Portsmouth Water

CARING FOR OUR ENVIRONMENT

Annual Performance Report 2023

portsmouthwater.co.uk

CONTENTS

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

PORTSMOUTH WATER AT A GLANCE

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

324,000

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

£109

On average our domestic customers paid £109 during 2022/23 for their water supply.

740,000

Over 740,000 local residents use our clean drinking water every day. In addition we support additional numbers of tourist and migatory workers, as well as the resident population.

166 YEARS

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

180M LITRES

We serve the cities and towns of Portsmouth, Chichester, Fareham, Gosport, Havant and Bognor Regis. On average, each day we supply approximately 180 million litres of water.

3,387KM

Our area of supply has a network of over 3,387 km of underground pipes.

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

FOREWARD FROM BOB TAYLOR, CEO

Bob Taylor

Chief Executive Officer

June 2023

I am pleased to present Portsmouth Water's Annual Performance Report for 2022-23. During the year we have continued to deliver the commitments we made to our customers in our five-year business plan for 2020-2025, as well as hitting some key milestones in the development of the Havant Thicket reservoir, which will play such an important role in securing the regional water resources position in the Southeast. We have also made good progress in developing our long-term strategic plans and our customer-led business plan for the next regulatory period, which will run from 2025-2030.

2022-23 has been a critical year for the development of Havant Thicket reservoir. In August 2022 we awarded the main pipeline contract to Ward & Burke and in February 2023 we awarded the contract for the main reservoir works to Future Water MJJV. We also secured agreement from Ofwat to an update of the regulatory cost allowances for the reservoir, to reflect the outcomes of the competitive tendering process undertaken. Financing for construction of the project has now been secured, with £325m of new debt facilities supported by £150m of committed new equity from our shareholder. We are proud that the financing package included the UK Infrastructure Bank's first loan of £50m to the water sector.

Havant Thicket will be the first new reservoir built in the UK since the 1980's and, as well as ensuring we deliver on time and to budget, it is important that the project is delivered in a responsible and sustainable way. We have continued to engage closely with local interest and community groups by providing presentations and giving groups an opportunity to be heard, both through our independently chaired Community Advisory Group and through informal engagement and consultation. During the year, as part of the tree clearance work, we worked with local community groups to preserve more than 250 young saplings which will establish new woodlands.

We continue to work collaboratively with both Southern Water, whose customers will be the immediate beneficiaries of the project, and Ofwat, to ensure that the reservoir delivers the maximum benefit to the region. This may involve changes to the operation of the reservoir to allow the introduction of highly treated recycled water and a direct pipe from the reservoir to Southern Water's treatment works at Otterbourne. Taking this new proposal forward will depend on agreeing the regulatory financing arrangements and programme revisions, and ensuring that Portsmouth Water remain in control of the quality of the treated water going in to the reservoir. We know that this control is fundamental to ensuring our customers' continued support for the project.

We are acutely aware that the cost-of-living crisis continues to impact all of our customers' household finances. At £109, compared with an industry average of £199, our water bills remain the lowest of any company in the sector. Nonetheless, we have extended further the support that we offer to those struggling to afford to pay, with almost 12,000 customers receiving help with their water bills as of March 2023. We will continue to look at how we can continue to support our customers and communities through these challenging times.

Alongside the lowest bills in the sector, our customers also enjoy some of the best service levels. In the last year, we were ranked second best of 17 companies on Ofwat's measure of customer satisfaction (known as C-MeX), and our performance on water supply interruptions continues to be industry-leading. Overall, we met 19 of 26 of the challenging performance commitments agreed with Ofwat as part of the last price review process.

We were disappointed that we did not meet our target for leakage this year with a three-year average of 27.6 Ml/d compared with our target of 25.8 Ml/d. The increase in leakage was caused by a number of extreme weather events, including extremely dry weather during the summer of 2022, and a rapid freeze thaw during December 2022. We have significantly increased our leak detection resources and these extra resources will remain in place for the remainder of AMP7 to ensure we recover the position ahead of the AMP8 regulatory period. The greater strains on our network caused by these severe weather events are reflected in our mains repairs performance, where we missed our target with 83.3 repairs per 1,000km of main, against a target of 71.2. We will make underperformance payments to customers in these two areas.

We have also stepped up our focus on helping our customers use water efficiently as our household consumption levels remain above the target level, reflecting in part the changes in customer behaviour and working patterns following the Covid-19 pandemic.

In 2021 we established our 'Pure Excellence' programme of improvements to ensure we have in place the right systems and processes to identify and address all water quality risks. The programme is making good progress and we have seen a reduction in the number of water quality failures in the year, from nine in the calendar year 2021 to eight in 2022. As a result, our score on the DWI's Compliance Risk Index (CRI), improved from 3.74 in 2021 to 1.24, below the effective performance commitment of 2.0.

Looking to the future, in November 2022 we published for consultation our draft Water Resources Management Plan (WRMP), which sets out how we will manage water resources over the next 50 years. The plan was developed collaboratively with our neighbours through the Water Resources South East group, ensuring that we develop a plan that delivers best value for the region as a whole. To support development of our wider future plans we also published our 25-year Vision, which set out our four priorities: securing sustainable water supplies for our customers; being at the frontier of delivering high-quality, resilient, net zero services; co-creating solutions which deliver our customers', communities', and stakeholders' priorities; and ensuring affordable water for all, always. Both the WRMP and the 25-year Vision were based on extensive engagement with our customers and stakeholders to create plans for our communities that are genuinely co-developed and co-owned.

In October 2023 we will publish our detailed plans for the next regulatory period, which runs from 2025-2030. At the heart of our five-year plan will be an ambitious programme to transform the way that we connect with our customers, building off the capabilities of our new generation of smart meters that we will provide to all our customers over the next decade.

To deliver our ambitious plans for our customers and communities our business will need to transform the way that it operates, embracing data-driven services and digital asset management. This transformation journey has begun, and the degree of change will accelerate over the next few years. Our staff are critical to the success of our transformation, and I want to take this opportunity to thank them for their support and their continued commitment to delivering for our customers and their communities.

OUR COMPANY PURPOSE

EXCELLENCE IN WATER. ALWAYS. COMMITTED TO A SUSTAINABLE FUTURE TOGETHER.

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.

We are continuing to deliver the strategy and outcomes we committed to in our business plan for 2020 - 2025 but we have started to think deeply about the future. As part of this exercise we have reviewed our company purpose and values.

In considering changes to our purpose and values we have tried to capture the need to focus on the long term, find new sustainable solutions and reflect the need to work collaboratively to meet customer and environmental needs. We have created a new value, 'Future Focussed' to reflect the need to look at future priorities as well delivering for todays customers.

This revised purpose and our values underpin our 25-year vision we published in June 2022, as part of developing our PR24 business plan for 2025-2030.

To develop our vision, we combined what we've heard from our stakeholders and customers with the challenges we face, the uncertainties we think we need to adapt to and the opportunities we've identified to innovate. We have evolved the outcomes we identified in our current business plan and developed four priorities that reflect our long term ambition and acknowledge the interdependencies of the future challenges.

Our vision

Against the backdrop of climate change and population growth, our vision is to provide an affordable, reliable, and sustainable supply of high-quality water for our customers. By being smart in our approach we will work with our local communities to meet our goals while protecting and enhancing the environment for future generations.

Our priorities for the next 25 years are:

1. Secure sustainable water supplies for our customers, which protect and enhance our environment in a changing world.
2. Be at the frontier of delivering high-quality, resilient, net zero services – for our customers, environment and region.
3. Co-create solutions which deliver our customers', communities', and stakeholders' priorities.
4. Affordable water for all. Always.

UV PLANT AT FARLINGTON WTW

DELIVERING EXCELLENCE FOR OUR CUSTOMERS, OUR PEOPLE, THE ENVIRONMENT AND THE COMMUNITIES THAT WE SERVE.

CORPORATE GOVERNANCE

The Board of Portsmouth Water Limited, at 31 March 2023, 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 65 to 75 of the Company's Annual Report and Accounts (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 page 65 of the Company's ARA.

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.

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.

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.	Over the past two years and as preparation for PR24, we undertook work to update the Company Purpose. This is set out in more detail on page 10 of the ARA. 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". 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 2023 we started to introduce 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 under "Board of Directors". No matters are reserved for shareholders and the Board has a majority of independent Non-Executive directors. Accordingly the Board has full responsibility for all aspects of the regulated business' strategy.
Board committees, including but not limited to audit, remuneration and nomination committees, report into the Board of the regulated company, with final decisions made at the level of the regulated company.	This is the case as set out in the Corporate Governance section under "Board of Directors". The Board is made up of a majority of independent non-executive directors. This is set out in the Corporate Governance section under "Board of Directors".
The Board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.	The Board has a conflict of interest policy which defines conflicts of interest, sets out the requirement to declare such conflicts and agrees how any conflicts arising would be dealt with. This includes the position that "interested" board members may not vote on matters affecting their own interests. This is set out in the "Board of Directors" section of the ARA.

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 67 of the Corporate Governance report in the ARA.
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 36 of the strategic report in the ARA. This was updated as part of the PR19 Business Plan process.
An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	The Principle risks and uncertainties faced by the business are covered both under "the issues that affect us" and "Principal risks and uncertainties".
The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast;	This is set out in the table of meetings on page 70 in the ARA.
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 78 to 84 in the ARA, including the linkage of remuneration to stretching delivery targets.

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

PROVISIONS	
Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	This is set out in the Corporate Governance section including how we recruit NEDs to ensure the right balance of skills on page 71 in the ARA. 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 77 in the ARA.
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 71 in the ARA.
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 72 in the ARA. 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 77 in the ARA.
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 77 in the ARA. All new non-executive appointments over the past two years have 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 68 and 69 in the ARA and in the sections covering the Audit, Nomination and Remuneration Committees.

OWNERSHIP STRUCTURE

The chart on the next page 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 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 2023 will be prepared at the level of Ancala Fornia Holdco Limited (this will be the largest Group for which consolidated financial statements are prepared).

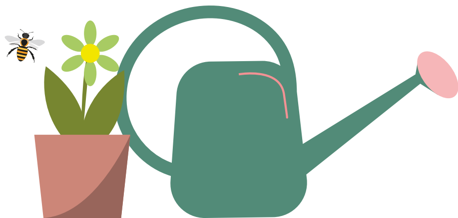
To finance the additional capital requirements for Havant Thicket Ancala have established a new investment fund, Ancala Essential Growth Infrastructure GP LLP. The new fund will replace existing investments in Ancala Fornia Holdco Limited and a new Singaporean holding company, Ancala Fornia Topco PTE Limited, will be established. Following the transaction we anticipate that SWRHL will be liquidated. The transition is expected to complete in July 2023.

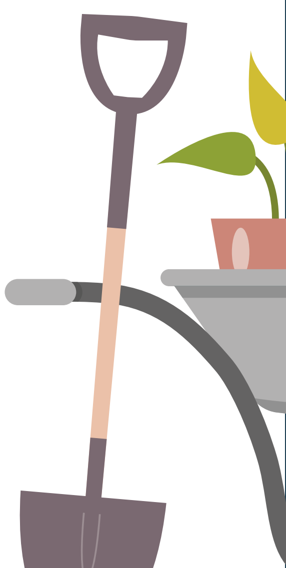
Financing Portsmouth Water Limited was historically financed primarily by way of an RPI index linked loan secured upon the assets of the Company. This thirty year £66.5m index linked loan was issued in June 2002 and is repayable in September 2032. The loan interest is calculated by adjusting the value of the loan by RPI and then charging interest on this amount at 3.635%. The current value of the loan is £130.9m (2022: £116.6m).

In 2022 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 2022/23 the group raised additional debt facilities of up to £325m in order to finance the development of Havant Thicket Winter Storage Reservoir (HTWSR). This was raised under four different debt facilities which comprised a syndicate facility of £155m, a facility with current bankers Lloyds of £50m, a £75m CPI Bond issued in March 2023, and a separate £45m RCF at Brockhampton Holdings Limited. In addition, the Lloyds Bank plc Revolving Credit Facility of £15m was renewed in May 2023.

The new debt was supported with a shareholder equity commitment of £150m. £120m will be deployed in 2023, £60m as equity and £60m to repay an inter-company loan from Portsmouth Water. The remaining £30m of committed capital is anticipated to be drawn in 2024.





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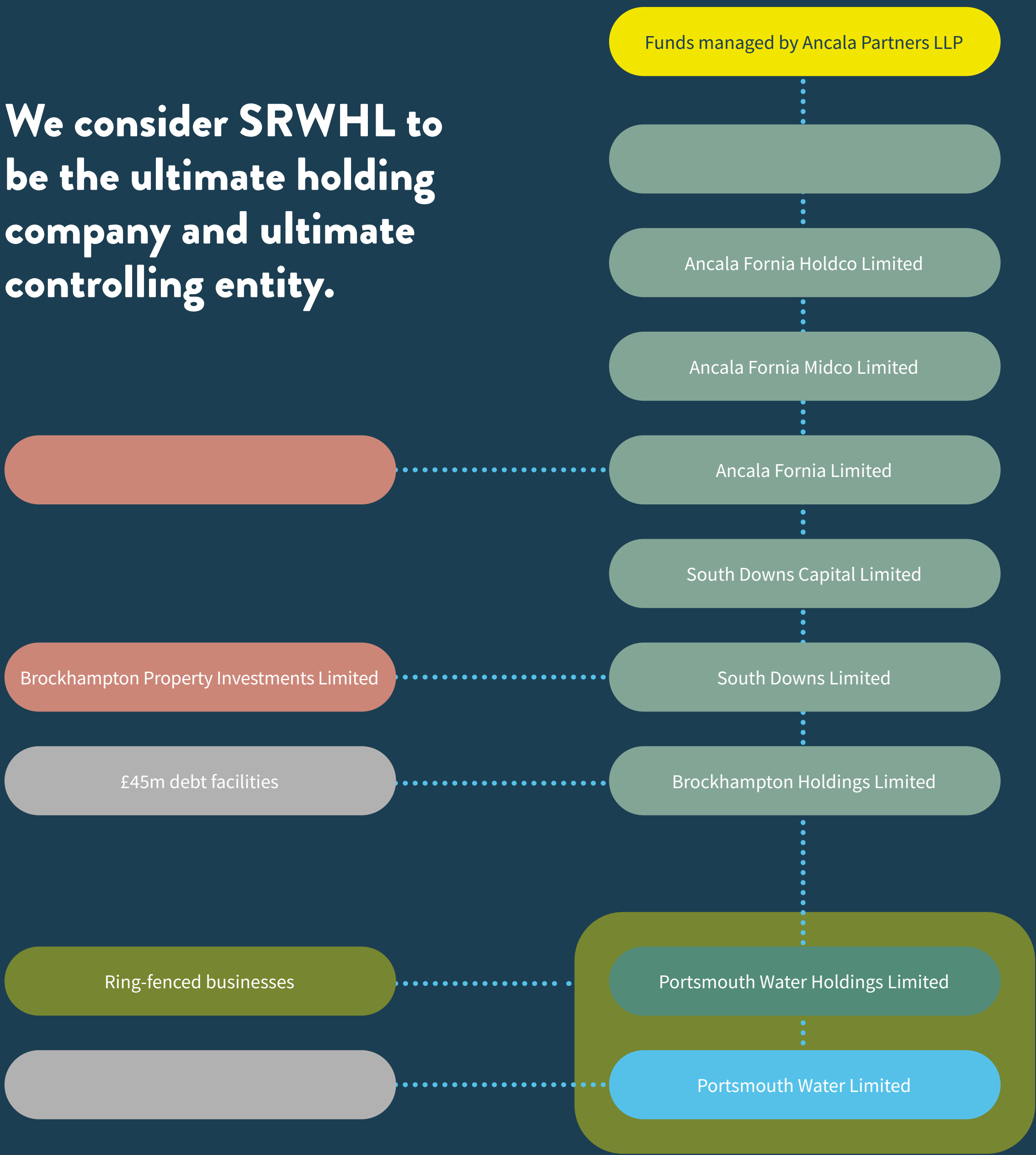


Structure as at 31 March 2023

COMPANY DIRECTION AND PERFORMANCE

Delivering for our Customers and Communities

Our values of Excellence, Integrity and Future Focus are deeply rooted and embedded in our company culture. We have always believed that a values-based culture empowers our people to "do the right thing" in delivering our essential services, taking care of our customers and supporting our local communities.

We were ranked 2nd overall in the industry Customer Measure of Experience (C-MeX) for 2022/23, an outstanding achievement and up one place from the previous year. We continued our strong performance in the industry measure of developer satisfaction (D-MeX) throughout 2022/23. We finished 2nd in the industry marginally behind 1st place.

We independently assess our customer service through the Institute of Customer Service and hold the prestigious 'ServiceMark' accreditation. Their annual Business Benchmarking survey gave Portsmouth Water a score of 81.2 compared to a utilities average of 74.1 and all sector average of 78.4. This provides strong and independent evidence that our customer service rivals high customer service standards across all sectors. The survey showed that customers continue to value our service reliability, helpfulness and the competence of our staff.

We have been pro-active in supporting our customers through the cost-of-living crisis, by offering extended payment holidays, offering further leak allowances and increasing promotion of our social tariff.

Throughout the year we have continued to work collaboratively with other utilities and support agencies to promote assistance for those with vulnerabilities. We currently have an industry leading 31,838 customers on our Priority Services Register which represents over 10% of our customer base.

We have missed our target for mains repairs to our network in 2022/23, having achieved the target in the previous year. Our performance was hindered by extremes of weather in both summer and winter, as detailed below. Close management of this activity resulted in reduced adverse impacts on our customers, as shown by the overall 'interruptions to supply' ODI results for the year.

We have failed to meet our household usage target for per capita consumption (PCC). 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.

