and running costs	**(4,798)**	(5,504)
Actuarial gain/(loss)	**3,827**	20,993
Closing fair value of scheme assets	**165,861**	162,321

Expense recognised in income statement

The following amounts have been included within operating profit:	**2022 £000**	2021 £000
Current service cost (employer's part only)	**(1,651)**	(1,351)
Total operating charge	**(1,651)**	(1,351)
The following amounts have been included as other finance income under FRS 102:		
Interest on pension scheme assets	**3,212**	3,361
Interest on asset limit	**(45)**	(216)
Interest on pension scheme defined benefit obligation	**(2,719)**	(2,666)
Net return	**448**	479
Total expense recognised in the income statement	**1,203**	872

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2022 £000**	2021 £000
Actual return less interest	**(3,827)**	(20,993)
Experience gains arising on scheme defined benefit obligation	**(1,288)**	(593)
Loss/(gain) due to changes in assumptions	**(8,026)**	26,601
Change in asset limit other than interest	**20,315**	(6,993)
Remeasurement loss of net defined benefit asset	**7,174**	(1,978)

Changes in accounting estimates

The applicable discount rate is based upon a high quality (AA rated) corporate bond yield curve. This was adjusted to remove the historic 0.1% deduction for investment management expenses. The impact of this change in methodology is to reduce the balance sheet liabilities by £2.1m.

In relation to the long term estimate CPI, the Company has reduced the long term gap between RPI and CPI by 10 basis points (from 0.5% to 0.4%) 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 £1.8m (2021 - £2.2m).

The actual return on plan assets was £7.039m in the year to 31 March 2022 (2021 - £24.354m).

23. Ultimate controlling party

On 13 September 2019, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong 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 55.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statements for the year ended 31 March 2022 will be prepared for Ancala Fornia Holdco Limited and this will be the largest Group for which consolidated financial statements are prepared.

24. Capital commitments	**2022 £000**	2021 £000
Relating to fixed assets	**2,531**	4,349

Of the capital commitments of £2.5m at 31 March 2022, the largest proportion (£1.3m) is attributable to contact time schemes at various sites.

2A Segmental Income Statement

Table 2A - Segmental income statement for the 12 months ended 31 March 2022

£m	Residential Retail	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Revenue - price control	4.513	5.855	28.765	0.588	39.721	2A.1
Revenue - non price control	-	-	0.559	-	0.559	2A.2
Operating expenditure - excluding PU recharge impact	(4.049)	(4.957)	(19.007)		(28.013)	2A.3
PU opex recharge	(0.188)	(0.037)	0.225		-	2A.4
Operating expenditure - including PU recharge impact	(4.237)	(4.994)	(18.782)	-	(28.013)	2A.5
Depreciation - tangible fixed assets	(0.073)	(0.258)	(5.404)	-	(5.735)	2A.6
Amortisation - intangible fixed assets	(0.029)	-	(0.226)	-	(0.255)	2A.7
Other operating income	-	(0.192)	(4.389)	-	(4.581)	2A.8
Operating profit	0.174	0.411	0.523	0.588	1.696	2A.9

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.

2B Totex Analysis - Wholesale Water

Table 2B - Totex analysis for the 12 months ended 31 March 2022 - wholesale

£m	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Base operating expenditure					
Power	1.099	1.568	-	2.667	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)	-	2.360	-	2.360	2B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	2B.6
Other operating expenditure	1.812	10.961	-	12.773	2B.7
Local authority and Cumulo rates	0.481	1.754	-	2.235	2B.8
Total base operating expenditure	4.714	16.643	-	21.357	2B.9
Other operating expenditure					
Enhancement operating expenditure	0.280	-		0.280	2B.10
Developer services operating expenditure	-	0.872		0.872	2B.11
Total operating expenditure excluding third party services	4.994	17.515	-	22.509	2B.12
Third party services	-	1.267		1.267	2B.13
Total operating expenditure	4.994	18.782	-	23.776	2B.14
Grants and contributions					
Grants and contributions - operating expenditure	-	1.971	-	1.971	2B.15
Capital expenditure					
Base capital expenditure	0.328	4.031	-	4.359	2B.16
Enhancement capital expenditure	0.612	4.959	5.808	11.379	2B.17
Developer services capital expenditure	-	1.470	-	1.470	2B.18
Total gross capital expenditure (excluding third party)	0.940	10.460	5.808	17.208	2B.19
Third party services	-	-	-	-	2B.20
Total gross capital expenditure	0.940	10.460	5.808	17.208	2B.21
Grants and contributions					
Grants and contributions - capital expenditure	-	0.864		0.864	2B.22
Net totex	5.934	26.407	5.808	38.149	2B.23
Cash expenditure					
Pension deficit recovery payments	-	-	-	-	2B.24
Other cash items	-	-	-	-	2B.25
Totex including cash items	5.934	26.407	5.808	38.149	2B.26

2C Cost Analysis - Retail

Table 2C - Cost analysis for the 12 months ended 31 March 2022 - retail

£m	Residential	Total	RAG 4 reference
Operating expenditure			
Customer services	1.828	1.828	2C.1
Debt management	0.310	0.310	2C.2
Doubtful debts	0.026	0.026	2C.3
Meter reading	0.195	0.195	2C.4
Other operating expenditure	1.503	1.503	2C.6
Local authority and Cumulo rates	0.187	0.187	2C.7
Total operating expenditure excluding third party services	4.049	4.049	2C.8
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	0.068	0.068	2C.9
Depreciation on tangible fixed assets acquired after 1 April 2015	0.005	0.005	2C.10
Amortisation on intangible fixed assets existing at 31 March 2015	0.029	0.029	2C.11
Amortisation on intangible fixed assets acquired after 1 April 2015	-	-	2C.12
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.156	0.156	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	0.032	0.032	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	-	-	2C.16
Net recharges costs	0.188	0.188	2C.17
Total retail costs excluding third party and pension deficit repair costs	4.339	4.339	2C.18
Third party services operating expenditure	-	-	2C.19
Pension deficit repair costs	-	-	2C.20
Total retail costs including third party and pension deficit repair costs	4.339	4.339	2C.21
Debt written off			
Debt written off	0.609	0.609	2C.22
Capital expenditure			
Capital expenditure	0.222	0.222	2C.23
Comparisonof actual and allowed expenditure			
Cumulative actual retail expenditure to reporting year end		8.842	2C.30
Cumulative allowed expenditure to reporting year end		8.315	2C.31
Total allowed expenditure 2020-25		21.214	2C.32

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

Table 2D - Historic cost analysis of tangible fixed assets

£m	Residential Retail	Water Resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Cost						
At 1 April 2021	1.362	25.492	204.885	6.802	238.541	2D.1
Disposals	-	-	(0.328)	-	(0.328)	2D.2
Additions	0.092	0.891	10.021	5.808	16.812	2D.3
Adjustments	-	-	-	-	-	2D.4
At 31 March 2022	1.454	26.383	214.578	12.610	255.025	2D.6
Depreciation						
At 1 April 2021	(1.113)	(4.459)	(71.587)	-	(77.159)	2D.7
Disposals	-	-	0.263	-	0.263	2D.8
Adjustments	-	-	-	-	-	2D.9
Charge for year	(0.073)	(0.258)	(5.404)	-	(5.735)	2D.10
At 31 March 2022	(1.186)	(4.717)	(76.728)	-	(82.631)	2D.11
Net book amount at 31 March 2022	0.268	21.666	137.850	12.610	172.394	2D.12
Net book amount at 1 April 2021	0.249	21.033	133.298	6.802	161.382	2D.13
Depreciation charge for year						
Principal services	(0.073)	(0.258)	(5.404)	-	(5.735)	2D.14
Third party services	-	-	-	-	-	2D.15
Total	(0.073)	(0.258)	(5.404)	-	(5.735)	2D.16

The net book value includes £30.0m 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 2022 - 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
Grants and contributions - water resources					
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
Total	-	-	-	-	2E.7
Value of adopted assets	-	-	-	-	2E.8
Grants and contributions - water network+					
Connection charges	0.937	-	-	0.937	2E.9
Infrastructure charge receipts	-	0.669	-	0.669	2E.10
Requisitioned mains	-	0.504	-	0.504	2E.11
Diversions - s185	0.247	-	-	0.247	2E.12
Other contributions (price control)	-	-	-	-	2E.13
Price control grants and contributions before deduction of income offset	1.184	1.173	-	2.357	2E.14
Income offset	-	0.309	-	0.309	2E.15
Price control grants and contributions after deduction of income offset	1.184	0.864	-	2.048	2E.16
Diversions - NRSWA	0.787	-	-	0.787	2E.17
Diversions - other non-price control	-	-	-	-	2E.18
Other contributions (non-price control)	-	-	-	-	2E.19
Total	1.971	0.864	-	2.835	2E.20
Value of adopted assets	-	-	-	-	2E.21

	Water resources	Water network+	Wastewater network+	Total	
Movements in capitalised grants and contributions					
b/f	-	28.073	-	28.073	2E.34
Capitalised in year	-	0.864	-	0.864	2E.35
Amortisation (in income statement)	-	(0.672)	-	(0.672)	2E.36
c/f	-	28.265	-	28.265	2E.37

Deferred income on Balance Sheet includes Havant Thicket income of £6.472m.

2F Residential Retail

Table 2F - Residential retail

	Revenue £m	Number of customers 000s	Average residential revenues £	RAG 4 reference
Residential revenue				
Wholesale charges	26.495			2F.1
Retail revenue	4.513			2F.2
Total residential revenue	31.008			2F.3
Retail revenue				
Revenue Recovered ("RR")	4.513			2F.4
Revenue sacrifice	-			2F.5
Actual revenue (net)	4.513			2F.6
Customer information				
Actual customers ("AC")		300.727		2F.7
Reforecast customers		300.188		2F.8
Adjustment				
Allowed revenue ("R")	4.761			2F.9
Net adjustment	0.248			2F.10
Other residential information				
Average residential retail revenue per customer			15.0	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 2021/22 tariffs and the outturn for 2021/22.

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 2021/22 charges, the ex-ante assumptions when we set our 2021/22 tariffs, and the actual or ex post outturn:

2021/22	Final Determination	Ex Ante	Ex Post
Total Revenue (£m)	4.790	4.761	4.770
Modification factor	15.86	15.86	15.86
Customers	302,077	300,188	300,727

Line 2F.9 shows the residential retail revenue of £4.761m we assumed we would raise in 2021/22, based on our forecast number of properties of 300,188, when we set our tariffs in January 2021. The number of properties we actually served in 2021/22 was 300,727. Line 2F.2 shows that we actually raised £4.513m, which is £0.248m less than Line 2F.9 implies. The reduction in revenue is a result of an ODI penalty relating to the blind year 2019/20. The tariffs were set to reduce revenue from customers by £0.250m.

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.

2I Revenue Analysis

Table 2I - Revenue analysis for the 12 months ended 31 March 2022

£m	Household	Non-household	Total	Water resources	Water network+	Total	RAG 4 reference
Wholesale charge - water							
Unmeasured	17.135	0.237	17.372	2.955	14.417	17.372	2I.1
Measured	9.360	7.862	17.222	2.900	14.322	17.222	2I.2
Third party revenue	-	0.026	0.026	-	0.026	0.026	2I.3
Total wholesale water revenue	26.495	8.125	34.620	5.855	28.765	34.620	2I.4
Wholesale Total	26.495	8.125	34.620	5.855	28.765	34.620	
Wholesale charge - Additional control							
Unmeasured			-				2I.13
Measured		0.588	0.588				2I.14
Total wholesale additional control revenue	-	0.588	0.588				2I.15
Wholesale Total	26.495	8.713	35.208				2I.16
Retail revenue							
Unmeasured	2.763	-	2.763				2I.17
Measured	1.750	-	1.750				2I.18
Other third party revenue	-	-	-				2I.19
Retail Total	4.513	-	4.513				2I.20
Third party revenue - non-price control							
Bulk supplies - water			0.504				2I.21
Other third party revenue			0.055				2I.23
Principal services - non-price control							
Other appointed revenue			-				2I.24
Total appointed revenue			40.280				2I.25

The Wholesale charge - Additional control is revenue from Southern Water, for Havant Thicket.
This is the amount included in the Final Determination, indexed to 2021/22 prices.