Supporting our local communities has been a long term commitment for Portsmouth Water. We have an established social contract which we call the Community Partnership to outline how we will work in partnership with our local communities. In particular, the whole process of developing and building the HTWSR project will have a community focus – understanding what our communities would like this resource to deliver, involving them in the process and leaving a leisure and wildlife haven as a lasting legacy for all.

Water Quality

The key 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 have met our CRI target, i.e. less than 2. We had 8 water quality failures in the calendar year 2022 which has impacted the CRI score. We note that 5 of the failures reported were from customer properties all attributed to internal plumbing. 3 failures were from 2 treatment works attributed to sample line design and maintenance. Work is ongoing to prevent reoccurrence of similar failures.

A further measure of water quality is the feedback from customers, and the number of contacts and queries during the year relating to taste, odour, discolouration and 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 year 3 target for AMP7, being less than 0.43 contacts per 1,000 population served.

Our Values – Doing the right thing for our customers

In 2022 we launched our new company values of Excellence, Integrity and Future Focus, making them central to delivering the best possible levels of service to our customers. Great customer service is part of our DNA, and these values ensure we create a customer-first culture which empowers our people to do the right thing for our customers.

We think about our customers individually but also, collectively, in the communities that we serve. As a 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 been working on 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 the water industry, but across all industries. Although we are in the privileged position of being a monopoly supplier, this is not something we would ever abuse. We hold ourselves accountable to provide and serve our customers to the best of our collective responsibilities and to the high standards our customers deserve, without exception.

A STRONG SERVICE ETHOS IS AT THE HEART OF OUR BUSINESS

The number of written complaints per 10,000 connections is 9.43, a reduction on last year and expected to be upper quartile performance in the industry. We have seen several complaints this year as a result of introducing new metering strategies - change of occupier metering and non-billable metering.

Our metering strategies resulted in increased customer contact with some resulting in complaints due to a reluctance to have a meter installed. Throughout these programmes, our customer communication and installation processes have been adapted. This resulted in a reduction in contacts and therefore complaints.

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 2022, 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 continue to have the most affordable bill in the industry, with our average bill in 2022/23 being £109, against an industry average of £199, and the next lowest to ours being £137. Our average bill in 2023/34 will be £117. Our Helping Hand Social Tariff helps those on low incomes and caps our bill at £82.73 for the 2023/24 billing year. Numbers supported have grown from 10,254 in March 2022 to 11,673 in March 2023.

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 have forged new relationships 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 77%, an improvement 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.

KPI Performance

Set out on pages 14 and 15 of the ARA are the key performance indicators that we use to help us manage the business. Whilst we are pleased with our overall performance disappointingly, we have failed to meet 3 of these measures impacting our customers - mains repairs, leakage and per capita consumption.

Mains repairs

For the reporting period of 2023 we recorded 282 mains failures compared to 160 for 2022. Whilst 2022 was an outlier in terms of a low number of recorded mains failures, conversely 2023 was higher than the forecast number of mains repairs. This we believe was because of two extreme weather events during the period, the long dry hot summer and the prolonged cold period and rapid freeze thaw in December.

Although the number of mains repairs was high, our management of this activity did not adversely impact our customers, as shown by the strong 'interruptions to supply' ODI performance.

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.

COMPANY DIRECTION AND PERFORMANCE

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 130 payments, with 61 related specifically to one event in December 2022 where supply was not restored to customers by the stated time following a planned interruption, and 44 related to missed appointments over the year.

Non Household Retail Market

The 2022/23 year saw holistic reporting become a new means of monitoring and comparing trading parties' performance across a range of measures, to provide a view of performance in the business retail market. Holistic reporting assesses performance using data across several performance indicators such as Market Performance Standards (MPS), Operational Performance Standards (OPS) and Additional Performance Indicators (APIs), including the Retailer Measure of Experience (R-MeX). We have performed strongly during the year and achieved upper quartile performance, finishing the year in second position in the peer comparison table.

During 2022/23, we provided a NHH metering service for a number of retailers, with an 80% coverage of all NHH meters in our area of supply. The service includes 'active skip management' whereby we raise jobs for broken or damaged meters, thereby reducing the workload on retailers. We have synced accounts with retailers so they have easy access to meter images when required.

We will shortly be undertaking a 12-month pilot with a retailer to read NHH meters outside of our area of supply. This will transplant our performance and culture to support the retailer's drive to improve customer service and billing accuracy.

Whilst the role of the wholesaler has changed, since market opening, we still play a key role in facilitating the delivery of a good business customer experience. To capture both the experience of end business customers, and the experience of retailers when engaging with wholesalers, in their PR24 final methodology Ofwat set-out its decision to include BR-MeX as a new common performance commitment. To ensure BR-MeX is robust and ready for implementation from April 2025, Ofwat and MOSL will pilot new B-MeX and R-MeX surveys in 2023-24 and run a shadow period from spring 2024.

Developer Services

We have continued our strong D-MeX performance throughout 2022/23. We finished 2nd in the industry and improved from our 3rd place in 2021/22. We continue to implement improvements based on the feedback we receive from developers on our service delivery. Improvements in the year included the introduction of SLP and NAV applications via our online bilateral Portal. Following developer customer feedback, we also launched a redesign of the Developer section on our website. This makes it much easier to navigate and to locate desired information.

We have seen good levels of competition, in developer services activities throughout 2022/23, with both SLPs and NAVs remaining active in our area of supply.

During 2023/24 we will be developing environmental incentives, in-line with Ofwat's desire for these incentives to replace income offset charges from April 2025.

Leakage

After an annual average leakage figure of 26.9 Ml/d in 2021/22, leakage his risen in 2022/23 to an annual average of 32.2 Ml/d, resulting in a 3-Year rolling average of 27.6 Ml/d, 1.3 Ml/d above our regulatory target. The summer of 2022 saw prolonged, extremely dry weather. This change in ground conditions resulted in our first significant breakout of the year. This was followed by three more breakouts throughout the year, the last of which was in December. This was caused by prolonged freezing conditions comparable with the breakout seen from the so-called 'Beast from the East' in 2018. This breakout saw our leakage hit a high of 40.9 Ml/d as a weekly average. Recovery from this latest breakout has been challenging, as the leaks amassing within this have been a large quantity of smaller hidden leaks, as compared to the 'Beast from the East' which produced easier to detect and repair larger visible leaks.

In November, we increased our detection resource, doing so again in December and January. This additional resource is remaining in place for the rest of AMP7 in order to reduce leakage back to previous industry leading levels. We are also using new and innovative techniques to locate more leaks than before, including Satellite Imagery, Electronic Listening Devices, and AI enabled Acoustic devices. These techniques paired with our previous successful techniques such as our Acoustic Fixed Network (which has a network penetration of around 50%) and our progress with our Digital Twin, will allow us to not only recover leakage levels to achieve targets set, but also reduce leakage to record low levels.

Interruptions to supply

We continue to maintain 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 5 minutes 45 seconds, this is equal to our best performance on record achieved last year. Our network has been designed with good interconnection, so that we can quickly feed customers using water from different zones 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 carefully consider 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 also continue to use and explore new technology and techniques to make repairs to our network in a way so that customers are not impacted by unforeseen events. We remain well placed to achieve our regulatory targets for the remainder of AMP7.

Regulatory Outcome Delivery Incentive ("ODI") performance

We have delivered our target on Water Industry National Environment Programme (WINEP) delivery and the biodiversity grant scheme. The one outstanding WINEP scheme from last year was completed and approved. We have provided £148.5k of our biodiversity grants against a target of £150k, another strong performance with more schemes enhancing the environment within our area.

WE CONTINUE TO MAINTAIN ONE OF THE BEST LEVELS OF PERFORMANCE IN THE INDUSTRY FOR INTERRUPTIONS TO SUPPLY FOR CUSTOMERS.

DIVIDEND POLICY

Annual Performance Report Dividend Disclosures

Dividend payments have been 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 committed to a review of the current structure to consider options and the cost and benefits of removing the requirement for the recirculating dividend and unwinding the loan structure. The final recirculating dividend was paid in July 2022. Moving forward the recirculating dividend is no longer required and the loan structure will be repaid following receipt of £120m new equity from shareholders in July 2023.

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 was 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. Delivery of performance commitments to customers 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. Financeability tests on medium-term liquidity, and long-term financial viability testing to consider long-term financial resilience, including consideration of future capital requirements to support RCV growth and investment requirements.
4. Compliance with regulatory requirements, in particular Licence Condition P and Licence Condition F.

The dividend is calculated in two components:

- A return on the equity component of the Regulatory Capital Value (RCV) which is calculated as 4% of the equity 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 arrangement, which is value neutral because distributions are received back in intercompany interest receipts. The recirculating dividend has been stopped from 2023 and the associated financing structure is being unwound.

The company will adjust the dividend payable for following items:

- The dividend is reduced by the interest payable in relation to subordinated intercompany loans to ensure overall distributions to holding companies are maintained in line with PR19 dividend guidance.
- The dividend is reduced in the event of net financial penalties relating to in-period Outcome Delivery Incentives following publication of Ofwat's final determination of 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 Ofwat Gearing Outperformance Sharing Mechanism.
- Real growth of the asset base within the AMP is not adequately support by shareholder funding.
- Financeability tests on medium-term liquidity and financial viability testing give rise to concerns about long term financial resilience.
- There is non-compliance with regulatory licence conditions, including License Condition P clauses on dividend policy and credit ratings / cash lock up and licence 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 Incentives following consideration of projected future performance.
- There are proceeds arising from the Company share of property disposals.

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.

Dividend paid in year (relating to 2021/22 performance)

The dividend paid in the financial year 2022/23 relates to performance in 2021/22. The Directors declared a dividend of £2.711m and a recirculating dividend of £0.686m for the financial year 2021/22. This was paid in July 2022. In making this recommendation the Directors carefully considered the relevant factors and believe a 4% dividend yield is appropriate given that RCV growth is supported by shareholder equity. No interim dividend relating to financial year 2022/23 was paid in year. Calculation of the dividend is set out in the tables on pages 23 and 24.

Performance for customer and the environment

The Board assessed company performance for customers and the environment before determining that a dividend can be paid. Performance has been assessed over a rolling 3-year period. Further details of performance in each year can be found in the relevant APR.

Performance	Measure	2019/20	2020/21	2021/22
Customer service	C-MeX Rank	1st	1st	3rd
Developer service	D-MeX Rank	1st	3rd	3rd
Written complaints	Complaints per 10k connections	✓	✓	✓
Leakage	ODI Target	✓	✓	✓
Interruptions to supply	ODI Target	✓	✓	✓
Vulnerable customers	Priority Services Register / Social Tariff	✓	✓	✓
Sustainable abstraction	Abstraction Incentive Mechanism	✓	✓	✓
Community commitments		✓	✓	✓
Health & Safety	RoSPA accreditation	✓	✓	✓
Pensions	Scheme in surplus	✓	✓	✓
ODI	Overall ODIs achieved	12/14	20/26	18/26

DIVIDEND POLICY

In deciding to pay a dividend the Board were satisfied that Portsmouth Water had consistently delivered on its commitments to customers and the environment. Customer experience for households and developers has been upper quartile in each year. Written complaint levels were the lowest in the industry in 2021/22. Portsmouth Water leakage targets have been met and customer interruptions have been the lowest in the industry through the period. Performance commitments in relation to the Priority Services Register, social tariffs and Abstraction Incentive Mechanism have all been met, along with delivery on our community commitments supporting local STEM fairs, single use plastic campaigns and engagement on Havant Thicket.

The Board also takes a wider assessment of performance and considers health and safety and pensions as indicators of social responsibility. In the past three years the defined benefit pension scheme has remained in surplus and RoSPA accreditation has been maintained. Overall ODI performance over the last three years remains strong with >70% performance commitments being met, and a net reward being achieved over the three year period. Per capita consumption in 2021/22 remained above the ODI target, as it was impacted by increased consumption during Covid, and the water quality ODI measure was not met in 2021/22. The Board noted the improvement plans for these measures but concluded that overall performance supported payment of a dividend.

Financial resilience over the longer term

Totex performance has been considered in approving the dividend payment. The Board were satisfied that actual and projected expenditure is expected to be in line with forecast and within the PR19 final determination allowance. Regulatory gearing was 73%, within the limits set in the Gearing Outperformance Sharing Mechanism, but this did not reflect the additional £20m of shareholder equity secured in 2021 with the initial financing of Havant Thicket. The £20m equity was deployed in February 2023 and it is reflected in the dividend yield calculation in Table 4H of this document.

The Board considered whether the dividend paid should be adjusted to reflect the RCV growth in AMP7 but were satisfied that the £20m equity and future equity commitments support maintaining a dividend policy of a 4% yield on regulated equity. Subsequently Portsmouth Water investors have confirmed a further £150m equity commitment to support the increased costs of Havant Thicket. Financeability tests on medium term liquidity and financial viability have been met and financial performance was in line with expectations, so the Board concluded it was appropriate to pay a dividend. The Board also considered compliance with regulatory licence including Licence Condition P clauses on dividend policy and credit ratings / cash lock up and licence Condition F Regulatory Accounting Statements.

Adjustment to dividend paid

Two adjustments were made to the dividend paid in line with our stated dividend policy.

- The base dividend was reduced by £0.690m for interest payments from intercompany debt with holding companies within the group.
- The dividend was increased by £0.530m in relation to ODI rewards received relating to 2020/21. The Board concluded it was appropriate to distribute rewards once they had been reflected in customer prices in April 2022. The full available rewards were not reflected in charges or in the dividend distribution to reflect the deferred ODI assessment of per capita consumption. The Board's assessment was that it was prudent to share ODI rewards on the basis that projected ODI performance for the AMP reflected a net reward position and that the dividend policy had provision to reduce dividend where ODI net penalties are in place.

Dividend Yield

Regulatory gearing and calculated dividend yield for 2021/22 as reported in Table 4H is 78.29% and 7.13% respectively based on the PR19 Final Determination. The reported yield is higher than the PR19 guidelines as expenditure in year on Havant Thicket has been higher than the PR19 allowances resulting in higher borrowings. The calculations do not reflect the increased Totex allowance agreed with Ofwat through the Cost Adjustment Mechanism that concluded in January 2023. The result is that regulatory gearing is overstated for 2022/23 as additional debt supporting investment is reflected in the calculation without recognising an increase in RCV (the RCV will be recognised in a midnight adjustment at PR24).

As shown below, restating the gearing and dividend yield for the additional Totex funding results in regulatory gearing of 64.38% and a dividend yield of 3.55% (in line with PR19 guidance of 4% yield). We have included additional information in table 4H to reflect the adjusted calculations for information. Further information on the cost adjustment mechanism can be found here:

https://www.ofwat.gov.uk/wp-content/uploads/2022/12/Havant-Thicket-CAM-final-decision-document.pdf

Dividend workings for 2021/22 (paid in year)

Dividend calculations		2021-22
	Total: Average RPI inflated RCV (year average) - nominal (year average prices)	£75.291m
	Total: Average CPIH inflated RCV (year average) - nominal (year average prices)	£73.763m
	Total: Average post 2020 investment RCV (year average) - nominal (year average prices)	£30.386m
	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
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 licence compliance	
	Dividend Declared For Year	**£3.397m**

* See the 2021/22 APR for further details

DIVIDEND POLICY

Dividend yield calculations		2022-23
	Dividend Paid - Return on Regulated Equity	£2.711m
	Dividend Paid - Recirculating Dividend	£0.686m
	Dividend Paid In Year	**£3.397m**
PR19 Final Determination		
	Closing RCV - Water Resources	£7.830m
	Closing RCV - Water Network +	£184.720m
	Closing RCV - Havant Thicket	£27.865m
	Closing RCV - Total	**£220.415m**
	Actual gearing	78.39%
	Net debt	£172.773m
	Actual equity	£47.642m
	Actual yield	**7.13%**
PR19 Final Determination adjusted for the Cost Adjustment Mechanism		
	Closing RCV - Water Resources	£7.830m
	Closing RCV - Water Network +	£184.720m
	Closing RCV - PR19 Havant Thicket	£27.865m
	Closing RCV - Havant Thicket CAM additional RCV (recognised at PR24) *(see below)	£47.837m
	Closing RCV - Total	**£268.252m**
	Actual gearing	64.38%
	Net debt	£172.773m
	Actual equity	£95.479m
	Actual yield	**3.55%**

Cost Adjustment Mechanism RCV Increase		2022-23
	CAM RCV Adjustment, 2017 - 18 Prices	£39.317m
	CPIH Index (closing)	128.15
	CPIH Index (actual) - FYE - inflate from FYE 2017-18	121.7%
	CAM RCV Adjustment, Nominal	**£47.837**

Dividend declared for 2022/23 (to be paid in July 2023)

The Board have declared a dividend relating to performance in 2022/23 of £2.342m. No interim dividend relating to financial year 2022/23 was paid in year so the full amount is expected to be paid in July 2023, subject to Ofwat agreement to a licence derogation to allow the Company to continue to hold a single credit rating.

The dividend does not include a recirculating element and the intercompany loan structure is being unwound in 2023. Portsmouth Water's investor Ancala has committed £150m of further equity to support Havant Thicket reservoir development. The initial £120m was received into the group on 3 July 2023, £60m has been deployed as new equity and the remaining amount will be used to repay the intercompany loan to South Downs Limited.

In making this dividend recommendation the Directors have carefully considered the relevant factors and believe a 4% dividend yield is appropriate, given that RCV growth is supported by new shareholder equity. Calculation of the dividend is set out in the table on page 27.

Performance for customer and the environment

The Board assessed company performance for customers and the environment before determining that a dividend can be paid. Performance has been assessed over a rolling 3-year period.

Performance	Measure	2020/21	2021/22	2022/23
Customer service	C-MeX Rank	1st	3rd	2nd
Developer service	D-MeX Rank	3rd	3rd	2nd
Written complaints	Complaints per 10k connections	✓	✓	✓
Leakage	ODI Target	✓	✓	✗
Interruptions to supply	ODI Target	✓	✓	✓
Vulnerable customers	Priority Services Register / Social Tariff	✓	✓	✓
Sustainable abstraction	Abstraction Incentive Mechanism	✓	✓	✓
Community commitments		✓	✓	✓
Health & Safety	RoSPA accreditation	✓	✓	✓
Pensions	Scheme in surplus	✓	✓	✓
ODI	Overall ODIs achieved	20/26	18/26	19/26

In deciding to declare a dividend the Board were satisfied that Portsmouth Water had consistently delivered on its commitments to customers and the environment. Customer experience for households and developers has been upper quartile in each year. Written complaint levels were the lowest in the industry in 2021/22, and while complaint numbers have increased marginally in 2022/23, continued upper quartile performance on this measure is anticipated. Customer interruptions have been the lowest in the industry through the period and there were no restrictions imposed on customers despite the driest year on record since 1976. Performance commitments in relation to the Priority Services Register, social tariffs and Abstraction Incentive Mechanism have been met, along with delivery on our community commitments supporting local STEM fairs, single use plastic campaigns and engagement on Havant Thicket. The leakage target was missed for the first time this regulatory cycle, impacted by extreme weather conditions. The Board considers the performance over three years and does not feel that failing this measure in isolation should result in an adjustment to dividends.

The Board takes a wider assessment of performance and considers health and safety and pensions as indicators of social responsibility. In the past three years the defined benefit pension scheme has remained in surplus and RoSPA accreditation has been maintained. The pensions scheme has been closed to future accrual; all employees have transferred to the defined benefits scheme and employer contributions have been increased to a maximum of 15% for all employees.

DIVIDEND POLICY

Overall ODI performance over the last three years remains strong with >70% performance commitments being met, and a net reward being achieved over the three year period. Per capita consumption remained above the ODI target, as it was impacted by increased consumption during Covid, and the water quality ODI measure, which was not met in 2021/22, was recovered in 2022/23. The Board noted the improvement plans on leakage and per capita consumption but supported that overall performance supported payment of a dividend.

Financial resilience over the longer term

Totex performance has been considered in approving the dividend declaration. The Board were satisfied that actual and projected expenditure is expected to be in line with forecast and within the PR19 final determination cost allowance. Underlying regulatory gearing was 64% after taking account of the Havant Thicket Cost Adjustment Mechanism increased Totex and within the limits set in the Gearing Outperformance Sharing Mechanism.

The Board considered whether the dividend paid should be adjusted to reflect the RCV growth in AMP7 but were satisfied that the £20m equity and future equity commitments support maintaining a dividend policy of a 4% yield on regulated equity. Subsequently Portsmouth Water investors have confirmed a further £150m equity commitment to support the increased costs of Havant Thicket.

The Board noted the successful financing exercise carried out to finance Havant Thicket. The confirmation of £325m of new debt facilities and £150m of committed equity ensures financeability tests on medium-term liquidity and financial viability have been met and financial performance was in line with expectations. The Board also considered compliance with the regulatory licence, including Licence Condition P clauses on dividend policy and credit ratings / cash lock up and licence Condition F Regulatory Accounting Statements. The dividend payment is subject to agreeing a licence derogation to maintain a single credit rating.

In considering whether it is prudent to make dividend payments the Board reviewed whether the headroom in financing plans and the level of equity deployed was sufficient to support a dividend payment during construction of the Havant Thicket reservoir. The Board conclusion was that payment of a dividend is appropriate.

Adjustment to dividend paid

One adjustment was made to the dividend declared in line with our stated dividend policy.

- The base dividend was reduced by £0.994m for interest payments from intercompany debt with holding companies within the group.
- No adjustment has been made to the dividend in relation to ODI performance. A net ODI reward was included in charges for 2022/23 based on performance in 2021/22. However, the Board has not recommended any adjustment to dividend at this stage. ODI performance in respect of 2022/23 will be considered once Ofwat has published its final determination of in-period ODIs in November 2023.

Projected Dividend Yield

The projected dividend yield in 2023/24 is expected to be within the PR19 guidelines. The declared dividend from 2022/23 to be paid in year is in line with PR19 guidance and calculated on the PR19 RCV before any changes for the increased funding for Havant Thicket. The additional upfront equity for Havant Thicket will reduce gearing in 2023/24 significantly and result in lower report dividend yield in the next year’s Annual Performance Report.

Dividend workings for 2022/23 (declared to be paid in July 2023)

Dividend calculations		2022-23
	Total: Average RPI inflated RCV (year average) - nominal (year average prices)	£81.107m
	Total: Average CPIH inflated RCV (year average) - nominal (year average prices)	£76.633m
	Total: Average post 2020 investment RCV (year average) - nominal (year average prices)	£50.750m
	Total: Average total RCV (year average) - nominal (year average prices)	£208.489m
	Regulatory equity notional (PR19FD)	40%
	Regulatory equity notional (PR19FD)	£83.396m
	Dividend yield (per dividend policy)	4%
	Base Dividend - Return on Regulated Equity	£3.336m
	Base Dividend - Recirculating Dividend	£0.000m
	Base Dividend	**£3.336m**
Less	Adjustment for intercompany interest payable to holding companies	(£0.994m)
Less	Adjustment for in-period Outcome Delivery Incentive penalties	£0.000m
Add	Adjustment for in-period Outcome Delivery Incentive rewards	£0.000m
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 licence compliance	
	Dividend Declared For Year	**£2.342m**

VIABILITY STATEMENT

1. Assessment of prospects

The Board has assessed the prospects of the Company over a future period of 12 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 of the ARA. 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 Havant Thicket for 10 years to 2030) and the related Ofwat Final Determination are the primary drivers for the Company's future prospects over the medium term. 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 2035. More information in respect of the regulatory regime is set out in page 43 of the ARA.

The Company has just completed the third year of the current regulatory cycle 2020-2025 (for Havant Thicket the price control period is from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2030 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 (2023/24) financial period.
- Longer 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 2023.

The key business assumptions in the budget related to;

- The extent and duration of ongoing effects of the recovery from the cost of living crisis
- 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
- 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 2023. 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 52 and 53 of the ARA) reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 73 of the ARA. 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.

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.

The period of assessment

The Board conducted the assessment for a period to 2035, to include AMP8 and AMP9 in full. The Board considers this period 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 2 years remaining of the regulatory period and an assessment of the results for the successive two AMPs; and for the Havant Thicket price control the 7 years to the end of the price control and the successive two AMPs. 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. These are the key drivers to the end of the next regulatory period and beyond to 2035.

2. Assessment of viability

The Assessment of Viability therefore uses; for the "core business" a period of 2 years of regulatory business plan to 2025 and a further 10 years of projection to 2035; and for the Havant Thicket price control a period of 7 years of the regulatory business plan together with a further 5 years to 2035. Although these results reflect the Directors' best estimate of the future prospects of the business, they have also stress tested the potential impact on the Company of a number of scenarios. This has been performed by quantifying their financial impact and overlaying this on the financial forecasts. The potential impact has been considered in relation to operating profit, cash flow, liquidity and the key financial ratios needed for banking covenants and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover ("ICR"). These scenarios (which are summarised on pages 56 and 57 of the ARA), 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 52 and 53 of the ARA). 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. Discussions with our rating agency indicates that while gearing level remain modest in the Company's projections a lower Interest Cover Ratio may be needed to maintain our current credit rating.

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.

During the year ended 31 March 2023 the Company has performed a number of actions to increase financial resilience, including:

- Secured significant new debt and equity financing, predominantly to support the investment in HTWSR. Equity commitments from shareholders provide mitigation against high interest environments and maintain a relatively low gearing level.
- Renegotiated legacy debt agreements to allow for the inclusion of swap instruments with the Company's capital structure. This hedges the interest rate risks on variable rate debt used to support the HTWSR investment, mitigating against high interest rate sensitivities.
- An RPI for CPI swap agreed after year end aligns the indexation on the Company's inflation linked debt to the same basis that determines revenues.

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 period ending 31 March 2035.

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

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	Borrowings	Capital
Cost of living	Assumption that the cost of living crisis leads to inflation 2% higher than current forecasts in FY24 and FY25. This is accompanied by £0.75m and £0.50m increases in bad debt in FY24 and FY25. £0.5m reduction of EBITDA in AMP7, £3.5m increase in capex cash spend to deliver the same programme. Moody's ICR remains above 1.3x on a 3 year average. Artesian ICR <1.45x (1.44x) in FY27.	Increased borrowing on Opco facility (£2m in AMP7, £15m AMP8, £5m less in AMP9).	✓	✓	
SONIA + 1%	£7.8m increase to interest payments in AMP8, partially mitigated by £3.8m increased in interest received on cash investments. Artesian ICR fails in FY28 (1.44x).	£3.3m drawdown on debt in FY28 , repaid FY29.	✓	✓	
3% RORE ODI penalty	£2.3m penalty per year in AMP8. £14m reduction in EBITDA in AMP8, Artesian ICR at 1.39x and 1.38x in FY26 and FY27 respectively (below the 1.45x target).	An increase in borrowings of £8m in AMP8 (giving rise to £1m more interest payment) - fully repaid in AMP9.	✓	✓	
50bps reduction in AMP8 WACC	AMP8 WACC 50bps lower than projected. £6.7m reduction of AMP8 EBITDA, £11.8m in AMP9. This assumes HT WACC is unchanged from Base Case. Artesian ICR 1.42x in FY27.	Increased borrowing on Opco facility (£2m in AMP8).	✓	✓	
HTWSR 10% overspend + 2 year delay	ODI penalty in FY26 (£1.92m in 17/18 prices) and FY30 (£7.68m in 17/18 prices), together with an increase of £26m cash capex in AMP8, £15.6m in AMP9. Artesian ICR failed in FY27 and FY28 (1.22x and 1.44x respectively).	£28m increase in debt drawdowns (giving rise to £1.4m additional interest) in AMP8, £7m of which repaid in AMP9.		✓	✓
Core business capex overspend 20%	AMP8 capex programme (non HT) overspend at 20%. £34m additional capex cash flow in AMP8, £29m AMP9. Artesian ICR failed in FY26, FY27, FY28 (1.17x, 1.10x and 1.19x respectively).	£38m drawdown in AMP8, £16m of which repaid in AMP9. £3m additional interest paid in both AMPs as a result.		✓	✓

Individual Scenario	Impact (pre mitigation)	Mitigation	Opex	Borrowings	Capital
Combination - 50bps AMP8 WACC reduction and core business capex overspend	£9m EBITDA reduction per AMP, Artesian ICR failed in FY26, 27 and 28 (1.08x, 1.03x and 1.12x respectively).	£38m drawdown in AMP8, £16m of which repaid in AMP9. £3m additional interest paid in both AMPs as a result.	✓	✓	✓
Combination - 1% SONIA increase plus HT overspend and delay	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).	✓	✓	✓
Combination - 1% Sonia increase plus ODI penalty	Artesian ICR failed in FY27 and FY28 (1.21x and 1.35x respectively). £12m reduction in AMP8 EBITDA. £8m increase in interest payments in AMP8.	£28m drawdown in AMP8, £7m repaid in AMP9. Interest payments increased £9m vs base.	✓	✓	
Combination - all negative individual scenarios combined	£31.7m reduction in AMP8 EBITDA, Artesian ICR failed in FY26, FY27 and FY28 (0.99x, 0.54x and 0.74x respectively), Moody's rolling average falls below 1.30x (1.19x) in FY28.	Additional £53m of debt in AMP9, £7m of cost savings in AMP7, £3m in AMP8. Moody's ICR greater than 1.1x while gearing remains sensible so not a risk of downgrade.	✓	✓	✓

TAX STRATEGY

Corporate Structure

The Group structure is set out on page 15. 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. In addition to paying corporation tax, when the company has earned taxable profits, we also contribute to the UK government and wider society as a result of the indirect taxes, employee related taxes and environmental taxes that we pay every year. The Company's tax affairs are managed in a way which takes into account our wider corporate reputation, and at all times are managed in line with the Company's values.

Corporate Interest Restriction

For the periods up to 31 March 2020, Corporate Interest Restriction was applied at a group level and the resulting tax cost was incurred at the wider group level. For periods since 1 April 2020 the group has elected into the Public Benefit Infrastructure Exemption.

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 all tax matters.

The day-to-day management of tax affairs is delegated to the Group Financial Controller, who reports directly to the Chief Financial Officer.

Members of the wider finance team are suitably experienced and trained to a level that ensures tax compliance is maintained at all times and a continuous cycle of training occurs to ensure that skills required within the finance team are relevant and up to date.

For tax filings, specialist taxation advice and support, the company engages the services of suitable Finance, Taxation and Accounting professionals.

Risk Management

Attitude towards tax planning and level of risk

Portsmouth Water Limited manages risks related to compliance with taxation and related legal requirements in a manner which ensures payments of the correct amount of tax on a timely basis.

The Company'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 taxation 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, where we are able to utilise Government tax initiatives, such as the use of Research and Development Tax Credits scheme to reduce our corporation tax charge, we will do so. This helps us 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 claim appropriate levels of capital allowances, and help maximise legitimate taxation opportunities where possible.

Working with HMRC

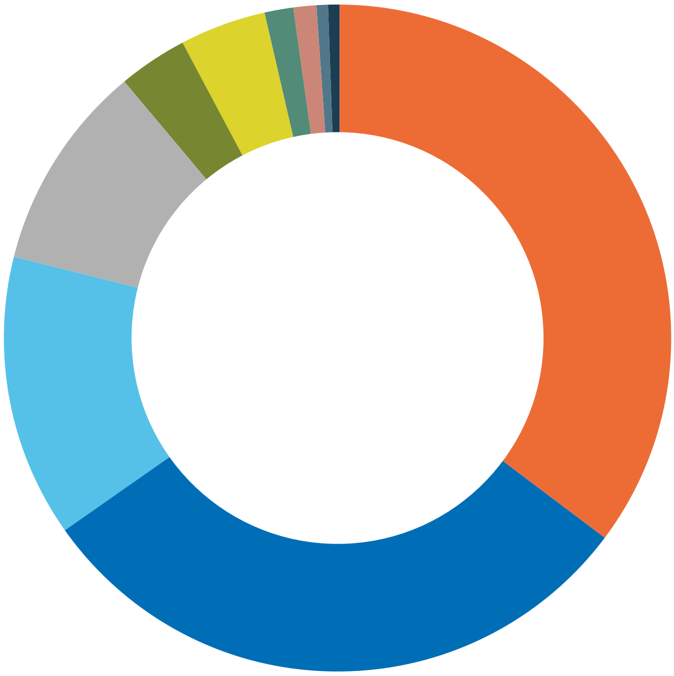
Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC at all times, be that directly or through intermediaries acting on our behalf.

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.

Future tax changes are considered through Water UK's Tax Forum, of which Portsmouth Water is a member. This wider industry forum allows us the opportunity to discuss

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

PAYE	£2,323k
Employer's NI	£1,165k
Employee's NI	£774k
Climate Change Levy	£197k
Permit Schemes	£200k
Fuel Duty	£82k
Insurance Premium Tax	£57k
Road Fund Licence	£34k
Apprenticeship Levy	£38k



how any future tax legislation can be interpreted and applied appropriately across the Water Industry.

Corporate Criminal Offences Code of Conduct

In line with UK government guidance, the Company has performed a taxation risk analysis relating to the potential for tax evasion taking place across the business. From this assessment, the Company has concluded the risks of tax evasion to be low. 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 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 compliance with IR35 legislation for all contractors and suppliers we engage with.

Accountability and Governance

The Board has approved a code of conduct 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 code 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, using the established reporting mechanisms and whistle-blowing process where and when necessary.

Risk assessment and mitigating factors

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

Our commitment

Portsmouth Water is committed to the following principles:

- Our business is carried out fairly, honestly, and openly at all times;
- 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 refusing to carry out an action which may lead to tax evasion.

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 80 to 84. Section 3.2 of the Regulatory Accounting Guideline 3 provides information that Boards should consider in explaining how they have met the relevant principles. 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.

In addition, the Chair of the Committee held constructive discussions with Ofwat around the individual elements of the performance targets and how they align with customer priorities. In light of that discussion the Committee will be changing future targets to reduce the weighting of financial targets so the link to focusing on customer priorities is clear.

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

Executive Directors appointed to the Board are employed on service contracts of no fixed term with a notice period of one year, both by the Company and the Director. Executive Directors are entitled to pension provision and certain contractual benefits, details of which are summarised below. Each Executive Director participates in bonus or incentive arrangements at the sole discretion of the Remuneration Committee which are described later in this Report. 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, and of UKWIR, an industry research and development body.

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;***

The renumeration committee met 3 times during 2022/23 and have met 2 times since 31 March 2022/23 year end. Following Ofwat feedback the committee pan to amend the existing KPIs to ensure the more transparently demonstrate that 60% performance related pay relate to performance for customers.

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.	10% of salary into a defined contributions scheme, or equivalent amount paid as salary, increased to 15% from 1 April 2023.	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 maximum bonus potential will increase to 65% (CEO) / 35% (CFO) from 1 April 2023	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 out-performance 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.
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

REMUNERATION REPORT

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 was one property sale within Portsmouth Water during 2022/23 which realised £0.45m.

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. The table below details the targets for 2022/23. This will be amended for 2023/24 to ensure a clear focus on key customer priorities.