2J Infrastructure Network Reinforcement Costs

Table 2J - Infrastructure network reinforcement costs for the 12 months ended 31 March 2022

£m	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
Wholesale water network+ (treated water distribution)			
Distribution and trunk mains	0.393	-	2J.1
Pumping and storage facilities	-	-	2J.2
Other	-	-	2J.3
Total	0.393	-	2J.4

2K Infrastructure Charges Reconciliation

Table 2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2022

£m	Water	Total	RAG 4 reference
Impact of infrastructure charge discounts			
Infrastructure charges	0.669	0.669	2K.1
Discounts applied to infrastructure charges	-	-	2K.2
Gross Infrastructure charges	0.669	0.669	2K.3
Comparison of revenue and costs			
Variance brought forward	1.579	1.579	2K.4
Revenue	0.669	0.669	2K.5
Costs	(0.393)	(0.393)	2K.6
Variance carried forward	1.855	1.855	2K.7

The cost of £393k for water mains network reinforcement works in 2021/22 was associated with a number of schemes, including at Haslar, Gosport and at Racton Booster.

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 2022 - wholesale

£m	Water resources	Water network+	Additional Control	Total	RAG 4 reference
Revenue recognised					
Wholesale revenue governed by price control	5.855	28.765	0.588	35.208	2M.1
Grants & contributions (price control)	-	2.048	-	2.048	2M.2
Total revenue governed by wholesale price control	5.855	30.813	0.588	37.256	2M.3
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	5.892	29.044	0.588	35.524	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	-	1.193	-	1.193	2M.5
Revenue adjustment	-	-	-	-	2M.6
Other adjustments	-	(0.138)	-	(0.138)	2M.7
Revenue cap	5.892	30.099	0.588	36.579	2M.8
Calculation of the revenue imbalance					
Revenue cap	5.892	30.099	0.588	36.579	2M.9
Revenue Recovered	5.855	30.813	0.588	37.256	2M.10
Revenue imbalance	0.037	(0.714)	-	(0.677)	2M.11

2N Residential Retail - Social Tariffs

Table 2N - Residential retail - social tariffs

	Revenue	Number of customers	Average amount per customer	RAG 4 reference
	£m	000s	£	
Number of residential customers on social tariffs				
Residential water only social tariffs		9.791		2N.1
Residential wastewater only social tariffs		-		2N.2
Residential dual service social tariffs		-		2N.3
Number of residential customers not on social tariffs				
Residential water only no social tariffs		290.936		2N.4
Residential wastewater only no social tariffs		-		2N.5
Residential dual service no social tariffs		-		2N.6
Social tariff discount				
Average discount per water only social tariffs customer		24.614	-	2N.7
Average discount per wastewater only social tariffs customer			-	2N.8
Average discount per dual service social tariffs customer			-	2N.9
Social tariff cross-subsidy - residential customers				
Total customer funded cross-subsidies for water only social tariffs customers	0.241			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	-		0.801	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
Social tariff cross-subsidy - company				
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				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
Social tariff support - willingness to pay				
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 2021/22 was 9,791. In total they received a discount of £0.241m in the 12 months up to end November 2021, which we recover from all customers in the following years charges, i.e. 2022/23. Given the average household customer base of 300,727 the average discount of £24.61 is recovered from 290,936 households at an extra charge of 80 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.

2O Historic Cost Analysis of Intangible Fixed Assets

Table 2O - Historic cost analysis of intangible fixed assets

£m	Retail Residential	Water Resources	Water Network+	Total	RAG 4 reference
Cost					
At 1 April 2021	0.983	0.243	2.819	4.045	2O.1
Disposals	-	-	-	-	2O.2
Additions	0.130	0.048	0.440	0.618	2O.3
Adjustments	-	-	-	-	2O.4
Assets adopted at nil cost	-	-	-	-	2O.5
At 31 March 2022	1.113	0.291	3.259	4.663	2O.6
Amortisation					
At 1 April 2021	(0.692)	(0.169)	(1.972)	(2.833)	2O.7
Disposals	-	-	-	-	2O.8
Adjustments	-	-	-	-	2O.9
Charge for year	(0.029)	-	(0.226)	(0.255)	2O.10
At 31 March 2022	(0.721)	(0.169)	(2.198)	(3.088)	2O.11
Net book amount at 31 March 2022	0.392	0.122	1.061	1.575	2O.12
Net book amount at 1 April 2021	0.291	0.074	0.847	1.212	2O.13
Amortisation for year					
Principal services	(0.029)	-	(0.226)	(0.255)	2O.14
Third party services	-	-	-	-	2O.15
Total	(0.029)	-	(0.226)	(0.255)	2O.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 £135k, with operating costs of £4,339k (including depreciation and recharges) versus the final determination of £4,204k.

This variance was due to the following items:
- Depreciation and recharges were higher than the FD by £267k. This was mainly due to the recharge for use of the Head Office building in Havant of £156k, and the additional depreciation includes a higher recharge from Wholesale, relating to shared vehicles and small plant.
- Customer Services costs were higher by £149k, mainly due to higher postage costs of £70K, and higher staff costs.
- Network costs for call handling and free repairs were higher than the FD by £99k. This was mainly due to an increase in the volume of customer free repairs. The reason for this increase is the positive impact on company leakage levels.
- Regulation costs were £43k higher mainly due to additional resources in the Regulation department for the management of data, and PR24 activities. Other shared services costs were higher by £51k.
- These additional costs were offset by a lower Bad Debt provision movement of £546k.

Wholesale Control Reconciliation

Revenue	Actual £'000	FD £'000	Difference £'000
Wholesale Charge:			
Household - Unmeasured	17,135	17,212	(77)
Household - Measured	9,360	9,461	(101)
Non-Household - Unmeasured	237	266	(29)
Non-Household - Measured	7,862	7,859	3
Total revenue from charges	34,594	34,798	(204)
Grants and Contributions	2,048	1,193	855
Third Party price control	26	-	26
Total revenue	36,668	35,991	677

We have compared actual revenue with that implicit in tariff setting for 2021/22, and this complied with the Final Determination.

The Wholesale revenue variance is £0.677m favourable, reflecting reduced revenue from standard charges of £0.204m but more capital contributions from developers for mains of £0.855m.

The household measured wholesale revenue broadly reflects the assumptions made at the time of tariff setting. This was based on a phased recovery from COVID-19 restrictions, and people gradually working from home less. This was partially offset by fewer meter optants in the year.

The household unmeasured wholesale revenue is slightly lower than the FD, due to an increase in house moves and a timing difference in billing the new occupants.

Non-household wholesale revenue is very close to the FD, also reflecting the assumptions at the time of tariff setting.
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 0.6%.

The total variance of wholesale revenue relative to the Final Determination is 1.9%.

3A Outcome Performance - Water Common Performance Commitments

Table 3A - Outcome perfomance - Water common performance commitments

	Unique reference	Unit	decimal places	Performance level - actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m	RAG 4 reference
Financial								
Water quality compliance (CRI)	PR19PRT_PRT-Network Plus-01	nr	2	3.74	No	(0.197)	(0.226)	3A.1
Water supply interruptions	PR19PRT_PRT-Network Plus-02	hh:mm:ss		00:02:21	Yes	0.253	1.045	3A.2
Leakage	PR19PRT_PRT-Network Plus-07	%	1	12	Yes	0.214	0.491	3A.3
Per capita consumption	PR19PRT_PRT-Water Resources 03	%	I	(7.3)	No	-	-	3A.4
Mains repairs	PR19PRT_PRT-Network Plus-03	nr	I	47.3	Yes	-	(0.120)	3A.5
Unplanned outage	PR19PRT_PRT-Network Plus-04	%	2	0.76	Yes	-	-	3A.6
Bespoke PCs - Water and Retail (Financial)								
Water quality contacts	PR19PRT_PRT-Network Plus-06	nr	2	0.41	Yes	-	-	3A.7
Low pressure	PR19PRT_PRT-Network Plus-05	nr	0	23	Yes	-	-	3A.8
Catchment Management	PR19PRT_PRT-Network Plus-08	nr	0	20	Yes	-	-	3A.9
Abstraction Incentive Mechanism	PR19PRT_PRT-Water Resources-02	nr	1	0	Yes	-	-	3A.10
Biodiversity (reward)	PR19PRT_PRT-Water Resources-01	£m	3	0.099	No	-	-	3A.11
Biodiversity (penalty)	PR19PRT_PRT-Water Resources-06	%	1	90.7	Yes	-	(0.038)	3A.12
Voids	PR19PRT_PRT-Retail-02	%	2	2.28	No	(0.039)	(0.086)	3A.13
Affordability	PR19PRT_PRT-Retail-03	nr	0	10254	Yes	-	-	3A.14
Water Industry National Environment Programme	PR19PRT_NEP02	nr	0	3	No	(0.022)	(0.022)	3A.15
Havant Thicket	PR19PRT_15	months		-	Yes	-	-	3A.16
Financial water performance commitments achieved		%			69			3A.27
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%			65			3A.28

Outcome Performance Table

Table 3A provides stakeholders with information on the performance against each of our financial ODIs in 2021/22, excluding C-Mex and D-Mex.

We have met target 10 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 9 water quality failures in calendar year 2021, a number of the failures were marginal in nature and as such 7 failures around Nickel, Odour and Coliform Bacteria were deemed unlikely to reoccur, and the DWI have confirmed that these failures will not be assessed under CRI. The other two failures were related to excess aluminium detected in the network. The score for these failures is 3.74. This means that we will need to pay a financial penalty, which applies if the score is greater than 2.0. The Pure Excellence programme has been mobilised to address risk around Water Quality. The Pure Excellence programme includes £3.5m additional investment focussed on delivering improvements required in the DWI notices.

Water supply interruptions
Interruptions continue to be significantly better than expectations outlined in the ODI target. We have benefited from benign weather conditions resulting is fewer winter bursts but more importantly the record performance has been driven by good management of unplanned events throughout the year. Our position at the end of year is 2 mins 21 seconds per property, relative to the Ofwat annual target of 6 mins 08 secs. This is a record best result for us and means that we have significantly outperformed the target for 2021/22.

Leakage
Leakage continues to be significantly better than expectations set in the ODI target. Our three-year average position at the end of the year is 25.0 Ml/d, relative to the Ofwat target 26.6 Ml/d. We have therefore significantly outperformed the target for 2021/22. Our annual leakage position of 26.9 Ml/d is also below target, but higher than the previous year. As reducing leakage is very important to customers and plays a vital role in ensure a resilient water supply, we have implemented a leakage recovery action plan to reduce leakage further in 2022/23.

We constantly challenge ourselves to ensure that we calculate leakage in line with best practice, and in 2021/22 we conducted a further review of our compliance against the latest leakage reporting guidance based on further knowledge obtained. This review was assured of Jacobs. We have identified a few areas where data improvements could be made against non-material aspects of the leakage calculation, and we will be making these improvements in 2022/23. We have also experienced a growing discrepancy in our water balance gap, and although still below 5%, we will be completing a full water balance review in 2022/23.

Per capita consumption
The PCC for 2021/22 is 160 l/p/d. Whilst a significant drop on the previous year, the outturn is clearly significantly higher than our annual spot target of 140 l/p/d. We have a planned recovery programme to reduce PCC over the remaining price control period. The continued high household usage is heavily influenced by more people working from home. 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.

With the change in usage patterns seen since Covid-19, we have identified a need to collect additional data on unmetered household consumption and will adding additional usage monitors during 2022/23. We have also experienced a growing discrepancy in our water balance gap, and although still below 5%, we will be completing a full water balance review in 2022/23.

Mains repairs
Mains repairs are lower (better) than expectations set in the ODI target. We have benefited from benign weather conditions and targeted network calming activities have reduced risk of bursts across our network. Our position at the end of year is 47.3 repairs per 1,000 km of mains, against the Ofwat annual target of 72.4. We have therefore achieved this target. Our result this year represents a record low number of bursts and is a significant reduction on the previous year where we missed the target.

Unplanned outage
Unplanned outage is significantly better than expectations set in the ODI target. We continue to ensure that we do not experience many outage incidents due to asset failure but effective incident management and through the resilience of our system. Our position is at 0.76% of peak weak production capacity, compared to the Ofwat target of 2.34% and previous year performance of 1.25%. Therefore, we continue to not need to pay an underperformance penalty for this ODI.

Water quality contacts
We have seen a drop in water quality contacts in 2021. Our performance is at 0.405 contacts per 1,000 customers served, which is 6% better than our target. Therefore, we do not need to pay an underperformance payment for 2021/22.