Components of the variable bonus element	Total maximum variable element (Executive directors)	Total maximum variable element (Senior Leadership Team)	Objective	Percentage of variable bonuses element awarded
Service objectives	20%	6.70%	Achievement of the 10 stretching performance measures (See Service metric targets table below with further information on targets.	10 measures met 100% 8 measures met 75% 6-7 measures met 50% <6 measures 0%
Financial Objective	20%	6.70%	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 up to 40% Capex up to 40% Cash flow up to 20%
Personal objectives	20%	6.70%	Personal objectives (approved by the Remuneration Committee) linked directly to strategic business objectives.	Full or substantial 100% Partial 75% Some progress 50% Incomplete 0%
Total	**60%**	**20%**		

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2022/23 spot target
Compliance Risk	0	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	5 mins 45 secs per property
Leakage	15.2% reduction over AMP7	15.2% by year 2022/23	9.2% reduction from 2019/20 base year
PCC	6.3% reduction over AMP7	3.6% reduction over AMP7	3.8% reduction from 2019/20 base year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	68.3 repairs reducing to 67.3	71.2 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	7.3%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	80%

Financial objectives	Target
EBITDA (before exceptional items)	£16.2m
Capex - programme	£16m
Capex - efficiency	3%
Cash generated from operations - half year	Greater than £6.6m
Cash generated from operations - full year	Greater than £13.5m

- ***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.

The service, financial and personal objectives were given 33.3% weighting. The finance objectives were designed to relate to Totex efficiency and financeability to align with guidance that 60% of performance measures relate to performance for customers. The remuneration committee have agreed to revisit the performance targets for 2023/24 to ensure there is more transparency of the link between bonuses and performance for customers.

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

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

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

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

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

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

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

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

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

The Personal Objectives, when set, are assessed as being SMART targets (Specific, Measurable, Attainable, Relevant and Time

REMUNERATION REPORT

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	2022/23 spot target	Achieved
Compliance Risk Index	< 2.0	✓
Interruptions	5 minutes 45 seconds per property	✓
Leakage	9.2% reduction compared to 2019/20	✗
PCC	3.8% reduction compared to 2019/20	✗
Mains repairs	71.2 repairs per 1,000km	✗
Unplanned Outage	2.34% pa	✓
C-MeX	Upper quartile	✓
D-MeX	Upper quartile	✓
Priority Services	7.3%	✓
Severe Drought	80%	✗

Financial objectives	Target	Achieved
EBITDA (before exceptional items)	£16.2m	✓
Capex - programme	£16m	✓
Capex - efficiency	3%	✗
Cash generated from operations - half year	Greater than £6.6m	✗
Cash generated from operations - full year	Greater than £13.5m	✗

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/Fee £000	Benefits £000	Bonus Scheme £000	Sub-total £000	Pension £000	**Total 2023 £000**	**Total 2022 £000**
Executive:							
C. R. Taylor	201	8	-	209	-	**209**	**303**
J. C. Milner (Appointed October 2021)	133	28	-	161	15	**176**	**98**
H. M. G. Orton (Resigned September 2021)	-	-	-	-	-	**-**	**91**
Non-Executive:							
C. Deacon	52	-	-	52	-	**52**	**47**
Dr. L. Stoimenova (Appointed January 2021)	29	-	-	29	-	**29**	**7**
A. Smith (Wilson)	29	-	-	29	-	**29**	**27**
M. Coffin (Resigned December 2021)	-	-	-	-	-	**-**	**20**
	444	**36**	**-**	**480**	**15**	**495**	**593**

The executive directors have reflected on the fraud incident detailed on page 65 of the ARA and agreed with Board and Investors that given the loss to investors and the current external concerns on executive pay that it is appropriate for them to forgo the bonus payable for 2022/23 in relation to the annual bonus (variable pay) element and the LTIP1 scheme set out below.

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

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

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

	2023 £000	2022 £000
Car benefit	**12**	15
Medical insurance	**2**	3
Other	**22**	7
Total	**36**	25

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.

REMUNERATION COMMITTEE

Performance related bonus amounts earned and potentially payable in 2022/23:

Annual bonus (Variable pay)

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

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

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

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

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	3.3%	3.3%	3.3%	10%	50%
C. R. Taylor	6.7%	6.7%	6.7%	20%	100%

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

	Target %	Service objectives £000	Target %	Financial Objectives £000	Target %	Personal Objectives £000	Maximum Annual bonus (Variable pay) £000
J. C. Milner	3.3%	4	3.3%	4	3.3%	4	13
C. R. Taylor	6.7%	13	6.7%	13	6.7%	13	40

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

	Achieved %	Service objectives £000	Target %	Financial Objectives £000	Target %	Personal Objectives £000	Annual bonus (Variable pay) Earned £000
J. C. Milner	1.7%	2	2.0%	3	3.3%	4	9
C. R. Taylor	3.3%	7	4.0%	8	6.7%	13	28

All variable pay earned has been calculated 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 at the end of the current AMP period in 2025 and is 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 out-performance £000	Maximum Bonus %	Projected Bonus for 5 Year Period £000
Totex	8,000	4,400	30%	891
Non Regulated EBITDA	4,750	0	30%	0
Total				891

The projected bonus is set out below:

	Maximum %	Project 5 Year Period £000	LTIP2 - earned in year £000
J. C. Milner	25%	231	46
C. R. Taylor	50%	660	132

(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.

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 payable or earned in year

	Annual bonus (Variable pay) payable £000	LTIP1 (Variable pay) payable £000	LTIP2 earned in year £000	Total Bonus £000
J. C. Milner	0	0	46	46
C. R. Taylor	0	0	132	132

The executive directors have reflected on the fraud incident detailed on page 65 of the ARA and agreed with Board and Investors that given the loss to investors and the current external concerns on executive pay that it is appropriate for them to forgo the bonus payable for 2022/23 in relation to the annual bonus (variable pay) element and LTIP1 scheme set out above.

REMUNERATION COMMITTEE

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 and Mr. C. R. Taylor are members of the defined contribution scheme. Contributions amounting to £15,000 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 25 in the financial statements.

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:	2018	2019	2020	2021	2022	**2023**
Total remuneration excluding pension (£000)	164	167	240	275	287	**209**

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]	1.5%	6.8%
Benefits[2]	0%	0%

[1]This increase represents the impact of the annual pay award on the average employee salary and includes impact from individual's promotions.

[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 ratio of the following	2023	2022
25th percentile	1:7.91	1:6.31
50th percentile	1:12.02	1:8.61
75th percentile	1:19.86	1:11.48

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.

Statement of Implementation of Remuneration Policy in the Following Financial Year

The remuneration committee intends to adjust the key performance metrics to reflect Ofwat feedback and ensure that 60% of performance related pay can be transparently linked to performance for customers. Performance will be assessed against stretching targets set in relation the performance levels set out in the business plan for 2020 to 2025.

Approval

This report was approved by the Board on 29 June 2023 and will be subject to shareholder approval at the Annual General Meeting to be held on 26 July 2023.

Angela Wilson
Chair of the Remuneration Committee

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 issued by the Secretary of State for the Environment, Food and Rural Affairs (Defra) and the 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 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

The Directors confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they 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.

(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 has sufficient rights and resources, other than financial resources, such that if a special administration order were made, the special administrator would be able to manage the affairs, business and property of the company.

Portsmouth Water has ensured that the Licence Condition P has been subject to auditor assurance by KPMG. The auditor assurance is published alongside the Annual Performance Report on our website 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.

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. Close involvement with the process of securing £325m of new debt financing in February and March and approval of that funding. Commitment of an additional £150m of new equity to support the construction of Havant Thicket. Consideration of ratings agency position and credit rating. 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 and available headroom prior to Board approval.
Performance against PR19 business plan and Final Determination	Routine Board reporting of key PR19 delivery metrics, including Outcome Delivery Incentives and 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, delivery risks and overall business performance. Board attendance at CCG meetings to consider external challenge. Where 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 on 31 March 2023, and as forecast for the next five years. The Board approved the raising of £325m of new debt facilities in February and March to support the construction of Havant Thicket. The Company has maintained an investment grade credit rating.
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. Review and approval of the Cost Adjustment Mechanism for Havant Thicket Winter Storage Reservoir project (considered further below). Extensive analysis of, and evidence supporting, going concern and the Viability Statement was presented to the Board, reviewed, and approved.
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 assurance provider (Jacobs). The Board challenges management as to the outcome of those reports and tracks performance against any recommendations. The Board also maintains close liaison and a line of communication with the financial auditors via the Audit & Risk Committee. Reports by credit rating agencies are reviewed by the Board.

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

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 and development and reviews the results of employee engagement surveys – challenging findings and reviewing any plans to address concerns. The Remuneration Committee has oversight of appointment of members of the senior leadership team and makes the final appointment.
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 reviews management papers and plans in relation to succession planning. It also considers the 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 at 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, to 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	The Board meets eight times each year and receives management reports monthly. It actively considers and challenges management reports and related information. There is a transparent process of both routine management reporting and reporting on specific matters to the Board. 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 regularly to consider matters in relation to the Havant Thicket reservoir. 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 Independent Non-Executive Directors are the largest single group on the Board.

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 and 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 approved 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	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 the Company response and lessons learned.
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 whistleblowing, anti-fraud and corruption, and cyber-security 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	Over the past two years as preparation for PR24, the Board has overseen work to update the Company Purpose. The Company's Purpose is developed from and underpinned by the Company's "Vision" and "Values". Further details of the updated purpose and vision are included in our Annual Report. 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. 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.
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 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 to ensure that an integrated approach is taken across the business to systems and processes.
Assets maintenance/insurance factors	As part of the PR19 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.

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

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, and the implementation of a new Non-Infrastructure Framework contract with key partner Trant Engineering. The Board is closely involved in providing oversight, strategic direction, and challenge of the Havant Thicket project. During the year it approved the award of the main works contracts for the pipeline and the reservoir.
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.

Other material issues or circumstances

Factors	Summary of Board considerations
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. The Board has maintained oversight of the procurement of main works contracts for the pipeline and the reservoir which were awarded during the year and the agreement of a Cost Adjustment Mechanism with Ofwat to reflect the higher, competitively tendered costs of the project. It has also overseen the process of securing £325m of new debt financing in February and March and the injection of an additional £150m of new equity to support the project. 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 in providing that assurance the Board has taken full account of the future financing requirements of the programme. 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 12 and 13 and the Corporate Governance Report on page 65.

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.

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

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 in April 2021. The company has continued to operate the assurance framework 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 considers that the Company has executed its Data Assurance in line with framework set out in 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 2022/23.

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 outcome of all data assurance activities undertaken for the APR. 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 March 2021 on a Draft Assurance Plan, before publishing a Final Assurance Plan on 1 April 2021. This consultation informed development of 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.

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.

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;

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

- 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 2022/23.

Signed on Thursday 29 June 2023 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

Section 1

REGULATORY FINANCIAL REPORTING

REGULATORY FINANCIAL REPORTING

1A INCOME STATEMENT

Table 1A - Income statement for the 12 months ended 31 March 2023

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	2	45.446	(0.464)	0.246	(0.710)	44.736	1A.1
Operating costs	3	(36.643)	(0.055)	(0.019)	(0.036)	(36.679)	1A.2
Other operating income	4	0.142	-	-	-	0.142	1A.3
Exceptional items	4	(0.820)	-	-	-	(0.820)	
Operating profit		8.125	(0.519)	0.227	(0.746)	7.379	1A.4
Other income	5	-	1.527	-	1.527	1.527	1A.5
Interest income	6	1.920	-	-	-	1.920	1A.6
Interest expense	7	(16.931)	(4.090)	-	(4.090)	(21.021)	1A.7
Other interest income	6	0.427	-	-	-	0.427	1A.8
Profit before tax and fair value movements		(6.459)	(3.082)	0.227	(3.309)	(9.768)	1A.9
Fair value gains/(losses) on financial instruments		-	-	-	-	-	1A.10
Profit before tax		(6.459)	(3.082)	0.227	(3.309)	(9.768)	1A.11
UK Corporation tax	8	-	-	-	-	-	1A.12
Deferred tax	8	1.462	-	-	-	1.462	1A.13
Profit for the year		(4.997)	(3.082)	0.227	(3.309)	(8.306)	1A.14
Dividends	9	(3.397)	-	-	-	(3.397)	1A.15
Tax analysis							
Current year	8	-	-	-	-	-	1A.16
Adjustments in respect of prior years	8	-	-	-	-	-	1A.17
UK Corporation tax		-	-	-	-	-	1A.18

Analysis of non-appointed revenue	Non-appointed	RAG 4 reference
Imported sludge	-	1A.19
Tankered waste	-	1A.20
Other non-appointed revenue	0.246	1A.21
Revenue	0.246	1A.22

1B STATEMENT OF COMPREHENSIVE INCOME

Table 1B - Statement of comprehensive income for the 12 months ended 31 March 2023

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year		(4.997)	(3.082)	0.227	(3.309)	(8.306)	1B.1
Actuarial gains/(losses) on post-employment plans	22	(14.142)	-	-	-	(14.142)	1B.2
Other comprehensive income	20	3.535	-	-	-	3.535	1B.3
Total Comprehensive income for the year		(15.604)	(3.082)	0.227	(3.309)	(18.913)	1B.4

REGULATORY FINANCIAL REPORTING

1C STATEMENT OF FINANCIAL POSITION

Table 1C - Statement of financial position for the 12 months ended 31 March 2023

£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	211.244	(6.048)	-	(6.048)	205.196	1C.1
Intangible assets	11	5.032	(0.217)	-	(0.217)	4.815	1C.2
Investments - loans to group companies	12	55.484	-	-	-	55.484	1C.3
Investment properties	12	-	-	-	-	-	1C.4
Retirement benefit assets	22	-	-	-	-	-	1C.6
Total		271.760	(6.265)	-	(6.265)	265.495	1C.7
Current assets							
Inventories		0.659	-	-	-	0.659	1C.8
Trade & other receivables	13,14	15.266	-	-	-	15.266	1C.9
Financial instruments		-	-	-	-	-	1C.10
Cash & cash equivalents	15	54.073	-	0.227	(0.227)	53.846	1C.11
Total		69.998	-	0.227	(0.227)	69.771	1C.12
Current liabilities							
Trade & other payables	17	(15.721)	0.126	-	0.126	(15.595)	1C.13
Capex creditor	17	(9.377)	-	-	-	(9.377)	1C.14
Borrowings	16	0.578	-	-	-	0.578	1C.15
Current tax liabilities	17	(0.424)	-	-	-	(0.424)	1C.17
Provisions	17	-	-	-	-	-	1C.18
Total		(24.944)	0.126	-	0.126	(24.818)	1C.19
Net Current assets/(liabilities)		45.054	0.126	0.227	(0.101)	44.953	1C.20
Non-current liabilities							
Borrowings	18	(222.335)	-	-	-	(222.335)	1C.22
Deferred income - G&C's	19	(34.510)	0.882	-	0.882	(33.628)	1C.26
Deferred tax	20	(9.047)	-	-	-	(9.047)	1C.29
Total		(265.892)	0.882	-	0.882	(265.010)	1C.30
Net assets		50.922	(5.257)	0.227	(5.484)	45.438	1C.31
Equity							
Called up share capital	21	21.078	-	-	-	21.078	1C.32
Retained earnings & other reserves	21	29.844	(5.257)	0.227	(5.484)	24.360	1C.33
Total Equity		50.922	(5.257)	0.227	(5.484)	45.438	1C.34

REGULATORY FINANCIAL REPORTING

1D STATEMENT OF CASHFLOWS

Table 1D - Statement of cashflows for the 12 months ended 31 March 2023

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Operating activities							
Operating profit		8.125	(0.519)	0.227	(0.746)	7.379	1D.1
Other income		-	1.527	-	1.527	1.527	1D.2
Depreciation		6.347	-	-	-	6.347	1D.3
Amortisation - G&C's		(0.707)	(0.882)	-	(0.882)	(1.589)	1D.4
Changes in working capital		(3.911)	(0.126)	-	(0.126)	(4.037)	1D.5
Pension contributions		0.490	-	-	-	0.490	1D.6
Movement in provisions		0.820	-	-	-	0.820	1D.7
Loss on sale of fixed assets		(0.142)	-	-	-	(0.142)	1D.8
Cash generated from operations		11.022	-	0.227	(0.227)	10.795	1D.9
Net interest paid		(2.163)	(4.090)	-	(4.090)	(6.253)	1D.10
Tax paid		(0.023)	-	-	-	(0.023)	1D.11
Net cash generated from operating activities		8.836	(4.090)	0.227	(4.317)	4.519	1D.12
Investing activities							
Capital expenditure		(46.480)	4.090	-	4.090	(42.390)	1D.13
Grants & Contributions		0.453	-	-	-	0.453	1D.14
Disposal of fixed assets		0.467	-	-	-	0.467	1D.15
Other		-	-	-	-	-	1D.16
Net cash used in investing activities		(45.560)	4.090	-	4.090	(41.470)	1D.17
Net cash generated before financing activities		(36.724)	-	0.227	(0.227)	(36.951)	1D.18
Cashflows from financing activities							
Equity dividends paid		(3.397)	-	-	-	(3.397)	1D.19
Net loans received		48.500	-	-	-	48.500	1D.20
Cash inflow from equity financing		20.000	-	-	-	20.000	1D.21
Net cash generated from financing activities		65.103	-	-	-	65.103	1D.22
Increase (decrease) in net cash		28.379	-	0.227	(0.227)	28.152	1D.23

REGULATORY FINANCIAL REPORTING

1E NET DEBT ANALYSIS (APPOINTED ACTIVITIES)

Table 1E - Net debt analysis (appointed activities) at 31 March 2023

	*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)	20.906	-	130.940	75.000	226.846	1E.1
Preference share capital					-	1E.2
Total borrowings	20.906	-	130.940	75.000	226.846	1E.3
Cash					(54.073)	1E.4
Short term deposits					-	1E.5
Net Debt					172.773	1E.6
Gearing						
Gearing					78.39%	1E.7
Adjusted Gearing - excluding intercompany debt					69.03%	1E.8
Adjusted Gearing - for Havant Thicket CAM					*64.38%*	
Interest						
Full year equivalent nominal interest cost	0.629	-	23.093	9.731	33.453	1E.9
Full year equivalent cash interest payment	0.629	-	4.760	1.973	7.362	1E.10
Indicative interest rates						
Indicative weighted average nominal interest rate	3.009%	0.000%	17.636%	12.975%	14.747%	1E.11
Indicative weighted average cash interest rate	3.009%	0.000%	3.635%	2.631%	3.245%	1E.12
Time to maturity						
Weighted average years to maturity	2.324	0.000	9.000	14.000	10.044	1E.13

* Includes Debenture Stock of £0.283m, which is perpetual debt, and an intra-group subordinated creditor of £20,623m.

Differences between borrowings in Table 1E and Table 1C

The difference between total borrowings reported in Table 1C and those reported in 1E is £5.089m. This consists of deferred arrangement fees and loan refinance fees, shown in the table below:

	Table 1C	Table 1E	Difference
Bank Revolving Credit Facility			
Deferred arrangement fees	-1,911		-1,911
Loan finance fees	627		627
Term Loan Facility			
Deferred arrangement fees	-750		-750
Bank Facility			
Deferred arrangement fees	-625		-625
Debenture loans	283	283	
Bank Loan	130,940	130,940	
Loan finance fees	2,512		2,512
Deferred arrangement fees	-539		-539
Prepaid Artesian Restructuring fees	-2,300		-2,300
CPI Bond	75,000	75,000	
Deferred arrangement fees	-1,315		-1,315
Intra-group loan	20,623	20,623	
Deferred arrangement fees	-788		-788
	221,757	226,846	-5,089

Adjusted Gearing

For banking covenant purposes, gearing is calculated excluding the fixed rate intercompany loan of £20.623m.

REGULATORY FINANCIAL REPORTING

1F FINANCIAL FLOWS

Table 1F - Financial flows for the 12 months ended 31 March 2023
(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	70.636	70.636	42.469	70.636	70.636	42.469	1F.1
Return on regulatory equity	4.21%	2.53%	4.21%	2.974	1.788	1.788	1F.2
Financing							
Impact of movement from notional gearing		1.68%	1.11%		1.186	0.470	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		2.35%	3.90%		1.657	1.657	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-1.50%	-3.16%		(1.061)	(1.340)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.21%	5.05%	6.06%	2.974	3.570	2.575	1F.9
Operational Performance							
Totex out / (under) performance		1.72%	2.87%		1.218	1.218	1F.10
ODI out / (under) performance		-0.52%	-0.87%		(0.370)	(0.370)	1F.11
C-Mex out / (under) performance		0.29%	0.48%		0.203	0.203	1F.12
D-Mex out / (under) performance		0.14%	0.24%		0.101	0.101	1F.13
Retail out / (under) performance		-2.00%	-3.33%		(1.416)	(1.416)	1F.14
Other exceptional items		-0.98%	-1.64%		(0.695)	(0.695)	1F.15
Operational performance total		-1.36%	-2.26%		(0.959)	(0.959)	1F.16
RoRE (return on regulatory equity)	4.21%	3.70%	3.80%	2.974	2.611	1.616	1F.17
RCV growth from inflation	10.48%	10.48%	10.48%	7.403	7.403	4.451	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	14.69%	14.18%	14.28%	10.376	10.013	6.067	1F.20
Dividends							
Gross Dividend	4.19%	4.07%	6.77%	2.960	2.877	2.877	1F.21
Interest Received on Intercompany loans	0.00%	-2.30%	-3.83%	-	(1.626)	(1.626)	1F.22
Retained Value	10.50%	12.41%	11.34%	7.417	8.762	4.816	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.22%	-0.37%		(0.156)	(0.156)	1F.24
ODI out / under performance		-0.97%	-1.61%		(0.683)	(0.683)	1F.25
Total out / under performance		-1.19%	-1.98%		(0.839)	(0.839)	1F.26

REGULATORY FINANCIAL REPORTING

1F FINANCIAL FLOWS

Table 1F - Financial flows average for the years 2021-2023 (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	65.956	65.956	44.360	65.956	65.956	44.360	1F.1
Return on regulatory equity	4.17%	2.80%	4.17%	2.750	1.850	1.850	1F.2
Financing							
Impact of movement from notional gearing		1.37%	0.74%		0.901	0.329	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		0.71%	1.06%		0.469	0.469	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-1.69%	-3.05%		(1.118)	(1.355)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.17%	3.19%	2.92%	2.750	2.102	1.294	1F.9
Operational Performance							
Totex out / (under) performance		1.44%	2.14%		0.950	0.950	1F.10
ODI out / (under) performance		0.13%	0.19%		0.084	0.084	1F.11
C-Mex out / (under) performance		0.25%	0.37%		0.162	0.162	1F.12
D-Mex out / (under) performance		0.10%	0.15%		0.067	0.067	1F.13
Retail out / (under) performance		-0.97%	-1.44%		(0.639)	(0.639)	1F.14
Other exceptional items		-2.50%	-3.72%		(1.648)	(1.648)	1F.15
Operational performance total		-1.55%	-2.31%		(1.024)	(1.024)	1F.16
RoRE (return on regulatory equity)	4.17%	1.63%	0.61%	2.750	1.078	0.270	1F.17
RCV growth from inflation	6.22%	6.22%	6.22%	4.102	4.102	2.759	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	10.39%	7.85%	6.83%	6.853	5.181	3.029	1F.20
Dividends							
Gross Dividend	4.19%	4.37%	6.50%	2.764	2.881	2.881	1F.21
Interest Received on Intercompany loans	0.00%	-1.53%	-2.27%	-	(1.008)	(1.008)	1F.22
Retained Value	6.20%	5.01%	2.61%	4.089	3.308	1.156	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.23%	-0.34%		(0.152)	(0.152)	1F.24
ODI out / under performance		-1.00%	-1.49%		(0.662)	(0.662)	1F.25
Total out / under performance		-1.23%	-1.83%		(0.814)	(0.814)	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 RCV growth percentage.
- The notional regulatory equity values are taken from Ofwat's document 'RCV_PR19_2023_Overall- '.
- The gearing and cost of debt calculations use the year-end RCV numbers published by Ofwat in 'RCV_PR19_2023_Overall- '.
- The gearing calculation adjusts the actual return on net debt by average CPIH for 2022/23.
- Actual returns include exceptional items relating to the Defined Benefits pension scheme.

Variances between the Final Determination and the results for 2022/23

We have considered the significant variances arising between the return assumed in the Final Determination and the actual return for 2022/23. In overall terms the actual total shareholder return is £6.067m and the dividend paid is £1.251m, compared to the notional total shareholder return of £10.376m and notional dividend paid of £2.960m, 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
- Wholesale operational outperformance
- Retail operational underperformance
- ODI rewards relating to the year (including C-MeX and D-MeX)

Gearing

Actual average gearing of 75.8% is above the notional gearing of 60% by 16 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 24% vs notional equity of 40%). Secondly, it results in a benefit due to the cost of debt being lower than the cost of equity.

However, when you incorporate the Havant Thicket CAM RCV into the ratio, the actual gearing reduces to 68.1%. This is 8 percentage points below the notional gearing.

Gearing Benefits Sharing

The threshold for this adjustment is 72% in 2022/23. Portsmouth Water's gearing is 78%, which is above this threshold. However, this does not reflect the true gearing of the Company, and the RCV for Havant Thicket has been revised upwards in the latest CAM Final Determination.

The revised gearing is 68.1% which is below the 72% threshold.

Corporation Tax

The reconciliation below, in 2017/18 prices, 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 high loan interest costs and exceptions costs relating to the pension scheme, resulting in zero tax charges for the year. Further explanation of the tax reconciliation (in current year price base) has been included in note 8.

REGULATORY FINANCIAL REPORTING

2017/18 price base	£'000	£'000
Allowed Corporation Tax Charge in Final Determination	-	108
Tax payable on loss at the standard rate of Corporation Tax 19%	(1,572)	-
Adjusted for the tax impact of:		
Timing differences on capital allowances	23	-
Prior year adjustments	-	-
	-	(1,549)
Difference (favourable)	-	1,657

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 2.49% (as published by Ofwat), and together with the higher gearing levels this results in a £1.340m reduction in financial returns.

Totex outperformance

The 2022/23 variance on capital expenditure is £0.889m (underperformance), after an adjustment for timing differences of £0.816m. The variance on operating expenditure is (£4.909m) (outperformance) after an adjustment for timing differences of (£0.529m). The timing differences are mainly due to the Covid restrictions in place in 2020/21 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 source file.

See commentary relating to Table 4D on page 121 for more details on the Totex expenditure variance to FD.

Retail out/under performance

The 2022/23 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 101.

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

There are a number of ODI rewards and penalties relating to 2022/23. They are all paid on an in-period basis (within AMP7 as opposed to the end of AMP7) and none of them have an impact on the RCV. The total net reward for the year is -£0.066m, in 2017/18 prices.

Porstmouth Water ODI performance 2022/23

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	0.90	0.000		0.000	
Interruptions	05:45	0.069	-0.069		00:02:21	0.234		0.234	
Leakage	25.75	0.134	-0.160		27.60	-0.288		-0.288	
Mains repairs	71.2		-0.024		83.3	-0.290		-0.290	
Water Quality contacts	0.43		-0.544		0.42	0.000		0.000	
Household Voids	2.00%	0.140	-0.140		2.18%	-0.025			-0.025
Per Capita Consumption	143.7	0.028	-0.033		152.5		0.000		
					ODI's (exclu. C-Mex and D-Mex)	-0.370	0.000	-0.344	-0.025
C-Mex (2021/22 performance)	Potential up to 12%				3rd giving 4.5%	0.203			0.203
D-Mex (2021/22 performance)	Potential up to 6%				3rd giving 5.3%	0.101		0.101	
					Total ODI's	-0.066	0.000	-0.243	0.178

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 2021/22, and these are published by Ofwat in the Financial Flows data source file.

PCC is excluded as it was impacted by COVID and the penalty will be applied at the end of the AMP.

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS

For the year ended 31 March 2023

	Statutory £'000	Regulatory £'000	Commentaries
Income statement			
Revenue	45,446	44,736	See a) below
Operating profit	8,125	7,379	See b) below
Statement of financial position			
Tangible fixed assets (net book value)	211,244	205,196	See c) below

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 in the APR this is classified as Other Income. In addition, the ARA includes non-appointed revenue, of which £0.114m is meter reading revenue relating to the non-household business, which is a Retail activity, and Portsmouth Water sold the Retail non-household business on 1 April 2017. The rest of the non-appointed income is for Commercial services.

There is void debt provision movement, which is included in the ARA, but classed as operating costs in the APR.

An amount of Havant Thicket bulk supply income from Southern Water has been recognised in the APR, and this is different form the amount recognised in the ARA.

	£'000
Statutory revenue	45,446
Amortisation of Developer Contributions	(665)
Income from Connection Charges	(822)
Income from Mains Diversions	(40)
Non-appointed revenue	(132)
Non-appointed meter reading revenue	(114)
Void debt provision	181
Havant Thicket bulk supply revenue	882
	44,736

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 income is shown below.

There is non-appointed operating profit of £0.042m which relates to the Commercial business, as well as a number of other non-appointed items relating to rental properties and the sold non-household business.

The provision made in the ARA of £0.126m to offset the innovation allowed revenue is excluded in the APR.

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS

	£'000
Statutory operating profit	8,125
Amortisation of Developer Contributions	(665)
Income from Connection Charges	(822)
Income from Mains Diversions	(40)
Non-appointed commercial profit	(42)
Non-appointed meter reading revenue	(114)
Non-appointed rents receivable	(111)
Non-Household meter reading costs	40
Innovation cost provision	126
Havant Thicket bulk supply revenue	882
Regulatory operating profit	7,379

c) The difference in the Tangible Assets net book value related to the accounting treatment of borrowing costs for the Havant Thicket project. These have been capitalised in the ARA, but this treatment is not allowed in the Regulatory Accounts.

	£'000
Statutory Tangible fixed assets	211,244
Borrowing costs capitalised - Havant Thicket 2023	(3,873)
Borrowing costs capitalised - Havant Thicket prior year	(2,175)
Regulatory Tangible fixed assets	205,196

REGULATORY FINANCIAL REPORTING

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 £0.882m 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.

NOTES TO THE ACCOUNTS

Void Properties

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

Empty Property Charging Policy

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

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

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

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

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

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

(b) Fixed assets

Tangible fixed assets

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

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

Mains infrastructure (below ground assets)

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

Expenditure on infrastructure assets relating to increases in capacity or other economic enhancement is capitalised. Other economic enhancements relate primarily to schemes addressing specific water quality issues or areas where mains have been diverted to avoid damage. Such items are treated as additions and included in property, plant and equipment at cost.

The cost of infrastructure assets is their purchase cost, together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Company. The assets are depreciated over their useful lives of between 40 and 100 years on a straight line basis. There are no expected residual values.

REGULATORY FINANCIAL REPORTING

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.

NOTES TO THE ACCOUNTS

(f) Taxation

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

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

Deferred tax is recognised when assets are revalued and the gain or loss expected to arise on sale has been recognised in the financial statements.

(g) Leases

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

(h) Pension costs and other post-retirement benefits

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

The current service costs are charged to the income statement and included as staff employment costs. The interest cost and interest income are shown as a net amount within other interest income. Re-measurements of the net defined benefit asset are recognised immediately in other comprehensive income.

Pension scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted to their present value using the AA corporate bond rate.

Pension scheme assets are valued at fair value at the statement of financial position date. The pension scheme surplus is recognised in full on the statement of financial position.

The deferred tax relating to a defined benefit asset is offset against the defined benefit asset and not included with other deferred tax liabilities.

Detailed information regarding the surplus and actuarial position of the scheme is given in note 22 of the APR.

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

(i) Financial instruments

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

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

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

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

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

Financial assets are derecognised when and only when the contractual rights to the cash flows from the financial assets expire or are settled, or the company transfers substantially all of the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

The Company subsequently categorises financial instruments as follows:

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

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

Investments

Investments consist of non-current and current investments.

Non-current investments are in respect of loans to group companies. They are measured at amortised cost using the effective interest rate method.

Current asset investments are held at cost less impairment since fair value cannot be measured reliably.

(j) Provisions

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

(k) Cost allocation policies

Price Control Units – Accounting Separation

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

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 2022/23

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

REGULATORY FINANCIAL REPORTING

NOTES TO THE ACCOUNTS

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 100 of the Annual Report and Accounts.

2. Revenue

	Appointed 2023 £000	**Non Appointed 2023 £000**	**Total 2023 £000**	Appointed 2022 £000	Non Appointed 2022 £000	Total 2022 £000
Unmeasured household supplies	**20,775**	**-**	**20,775**	19,898	-	19,898
Measured household supplies	**12,163**	**-**	**12,163**	11,110	-	11,110
Non-household supplies	**9,722**	**-**	**9,722**	8,099	-	8,099
*Third party supplies	**1,124**	**246**	**1,370**	559	324	883
Havant Thicket bulk supply	**882**	**-**	**882**	588	-	588
Other sources	**70**	**-**	**70**	26	-	26
	44,736	**246**	**44,982**	40,280	324	40,604

*Appointed Third Party supplies includes Bulk Supply revenue of £0.867m from Southern Water.

Measured Income Accrual

For the year 2021/22 the measured income accrual was £2,631,283, and the corresponding actual billed revenue was £2,720,235. This is a difference of £88,952.

REGULATORY FINANCIAL REPORTING

3. Analysis of operating costs

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

	Appointed 2023 £000	**Non Appointed 2023 £000**	**Total 2023 £000**	Appointed 2022 £000	Non Appointed 2022 £000	Total 2022 £000
Manpower costs	**10,245**	**181**	**10,426**	9,267	207	9,404
Other costs of employment	**519**	**-**	**519**	337	-	337
Power	**3,205**	**-**	**3,205**	2,822	-	2,822
Rates	**2,424**	**-**	**2,424**	2,423	-	2,423
Hired and contracted services	**7,371**	**25**	**7,396**	7,483	11	7,520
Materials and consumables	**2,596**	**-**	**2,596**	2,291	-	2,291
Service charges	**1,507**	**-**	**1,507**	1,322	-	1,322
Renewals expensed	**1,238**	**-**	**1,238**	2,360	-	2,360
Provision for bad and doubtful debts	**1,004**	**-**	**1,004**	26	-	26
Other operating costs	**223**	**(187)**	**36**	(318)	(146)	(475)
Depreciation and Amortisation	**6,347**	**-**	**6,347**	5,990	-	5,990
	36,679	**19**	**36,698**	34,003	72	34,020

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 is shown below:

	2023 £000	2022 £000
Manpower as reported	**10,245**	9,267
Notional Pension Cost	**(494)**	(352)
Manpower Cost for Efficiency and Price Determination purposes	**9,751**	8,915

4. Other operating income

	Appointed 2023 £000	**Non Appointed 2023 £000**	**Total 2023 £000**	Appointed 2022 £000	Non Appointed 2022 £000	Total 2022 £000
Profit/(loss) arising on disposal of fixed assets	**142**	**-**	**142**	(62)	-	(62)
Exceptional item - Settlement and related costs on pension scheme	**(820)**	**-**	**(820)**	-	-	-
Exceptional item - Artesian restructuring fees	**-**	**-**	**-**	(4,519)	-	(4,519)
	(678)	**-**	**(678)**	(4,581)	-	(4,581)

REGULATORY FINANCIAL REPORTING

NOTES TO THE ACCOUNTS

5. Other income

	Appointed 2023 £000	**Non Appointed 2023 £000**	**Total 2023 £000**	Appointed 2022 £000	Non Appointed 2022 £000	Total 2022 £000
Amortisation of Developer Contributions	**665**	**-**	**665**	630	-	630
S45 Connection Charges	**822**	**-**	**822**	937	-	937
Mains Diversions	**40**	**-**	**40**	1,033	-	1,033
	1,527	**-**	**1,527**	2,600	-	2,600

6. Interest income

	2023 £000	2022 £000
Loan from Group Company	**1,920**	686
Other interest income from pension scheme (see note 22)	**427**	448

7. Interest expense

		2023 £000	2022 £000
£66.5m loan	- interest	**4,583**	4,161
	- indexation	**14,384**	4,311
	- amortisation of fees	**57**	57
	- administration expenses	**114**	89
		19,138	8,618
Revolving loan facility - interest		**484**	331
Revolving loan facility - amortisation of fees		**299**	297
Intercompany loan - interest		**994**	690
Revolving credit facility and other		**101**	123
Debenture Stocks		**5**	10
Other interest payable		**0**	4
		21,021	10,073

In the Statutory Accounts an amount of £4.090m, relating to Havant Thicket, has been capitalised, but this is disallowed in the Regulatory Accounts. This reduces the interest expense in 2023 to £16.931m in the Statutory Accounts.