Low Pressure
We have significantly outperformed our annual target this year, reducing the number of customers at risk of low pressure from 60 to 23. We are also significantly below our target of 50. Targeted improvements to network configuration mean that less customers now experience low pressure. We therefore have no penalty to pay.

Catchment Management
We met the target of 10 farms for the whole of 2021/22, with a cumulative total of 20 farms engaged in AMP7 so far. Thus, no payment is required. We have actively engaged with a number of farmers and recognised that the optimum time for soil sampling and analysis is within this period before crops are drilled. Our catchment management and biodiversity work are also being communicated under the well-established Downs and Harbour Clean Water Partnership banner.

Abstraction Incentive Mechanism
We monitor the river level of the Hamble at Frogmill. The flow has not dropped below the trigger level (of 104 l/sec) in the year and therefore no action has been required by the Company at Northbrook pumping station.

Biodiversity (reward)
Our Grant Scheme (for biodiversity projects under taken by Third Parties) was launched in September 2020 and we received 9 applications. To date in AMP7, £99,378.40 has been rewarded in grants against a cumulative target of £100,000. We have therefore marginally failed this ODI and can expect a small financial penalty.

Biodiversity (penalty)
We have agreed with Natural England a programme of work on our sites to maintain the good status we achieved in AMP6, and are working to this programme. Much of the programme relies on operational staff to maintain sites in accordance with our grass cutting regime. After failing to achieve our target in 2020/21, significant improvements have been made and we have achieved the 90% target for 2021/22.

Voids
We were not been able to reduce the number of household voids in the period as planned. However there has been significant progress during the second half of the year and an action plan is in place to further improve in 2022/23. The average percentage for household voids was 2.28% against a target of 2.0%. We will need to pay a penalty for underperformance this year but expect to meet the target in 2022/23.

Affordability
We continue to increase the number of customers on our social tariff, now reaching over 10,000 customers relative to the Ofwat target of 8,500. We are expecting further increases in customers on the social tariff in 2022/23 as the cost-of-living crisis deepens and we continue to promote our helping to pay initiatives. As we are above target, we do not need to pay an underperformance payment for 2021/22.

Water Industry National Environment Programme
We have 18 schemes in our agreed WINEP programme for AMP7, with 7 schemes originally to be completed by end of 2021/22. We have received formal approval by the Environment Agency of an extension to 3 schemes, meaning a new target of 4 for 2021/22. 2 of the 4 schemes were completed in 2020/21, and another in 2021/22. Unfortunately, 1 scheme was not completed until April 2022, and this means that we failed this ODI. We can expect a small financial penalty.

Havant Thicket
This year continues to see very good progress on Havant Thicket. Ofwat ODI does not apply until 2026.

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	85.35	3C.1
Annual customer satisfaction score for the customer experience survey	Number	82.16	3C.2
Annual C-MeX score	Number	83.76	3C.3
Annual net promoter score	Number	41.50	3C.4
Total household complaints	Number	731	3C.5
Total connected household properties	Number	308,611	3C.6
Total household complaints per 10,000 connections	Number	23.687	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Table 3C shows our C-Mex performance for 2021/22. The results for C-MeX for the year have been provisionally published and we are third, a drop from first in the previous year.

C-MeX is made up of two elements, the satisfaction with our service as a result of recent contact with the company, and the general experience. We continue to perform very well on our satisfaction score, but have seen a drop in our score for general experience.

Early analysis indicates that customers want us to communicate more, whilst we have also seen a number of customers mark us down due to recent local issues around sewerage. We are currently investigating how best to improve communication with customers.

We expect to receive an ODI rewards for 2021/22.

All of this data has been audited by Jacobs.

Our quarterly survey scores are as follows:

2021/22	Q1	Q2	Q3	Q4	Annual
Satisfaction	82.47	86.17	87.89	84.59	85.35
Experience	82.77	82.97	82.50	80.11	82.16
C-MeX	82.62	84.57	85.20	82.35	83.76

We are pleased to report a significant drop in household complaints, from 1,661 in 2020/21 to 731 in 2021/22. The improvement is a result of improved training and processes, particularly around telephony contacts.

Written	291
Telephony	429
Social media	2
Web chat	9
SMS	0
Visits	0
Total	731

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	82.50		3D.1
Quantitative component annual results	Number	98.63		3D.2
D-MeX score	Number	90.56		3D.3
Developer services revenue (water)	£m	2.048		3D.4
Developer services revenue (wastewater)	£m	-		3D.5
Calculating the D-MeX quantitative component				
Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)	RAG 4 reference
W1.1 - Predevelopment enquiry	%	88.24%		3D.W1
W3.1 - S45 quotations	%	99.24%		3D.W2
W4.1 - S45 service pipe connections	%	99.04%		3D.W3
W6.1 - mains designs less than 500 plots	%	96.43%		3D.W4
W7.1 - mains designs more than 500 plots	%	-		3D.W5
W8.1 - mains construction	%	98.21%		3D.W6
W17.1 - mains diversions (without constraints)	%	90.00%		3D.W11
W17.2 - mains diversions (with constraints)	%	100.00%		3D.W12
W18.1 - mains diversion construction / commissioning	%	-		3D.W13
W20.1 - self lay POC less than 500 plots	%	-		3D.W14
W21.1 - self lay POC more than 500 plots	%	-		3D.W15
W23.1 - self lay design and terms reports less than 500 plots	%	-		3D.W16
W24.1 - self lay design and terms reports more than 500 plots	%	-		3D.W17
W26.1 - self lay pressure / bactelogical testing	%	100.00%		3D.W18
W27.1 - self lay permanent water supply	%	100.00%		3D.W19
W30.1 - self lay plot and costing details	%	100.00%		3D.W20
WN1.1 - NAV % of confirmation issued	%	100.00%		3D.W21
WN2.2 - NAV % of bulk supply letters issued	%	100.00%		3D.W22
WN4.1 - NAV % of main laying schemes constructed and commissioned	%	100.00%		3D.W23
WN4.2 - NAV % of testing supplies provided	%	100.00%		3D.W24
WN4.3 - NAV % of permanent supplies made available within the target period	%	100.00%		3D.W25
SLPM S1/2 - POC (Stage 1C) – Water Company – Review PoC proposal	%	100.00%		3D.W26
SLPM S2/1b - Design Self-Laid Main (Stage 2) – Water Company – Water Company to Review SLP design application	%	100.00%		3D.W27
SLPM S2/2b - Design Self-Laid Main (Stage 2) – Water Company – Water Company to Provide design acceptance	%	100.00%		3D.W28
SLPM S3 - Execute Water Adoption Agreement (Stage 3) – Water Company – Review / revise Water Adoption Agreement	%	100.00%		3D.W29
SLPM S4/1 - Delivery Date (Stage 3 / 4) – Water Company – Source of Water Delivery Date	%	100.00%		3D.W30
SLPM S5/1a - Connect Self-Laid Main – (Stage 5) – Water Company – Review request and carry out Final Connection	%	-		3D.W31
SLPM S7/1 - Make Service Connections (Stage 7 – Part 2) – Water Company – Validate notification and provide consent to progress with connection	%	100.00%		3D.W32
D-MeX quantitative score (for the relevant reporting period)	%	98.63%		3D.7
D-MeX quantitative score (annual)	Number		0.99	3D.8

Table 3D shows our D-Mex performance for 2021/22. We are pleased to have been ranked third for D-Mex for 2021/22.

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.

We expect to receive an ODI reward for 2021/22.

All of this data has been audited by Jacobs.

Our quarterly scores are as follows:

2021/22	Q1	Q2	Q3	Q4	Annual
Survey	86.33	74.47	85.00	86.33	82.50
Levels of service	98.52	99.32	99.61	98.79	98.63
D-MeX	92.19	87.21	92.32	92.36	90.56

The revenue to which any reward will apply is £2.048m.

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
Common						
Risk of severe restrictions in a drought	PR19PRT_PRT-Water Resources-04	%	1	88.0	No	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	PR19PRT_PRT-Retail-05	%	1	10.5	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	PR19PRT_PRT-Retail-05	%	1	96.3	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19PRT_PRT-Retail-05	%	1	13.4	No	3E.4
Bespoke PCs						
Resilience schemes to ensure peak demands can be met	PR19PRT_PRT-Network Plus-12	%	0	n/a	Yes	3E.6
Avoidance of water supply restrictions	PR19PRT_PRT-Water Resources-05	nr	0	0	Yes	3E.7
Carbon	PR19PRT_PRT-Network Plus-09	%	1	29.8	Yes	3E.8
Addressing Vulnerability	PR19PRT_PRT-Retail-04	%	0	70	No	3E.9
RoSPA	PR19PRT_PRT-Network Plus-10	category	0	Order of Distinction	Yes	3E.10
WINEP Delivery	PR19PRT_NEP01	text	0	Not met	No	3E.11
Non-financial performance commitments achieved		%			60	3E.29

Table 3E provides stakeholders with information on the performance against each of our reputational ODIs in 2021/22.

We have passed 6 of the 10 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 Ofwat metric to quantify how companies are delivering against their WRMPs. A number of supply actions we planned to undertake in 2021/22 have not been delayed, such as refurbishment of a number of boreholes. As a result, despite our significant outperformance on leakage, we have failed this reputational ODI this year. We have a recovery plan in place to recover performance in 2022/23.

We currently report risk against our original dWRMP, used to set this ODI. We have recently revised our WRMP and in 2022/23 we will seek clarity to whether we should continue to report against our original dWRMP, or against the latest revised version.

Priority Services Register – PSR Reach
In the previous year (2020/21), we increased the number of customers we have on our PSR significantly 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. This is a reputational ODI.

Priority Services Register – Attempted Contacts
We are required to attempt to make contact with 90% of households that have been on our PSR for over 2 years. At the end of March 2022, we had 350 households that had been on our PSR for greater than 2 years, and we attempted to make contact with 337. This equates to 96%, meaning that we have achieved this reputational ODI.

Priority Services Register – Actual Contacts
We are required to make actual contact with 45% of households that have been on our PSR for over 2 years. At the end of March 2022, we had 350 households that had been on our PSR for greater than 2 years, and we made actual contact with 47. This equates to 13%, meaning that we have failed this reputational ODI.

After confirmation of table requirements by Ofwat, both attempted and actual contacts were recalculated and reaudited by our external assurance partner, Jacobs. We can confirm that we have completed all reporting requirements set out in the final determination performance commitment appendix.

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 29.8% reduction in this measure compared to our 2019/20 baseline. This is a substantial outperformance against our 2% reduction target. This is impacted favourably by switching to renewable energy sources, and increasing the use of PV generated on site.

Addressing Vulnerability
Our survey results showed that 70% of all organisations were satisfied or very satisfied with the support we provide customers who find themselves vulnerable in one way or another. This was a drop from 84% in 2020/21 and means we have missed our challenging target of 85% for the second year in succession. This is a reputational ODI.

Despite our best endeavours, we have struggled to obtain survey responses from representative organisations of vulnerable customers. With the ongoing cost-of-living crisis we understand the time pressures these organisations are under and will look to adapt our approach in 2022/23 to improve response.

An action plan has also been put in place to improve overall communication with vulnerable customers and representative organisations, to provide additional help and guidance during the deepening cost-of-living crisis.

RoSPA

We submitted our application to RoSPA in January for calendar year 2021, and can confirm that for the third 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

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 Biosecurity scheme in 2021/22, but unfortunately did not complete our Natural Capital scheme until April 2022. In addition, we have agreed with the EA extensions on three schemes originally due in 2021/22.

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 rerporting year)	Performance level - Calculated (i.e. standardised)	RAG 4 reference
Performance commitments set in standardised units - Water						
Mains repairs - Reactive	Mains repairs per 1000 km	Mains length in km	3,380.09	122	36.09	3F.1
Mains repairs - Proactive	Mains repairs per 1000 km	Mains length in km	3,380.09	38	11.24	3F.2
Mains repairs	Mains repairs per 1000 km	Mains length in km	3,380.09	160	47.34	3F.3
Per capita consumption (PCC)	lpd	Total hh pop (000s) and hh consumption (Ml/d)	732.86	117.5	160.33	3F.4

	Unit	Performance level - actual (2017-18)	Performance level - actual (2018-19)	Performance level - actual (2019-20)	Baseline (average from 2017-18 to 2019/20)	Performance level - actual (2020-21)	Performance level - actual (2021-22)	Performance level 3 year average	Calculated performance level to compare against PCLs	RAG 4 reference
Performance commitments measured against a calculated baseline										
Leakage	Ml/d	32.4	28.3	24.4	28.4	23.6	26.9	25.0	12.0	3F.5
Per capita consumption (PCC)	lpd	146.8	151.3	149.9	149.3	170.5	160.3	160.2	-7.3	3F.6

	Unit	Standardising data indicator	Standardising data numerical value	Total minutes lost	Number of properties supply interrupted	Calculated performance level	RAG 4 reference
Water supply interruptions							
Water supply interruptions	Average number of minutes lost per property per year	Number of properties (thousands)	324.61	762549	2,353	00:02:21	3F.7

	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 reference
Unplanned or planned outage				
Unplanned outage	280.3	2.1	0.76%	3F.8

	Total residential properties (000s)	Total number of households on the PSR (as at 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 year period	Actual contacts %	RAG 4 reference
Priority services for customers in vulnerable circumstances									
Priority services for customers in vulnerable circumstances	301.637	31,529	10.5%	350	337	96.6%	47	13.4%	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 160 mains repairs in the year, and given our network length is 3,380km as at 31 March 2022, we determine our ODI performance at 47.34 mains repairs per 1,000 km.

Per capita consumption
Water delivered to households is 118 Ml/d, which given the household population of 733k people results in an average household PCC of 160 litres per person per day.

Leakage and per capita consumption
Details of our three-year baseline calculation are given for both ODIs, with the actual performance for 2020/21 and 2021/22 allowing for a new three-year rolling average to be determined.

Water supply interruptions
The total minutes lost is shown as 762,549, which given our total property count as at 31 March 2021 of 325k results in an ODI performance of 2 mins 21 secs. In total 2,353 properties experienced an interruption to supply of more than 3 hours.

Unplanned outage
Our reduction in capacity as a result of unplanned outage is 2.14 Ml/d which results in a 0.76% reduction in Peak Week Production Capacity.

Priority Service Register
As at 31 March 2021 we have 31,529 customers on our PSR, which is 10.5 percent of our year end household base. We contacted 337 customers on our base over the prior two years and were successful with 47 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
Initial calculation of in period revenue adjustment by price control		
Water resources	(0.02)	3H.1
Water network plus	0.27	3H.2
Residential retail	(0.04)	3H.5
Dummy control	-	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	(0.48)	3H.8
Water network plus	-	3H.9
Residential retail	-	3H.12
Dummy control	-	3H.14
Initial calculation of end of period RCV adjustment by price control		
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	WINEP	-0.022	
			-0.022
Network Plus	Water quality compliance (CRI)	-0.197	
	Water supply interruptions	0.253	
	Leakage	0.214	
			0.248
Household Retail	Voids	-0.039	
			-0.039
Total			0.209

Due to the effect of Covid on household usage, a decision over a potential penalty of £0.4m for PCC has been deferred to the end of the AMP.

3I Supplementary Outcomes Information

Table 3I - Supplementary outcomes information

	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 reference
Unplanned or plannned outage				
Planned outage	280.3	0.33	0.12%	3I.1

	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	RAG 4 reference
Risk of severe restrictions in drought							
Risk of severe restrictions in drought	199.09	18.39	174.58	5.10	749.05	0.88	3I.2

Table 3I 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 0.33 Ml/d which results in a 0.12% reduction in Peak Week Production Capacity.

Risk of severe drought
The table below compares our approved WRMP with the outturn for 2021/22.

The Ofwat table asks for a comparison with a severe drought year, and shows that 88% of customer would have been at risk of restrictions in the occurrence of a severe drought. We are working hard to reduce customer at risk through four schemes aimed at maximising the Deployable Output available whilst not causing harm to the environment.

We also provide a comparison with a dry year. The table below shows that in 2021/22 our water resource position was healthy, despite continued 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 2021-22	Outturn Values 2021-22
Final Plan Deployable Output	229.46	227.56
Outage	6.70	7.80
Treatment works losses and operational use	2.40	6.84
Water Available For Use in a Dry Year (Own Sources) (DO-Outage-losses)	220.36	212.92
Potable water exported (bulk supplies to SWS)	30.00	4.63
Total Water Available for Use (WAFU-Exports)	190.36	208.29
Distribution Input	174.50	177.19
Target headroom	5.16	5.16
Supply Demand Balance (Total WAFU – DI – Target Headroom)	10.70	25.94

4A Water Bulk Supply Information

Table 4A - Water bulk supply information for the 12 months ended 31 March 2022

	Volume	Operating costs	Revenue	RAG 4 reference
	Ml	£m	£m	
Bulk supply exports				
Southern Water - Sussex North	987.235	0.085	0.158	4A.1
Southern Water - Hampshire	703.048	0.048	0.161	4A.2
Leep - Graylingwell	94.133	0.033	0.063	4A.3
Leep - Berewood	114.598	0.040	0.054	4A.4
Southern Water - Havant Thicket	-	-	0.588	4A.5
Total bulk supply exports	1,899.014	0.206	1.024	4A.11

	Volume	Operating costs	RAG 4 reference
	Ml	£m	
Bulk supply imports			
Bulk supply 1	-	-	4A.12
Bulk supply 2			4A.13
Bulk supply 3			4A.14
Bulk supply 4			4A.15
Total bulk supply imports	-	-	4A.22

This table provides detail of the bulk supplies we made in 2021/22.

For this APR we continue to include bulk supplies to NAVs. We have one NAV operating in our region in 2021/22 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 £588k 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 2022			RAG 4 reference
	Water resources	Water network plus	Havant Thicket	
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	4.454	29.971	6.626	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	4.131	24.173	5.808	4C.2
Transition expenditure	-	-	-	4C.3
Disallowable costs	0.026	0.244	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	4.105	23.929	5.808	4C.5
Variance	(0.349)	(6.042)	(0.818)	4C.6
Variance due to timing of expenditure	(0.045)	(2.021)	(0.818)	4C.7
Variance due to efficiency	(0.304)	(4.021)	-	4C.8
Customer cost sharing rate - outperformance	40.00%	40.00%	0.00%	4C.9
Customer cost sharing rate - underperformance	50.00%	50.00%	0.00%	4C.10
Customer share of totex overspend	-	-	-	4C.11
Customer share of totex underspend	(0.122)	(1.608)	-	4C.12
Company share of totex overspend			-	4C.13
Company share of totex underspend	(0.182)	(2.413)	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	1.821	1.743	-	4C.15
Actual totex - business rates and abstraction licence fees	1.803	1.754	-	4C.16
Variance - business rates and abstraction licence fees	(0.018)	0.011	-	4C.17
Customer cost sharing rate - business rates	75.00%	75.00%	0.00%	4C.18
Customer cost sharing rate - abstraction licence fees	75.00%	75.00%	0.00%	4C.19
Customer share of totex over/underspend - business rates and abstraction licence fees	(0.014)	0.008	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	(0.005)	0.003	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	0.262	-	4C.22
Actual totex - not subject to cost sharing	0.026	0.724	-	4C.23
Variance - 100% company allocation	0.026	0.462	-	4C.24
Total customer share of totex over/under spend	(0.135)	(1.600)	-	4C.25
RCV				
Total customer share of totex over/under spend	(0.135)	(1.600)	-	4C.26
PAYG rate	91.66%	68.64%	0.00%	4C.27
RCV element of totex over/underspend	(0.011)	(0.502)	-	4C.28
Adjustment for ODI out/under performance payment				4C.29
Green recovery				4C.30
RCV determined at FD at 31 March				4C.31
Projected 'shadow' RCV				4C.32

4C Impact of Price Control Performance to Date on RCV

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

	Price control period to date			RAG 4 reference
	Water resources	Water network plus	Havant Thicket	
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	10.555	58.516	17.207	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	8.192	47.734	12.610	4C.2
Transition expenditure	-	-	5.029	4C.3
Disallowable costs	0.020	0.177	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	8.172	47.557	17.639	4C.5
Variance	(2.383)	(10.959)	0.432	4C.6
Variance due to timing of expenditure	(1.792)	(5.407)	0.432	4C.7
Variance due to efficiency	(0.591)	(5.552)	(0.000)	4C.8
Customer cost sharing rate - outperformance	40.00%	40.00%	0.00%	4C.9
Customer cost sharing rate - underperformance	50.00%	50.00%	0.00%	4C.10
Customer share of totex overspend	-	-	-	4C.11
Customer share of totex underspend	(0.236)	(2.221)	-	4C.12
Company share of totex overspend			-	4C.13
Company share of totex underspend	(0.355)	(3.331)	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	3.577	3.424	-	4C.15
Actual totex - business rates and abstraction licence fees	3.606	3.508	-	4C.16
Variance - business rates and abstraction licence fees	0.029	0.084	-	4C.17
Customer cost sharing rate - business rates	75.00%	75.00%	0.00%	4C.18
Customer cost sharing rate - abstraction licence fees	75.00%	75.00%	0.00%	4C.19
Customer share of totex over/underspend - business rates and abstraction licence fees	0.022	0.063	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	0.007	0.021	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	0.515	-	4C.22
Actual totex - not subject to cost sharing	0.020	1.616	-	4C.23
Variance - 100% company allocation	0.020	1.101	-	4C.24
Total customer share of totex over/under spend	(0.215)	(2.158)	-	4C.25
RCV				
Total customer share of totex over/under spend	(0.215)	(2.158)	-	4C.26
PAYG rate	81.16%	68.77%	0.00%	4C.27
RCV element of totex over/underspend	(0.040)	(0.674)	-	4C.28
Adjustment for ODI out/under performance payment	-	-	-	4C.29
Green recovery	-	-	-	4C.30
RCV determined at FD at 31 March	7.276	164.255	17.913	4C.31
Projected 'shadow' RCV	7.236	163.581	17.913	4C.32

4D Totex Analysis - Water Resources and Water Network+

Table 4D - Totex analysis for the 12 months ended 31 March 2022 - water resources and water network+

£m	Water resources	Network+				Total	RAG 4 reference
		Raw water transport	Raw water storage	Water treatment	Treated water distribution		
Operating expenditure							
Base operating expenditure	4.714	-	0.032	5.148	11.463	21.357	4D.1
Enhancement operating expenditure	0.280	-	-	-	-	0.280	4D.2
Developer services operating expenditure	-	-	-	-	0.872	0.872	4D.3
Total operating expenditure excluding third party services	4.994	-	0.032	5.148	12.335	22.509	4D.4
Third party services	-	-	-	-	1.267	1.267	4D.5
Total operating expenditure	4.994	-	0.032	5.148	13.602	23.776	4D.6
Grants and contributions							
Grants and contributions - operating expenditure	-	-	-	-	1.971	1.971	4D.7
Capital expenditure							
Base capital expenditure	0.328	-	0.002	0.685	3.344	4.359	4D.8
Enhancement capital expenditure	0.612	-	-	2.772	2.187	5.571	4D.9
Developer services capital expenditure	-	-	-	-	1.470	1.470	4D.10
Total gross capital expenditure (excluding third party)	0.940	-	0.002	3.457	7.001	11.400	4D.11
Third party services	-	-	-	-	-	-	4D.12
Total gross capital expenditure	0.940	-	0.002	3.457	7.001	11.400	4D.13
Grants and contributions							
Grants and contributions - capital expenditure	-	-	-	-	0.864	0.864	4D.14
Net totex	5.934	-	0.034	8.605	17.768	32.341	4D.15
Cash expenditure							
Pension deficit recovery payments	-	-	-	-	-	-	4D.16
Other cash items	-	-	-	-	-	-	4D.17
Totex including cash items	5.934	-	0.034	8.605	17.768	32.341	4D.18

Atypical expenditure	Water resources	Network+				Total	
		Raw water transport	Raw water storage	Water treatment	Treated water distribution		
Item 1	-	-	-	-	-	-	4D.19
Item 2	-	-	-	-	-	-	4D.20
Total atypical expenditure	-	-	-	-	-	-	4D.24

Wholesale Totex Analysis

Totex variance analysis

In the Final Determination, the allowed Totex expenditure is £38.251m, in 2021/22 prices. This is before the ex-ante adjustment of £1.597m, and gives a favourable variance to actual Totex in the year of £5.829m. 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.

2021/22 prices	Allowed Totex 2021/22	Actual 2021/22	Variance 2021/22
Operating expenditure	19,668	16,322	3,346
Abstraction costs and Rates	3,564	3,557	7
Renewals	4,536	3,805	731
Capital expenditure	11,426	9,955	1,471
Grants and Contributions	(1,206)	(2,048)	842
Third Party costs	263	1,267	(1,004)
Disallowed costs	0	(517)	517
Wholesale Totex	38,251	32,341	5,910

Operating Expenditure

Actual performance is favourable to the Final Determination by £3.346m, excluding 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 additional ex-ante cost sharing adjustment of -£1.597m, 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 2021/22 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 an office rental charge at market rate.