8. Taxation (appointed business only)

	2023 £000	2022 (restated) £000
Current tax		
United Kingdom corporation tax at 19% (2022 - 19%)	**-**	-
Adjustment in respect of prior year periods	**-**	(143)
	-	(143)
Deferred tax		
Origination and reversal of timing differences	**(1,578)**	(2,339)
Effect of tax rate change on opening balance	**-**	3,990
Adjustment in respect of prior periods	**116**	(24)
	(1,462)	1,627
Tax on loss on ordinary activities	**(1,462)**	1,484

Current Tax - United Kingdom corporation tax at 19% (2022 - 19%)

Due to the company's trading losses, no current tax charges have been incurred for the year (2022 - £(143)k). The adjustment in respect of prior periods arose from the alignment of the group loss position.

Deferred Tax

Total deferred tax credited to the income statement was £(1,462)k (2022 restated - £1,627k charge). The prior year charge was largely driven by the effect of the change in the corporation tax rate from 19% to 25% for future years impacting the required deferred tax calculation.

Deferred taxes have been recognised on the temporary difference between the carrying amount of the fixed assets in the accounts and the amounts that will be deductible for tax purposes (capital allowances) in future years, in accordance with relevant tax legislation resulting in a gross liability of £13.2m (2022 restated - £14.2m). Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £4.1m (2022 - £2.8m) has been recognised in respect of tax losses because it is probable that these assets will be recovered in future periods. Under the current tax regime, trading tax losses carried forward will be available to offset trading profits in future years. This results in a net overall deferred tax liability of £9.1m (2022 restated - £10.4m). In addition, a deferred tax liability of £Nil (2022 - £3.7m) has also been recognised in relation to the pension scheme asset (see note 22). Details of the overall deferred tax net liability are set out in note 21 of the ARA.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021. This will increase the company's future current tax charge rate accordingly. The deferred tax liability at 31 March 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2022: 25%).

REGULATORY FINANCIAL REPORTING

NOTES TO THE ACCOUNTS

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	(6,459)	3,309	(9,768)	(1,061)	-	1,654
Profit per FD - Retail	a	-	-	-	-	748	142
Other income (grants and contributions)	a	-	-	-	638	-	121
Additional interest - notional to actual	a	-	-	-	(973)	-	(185)
Earnings before tax		(6,459)	3,309	(9,768)	(1,396)	748	1,733
Add depreciation	b	6,347	-	6,347	6,978	-	120
Less Capital allowances	b	(6,275)	-	(6,275)	(8,016)	-	(331)
Pensions difference	c	520	-	520	-	-	(99)
Loan relationship adjustments	d	(6,010)	(4,090)	(1,920)	-	-	365
Other adjustments	e	(2,560)	2,175	(4,735)	1,094	-	1,108
Tax losses utilised in the period	f	2,032	(1,394)	3,426	1,340	-	(396)
Loss in the year carried forward	f	12,405	-	12,405	-	-	(2,357
Adjusted loss chargeable to CT	g	-	-	-	-	748	142
@ tax rate 19%		-	-	-	-	-	(15)
Current Tax charge		-	-	-	-	-	-
Prior year adjustment		-	-	-	-	-	-
Tax charge for the period		-	-	-	-	127	127

We have analysed the difference between the tax charge for the year, which was zero, for the appointed business, against the charge calculated in the Final Determination of £0.127m. 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 £0.973m. The actual resultant adjusted PBT is lower in the current year as a result of exceptional pension costs offset by lower operating costs as explained in the Totex narrative. This drives a significant tax difference of £1.733m as we compare an outturn loss for the year of (£9.768m) versus a net loss before tax of (£0.648m).

b) Depreciation & capital allowances

There are differences in the levels of depreciation and capital allowances resulting in a net tax difference of (£0.211m).

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 on-cash credits of £0.520m must be reversed in line with the tax treatment. This results in a tax difference of (£0.099m).

d) Loan relationship adjustments

£4.090m of these adjustments relate to capitalised borrowing costs in the year, and are excluded in the Regulatory Accounts. The remaining £1.920m is interest on a loan to other group companies, giving a tax difference of £0.365m.

e) Other tax adjustments

Other tax adjustments in the current year relate primarily to an income adjustment of (£2.175m) and profit from rental properties of (£0.111m). The income adjustment relates to borrowing costs capitalised relating to the prior year and is excluded from the Regulatory Accounts. This results in a difference in the tax charge of £1.108m.

f) Tax losses utilised/generated

The tax calculation for the year results in an overall chargeable loss in the appointed business of £15.831m, which is offset by utilising tax losses. Whereas in the FD, the Wholesael tax calculation results in an overall tax loss of £1.340m which increases overall tax losses. This results in a difference in the tax charge between the current year and the FD of (£2.753m).

g) Rate of tax

The difference in the rate of tax between the FD (17%) and the current year (19%) results in a tax difference of (£0.015m).

9. Dividends

Equity: Ordinary/'A' Ordinary

	2023 £000	2022 £000
Interim paid	**-**	-
Final paid	**3,397**	5,115
Total Dividends	**3,397**	5,115

	2023 £000	2022 £000
Dividend ultimately for group shareholders	**2,711**	4,875
Servicing of intercompany debt net of tax	**686**	240
Total Dividends	**3,397**	5,115

Proposed dividend for financial year 2021/22 (paid in 2022/23):

The Directors recommended a total dividend of £3,397k, being an equity return dividend of £2.711m and a recirculating dividend of £0.686m for the financial year 2021/22. This was paid in June 2022. The £2.711m equity return dividend included a £0.5m adjustment reflecting the strong performance against the 2021 ODI's. This total dividend was paid in June 2022.

Proposed dividend for financial year 2022/23 (to be paid in 2023/24):

The Directors are proposing a total dividend of £2.3m, all being related to an equity dividend. As noted above, no recirculating dividend will now be paid. The full proposed dividend is anticipated to paid in July 2023.

Please refer to the Dividend Policy on pages 20 to 27 for further information.

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10. Tangible fixed assets

		Freehold land, buildings, & reservoirs £000	Mains £000	Pumping plant £000	Vehicles, mobile plant & office equipment £000	Total £000
Cost						
At 1 April 2022		78,229	74,227	72,039	30,530	255,025
Reclassification to Intangibles		-	-	(461)	-	
(461)	Additions		28,833	4,744	2,953	
2,926	39,456					
Disposals		-	-	-	(188)	(188)
At 31 March 2023		107,062	78,971	74,531	33,268	293,832
Depreciation						
At 1 April 2022		15,671	9,266	36,670	21,024	82,631
Charge for year		563	1,202	2,300	2,127	6,192
Disposals during year		-	-	-	(187)	(187)
At 31 March 2023		16,234	10,468	38,970	22,964	88,636
Net book value						
At 31 March 2023		90,828	68,503	35,561	10,304	205,196
At 1 April 2022		62,558	64,961	35,369	9,506	172,394

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 and Net book value					
At 1 April 2022	21,063	4,802	3,932	178	29,975
Reclassificaton to Intangibles	-	(461)	-	-	(461)
Additions	28,833	4,744	2,953	1,896	38,426
Transferred into fixed assets	(224)	(1,865)	(182)	(508)	(2,779)
At 31 March 2023	49,672	7,220	6,703	1,566	65,161
At 1 April 2022	21,063	4,802	3,932	178	29,975

No depreciation has so far been provided on the above cost and £47.3m of the balance relates to Havant Thicket.

11. Intangible fixed assets

	Development Projects £000	Software, consultancy and internal costs £000	Total £000
Cost			
At 1 April 2022	123	4,542	4,665
Reclassification from Tangibles	461	-	461
Additions (WIP completed assets)	2,316	618	2,934
Disposals	-	-	-
At 31 March 2023	2,900	5,160	8,060
Amortisation			
At 1 April 2022	-	3,090	3,090
Charge for the year	-	155	155
Disposals	-	-	-
At 31 March 2023	-	3,245	3,245
Net book value			
At 31 March 2023	2,900	1,915	4,815
At 1 April 2022	123	1,452	1,575

Included in the above table are assets in the course of construction with a net book value of £4.484m.

12. Fixed asset investment

	Loan to Group Undertakings £000
At 1 April 2022	55,484
At 31 March 2023	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 2022	325
At 31 March 2023	-

The company sold its remaining investment property during the year to 31 March 2023.

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13. Debtors

	2023 £000	2022 £000
Trade debtors	**4,635**	4,099
Amounts owed by Group companies	**2,982**	2,071
Prepayments and accrued income	**4,389**	4,565
Other debtors	**3,258**	561
	15,264	11,296

All of the above amounts fall due within one year. As at 31 March 2023, trade debtors had a carrying value of £9.110m (2022 - £7.881m) before the provision for bad debt. Trade debtors in arrears are provided for on a sliding scale depending on age of debt. The amount of the provision was £4.475m as at 31 March 2023 (2022 - £3.782m) as noted further below.

The ageing of these debtors was as follows:

	2023 £000	2022 £000
Up to 12 months	**6,250**	5,042
Over 12 months	**2,860**	2,839
	9,110	7,881

Debtors provided for relate to water charges for household and non-household customers - where experience in the water industry has shown that over time it is likely that there will be difficulties in recovering the water charges for the periods concerned. Of the total £4.475m provision (2022 - £3.782m) £0.419m (2022 - £0.257m) relates to non-household debtors and £4.056m (2022 - £3.525m) relates to household debtors.

	2023 £000	2022 £000
At 1 April 2022	**3,782**	4,440
Provision for bad debt required in the year - charged to income statement	**1,500**	138
Provisions released in year	**(413)**	(409)
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(394)**	(387)
At 31 March 2023	**4,475**	3,782

	2023 £000	2022 £000
Total Debtors Outstanding > 30 days		
Household	**5,898**	4,793

Write Off Policy

Our bad debt write-off policy was reviewed last year, and the provisioning rates have been revised this year.

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 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 a part of this analysis, we also considered the linkage between collection history and debt ageing. Accordingly, our provision is 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 has resulted in the significant change in 2022/23.

The Bad Debt Provision applies the following recovery rates:

Provision rate	**Overdue under 1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**5-6 years**	**6+ years**
Aged Debt minus CS248							
Unmeasured	2%	68%	76%	83%	88%	92%	100%
Measured	9%	62%	70%	78%	83%	89%	100%
****CS248***							
Unmeasured	75%	82%	87%	90%	93%	96%	100%
Measured	80%	84%	88%	92%	94%	98%	100%
Total Debt							
Unmeasured	4%	80%	86%	89%	93%	96%	100%
Measured	17%	80%	85%	90%	92%	97%	100%

*CS248 customers are those identified as being at high risk of default on payment bills.

14. Investments

	2023 £000	2022 £000
Unlisted investments	**2**	2

15. Cash at bank and in hand

	2023 £000	2022 £000
Cash at bank and in hand	**53,846**	25,694

16. Borrowings: due within one year

	2023 £000	2022 £000
Bank facility	**-**	17,500
Accrued bank loan refinance fees	**627**	-
Less deferred arrangement costs	**(1,205)**	(356)
	(578)	17,144

REGULATORY FINANCIAL REPORTING

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17. Other current liabilities

	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000	Appointed 2022 £000	Non Appointed 2022 £000	Total 2022 £000
Payments received on account	**1,244**	**-**	**1,244**	1,426	-	1,426
Trade creditors	**2,657**	**-**	**2,657**	3,541	-	3,541
Amounts owed to Group companies	**2,488**	**-**	**2,488**	2,711	-	2,711
Other creditors	**544**	**-**	**544**	482	-	482
Accruals	**1,081**	**-**	**1,081**	1,245	-	1,245
Water rates in advance	**7,581**	**-**	**7,581**	7,070	-	7,070
Trade and other payables	**15,595**	**-**	**15,595**	16,475	-	16,475
Capex creditor	**9,377**	**-**	**9,377**	3,214	-	3,214
Other taxation and social security	**424**	**-**	**424**	384	-	384
	25,396	**-**	**25,396**	20,073	-	20,073

18. Non-current liabilities

	2023 £000	2022 £000
In five years or more:		
3% Perpetual debenture stock	**60**	60
3½% Perpetual debenture stock	**185**	185
4% Perpetual debenture stock	**38**	38
Bank loan	**130,940**	116,556
Accrued bank loan refinance fees	**2,512**	2,830
Bank facility	**-**	5,000
Bond	**75,000**	-
Less: deferred arrangement costs	**(7,023)**	(1,137)
Intra-group subordinated creditor	**20,623**	24,623
	222,335	148,155

Bank RPI loan

The bank RPI loan of £130.94m (2022 - £116.556m) relates to a thirty year £66.5m index-linked bank loan which was issued in June 2002 and is repayable in September 2032, and which is secured over 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 £0.539m (2022 - £0.596m). The loan interest is calculated by adjusting the value of the loan by the Retail Prices Index and then charging interest on this amount at 3.635% per annum.

An exceptional charge of £NIL (2022 - £4.519m) was incurred relating to fees associated with the restructuring of the index linked funding. These costs were recorded as an exceptional charge on the basis that these fees were material, non-recurring, outside the normal course of business and do not give rise to a financial asset/liability through an amended term or interest on the facility. Of this exceptional charge, £2.8m remains payable at 31 March 2023 (2022- £3.1m), with £2.5m falling due in over one year (2022 - £2.8m).

CPI Bond

In March 2023, the company issued a new £75m ‘CPI-linked’ bond. This bond was issued through Assured Guarantee UK Limited, and placed privately with external UK investors. The bond matures in March 2037. Interest is chargeable on the bond by adjusting the value of the bond by the Consumer Prices Index (‘CPI’) and then charging interest on this amount at 2.63% per annum.

Other Bank and Inter-Group Facilities and Loans

Third Party Facilities and Loans

In March 2021, the company entered into a £55m bank revolving credit facility ('RCF'), with NatWest as the lead facility agent. This facility was originally due to mature in March 2025. Interest was payable based on the Sterling Overnight Index Average rate ('SONIA'), plus an adjustment dependent upon the term of any drawdowns, plus a 1.25% margin. This margin was 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.

In March 2023, the balances drawn down from this facility were fully repaid, when the company issued the new £75m 'CPI-linked' bond to external investors, as detailed above.

In March 2023 the £55m facility was replaced by a £155m Syndicated Facility Agreement, with NatWest as the lead facility agent. This new facility is made up of a separate £105m Revolving Credit Facility ('RCF'), which matures in March 2028, and a £50m Term Loan facility, which matures in March 2029. Interest is payable based on SONIA, plus an adjustment dependent upon the term of any drawdowns, plus a 1.6% 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.

In March 2023 a further £50m bank facility was entered into with Lloyds Bank. This facility matures in March 2028. Interest is payable based on SONIA, plus an adjustment dependent upon the term of any drawdowns, plus a 1.5% margin. This margin is subject to an assessment of sustainability, with an adjustment of up to +/- 2.5 basis points depending on the Company's performance against five sustainability linked ODIs.

No balances had been drawn down on the March 2023 new facilities as at 31 March 2023 (2022 - £nil).

Fees associated with the bond issued and the bank facilities are deferred and amortised over the duration of the bond or facility. The balance of fees deferred at the year end date are off-set against the related bond or loan balance, as shown above.

Inter-group Facilities

In March 2021 the company entered into an inter-group loan agreement with Portsmouth Water Holdings Limited, its immediate parent company, permitting borrowing to a total facility value of £50m, initially drawing down £24.623m. During the year to 31 March 2023, the company repaid £4.0m of this loan balance. A further £20.0m was drawn down during the year, and this £20.0m loan balance was capitalised in March 2023 through the issue of £20.0m new ordinary shares (see Note 23). The remaining loan facility, having reduced from £50.0m to £30.0m, was increased from £30m to £45m in March 2023.

Interest accrues daily at 3% p.a. on the amount drawn on inter-group loans, payable six monthly in arrears. The loan facility matures in March 2025.

19. Deferred income: capital contributions

	2023 **£000**	2022 £000
Capital Contributions	**34,737**	35,409
Additions	**480**	-
Release to Turnover	**(1,589)**	(672)
	33,628	34,737

The release to turnover includes an amount for the recognition of Bulk Supply revenues in 2022/23 of £0.882m

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20. Provisions for liabilities

	2023 £000	2022 £000
Deferred taxation:		
At 1 April 2022	**10,378**	8,529
Prior year adjustment	**-**	-
Charged during the year in profit and loss account	**(1,331)**	1,305
At 31 March 2023	**9,047**	9,834

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.