Renewals

The renewals expenditure for the year was less than the FD by £0.731m. However, activity in the year was more than in the FD, with 17.7km of pipe being renewed, compared to 14km in the FD. Work was impacted by Covid restrictions in 2020/21, and this a partial catch up to the overall FD programme. The underspend reflects efficiency in delivery of the programme.

Capital Expenditure

Capital expenditure is lower than the Business Plan by £1.471m. The significant variances are as follows:

- A number of capital schemes were delayed due to the Covid restrictions in 2020/21. In particular, some non-infrastructure maintenance work was postponed, and there is also an underspend in 2021/22 of £4.722m. However, work on enhancement schemes relating to raw water deterioration have resumed, and there is a catch-up, and corresponding overspend in the year of £1.477m.
- New mains expenditure was £1.470m, compared to £1.068m in the FD, giving an adverse variance of £0.402m.
- Optional metering expenditure was lower than in the FD.
- There were a number of schemes not included in the Final Determination, but completed in 2021/22, including SEMD work costing £0.228m and enhancement leakage expenditure of £0.713m.

Third Party Costs

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 continued in 2021/22, where the costs amounted to £5.808M primarily driven by the mobilisation of the project working towards the MRW and MPW contracts.

a) Project work continues to move forward with advance work on Tree Clearance and Habitat Mitigation strategy together with planning commitments in preparation of the commencement of the project
b) Some Land Purchases expected to complete within this Financial Year were marginally delayed but expected to complete early within the following Financial Year

4H Financial Metrics

Table 4H - Financial metrics for the 12 months ended 31 March 2022

	Units	Current year	AMP to date	RAG 4 reference
Financial indicators				
Net debt	£m	138.268		4H.1
Regulatory equity	£m	51.176		4H.2
Regulatory gearing	%	72.99%		4H.3
Post tax return on regulatory equity	%	-8.90%		4H.4
RORE (return on regulatory equity)	%	-1.35%	-0.19%	4H.5
Dividend yield	%	9.99%		4H.6
Retail profit margin - Household	%	0.56%		4H.7
Retail profit margin - Non household	%	n/a		4H.8
Credit rating - Moody's	Text	Baa1 (Stable)		4H.10
Return on RCV	%	2.47%		4H.12
Dividend cover	dec	-1.14		4H.13
Funds from operations (FFO)	£m	9.117		4H.14
Interest cover (cash)	dec	2.70		4H.15
Adjusted interest cover (cash)	dec	1.21		4H.16
FFO/Debt	dec	0.07		4H.17
Effective tax rate	%	0.00%		4H.18
Retained cash flow (RCF)	£m	4.002		4H.19
RCF/Net debt	dec	0.03		4H.20
Borrowings				
Proportion of borrowings which are fixed rate	%	15.19%		4H.21
Proportion of borrowings which are floating rate	%	13.72%		4H.22
Proportion of borrowings which are index linked	%	71.09%		4H.23
Proportion of borrowings due within 1 year or less	%	10.67%		4H.24
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%		4H.25
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	18.07%		4H.26
Proportion of borrowings due in more than 5 years but no more than 20 years	%	71.09%		4H.27
Proportion of borrowings due in more than 20 years	%	0.17%		4H.28

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 average 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 2021/22, the Return on regulatory equity of 4.18% is based on the notional gearing of 60%, and is before the actual performance adjustments.

2017/18 PRICES	2020/21	2021/22	AMP Average	
REGULATED EQUITY	61.104	66.129	63.617	Average notional regulatory equity
Return on Regulatory Equity	4.12%	4.18%	4.15%	Final Deternination
NET INCOME - FD	2.517	2.764	2.640	Notional return on Equity
Adjustment for actual equity	-0.704	-0.817	-0.760	FD return applied to actual equity
Totex PAYG adjustments	0.265	1.122	0.694	Including customer cost sharing
Retail cost adjustments	-0.376	-0.124	-0.250	
ODI reward/penalty	0.090	-0.195	-0.053	Included on an accruals basis
C-MeX	0.000	0.283	0.142	Reported one year in arrears
D-MeX	0.000	0.099	0.050	Reported one year in arrears
Exceptional items fees	-0.087	-4.163	-2.125	"COVID-19 Bad debt provision Artesian restructuring
Cost of Debt	-1.697	-0.924	-1.311	FD vs real cost of debt of 3.5%
Gearing	0.704	0.817	0.760	
Tax on adjustments	-0.059	0.244	0.093	Tax rate of 19%
NET INCOME - Adjusted	0.654	-0.894	-0.120	Used to calculate adjusted RoRE %'s
Return on Regulatory Equity	1.07%	-1.35%	-0.19%	Actual return on regulatory equity

4J Base Expenditure Analysis - Water Resources and Water Network+

Table 4J - Base expenditure analysis for the 12 months ended 31 March 2022 - water resources and water network+

£m	Water resources	Water network+				Total	RAG 4 reference
		Raw water distribution	Raw water storage	Water treatment	Treated water distribution		
Operating expenditure							
Power	1.099	-	0.005	0.140	1.423	2.667	4J.1
Income treated as negative expenditure	-	-	-	-	-	-	4J.2
Bulk supply	-	-	-	-	-	-	4J.3
Renewals expensed in year (infrastructure)	-	-	-	-	2.360	2.360	4J.4
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-	4J.5
Other operating expenditure	1.812	-	0.015	3.830	6.835	12.492	4J.6
Local authority and Cumulo rates	0.481	-	0.012	1.178	0.564	2.235	4J.7
Service Charges							
Canal & River Trust abstraction charges/ discharge consents	-	-	-	-	-	-	4J.8
Environment Agency / NRW abstraction charges/ discharge consents	1.322	-	-	-	-	1.322	4J.9
Other abstraction charges/ discharge consents	-	-	-	-	-	-	4J.10
Location specific costs & obligations							
Costs associated with Traffic Management Act	-	-	-	-	0.281	0.281	4J.11
Costs associated with lane rental schemes	-	-	-	-	-	-	4J.12
Statutory water softening	-	-	-	-	-	-	4J.13
Total base operating expenditure	4.714	-	0.032	5.148	11.463	21.357	4J.14
Capital expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	1.580	1.580	4J.15
Maintaining the long term capability of the assets - non-infra	0.328	-	0.002	0.685	1.764	2.779	4J.16
Total base capital expenditure	0.328	-	0.002	0.685	3.344	4.359	4J.17
Traffic Management Act							
Projects incurring costs associated with Traffic Management Act	-	-	-	-	-	-	4J.18

4L Enhancement Capital Expenditure by Purpose - Wholesale Water

Table 4L 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 2022 - water resources and water network+

£m	Water Network+			RAG 4 reference
	Treated Water Distribution			
	Capex	Opex	Totex	
New connections	-	0.766	0.766	4N.1
Requisition mains	1.121	-	1.121	4N.2
Infrastructure network reinforcement	0.349	-	0.349	4N.3
s185 diversions	-	0.106	0.106	4N.4
Other price controlled activities	-	-	-	4N.5
Total developer services expenditure	**1.470**	**0.872**	**2.342**	4N.7

4P Expenditure on Non-Price Control Diversions

Table 4P - Expenditure on non-price control diversions for the 12 months ended 31 March 2022

£m	Water resources	Water network+	Total	RAG 4 reference
Non-price control diversions				
Diversions - NRSWA	-	1.113	1.113	4P.1
Diversions - other non-price control	-	-	-	4P.2
Other developer services non-price control totex	-	-	-	4P.3
Developer services non-price control totex	-	1.113	1.113	4P.4

4Q Developer Services - New Connections, Properties and Mains

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

	Water	Total	RAG 4 reference
Connections volume data			
New connections (residential – excluding NAVs)	2,094	2,094	4Q.1
New connections (business – excluding NAVs)	126	126	4Q.2
Total new connections served by incumbent	2,220	2,220	4Q.3
New connections – SLPs	611		4Q.4
Properties volume data			
New properties (residential - excluding NAVs)	2,094	2,094	4Q.5
New properties (business - excluding NAVs)	126	126	4Q.6
Total new properties served by incumbent	2,220	2,220	4Q.7
New residential properties served by NAVs	275	275	4Q.8
New business properties served by NAVs	2	2	4Q.9
Total new properties served by NAVs	277	277	4Q.10
Total new properties	2,497	2,497	4Q.11
New properties – SLP connections	611		4Q.12
New water mains data			
Length of new mains (km) - requisitions	11		4Q.13
Length of new mains (km) - SLPs	3		4Q.14

This table relates to new connections, properties and new mains in the year 2021/22. It allows third parties to understand the impact of both NAVs and self-lay providers in our region. We have continued to see a significant increase in activity from both compared to 2019/20.

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
Customer numbers - average during the year						
Residential water only customers	000s	198.505	102.222	300.727	7.005	4R.1
Residential wastewater only customers	000s	-	-	-	-	4R.2
Residential water and wastewater customers	000s	-	-	-	-	4R.3
Total residential customers	000s	198.505	102.222	300.727	7.005	4R.4
Business water only customers	000s	1.930	14.086	16.016	-	4R.5
Business wastewater only customers	000s	-	-	-	-	4R.6
Business water & wastewater customers	000s	-	-	-	-	4R.7
Total business customers	000s	1.930	14.086	16.016	-	4R.8
Total customers	000s	200.435	116.308	316.743	7.005	4R.9

	Units	Water			
Property numbers - average during the year		Unmeasured	Measured	Total	
Residential properties billed	000s	198.505	102.222	300.727	4R.10
Residential void properties	000s			7.005	4R.11
Total connected residential properties	000s			307.732	4R.12
Business properties billed	000s	1.930	14.086	16.016	4R.13
Business void properties	000s			-	4R.14
Total connected business properties	000s			16.016	4R.15
Total connected properties	000s			323.748	4R.16

	Units	Water													
		Unmeasured						Measured						Total	
Property and meter numbers - at end of year (31st March)		No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total	No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total		
Total new residential properties connected in year	000s	-	-	-			-	-	2.094	-			2.094	2.094	4R.17
Total new business properties connected in year	000s	-	-	-			-	-	0.126	-			0.126	0.126	4R.18
Residential properties billed at year end	000s	197.763	-	-			197.763	-	103.874	-			103.874	301.637	4R.19
Residential properties unbilled at year end															4R.20
Residential void properties at year end	000s						4.609						2.365	6.974	4R.21
Total connected residential properties at year end	000s						202.372						106.239	308.611	4R.22
Business properties billed at year end	000s	1.926	-	-			1.926	-	14.072	-			14.072	15.998	4R.23
Business properties unbilled at year end															4R.24
Business void properties at year end	000s						-						-	-	4R.25
Total connected business properties at year end	000s						1.926						14.072	15.998	4R.26
Total connected properties at year end	000s						204.298						120.311	324.609	4R.27

Population data	Units	Water	Wastewater	
Resident population	000s	747.031	-	4R.28
Non-resident population (wastewater)	000s		-	4R.29

		Water			
Household population data	Units	Resident population	Non-resident population	Total	
Household population	000s	723.083	9.779	732.862	4R.30
Measured household population (water only)	000s	216.925	2.934	219.859	4R.31
Unmeasured household population (water only)	000s	506.158	6.845	513.003	4R.32

This table shows the number of properties, customers and population for the year 2021/22. 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

Tabe 5A - Water resources asset and volumes data for the 12 months ended 31st March 2022

	Units	Input	RAG 4 reference
Water resources			
Water from impounding reservoirs	Ml/d	0.0	5A.1
Water from pumped storage reservoirs	Ml/d	0.0	5A.2
Water from river abstractions	Ml/d	21.6	5A.3
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	164.3	5A.4
Water from artificial recharge (AR) water supply schemes	Ml/d	0.0	5A.5
Water from aquifer storage and recovery (ASR) water supply schemes	Ml/d	0.0	5A.6
Water from saline abstractions	Ml/d	0.0	5A.7
Water from water reuse schemes	Ml/d	0.0	5A.8
Number of impounding reservoirs	nr	0	5A.9
Number of pumped storage reservoirs	nr	0	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	21	5A.17
Total number of water reservoirs	nr	1	5A.18
Total volumetric capacity of water reservoirs	Ml	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	26.86	5A.23
Energy consumption - raw water abstraction	MWh	10,544.01	5A.24
Total number of raw water abstraction imports	nr	0	5A.25
Water imported from 3rd parties to raw water abstraction systems	Ml/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	Ml/d	0.0	5A.28
Water resources capacity (measured using water resources yield)	Ml/d	199.1	5A.29

This table provides detail of our Water Resources assets and associated volumes for 2021/22.

There are no significant issues to raise in this commentary.

Water abstracted from our river and bore holes sites has reduced compared to the previous year. This is predominately due to a reduction in water taken as a bulk supply by Southern Water compared to the previous year.

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 2022

£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	-	-	0.100	0.999	-	-	-	1.099	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
Other operating expenditure									
Renewals expensed in year (Infrastructure)	-	-	-	-	-	-	-	-	5B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	-	-	-	-	5B.6
Other operating expenditure excluding renewals	-	-	0.008	2.084	-	-	-	2.092	5B.7
Local authority and Cumulo rates	-	-	-	0.481	-	-	-	0.481	5B.9
Total operating expenditure (excluding 3rd party)	-	-	0.345	4.649	-	-	-	4.994	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 2022

	Units	Input			RAG 4 reference
Raw water transport and storage					
Total number of balancing reservoirs	nr	0			6A.1
Total volumetric capacity of balancing reservoirs	Ml	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	Ml/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	Ml/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
Water treatment - treatment type analysis	Surface water		Ground water		
	Water treated Ml/d	Number of works	Water treated Ml/d	Number of works	
All simple disinfection works	0.00	0	56.67	9	6A.13
W1 works	0.00	0	0.00	0	6A.14
W2 works	0.00	0	13.77	1	6A.15
W3 works	0.00	0	0.00	0	6A.16
W4 works	0.00	0	91.74	7	6A.17
W5 works	21.64	1	0.00	0	6A.18
W6 works	0.00	0	0.00	0	6A.19
Water treatment - works size	% 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	6.3%	4			6A.22
WTWs in size band 4	25.0%	7			6A.23
WTWs in size band 5	26.1%	3			6A.24
WTWs in size band 6	11.8%	1			6A.25
WTWs in size band 7	30.8%	1			6A.26
WTWs in size band 8	0.0%	0			6A.27
Water treatment - other information	Units	Input			
Total water treated at more than one type of works	Ml/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	666.000			6A.30
Average pumping head – water treatment	m.hd	2.18			6A.31
Energy consumption ~ water treatment	mWh	3762.382			6A.32
Total number of water treatment imports	nr	0			6A.33
Water imported from 3rd parties' water treatment works	Ml/d	0.0			6A.34
Total number of water treatment exports	nr	0			6A.35
Water exported to 3rd parties' water treatment works	Ml/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 2021/22.

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 2022

	Units	Input	RAG 4 reference
Assets and operations			
Total installed power capacity of potable water pumping stations	kW	2069	6B.1
Total volumetric capacity of service reservoirs	Ml	470.7	6B.2
Total volumetric capacity of water towers	Ml	0.0	6B.3
Distribution input	Ml/d	177.19	6B.4
Water delivered (non-potable)	Ml/d	0.00	6B.5
Water delivered (potable)	Ml/d	160.34	6B.6
Water delivered (billed measured residential)	Ml/d	37.02	6B.7
Water delivered (billed measured business)	Ml/d	29.64	6B.8
Total annual leakage	Ml/d	26.93	6B.9
Distribution losses	Ml/d	13.70	6B.10
Water taken unbilled	Ml/d	3.15	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	0.116	6B.14
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.884	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	22	6B.20
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	1	6B.21
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	0	6B.22
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	21	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	19795.737	6B.27
Average pumping head – treated water distribution	m.hd	34.72	6B.28
Total number of treated water distribution imports	nr	0	6B.29
Water imported from 3rd parties to treated water distribution distribution systems	Ml/d	0.00	6B.30
Total number of treated water distribution exports	nr	3	6B.31
Water exported to 3rd parties from treated water distribution systems	Ml/d	4.63	6B.32

This table provides detail of our water distribution assets and other associated data for 2021/22.

There are no significant issues to raise in this commentary.

Our water balance shows a further increase in the year for Distribution Input. HH demand has remained high, reflecting the continued impact of Covid-19 on home working, whilst NHH demand has increased as businesses recover from the pandemic.

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 2022

	Units	Input	RAG 4 reference
Treated water distribution - mains analysis			
Total length of potable mains as at 31 March	km	3378.8	6C.1
Total length of potable mains relined	km	0.0	6C.2
Total length of potable mains renewed	km	16.7	6C.3
Total length of new potable mains	km	12.7	6C.4
Total length of potable water mains (< ≤320mm)	km	3019.2	6C.5
Total length of potable water mains >320mm and ≤ 450mm	km	82.2	6C.6
Total length of potable water mains >450mm and ≤610mm	km	218.2	6C.7
Total length of potable water mains > 610mm	km	59.2	6C.8
Communication pipes			
Number of lead communication pipes	nr	80614	6C.9
Number of galvanised iron communication pipes	nr	17945	6C.10
Number of other communication pipes	nr	225188	6C.11
Treated water distribution - mains age profile			
Total length of potable mains laid or structurally refurbished pre-1880	km	63.2	6C.12
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	70.3	6C.13
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	166.7	6C.14
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	376.1	6C.15
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	337.0	6C.16
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	726.8	6C.17
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	890.7	6C.18
Total length of potable mains laid or structurally refurbished post 2001	nr	748	6C.19
Other			
Company area	km^2	464	6C.20
Number of lead communication pipes replaced for water quality	nr	7	6C.21
Compliance Risk Index	nr	3.7	6C.22
Event Risk Index	nr	34.0	6C.23

This table provides detail of our network plus assets and other associated data for 2021/22.

There are no significant issues to raise in this commentary.

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 2022

	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference
Metering activities - Totex expenditure					
New optant meter installation	£m	0.348	-	-	6D.1
New selective meter installation	£m	0.100	-	-	6D.2
New business meter installation	£m	-	-	-	6D.3
Residential meters renewed	£m	0.040	-	-	6D.4
Business meters renewed	£m	-	-	-	6D.5
Metering activities - Explanatory variables					
New optant meters installed	000s	1.494	-	-	6D.6
New selective meters installed	000s	0.761	-	-	6D.7
New business meters installed	000s	-	-	-	6D.8
Residential meters renewed	000s	0.218	-	-	6D.9
Business meters renewed	000s	-	-	-	6D.10
New residential meters installation – supply-demand balance benefit	Ml/d	0.06	-	-	6D.11
New business meters installation – supply-demand balance benefit	Ml/d	-	-	-	6D.12
Residential meters renewed - supply-demand balance benefit	Ml/d		-	-	6D.13
Business meters renewed - supply-demand balance benefit	Ml/d		-	-	6D.14
Residential properties - meter penetration	%	34.0%	-	-	6D.15
Leakage activities - Totex expenditure	**Units**	**Maintaining leakage**	**Reducing leakage**	**Total**	
Total leakage activity	£m	2.666	0.709	3.375	6D.16
Leakage improvements delivering benefits in 2020-25	Ml/d			0.32	6D.17
Per capita consumption (excluding supply pipe leakage)					
Per capita consumption (measured customers)	l/h/d	144.61			6D.18
Per capita consumption (unmeasured customers)	l/h/d	167.02			6D.19

This table provides detail of our demand management and metering data for 2021/22.

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 welcomed the Defra review of water scarcity status and are pleased to report that we have designated as in an area of water stress.

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 160.3 l/p/d

This data has been audited by Jacobs.

6F WRMP Annual Reporting on Delivery - Non-Leakage Activities

Table 6F - WRMP annual reporting on delivery - non-leakage activities

Activity	Classification	Delivery year (in use)	Capital expenditure						Opex costs						Benefits (ML/d)						RAG 4 reference
			2020-21	2021-22	2022-23	2023-24	2024-25	After 2024-25	2020-21	2021-22	2022-23	2023-24	2024-25	After 2024-25	2020-21	2021-22	2022-23	2023-24	2024-25	After 2024-25	
Household water efficiency programme	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2020-21	0.032	0.066	0.132	0.458	0.458	0.000	0.000	0.000	0.000	0.000	0.002	0.000	0.04	0.11	0.25	0.76	1.26	1.26	6F.1
Maximising DO	Supply-side improvements delivering benefits in 2020-2025	2020-21	0.199	0.380	0.763	0.763	0.763	0.138	0.000	0.000	0.000	0.000	0.671	8.791	0.00	0.00	0.00	0.00	20.30	20.30	6F.2
Metering on change of occupancy	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2021-22	0.000	0.153	0.204	0.001	0.000	48.513	0.000	0.000	0.000	0.000	0.004	-5.000	0.00	2.13	4.99	5.00	5.00	5.00	6F.3
Voids Metering	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.095	0.095	0.095	2.585	0.000	0.000	0.000	0.000	0.006	-0.291	0.00	0.00	0.10	0.20	0.30	0.30	6F.4
Water saving devices - Spray taps	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2020-21	0.025	0.015	0.021	1.121	1.121	0.000	0.000	0.000	0.000	0.000	0.004	0.000	0.00	0.00	0.00	0.04	0.07	0.07	6F.5
Water saving devices - trigger nozzles for hoses	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.000	0.191	0.191	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.00	0.00	0.00	0.03	0.06	0.06	6F.6
Smart Meter MNFR Trial	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2020-21	0.008	0.006	0.002	0.269	0.269	6.184	0.000	0.000	0.000	0.000	-0.004	-1.838	0.00	0.00	0.00	0.03	0.05	0.05	6F.7
Source S - Drought Permit	Supply-side improvements delivering benefits in 2020-2025	2020-21	0.000	0.000	0.000	0.000	0.001	0.009	0.014	0.058	0.288	0.288	0.288	3.302	8.50	8.50	8.50	8.50	8.50	8.50	6F.8
Havant Thicket Winter Storage Reservoir	Supply-side improvements delivering benefits in 2020-2025	2029-30	6.802	5.808	18.210	18.210	18.210	53.657	0.000	0.000	0.000	0.000	0.000	46.283	0.00	0.00	0.00	0.00	0.00	23.00	6F.9
Mandatory Restraint	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.000	0.000	0.300	0.275	0.000	0.000	0.000	0.000	0.134	0.068	8.30	8.30	8.30	8.30	8.30	8.30	6F.10
Imposition of Drought Direction Restrictions	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.000	0.000	0.150	0.030	0.000	0.000	0.000	0.000	0.115	0.106	8.10	8.10	8.10	8.10	8.10	8.10	6F.11
Subsidy to customers that purchase water efficient appliances	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.138	0.138	0.138	0.000	0.000	0.000	0.000	0.000	0.008	0.000	0.00	0.00	0.10	0.20	0.30	0.30	6F.12
Water saving devices - Retrofitting existing toilets	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.031	0.031	0.031	0.000	0.000	0.000	0.000	0.000	0.002	0.000	0.00	0.00	0.04	0.07	0.11	0.11	6F.13
Total			7.066	6.428	19.595	21.275	21.725	111.391	0.014	0.058	0.288	0.288	1.231	51.421	24.94	27.14	30.38	31.22	52.35	75.35	

This table provides detail on the expenditure and benefits of supply and demand-side improvements outlined in our latest WRMP.

We have 13 schemes in total, with 3 supply-side schemes and 10 demand-side schemes.

We have included costs out to 2100 for the columns asking for ‘After 2024-25’, to align with our WRMP submission.

Delivery over the past couple of years has been impacted by Covid-19, but there are plans to do more during the next few years.

9A Innovation Competition

Table 9A - Innovation competition

£m	Current year 2017/18 prices	RAG 4 reference
Allowed		
Allowed innovation competition fund price control revenue	0.130	9A.1
Revenue collected for the purposes of the innovation competition		
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
Total	-	-	-	-	-	-	-	9A.20

Administration		
Administration charge for innovation partner	-	9A.21

This table provides detail of the outcome of the innovation competition for 2021/22.

We were unsuccessful in 2021/22 and thus have only entered our contribution in the table, which is in 2017/18 price base.