	2023 £000	2022 £000
Deferred tax including that relating to pension asset:		
Accelerated capital allowances	**13,205**	13,630
Other timing differences	**(4,158)**	(3,797)
Pension asset (note 22)	**-**	3,666
Total provision for deferred tax	**9,047**	13,499
At 1 April 2022	**14,044**	12,657
Deferred tax charged in income statement (note 8)	**(1,462)**	1,329
Deferred tax credited to the statement of comprehensive income	**(3,535)**	(489)
At 31 March 2023	**9,047**	13,499

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021. This will increase the company's future current tax charge rate accordingly. The deferred tax liability at 31 March 2023 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2022 - 25%).

21. Changes in equity (Regulatory Accounts)

	Called up Share Capital £000	Share Premium £000	Capital Redemption £000	Retained Earnings £000	Total £000
Balance at 1 April 2022	1,078	9,382	3,250	36,213	49,923
Reversal of capitalised interest in prior year	-	-	-	(2,175)	(2,175)
Profit for the year	-	-	-	(8,306)	(8,306)
Remeasurement of net defined benefit asset	-	-	-	(14,142)	(14,142)
Share issue	20,000	-	-	-	20,000
Movement on deferred tax relating to pension scheme	-	-	-	3,535	3,535
Total comprehensive profit for the year	20,000	-	-	(21,088)	(21,088)
Dividends	-	-	-	(3,397)	(3,397)
Balance at 31 March 2023	21,078	9,382	3,250	11,728	45,438

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 2019 the Brockhampton Pension Scheme Trustees entered into a 'Buy-In' arrangement with Just Retirement Limited. This buy-in arrangement covers the majority of the current pensioner liabilities and significantly reduces the risk within the Scheme.

During the year to 31 March 2023, agreement was reached with the remaining active employee members of the pension scheme to close the scheme to the future accrual of benefits for active members with effect from 31 March 2023. These active members will become members of the existing company defined contribution pension scheme, with effect from 1 April 2023, and will receive enhanced contributions from the company for a number of years. The closure of the Brockhampton pension scheme to future accrual will also significantly reduce the ongoing risks to Portsmouth Water Limited (the company) and the wider group. Future contributions payable by the company after 1 April 2023 are expected to cease. As a result, it is no longer considered appropriate, in line with the requirements of FRS102, to recognize any calculated net pension surplus on the balance sheet of the company.

The formal actuarial valuation as at 31 March 2021 was updated to 31 March 2023 accounting date by an independent qualified actuary in accordance with FRS 102. The value of the defined benefit liabilities has been measured using the projected unit method. The closure of the scheme to future accrual results in a 'one-off' settlement cost of £453k (2022 - £Nil) that has been recorded in the year to 31 March 2023 by the company as an 'exceptional' expense.

As noted above, the estimated contributions expected to be paid to the Scheme by Portsmouth Water Limited for the year to 31 March 2024 year, commencing 1 April 2023, is £NIL (2023 actual - £1.2m). The contributions paid by the company during the year to 31 March 2023 were based on agreed contribution rates of 35.9% of employee earnings. Employees paid contributions at a rate of 5% of earnings, via a salary sacrifice mechanism.

The company also operates a defined contribution pension scheme. Contributions payable by the company in the year to 31 March 2023 were £554k (2022 - £436k).

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

	2023 % per annum	2022 % per annum	2021 % per annum
RPI inflation	**3.3**	3.7	3.2
CPI inflation	**2.9**	3.3	2.7
Discount Rate	**4.7**	2.8	2.0
Pension increases	**2.9**	3.3	2.7
Salary growth	**3.0**	3.4	2.8

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Assumption	31 March 2023	31 March 2022	Comments on assumptions
RPI inflation	3.3% pa	3.7% 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 3.6% 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	2.9% pa	3.3% 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.
Discount rate	4.7% pa	2.8% pa	• Discount rate is set based on yields of high quality corporate bonds at the year end date, and a yield curve is constructed from this. To derive the discount rate, the yield curve is weighted according to the expected scheme cash flows, which have a duration of about 14 years (2022: 17 years) • Bonds are included in the data set if they are classified as 'AA' and 'Corporate', as rated by either Fitch, Moodys or Standard & Poors. A yield curve is fitted to the data using least squares optimization techniques and is extrapolated beyond 30 years in line with the gilt yield curve, and a single discount rate is calculated from this.

Life expectancy of a male aged 65 at the accounting date is 21.8 years (2022: 22.0 years) and for a female is 24.4 years (2022: 24.5years).

The assumption for future improvements to mortality is made via the CMI's mortality projections model, which is published each year. The model is fitted to the mortality experience of the general population of England & Wales, and requires various parameters to be set. The projections model has been updated from 31 March 2022 year end to use a more recent model, CMI2021, continuing with the previous core approach to the smoothing factor and initial improvement addition.

The CMI 2021 projections model also includes a weighting (or 'w') parameter, referred to as w2021, in addition to retaining the similar w2020 parameter introduced in CMI 2020. These parameters are used to vary the weight that is placed on the nation's mortality experience for 2020 and 2021 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 and 2021. In our view, some weight can be given to allow for the direct and indirect impact of the pandemic.

It is evident that 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 have seen 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 at 31 March 2022), and a further w2021 parameter of 10% given the developing mortality trends seen over the last year.

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 and 0.5% per annum would increase the defined benefit obligation by around £1.3m and £7.1m respectively.
- An increase in the CPI inflation rate of 0.1% per annum and 0.5% per annum would increase the defined benefit obligation by around £1.2m and £6.5m respectively.
- A 5% fall in performance asset values would reduce the assets by around £0.3m.
- A one year increase in life expectancies would increase the defined benefit obligation by around £3.4m.

The fair value of assets in the scheme, a breakdown of the assets into the main asset classes, the present value of the FRS 102 defined benefit obligation and the surplus of assets over the FRS 102 defined benefit obligation (which equals the gross pension asset) are set out below:

	%	**2023 Fair Value £000**	%	2022 Fair Value £000	%	2021 Fair Value £000
Equities	**-**	**-**	25	41,752	24	38,643
Absolute Return Bonds	**-**	**-**	13	21,108	11	18,875
Leveraged Liability Driven Investments	**19**	**23,679**	11	18,896	9	14,106
Unleveraged index-linked gilt LDIs	**22**	**27,941**	-	-	-	-
Property	**5**	**5,988**	5	8,487	8	12,892
Credit fund	**6**	**8,274**	-	-	-	-
Cash and other	**6**	**8,270**	4	6,845	4	5,938
Buy-in policy	**42**	**53,593**	42	68,773	44	71,867
	100	**127,745**	100	165,861	100	162,321

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 £5.988m (2021 - £77.260m) 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.

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.

Following the UK government's mini-budget in September 2022 there was a period of volatile market conditions, particularly in UK gilt and bond markets and in the value of Sterling. In addition, RPI and CPI inflation has been trending significantly above expected long term levels during the year to 31 March 2023. The period of volatile market conditions may have had an impact on the investment asset allocation, hedging strategy and funding level going forward. However the pension scheme assets and the overall pension funding position has limited exposure to market volatility, given the risk mitigation policies put in place in recent years, including the purchase of the buy-in insurance policy for pensioner liabilities and the reallocation of investments held away from potentially more volatile Equity investments.

Method of valuation

The pension benefits payable 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 date. This roll-forward allows for changes in market conditions, changes in demographic assumptions and certain experience adjustments – including inflation and benefits paid out.

	2023 £000	2022 £000
Total fair value of scheme assets	**127,745**	165,861
FRS 102 value of scheme defined benefit obligation	**(98,853)**	(128,606)
Impact of asset ceiling	**(28,892)**	(22,593)
Pension asset	**-**	14,662
Related deferred tax liability	**-**	(3,666)
Net pension asset recognised	**-**	10,996

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2023 by an asset of £Nil (2022 -£14.662m), which amounts to £NIL net of deferred tax (2022 - £10.996m). Deferred tax relating to the pension asset is off-set directly against the net pension asset balance, as permitted by FRS102, rather than being shown as part of the company's overall deferred tax liabilities.

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Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	**2023 £000**	2022 £000
Opening asset	**14,662**	21,740
Expense charged to profit and loss	**(1,682)**	(1,203)
Gain/(loss) recognised outside of profit and loss	**(14,142)**	(7,174)
Employer contributions	**1,162**	1,299
Closing asset	**-**	14,662

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	**2023 £000**	2022 £000
Opening scheme liabilities	**128,606**	138,348
Employer's part of current service cost	**1,656**	1,651
Curtailment exceptional cost	**453**	-
Interest on scheme liabilities	**3,528**	2,719
Benefits paid and running costs	**(5,217)**	(4,798)
Actuarial loss/(gain)	**(30,173)**	(9,314)
Closing scheme defined benefit obligation	**98,853**	128,606

Movement in fair value of scheme assets

The FRS 102 value of scheme assets moved over the period as follows:	**2023 £000**	2022 £000
Opening fair value of scheme assets	**165,861**	162,321
Interest on scheme assets	**4,588**	3,212
Contributions by Portsmouth Water Limited, including employee contributions under the SMART arrangement	**1,162**	1,299
Benefits paid and running costs	**(5,217)**	(4,798)
Actuarial gain/(loss)	**(38,649)**	3,827
Closing fair value of scheme assets	**127,745**	165,861

Expense recognised in income statement

The following amounts have been included within operating profit:	**2023 £000**	2022 £000
Current service cost (employer's part only)	**(1,656)**	(1,651)
Total operating charge	**(1,656)**	(1,651)

The following amounts have been included within exceptional charges in the year:	**2023 £000**	2022 £000
Pension settlement charge	**(453)**	-
Other costs and fees relating to closure of the pension scheme to future accrual	**(367)**	-
Total exceptional charge	**(820)**	-

REGULATORY FINANCIAL REPORTING

The following amounts have been included as other finance income under FRS 102:	**2023 £000**	2022 £000
Interest on pension scheme assets	**4,588**	3,212
Interest on asset limit	**(633)**	(45)
Interest on pension scheme defined benefit obligation	**(3,528)**	(2,719)
Total other finance income	**427**	448
Total expense recognised in the income statement	**(2,049)**	(1,203)

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2023 £000**	2022 £000
Actual return less interest	**(38,649)**	3,827
Experience gains arising on scheme defined benefit obligation	**(10,068)**	1,288
Gain/(loss) due to changes in assumptions	**40,241**	8,026
Change in asset limit other than interest	**(5,666)**	(20,315)
Remeasurement (loss) on net defined benefit asset	**(14,142)**	(7,174)

23. Ultimate controlling party

In September 2019, the Company's shareholders incorporated Southern Region Water Holding Limited ('SRWHL') in Hong Kong and transferred 100% of the investment held in Ancala Fornia Holdco Limited to SRWHL.

The group structure is set out on page 15.

We consider SRWHL to be the ultimate holding company and ultimate controlling entity. Consolidated group financial statements for the year ended 31 March 2023 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

	2023 £000	2022 £000
Relating to fixed assets	**291,800**	2,531

Of the capital commitments noted above, £291m of this, (2022 - £1.3m), is attributable to the Havant Thicket Winter Storage Reservoir ('HTWSR') project. During the year to 31 March 2023, approval of the HTWSR construction budget expenditure of up to £339m was received from Ofwat, the Water Industry Regulator. This is considered to be the current capital commitment for the Company relating to HTWSR. Up to 31 March 2023, and excluding capitalised borrowing costs, £47.3m of this approved budget amount had been incurred as capital expenditure on the project (2022 - £20.1m), as set out in Note 13 of the ARA.

Contracts relating to the construction of the HTWSR have been placed with major sub-contractors with a total value of £209m as at 31 March 2023 (2022 - £nil).

Section 2

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2A SEGMENTAL INCOME STATEMENT

Table 2A - Segmental income statement for the 12 months ended 31 March 2023

£m	Residential Retail	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Revenue - price control	5.144	6.279	31.322	0.882	43.627	2A.1
Revenue - non price control	-	-	1.109	-	1.109	2A.2
Operating expenditure - excluding PU recharge impact	(5.715)	(5.748)	(18.869)		(30.332)	2A.3
PU opex recharge	(0.188)	(0.039)	0.227		-	2A.4
Operating expenditure - including PU recharge impact	(5.903)	(5.787)	(18.642)	-	(30.332)	2A.5
Depreciation - tangible fixed assets	(0.004)	(0.253)	(5.935)	-	(6.192)	2A.6
Amortisation - intangible fixed assets	(0.028)	-	(0.127)	-	(0.155)	2A.7
Other operating income	(0.189)	(0.060)	(0.429)	-	(0.678)	2A.8
Operating profit	(0.980)	0.179	7.298	0.882	7.379	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.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2B TOTEX ANALYSIS – WHOLESALE WATER

Table 2B - Totex analysis for the 12 months ended 31 March 2023 - wholesale

£m	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Base operating expenditure					
Power	1.249	1.678	-	2.927	2B.1
Income treated as negative expenditure	-	-	-	-	2B.2
Abstraction charges/ discharge consents	1.507	-	-	1.507	2B.3
Bulk Supply/Bulk discharge	-	-	-	-	2B.4
Renewals expensed in year (Infrastructure)	-	1.238	-	1.238	2B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	2B.6
Other operating expenditure	2.280	12.745	-	15.025	2B.7
Local authority and Cumulo rates	0.481	1.754	-	2.235	2B.8
Total base operating expenditure	5.517	17.415	-	22.932	2B.9
Other operating expenditure					
Enhancement operating expenditure	0.270	-		0.270	2B.10
Developer services operating expenditure	-	0.770		0.770	2B.11
Total operating expenditure excluding third party services	5.787	18.185	-	23.972	2B.12
Third party services	-	0.457		0.457	2B.13
Total operating expenditure	5.787	18.642	-	24.429	2B.14
Grants and contributions					
Grants and contributions - operating expenditure	-	0.862	-	0.862	2B.15
Capital expenditure					
Base capital expenditure	0.587	8.180	-	8.767	2B.16
Enhancement capital expenditure	0.161	4.275	27.061	31.497	2B.17
Developer services capital expenditure	-	2.043	-	2.043	2B.18
Total gross capital expenditure (excluding third party)	0.748	14.498	27.061	42.307	2B.19
Third party services	-	-	-	-	2B.20
Total gross capital expenditure	0.748	14.498	27.061	42.307	2B.21
Grants and contributions					
Grants and contributions - capital expenditure	-	0.494		0.494	2B.22
Net totex	6.535	31.784	27.061	65.380	2B.23
Cash expenditure					
Pension deficit recovery payments	-	-	-	-	2B.24
Other cash items	-	-	-	-	2B.25
Totex including cash items	6.535	31.784	27.061	65.380	2B.26

2C COST ANALYSIS – RETAIL

Table 2C - Cost analysis for the 12 months ended 31 March 2023 - retail

£m	Residential	Total	RAG 4 reference
Operating expenditure			
Customer services	2.211	2.211	2C.1
Debt management	0.323	0.323	2C.2
Doubtful debts	0.965	0.965	2C.3
Meter reading	0.251	0.251	2C.4
Other operating expenditure	1.778	1.778	2C.6
Local authority and Cumulo rates	0.187	0.187	2C.7
Total operating expenditure excluding third party services	5.715	5.715	2C.8
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	0.001	0.001	2C.9
Depreciation on tangible fixed assets acquired after 1 April 2015	0.003	0.003	2C.10
Amortisation on intangible fixed assets existing at 31 March 2015	-	-	2C.11
Amortisation on intangible fixed assets acquired after 1 April 2015	0.028	0.028	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	5.935	5.935	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	5.935	5.935	2C.21
Debt written off			
Debt written off	0.394	0.394	2C.22
Capital expenditure			
Capital expenditure	0.082	0.082	2C.23
Comparison of actual and allowed expenditure			
Cumulative actual retail expenditure to reporting year end	14.813		2C.30
Cumulative allowed expenditure to reporting year end	12.553		2C.31
Total allowed expenditure 2020-25	21.239		2C.32

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

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 2022	1.454	26.383	214.578	12.610	255.025	2D.1
Disposals	-	-	(0.188)	-	(0.188)	2D.2
Additions	0.062	0.540	11.793	27.061	39.456	2D.3
Adjustments	-	-	(0.461)	-	(0.461)	2D.4
At 31 March 2023	1.516	26.923	225.722	39.671	293.832	2D.6
Depreciation						
At 1 April 2022	(1.186)	(4.717)	(76.728)	-	(82.631)	2D.7
Disposals	-	-	0.187	-	0.187	2D.8
Adjustments	-	-	-	-	-	2D.9
Charge for year	(0.004)	(0.253)	(5.935)	-	(6.192)	2D.10
At 31 March 2023	(1.190)	(4.970)	(82.476)	-	(88.636)	2D.11
Net book amount at 31 March 2023	0.326	21.953	143.246	39.671	205.196	2D.12
Net book amount at 1 April 2022	0.268	21.666	137.850	12.610	172.394	2D.13
Depreciation charge for year						
Principal services	(0.004)	(0.253)	(5.935)	-	(6.192)	2D.14
Third party services	-	-	-	-	-	2D.15
Total	(0.004)	(0.253)	(5.935)	-	(6.192)	2D.16

The net book value includes £65.2m in respect of assets in the course of construction.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

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 2023 - 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	0.822	-	-	0.822	2E.9
Infrastructure charge receipts	-	0.722	-	0.722	2E.10
Requisitioned mains	-	0.345	-	0.345	2E.11
Diversions - s185	0.009	-	-	0.009	2E.12
Other contributions (price control)	-	-	-	-	2E.13
Price control grants and contributions before deduction of income offset	0.831	1.067	-	1.898	2E.14
Income offset	-	0.573	-	0.573	2E.15
Price control grants and contributions after deduction of income offset	0.831	0.494	-	1.325	2E.16
Diversions - NRSWA	0.031	-	-	0.031	2E.17
Diversions - other non-price control	-	-	-	-	2E.18
Other contributions (non-price control)	-	-	-	-	2E.19
Total	0.862	0.494	-	1.356	2E.20
Value of adopted assets	-	-	-	-	2E.21

	Water resources	Water network+	Wastewater network+	Total	
Movements in capitalised grants and contributions					
b/f	-	28.265	-	28.265	2E.34
Capitalised in year	-	0.494	-	0.494	2E.35
Amortisation (in income statement)	-	(0.665)	-	(0.665)	2E.36
c/f	-	28.094	-	28.094	2E.37

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

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2F RESIDENTIAL RETAIL

Table 2F - Residential retail

	Revenue	Number of customers	Average residential revenues	RAG 4 reference
	£m	000s	£	
Residential revenue				
Wholesale charges	27.794			2F.1
Retail revenue	5.144			2F.2
Total residential revenue	32.938			2F.3
Retail revenue				
Revenue Recovered ("RR")	5.144			2F.4
Revenue sacrifice	-			2F.5
Actual revenue (net)	5.144			2F.6
Customer information				
Actual customers ("AC")		302.126		2F.7
Reforecast customers		302.059		2F.8
Adjustment				
Allowed revenue ("R")	4.833			2F.9
Net adjustment	(0.311)			2F.10
Other residential information				
Average residential retail revenue per customer			17.03	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 2022/23 tariffs and the outturn for 2022/23.