11A Operational Greenhouse Gas Emissions Reporting

Table 11A - Operational greenhouse gas emissions reporting
for the 12 months ended 31 March 2022

Line description	DPs	Water	Total	
		tCO2e	tCO2e	RAG 4 reference
Scope one emissions				
Burning of fossil fuels	3	154.447	154.447	11A.1
Process and fugitive emissions	3	5.290	5.290	11A.2
Vehicle transport	3	342.173	342.173	11A.3
Total scope one emissions	3	501.910	501.910	11A.4
Scope one emissions; GHG type CO2	3	-	-	11A.5
Scope one emissions; GHG type CH4	3	-	-	11A.6
Scope one emissions; GHG type N2O	3	-	-	11A.7
Scope two emissions				
Purchased electricity - location based	3	5,107.648	5,107.648	11A.8
Purchased electricity - market based	3	-	-	11A.9
Purchased heat	3	-	-	11A.10
Electric vehicles	3	-	-	11A.11
Removal of electricity to charge electric vehicles at site	3	-	-	11A.12
Total scope two emissions (location based)	3	5107.648	5107.648	11A.13
Scope two emissions; GHG type CO2	3	5,055.448	5,055.448	11A.14
Scope two emissions; GHG type CH4	3	19.244	19.244	11A.15
Scope two emissions; GHG type N2O	3	32.956	32.956	11A.16
Scope three emissions				
Business travel	3	1.383	1.383	11A.17
Outsourced activities	3	153.420	153.420	11A.18
Purchased electricity; transmission and distribution - location based	3	451.998	451.998	11A.19
Purchased electricity; transmission and distribution - market based	3	-	-	11A.20
Purchased heat; transmission and distribution	3	-	-	11A.21
Total scope three emissions (location based)	3	606.801	606.801	11A.22
Scope three emissions; GHG type CO2	3	601.032	601.032	11A.23
Scope three emissions; GHG type CH4	3	1.684	1.684	11A.24
Scope three emissions; GHG type N2O	3	4.085	4.085	11A.25
Gross operational emissions (Scope 1,2 and 3)				
Gross operational emissions - location based	3	6,216.359	6,216.359	11A.26
Gross operational emissions - market based	3	1,108.711	1,108.711	11A.27
Emissions reductions				
Exported renewables (market based)	3		-	11A.28
Exported biomethane (market based)	3		-	11A.29
Green tariff electricity offsets	3		- 5,107.648	11A.30
Other emissions reductions	3		-10.671	11A.31
Total emissions reductions	3		- 5,118.319	11A.32
Net annual emissions				
Net annual emissions - location based	3	6,205.688	6,205.688	11A.33
Net annual emissions - market based	3	1,108.711	1,108.711	11A.34
Net annual emissions	3	-		11A.35

Line description	DPs	Water	
		kgCO2e/Ml	
GHG intensity ratios (location based)			
Emissions per Ml of treated water	3	82.819	11A.36
Emissions per Ml of sewage treated (flow to full treatment)	3		11A.37
Emissions per Ml of sewage treated (water distribution input)	3		11A.38

The table provides detail on operational greenhouse gas emissions for 2021/22.

We have worked hard to reduce emissions by 29% compared to 2019/20.

After discussion with Ofwat, we can confirm that the table has been filled in as intended. However, we note that market-based gross operational emissions do not add up to the total of scope 1-3. We can confirm that market-based scope three purchased electricity, transmission and distribution emissions are 451.998 tCO2e, however were asked not to include this in line 11A.20. The tables below provide detail on how the gross and net emissions are calculated for both location and market-based emissions:

Location Based Emissions	Emissions (tCO2e)	Aggregate Emissions (tCO2e)
Scope one emissions:		
Burning of fossil fuels	154.447	
Process and fugitive emissions	5.290	
Vehicle transport	342.173	
Total		501.910
Scope two emissions:		
Purchased electricity	5,107.648	
Total		5,107.648
Scope three emissions:		
Business travel	1.383	
Outsourced activities	153.420	
Purchased electricity, transmission and distribution	451.998	
Total		606.801
Gross operational emissions		6,216.359
Emissions reductions		
Other emissions reductions	-10.671	
Total		-10.671
Net operational emissions		6,205.688

Market Based Emissions	Emissions (tCO2e)	Aggregate Emissions (tCO2e)
Scope one emissions:		
Burning of fossil fuels	154.447	
Process and fugitive emissions	5.290	
Vehicle transport	342.173	
Total		501.910
Scope two emissions:		
Total		0
Scope three emissions:		
Business travel	1.383	
Outsourced activities	153.420	
Purchased electricity, transmission and distribution	451.998	
Total		606.801
Gross operational emissions		1,108.711
Emissions reductions		
Total		0
Net operational emissions		1,108.711

This data has been audited by Jacobs.

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, owed by South Downs Limited to Portsmouth Water Limited. The balance of the loan at the reporting date amounts to £55.484m capital outstanding, and £0.690m in accrued interest. There have been no changes in the capital outstanding during the current or previous reporting years. 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 during the reporting year was based on LIBOR plus a margin.

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 £50m. £24.623m was drawn in March 2021, and there have been no further drawings or repayments on this facility during the year. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan matures in March 2025.

Interest Received
Interest of £0.686m in respect of the inter-company loan made to South Downs Limited (see above) was charged to South Downs Limited during the year.

Dividends paid to Associated Undertakings
Dividend policy is set to align with the 5-year business plan agreed with Ofwat. A new dividend policy was adopted in April 2020 in line with the proposal in our PR19 business plan submission. The policy was set in line with regulatory guidance in Ofwat's PR19 Final Methodology and the Draft Determination. The policy has been revised for financial year 2021/22 to reflect additional guidance provided in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity (vs 5% in the previous published dividend policy).

In assessing our dividend policy and our proposed dividend the Board consider the following factors:

1. Performance against commitments to customer and stakeholders over a rolling 3-year period, this includes:
   - 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

2. Overall financial performance of the appointed and non-appointed business including performance against totex allowances and other regulatory financial incentives.

3. Financability tests on medium term liquidity and long-term financial viability testing to consider long-term financial resilience, including consideration of future capital requirements to supporting RCV growth and investment requirements.

4. Compliance with regulatory requirements in particular Licence Condition P and License Condition F.

   The dividend is calculated in two components:
   - A return on the equity component of the Regulatory Capital Value (RCV) and is calculated as 4% or the regulated component of the RCV at the end of the financial period in line with the PR19 FD guidance.
   - A "recirculating" dividend in relation to a legacy financing structure which is value neutral where distributions are received back in intercompany interest receipts.

Dividends relating to financial year 2019/20 paid in year:
A final dividend of £1.676m was paid in February 2022 after the Board were assured on 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.

Dividends relating to financial year 2020/21 paid in year:
The company paid a core dividend of £3.199m and a further £0.240m recirculating dividend in February 2022 in relation to intercompany receivable from an intercompany loan. The dividends paid were within Board approval, the core dividend was recalculated to reflect Ofwat's published RCV value that was updated in June 2022 after the accounts were signed.

Proposed dividend for financial year 2021/22:
The dividend policy for financial year 2021/22 has been revised to reflect a change in Ofwat guidance with the PR19 Final Determination. The base dividend yield has been revised from 5% to 4% of regulated equity. The Directors are recommending a dividend of £2.718m and a recirculating dividend of £0.686m for the financial year 2021/22 to be paid in June 2022.

Payments for Tax Losses
During the year Portsmouth Water Limited neither made nor received any payments relating to the surrender of tax losses to or from other group companies.

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)
Solar power income	Brockhampton Holdings Limited	177*	Market Tested	14

*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 which totals £177k, of which £38k relates to total rental income and £139k relates to total income from solar power.

Directors Remuneration
There is a recharge of Directors salaries amounting to £23,031 paid to Portsmouth Water Limited by Brockhampton Holdings Limited, which represents the time spent by Portsmouth Water Executive Directors on Group matters.

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

Brockhampton Pension Scheme	£38,579
Brockhampton Holdings Limited	£29,057
Brockhampton Property Investments Limited	£25,239
Brockhampton Solutions Limited	£7,209
South Downs Limited (charged into Brockhampton Property Investments Limited)	£3,338
South Downs Capital Limited (charged into Brockhampton Property Investments Limited)	£2,460
Ancala Fornia Limited	£4,131
Ancala Fornia Midco Limited	£3,681
Ancala Fornia Holdco Limited	£6,116

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 2022 ("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 residential retail revenue (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, and 11A. 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 respects, in accordance with Condition F of the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.13, appendix 2), set out on page 47 to 51.

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 Auditor's 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 Auditor's 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 of the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.13, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") 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 37 to 41 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 auditor's report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 31 to 36, 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 3.13, 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.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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, including 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 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 and taking into account our overall knowledge of the control environment, 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

Report of the Independent Auditor

accounting entries. On this audit we do not believe there is a fraud 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 those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to 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 Regulatory Accounting Statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the Regulatory Accounting Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Regulatory Accounting Statements 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. 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 2022 on which we reported on 31 May 2022, 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

[Date]

Havant Thicket Winter Storage Reservoir

Executive Summary

The financial year to 31 March 2022 (FY22) has seen significant developments for the Havant Thicket Reservoir Project (the Project); some of the most notable milestones achieved for the year were:

- Granting of planning permission for the Project in October 2021;
- Entering into Section 106 agreements with Havant Borough Council, East Hampshire District Council and Forestry England in October 2021;
- Concluding the tender process, with tender submissions received for the Main Pipeline Contract and Main Reservoir Contract;
- Entering into contracts so that enabling works could commence.

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 order to progress planning conditions, such as development of the detailed Biodiversity Mitigation and Compensation Strategy.
- 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 for the Farlington to Nelson pipeline and Northern Access Road to inform the optimal design solutions.
- Commencement of the cost adjustment mechanism to the PR19 determination.

The Project has continued to progress well, despite the impact of Covid-19. Tender presentations and mid-bid review meetings were undertaken remotely, while site investigations went ahead as planned.
PW welcomes Ofwat's continued support to the Project, particularly in relation to the procurement process and associated Cost Adjustment Mechanism. In these areas, PW has worked with Ofwat and SWS to consider the impact of a number of significant market forces and reflect on commercial strategies to ensure that the Project can maintain progress with critical path activities, while remaining focussed on the environmental benefits and delivering value for money to customers.

Introduction

This report provides 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
- Regulatory Alignment
- Planning
- Procurement
- Consultation with Customers and Stakeholders
- Biodiversity Mitigation and Compensation Strategy
- Ground Investigations
- Ofwat Engagement
- Governance
- Preparing for Contract Management

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 2022, the requirements of the BSA have been met. Portsmouth Water and Southern Water have worked to establish the Joint Project Assurance Group (JPAG), strengthening communication, governance and assurance for the Project.

The key activities undertaken during the year included:

- Administering the monthly JPAG meetings
- Establishing terms of reference for JPAG
- Appointing an independent chairperson for JPAG
- Agreeing key strategies, particularly with respect to the procurement strategy and changes to commercial terms in response to market feedback.
- SW approval to launch the Initial Tender Documents and ITT Stage 2 for the main works contracts
- SW approval for awarding an Enabling Works contract for the reservoir

Hampshire Water Transfer and Water Resources Project

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. A number of options were identified to provide additional water resources, including desalination, water recycling independent of the reservoir and water recycling with the reservoir.

Figure 1: Illustration of Option B.4: Hampshire Water Transfer and Water Resources Project

During the year to 31 March 2022, PW has been supporting SWS as they have developed the project options in greater detail. A Collaboration Agreement between the parties was established, providing a commercial framework through which PW could be re-imbursed for costs incurred in providing this support.

On 6 December 2021, SWS submitted details of its options appraisal in its RAPID Gate 2 report along with a letter of support from the PW Board, in which the Havant Thicket water recycling option (B4) was identified as the preferred option.

The key activities undertaken during the year include:

- Establishing weekly SRO meetings between SWS and PW to promote close collaboration
- Options appraisal, including impact assessments on the Havant Thicket project
- Development of a joint communications strategy and plan
- Independent assurance of the options appraisal by Jacobs, leading to a letter of support from the PW Board
- Joint engagement with RAPID, in order to agree the budget and strategy for development of the RAPID Gate 3 report, due in the year ending 31 March 2023

Regulatory Alignment

A regulatory framework for the delivery of the Project was agreed with Ofwat at the Final Determination (PR19) 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 Regulated Capital Value (RCV).

The Final Determination (PR19) allowed for changes in the project value through a 'cost adjustment mechanism', taking consideration of potential changes in scope or cost arising from the planning application process, procurement of the design and build contracts and other risks.

During the year to 31 March 2022, key activities undertaken during the year included:

- Providing updates to Ofwat throughout the year on the key areas in which project costs are likely to change.
- Developing a proposed plan and methodology for the Cost Adjustment Mechanism (CAM).
- Agreeing changes to the commercial terms for the main design and build contracts, in response to market feedback during the tender process. This included certain requirements for professional indemnity insurance to be treated as a 'pass through cost' in order to maintain best value for money.
- Commencement of the Cost Adjustment Mechanism, providing a draft report to define changes in costs.
- Responding to Ofwat requests for further information in support of cost variations when compared with the PR19 budget. Further details of due diligence carried out on the procurement process is provided in section 6 (Procurement).

Project Finance and Accounting

With project costs projected to exceed the financing that is currently available, additional finance will need to be secured for the design and construction phase.

During the year to 31 March 2022, key activities undertaken during the year included:

- Finalising agreement with existing lenders to enter into the BSA and securing new finance for PW including the requirement to finance the Project.
- Securing KPMG advice on accounting treatment with respect to Capital Allowances
- Securing a letter of support from Ancala with respect to commitment to raising additional finance for the Project
- Discussions with Ofwat in relation to Moody's credit rating requirements in relation to the Project

Planning and Consents

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 number of aspects of the planning application were amended in response to statutory consultation feedback. These changes included addition of a northern access road, primarily to serve construction traffic, reprofiling the B2149 and increasing offsite environmental mitigation and compensation measures.

The two planning authorities resolved to grant planning permission on 9 June 2021. This was followed by further work to finalise the Section 106 Agreement. Granting of planning permission took longer than expected, in part due to the need for a Supplementary Agreement with Forestry England in which further additional environmental compensation arrangements were required. These agreements were signed in October, enabling planning permission to be formally granted on 15th October 2022.

In addition, PW secured the necessary European Protected Species licenses from Natural England that are required to undertake the tree clearance works.

Delivery of a learning legacy is an important facet of the Havant Thicket Reservoir project. As a result, a lessons learned report was produced for the planning process, including feedback from the project team and local planning authority. This report has been shared with SWS, in support of their planning and stakeholder engagement strategy for the Hampshire Water Transfer and Water Resources Project. It was also presented in December 2021 at one of Ofwat's Quarterly Liaison Meetings, attended by water company representatives from all of the strategic water resource solutions in the RAPID programme that were funded as part of the 2019 price review.

Procurement

During the year to 31 March 2022, PW has undertaken the following key procurement activities:

- Completed the evaluation of prequalification submissions for the Main Reservoir and Main Pipeline Contracts.
- Completed the Invitation to Tender Documents for Stage 1 and Stage 2 for the Main Reservoir and Main Pipeline Contracts.
- Completion of the ITT Stage 1 process for the Main Reservoir and Main Pipeline Contracts, in which bidders were evaluated for compliance with contractual terms and conditions, technical capability and collaborative culture.
- Completion of the ITT Stage 2 process for the Main Reservoir and Main Pipeline Contracts, in which bidders were required to demonstrate their technical solutions and fee for the works.
- Completion of the procurement process for appointment of a

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Construction Engineer (required for compliance with the Reservoir Act 1975).
- Completion of the procurement process for appointment of a Design Guardian.
- Completion of the procurement process for appointment of a Tree Removal contractor, specialist security and specialist ecologists in July 2021.

Ground Investigations Procurements
In FY2022 procured further ground investigations with respect to:

- Informing development of the reference design for the Farlington to Nelson pipeline
- Informing development of the detailed design of the northern access route and B2149 improvements

Main Works Procurement
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 Stage 1 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.

The Stage 2 Invitation to Tender was issued to shortlisted bidders in September 2021. Tender responses for the pipeline were received on 3 December 2021. Tender responses for the reservoir were received on 28th January 2022.

The tender evaluation of the pipeline bidders was completed in March 2022 and presented to SWS at JPAG and PW at the Steering Committee in April 2022. Evaluation of the reservoir tender responses has not concluded as of 5 May 2022. The evaluation process has been protracted as a result of inflationary impacts on tender responses being higher than anticipated. This has created a need for enhanced due diligence of tender responses. Key due diligence has included:

- Arcadis work to develop an independent 'should cost model', considering changes arising from planning permission, inflation and other variations when compared with the PR19 Final Determination.
- SWS validation of the business case, to confirm that the Project continues to provide value for money to customers when compared with alternative solutions.
- Assurance of the execution of the procurement strategy by Baunton Consulting
- Assessment of strategic procurement options by Gardiner and Theobald

Consultation with Customers and Stakeholders
It was important to maintain the strong support which had been established during the planning application process, ensuring that stakeholders continued to feel informed about the Project and to seek their input towards the development of detailed plans.

In FY22 PW has continued to engage with local interest and community groups by providing presentations and giving groups an opportunity to be heard. Key activity has included:

- Maintaining quarterly Community Advisory Group meetings and Strategic Advisory Group meetings, independently chaired and attended by around 70 different statutory bodies and representatives of local interest groups.
- Consultation on proposed plans for the northern access route and B2149 improvements.
- Detailed engagement with specific interest groups, to identify opportunities to improve the environmental mitigation plans over and above the planning condition requirements.
- Presentations to local community groups, such as the Havant Rotary Club, Rowlands Castle Parish Community and residents of Gypsies Plain.
- Advanced notice of planned enabling works, including letters, newletters, Facebook, website, local newspaper and radio station coverage.

Figure 2: Members of the Green Party and an environmental interest group were invited to propose improvements to environmental mitigation plans, which have been adopted by Portsmouth Water

In 2021, the Project made significant progress towards securing the long-term management of the site with a Memorandum of Understanding (MoU) 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. In FY2022, tripartite meetings have been held to discuss how the parties will work together in order to deliver the environmental commitments of the Project and long-term management of the recreational facilities.

Enabling Works
In the year ending 31 March 2022, a number of enabling works contracts were awarded in order to keep the programme on track:

Environmental mitigation and compensation
Environmental mitigation and compensation started in 2019 when PW started work to develop new habitats so that these could mature well in advance of the construction of the reservoir. More than 6,000 trees were planted and a 50m wide wildlife corridor was created on the eastern side of the reservoir site. The environmental mitigation and compensation commitments made in the project planning application include the creation of more than 200 hectares of woodland and wood pasture.

Key activities in the last year have included:

- Maintenance of the existing ‘phase 1’ planting
- Placing 300 doormouse boxes, translocating many of these to new locations
- Creating 250 new bat roosts, using a combination of bat boxes and natural roost features
- Works carried out by Forestry England in Havant Thicket to provide environments suitable for reptile translocation and to create space for more native trees to grow. This will increase biodiversity in the area over time.
- A ‘sapling rescue’ project has been carried out with the support of local volunteers. This project has a number of components. Over 80 young trees have been identified for relocation following tree removal activity. 200 saplings have been grown from seeds gathered on site and are now being grown in a sapling nursery at Gipsies Plain. In addition, around 300 saplings have been moved from the Avenue and are being grown in a secure area, ready for use on site and for the benefit of other local developments.

Figure 3: Over 200 bat boxes have been placed around the reservoir site, with a further 50 bat roost features created

Tree removal
TillHill were appointed in August 2021, ready to commence tree removal after the resolution to grant planning in June 2021. Planning permission was not formally granted until October 2021 and weather conditions were such that the Environmental Protected Species Licence required works to cease in the first week of November. In the short period of time available, however, welfare and site compound facilities were established, access tracks created and some tree removal works were completed. The works enabled lessons to be learned with respect to access and ecological inspections, which are being applied to later stages of tree removal in Spring and Autumn 2022.

Figure 4: Trees scheduled for removal are inspected by qualified ecologists, to ensure that no birds or bats are present.

Northern access route and B2149 improvements
One of the pre-commencement planning conditions for the reservoir works is the completion of the B2149 works and then the Northern access route. These, in turn, require a Section 278 agreement from the Highway Authority, Hampshire County Council. Given that the S278 agreement approval process can take a number of months to secure, PW instructed Atkins to develop the detailed design for these works and to submit a S278 application.

Key activities completed in the year to 31 April 2022 include:

- Surveys
- Design development
- Stakeholder consultation
- Reviews with FE, EA and HCC ahead of formal submission of the S278 application

Development of planning conditions
A number of plans will need to be presented as pre-commencement conditions to the reservoir works. During the year to 31 March 2022, PW has undertaken the following key activities in relation to planning conditions with the support of Atkins:

- Development of the detailed environmental mitigation and compensation strategy
- Development of the recreation strategy
- PW has engaged with Natural England, the Forestry Commission, the Wildlife Trust and Hampshire County Council, to review the best way in which to deliver our commitment to create an 80-hectare wood pasture site. Two shortlisted sites have been identified, which will be subject to a selection process in 2022.
- Progression of temporary and permanent bridleway diversions which will be required to enable the works to progress

Land acquisition
In the year ending 31 March 2022, land sale agreements were negotiated to, enable construction of the northern access route, with:

- Portsmouth City Council
- East Hampshire District Council
- Forestry England
- Mr Borrow

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Land sale agreements were completed with EHDC and FE in April 2022, with an access agreement to be entered into with Mr Borrow in order to enable tree clearance to proceed while the land sale agreement is finalised.

Other enabling works

While the main reservoir tender evaluation continues, PW has entered into an Enabling Works contract which provides for the progression of a number of other critical path activities including:

- Agreement of the archaeological scheme of investigation with the county archaeologist
- Agreement of the construction traffic management plan with the Highways Authority and Forestry England
- Development of the geotechnical basis of design for the embankment and progression of the design for the trial embankment
- Development of plans for ecological mitigation and translocation activity

The enabling works contract has the potential for extension to include:

- Completion of archaeological investigations ahead of construction of a trial embankment
- Construction of the trial embankment
- Completion of ground investigations
- Further design development

Governance

Portsmouth Water Governance

The PW Board has continued to maintain oversight and control of the project, with continuation of the Havant Thicket Reservoir Steering Committee and Commercial Group throughout FY22.

The Steering Committee, comprises the CEO, CFO and representatives of the Board together with the Project Team. The Steering Committee meets monthly as a formal sub-committee of the Board.

In addition, the Commercial Group has been maintained to oversee compliance with the BSA, commercial arrangements for the procurements and the cost adjustment mechanism. The Commercial Group also includes the CEO, CFO, Board Representatives and the Project Team.

Key activities included:

- As the project progressed towards a new phase of delivery, limits of delegated authority and reserved matters for the Board were updated in July 2021
- Approval granted to launch the ITT Stage 2 process for the main works contracts
- Changes in commercial terms of the main contracts agreed in response to market feedback during the tender process
- Approval granted for award of the Enabling works contract for the main reservoir, Design guardian contract (subject to SWS approval under the BSA), and award of the main pipeline contract (subject to Ofwat and SWS approval).
- PW Board letter issued to RAPID in support of the 'Direct Pipe' gate 2 report by SWS

Monitoring and reporting

Monthly project update reports have been issued to SWS at JPAG and to the PW Board (following review at Steering Committee meetings). These are produced through a structured project controls methodology, set out in a Project Management Plan. Project management controls and reports include, but are not limited to:

- 'Traffic light' dashboard reports with respect to key financial performance indicators and Ofwat ODI targets
- Monte carlo risk analysis of the risk register, to provide visibility of risk compared with the contingency budget
- Maintaining an integrated Primavera Programme to provide assurance in relation to key dates
- Financial reports of spend vs budget, highlighting variances and trends
- Progress and lookahead reports
- Decision support papers as required

Southern Water Governance

During FY21 PW has extensively engaged with SWS colleagues on the project assurance, strategic alignment and the cost adjustment mechanism.

Under the BSA PW and SWS have maintained effective Project governance arrangements to provide oversight of the Project and to provide SWS with the necessary protections for its customers.

Readiness for design and construction

Early in 2021, the PW Steering Committee reviewed the organisational strategy for delivery of the design and construction phases of the project. Direction was given to review the resource requirements of the project management team and to increase PW 'in house' capability.

Key activities include:

- Project director appointed in June 2021
- Capacity requirements assessment presented to the Steering Committee and JPAG in October 2021
- PMO resource plan and transition strategy approved by Steering Committee in November 2021
- Contract readiness workstream established with a dedicated project manager in December 2021
- Management information systems and plans updated in early 2022
- An independent audit of contract readiness by Gardiner & Theobald. This audit started in April and will result in a report and recommendations in May 2022

Conclusion and Next Steps

FY22 has been a critical year in the development of the Project, with positive engagement from Ofwat, SWS, key regulators and the local community. In FY2023 the project will take the next steps forward with appointment of main works contractors and further procurement activity.