The table below is based on Table 6 of the Notification of the Final Determination of Price Controls for Portsmouth Water and provides detail of our assumptions when setting 2022/23 charges, the ex-ante assumptions when we set our 2022/23 tariffs and the actual or ex-post outturn.

2022/23	Final Determination	Ex-Ante	Ex-Post
Total Revenue (£m)	4.864	4.833	4.834
Modification factor	16.00	16.00	16.00
Customers	303.950	302.059	302.126

Line 2F.9 shows the residential retail revenue of £4.833m we assumed we would raise in 2022/23, based on our forecast number of properties of 302,059, when we set our tariffs in January 2022. The number of properties we actually served in 2022/23 was 302,126.

Line 2F.2 shows that we actually raised £5.144m, which is £0.311m more than line 2F.9 implies. The increase is a result of 928 more properties, as well as an ODI reward relating to C-MeX out-performance in 2020/21. This reward was for £0.319m and is included in the tariffs for 2022/23. This explains why the amount of revenue per property in 2F.11 is higher than the allowed amount in the FD of £16.

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 later in the year, for example, lower revenue would be recovered.

This data has been audited by Jacobs.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2I REVENUE ANALYSIS

Table 2I - Revenue analysis for the 12 months ended 31 March 2023

£m	Household	Non-household	Total	Water resources	Water network+	Total	RAG 4 reference
Wholesale charge - water							
Unmeasured	17.650	0.251	17.901	3.046	14.855	17.901	2I.1
Measured	10.144	9.471	19.615	3.233	16.382	19.615	2I.2
Third party revenue	-	0.085	0.085	-	0.085	0.085	2I.3
Total wholesale water revenue	27.794	9.807	37.601	6.279	31.322	37.601	2I.4
Wholesale Total	27.794	9.807	37.601	6.279	31.322	37.601	
Wholesale charge - Additional control							
Unmeasured	-	-	-				2I.13
Measured	-	0.882	0.882				2I.14
Total wholesale additional control revenue	-	0.882	0.882				2I.15
Wholesale Total	27.794	10.689	38.483				2I.16
Retail revenue							
Unmeasured	3.125	-	3.125				2I.17
Measured	2.019	-	2.019				2I.18
Other third party revenue	-	-	-				2I.19
Retail Total	5.144	-	5.144				2I.20
Third party revenue - non-price control							
Bulk supplies - water			1.039				2I.21
Other third party revenue			0.070				2I.23
Principal services - non-price control							
Other appointed revenue			-				2I.24
Total appointed revenue			44.736				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 2022/23 prices.

2J INFRASTRUCTURE NETWORK REINFORCEMENT COSTS

Table 2J - Infrastructure network reinforcement costs for the 12 months ended 31 March 2023

£m	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
Wholesale water network+ (treated water distribution)			
Distribution and trunk mains	0.185	-	2J.1
Pumping and storage facilities	-	-	2J.2
Other	-	-	2J.3
Total	0.185	-	2J.4

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2K INFRASTRUCTURE CHARGES RECONCILIATION

Table 2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2023

£m	Water	Total	RAG 4 reference
Impact of infrastructure charge discounts			
Infrastructure charges	0.722	0.722	2K.1
Discounts applied to infrastructure charges	-	-	2K.2
Gross Infrastructure charges	0.722	0.722	2K.3
Comparison of revenue and costs			
Variance brought forward	1.855	1.855	2K.4
Revenue	0.722	0.722	2K.5
Costs	(0.185)	(0.185)	2K.6
Variance carried forward	2.392	2.392	2K.7

The cost of £185k for water mains network reinforcement in 2022/23 was associated with a number of schemes, including Haslar, Gosport and West Walberton Lane.

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.

2M REVENUE RECONCILIATION – WHOLESALE

Table 2M - Revenue reconciliation for the 12 months ended 31 March 2023 - wholesale

£m	Water resources	Water network+	Additional Control	Total	RAG 4 reference
Revenue recognised					
Wholesale revenue governed by price control	6.279	31.322	0.882	38.483	2M.1
Grants & contributions (price control)	-	1.325	-	1.325	2M.2
Total revenue governed by wholesale price control	6.279	32.647	0.882	39.808	2M.3
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	6.193	30.848	0.882	37.923	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	-	1.160	-	1.160	2M.5
Revenue adjustment	-	0.149	-	0.149	2M.6
Other adjustments	-	(0.423)	-	(0.423)	2M.7
Revenue cap	6.193	31.734	0.882	38.809	2M.8
Calculation of the revenue imbalance					
Revenue cap	6.193	31.734	0.882	38.809	2M.9
Revenue Recovered	6.279	32.647	0.882	39.808	2M.10
Revenue imbalance	(0.086)	(0.913)	-	(0.999)	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		10.685		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		291.441		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		26.392	-	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	0.282			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			0.933	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 2022/23 was 10,685. In total they received a discount of £0.282m in the 12 months up to the end March 2023. We only fully recover this discount from non-social tariff customers in the following year's charges. i.e., 2023/24. Given the average household customer base of 302,126, the average discount of £26.39 is recovered from 291,441 households at an extra charge of 93 pence per household.

When we launched our Social Tariff in 2016, we had customer support of up to 75 pence. We undertook further research in 2020 which has increased this valuation to £1.10 per household. Thus, the Company has not needed to contribute to the scheme to date. We fully expected that this willingness to pay would support in excess of our AMP7 Ofwat target of 10,000 by March 2025.

However, given the ongoing cost of living crisis, it was clear that the £1.10 limit in place for 2022/23 was not going to be sufficient to support the increased numbers now planned to be switched to the Social Tariff. Therefore, in November 2022 new customer research was conducted and this gives the Company a £3.00 limit from 2023/24 onwards. This will allow 27,500 customers to be switched to the Social Tariff. A letter was sent to CCW and Ofwat in December 2022, confirming this position.

This data has been audited by Jacobs.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

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 2022	1.113	0.291	3.261	4.665	2O.1
Disposals	-	-	-	-	2O.2
Additions	0.208	0.209	2.517	2.934	2O.3
Adjustments	-	-	0.461	0.461	2O.4
Assets adopted at nil cost	-	-	-	-	2O.5
At 31 March 2023	1.321	0.500	6.239	8.060	2O.6
Amortisation					
At 1 April 2022	(0.721)	(0.169)	(2.200)	(3.090)	2O.7
Disposals	-	-	-	-	2O.8
Adjustments	-	-	-	-	2O.9
Charge for year	(0.028)	-	(0.127)	(0.155)	2O.10
At 31 March 2023	(0.749)	(0.169)	(2.327)	(3.245)	2O.11
Net book amount at 31 March 2023	0.572	0.331	3.912	4.815	2O.12
Net book amount at 1 April 2022	0.392	0.122	1.061	1.575	2O.13
Amortisation for year					
Principal services	(0.028)	-	(0.127)	(0.155)	2O.14
Third party services	-	-	-	-	2O.15
Total	(0.028)	-	(0.127)	(0.155)	2O.16

NOTES ON THE PRICE REVIEW AND OTHER SEGMENTAL REPORTING

Retail Price Control Analysis

Household Retail

Revenue is in line with the amount implicit in the tariff setting for 2022/23, which complied with the Final Determination. This included a C-MeX reward amounting to £0.319m which relates to 2020/21.

Revenue	Actual £'000	FD £'000	Difference £'000
Retail Charge:			
Household - Unmeasured	3,125	3,156	-31
Household - Measured	2,019	1,994	25
Total revenue from charges	5,144	5,150	-6

Operating expenditure within the Household Retail price control was higher than the Final Determination allowance, by £1.561m, with operating costs of £5.824m (including depreciation and recharges) versus the final determination of £4.263m.

This variance was due to the following items:

- Doubtful Debts were higher than the FD by £0.279m. The higher levels of aged debt and debt write-offs are due to the ongoing cost of living crisis.
- Customer Services department costs were higher by £0.580m, mainly due to higher staff costs and additional costs of billing.
- The cost of free repairs for customers was higher than the FD by £0.080m.
- Regulation costs were £0.064m higher due to additional resources in the Regulation department for the management of data, and PR24 activities.
- Other shared services costs were higher by £0.308m. This includes additional IT and Finance costs.
- Depreciation and recharges were higher than the FD by £0.170m. This was mainly due to the recharge for use of the Head Office building in Havant of £0.156m.

Wholesale Price Control Analysis

Revenue	Actual £'000	FD £'000	Difference £'000
Wholesale Charge:			
Household - Unmeasured	17,650	17,828	-178
Household - Measured	10,144	10,076	68
Non-Household - Unmeasured	251	273	-22
Non-Household - Measured	9,471	8,590	881
Total revenue from charges	37,516	36,767	749
Grants and Contributions	1,325	1,160	165
Third Party price control	85	-	85
Total revenue	38,926	37,927	999

We have compared actual revenue with that implicit in tariff setting for 2022/23, and this complied with the Final Determination. The Wholesale revenue variance is £0.999m favourable, reflecting increased revenue from standard charges of £0.749m and more capital contributions from developers of £0.165m.

The household measured wholesale revenue broadly reflects the assumptions made at the time of tariff setting. This was based on a partial recovery from COVID-19 restrictions, and people gradually working from home less.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

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 significantly higher than the FD, due to catch-up revenue from the prior year which was caused by incomplete meter readings in that year.

The amount of capital contributions was driven by higher 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 2.0%.

The total variance of wholesale revenue relative to the Final Determination is 2.6%.

Section 3

PERFORMANCE SUMMARY

PERFORMANCE SUMMARY

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	0.90	Yes	-	(0.650)	3A.1
Water supply interruptions	PR19PRT_PRT-Network Plus-02	hh:mm:ss	-	00:02:21	Yes	0.234	1.110	3A.2
Leakage	PR19PRT_PRT-Network Plus-07	%	1	2.8	No	(0.288)	(0.890)	3A.3
Per capita consumption	PR19PRT_PRT-Water Resources 03	%	I	(7.8)	No	-	-	3A.4
Mains repairs	PR19PRT_PRT-Network Plus-03	nr	I	73.2	No	(0.290)	(0.342)	3A.5
Unplanned outage	PR19PRT_PRT-Network Plus-04	%	2	1.04	Yes	-	-	3A.6
Bespoke PCs - Water and Retail (Financial)								
Water quality contacts	PR19PRT_PRT-Network Plus-06	nr	2	0.42	Yes	-	-	3A.7
Low pressure	PR19PRT_PRT-Network Plus-05	nr	-	36	Yes	-	-	3A.8
Catchment Management	PR19PRT_PRT-Network Plus-08	nr	-	30	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	0.148	No	-	-	3A.11
Biodiversity (penalty)	PR19PRT_PRT-Water Resources-06	%	1	99.7	Yes	-	(0.038)	3A.12
Voids	PR19PRT_PRT-Retail-02	%	2	2.18	No	(0.025)	(0.086)	3A.13
Affordability	PR19PRT_PRT-Retail-03	nr	-	11680	Yes	-	-	3A.14
Water Industry National Environment Programme	PR19PRT_NEP02	nr	-	7	Yes	-	(0.022)	3A.15
Havant Thicket	PR19PRT_15	months	-	n/a	Yes	-	-	3A.16
Financial water performance commitments achieved		%			69			3A.27
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%			73			3A.28

PERFORMANCE SUMMARY

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 have had 8 compliance failures, with a maximum estimated CRI impact of 1.244 for the calendar year 2022. This is below the threshold for ODI penalty of 2 and we do not expect to incur a penalty. We are awaiting DWI confirmation of final 2022 score. We are investing £2.3m in the Pure Excellence programme to address issues raised by DWI. Until the improvement programme is completed, including a network flushing programme, performance against this measure is at risk.

Water supply interruptions

Excellent performance has been maintained despite challenges from hot weather and freeze-thaw events in the year. Interruptions continue to be significantly better than expected, because of good management of both planned and unplanned events. Our final year score is 2 mins 21 secs, outperforming our target of 5 mins 45 secs. This will generate an estimated reward for 2022/23 of £234k.

Leakage

We have seen a rise in leakage levels because of bursts and leaks caused by extremely dry ground conditions caused by the drought in our area, and then freeze-thaw events in the winter. We have been unable to find and fix leaks fast enough to recover the position and as a consequence we failed to meet our ODI target of 25.75 Ml/d for 2022/23. Our 3-year average is 27.6 Ml/d which results in an underperformance penalty of £288k. We have committed additional detection and repair resources and put in place a plan to recover leakage performance in line with WRMP and business plan commitments.

Per capita consumption

Our 2022/23 position is 152.5 litres per person per day (l/p/d), compared to a spot year target of 138. The ODI report is a 3-year average, and we scored 161.1 l/p/d versus a target of 143.7. Permanent changes in water usage habits since the Covid pandemic (such as increased working from home), combined with the hot, dry summer of 2022, have contributed to high PCC but we recognise we need to do more to help customers use less water. Ofwat have recognised the impact of Covid and have changed the assessment of this metric. The ODI reward/penalty will now be assessed at the end of the AMP, rather than in year. We are working hard to reduce PCC and have a new water efficiency programme in place, as well as early start funding for our smart metering programme to be delivered from 2025 to 2035.

Mains repairs

The freeze and thaw events during late 2022 and early 2023 resulted in higher level of bursts and saw the target of 71.2 repairs per 1,000km of mains being exceeded. We outturned at 83.3 and therefore are forecasting to have to pay an underperformance payment for 2022/23 of £290k. Customers were not impacted by the higher level of repairs.

Unplanned outage

The unplanned outage assessment completed at the end of the financial year outperformed our Ofwat target of 2.34% and has been calculated at 1.04%.

Water quality contacts

Our projected score of 0.42 meets our target of 0.43 contacts per 1,000 customers. We have continued to experience a small rise in the number of water quality contacts. This is due to increased demand associated with the hot weather, which in turn resulted in increased calls related to air. We are working hard to reduce contacts through further network improvements and have an action plan in place for 2023/24.

Low Pressure

We met the performance commitment to reduce the registered number of properties at risk of low pressure to 40, achieving 36 by the end of March 2023. Work is already underway to investigate historic instances of low pressure and continue to act on emerging issues to meet the target of 30 next year.

OUTCOME PERFORMANCE TABLE

Catchment Management

We have actively engaged with several farmers in the last quarter as part of our WINEP catchment schemes to secure uptake before this Autumn. In addition, we recognised that the optimum time for soil sampling and analysis is late winter/early spring for nutrient management planning. We secured the target 10 farms and for delivered within the year.

Abstraction Incentive Mechanism

We monitor the river level of the Hamble at Frogmill. Despite drought conditions, 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)

Despite applications for the 2022/23 scheme being oversubscribed for this year, a slight under calculation meant that the ODI threshold of £50k awarded grants within the period was missed by less than £1k. We are well placed to meet our commitment in 2023/24.

Biodiversity (penalty)

Our result was 99.7% exceeding the target of 90%.

Voids

We had a monthly average of 2.18% of households categorized as Void and have underperformed against our target of 2.0% of households this year. We will have to pay a small penalty of £25k. We believe our level of void properties is low for the industry. Our performance this year would have been upper quartile in 2020/21. We are continuing to strive to reduce voids to meet our ODI commitment through further third-party collaboration and improvements to our onboarding processes.

Affordability

We now have 11,860 customers on our social tariff relative to the Ofwat target of 9,000 for 2022/23. We have now achieved our end of AMP7 target of 10,000 customers but are expanding the scheme to provide additional help to those struggling to pay.

Water Industry National Environment Programme

We have 18 schemes in our agreed WINEP programme for AMP7, with 7 due by March 2023. All 7 schemes were completed on schedule. Progress on all schemes is positive, including those being undertaken jointly with Southern Water and South East Water.

Havant Thicket

We continue to see very good progress on Havant Thicket, with project remaining on schedule. Ofwat ODI does not apply until 2026.

PERFORMANCE SUMMARY

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	84.76	3C.1
Annual customer satisfaction score for the customer experience survey	Number	81.58	3C.2
Annual C-MeX score	Number	83.17	3C.3
Annual net promoter score	Number	75.00	3C.4
Total household complaints	Number	669	3C.5
Total connected household properties	Number	308,818	3C.6
Total household complaints per 10,000 connections	Number	21.663	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Table 3C shows our C-MeX performance for 2022/23. The results for C-MeX for the year have been provisionally published and we are second, an improvement from third in the previous year.

C-MeX is made up of two elements, the satisfaction with our service from recent contact with the company, and the general experience. We continue to perform very well on our satisfaction score. We have seen an improvement in our score for general experience in 2022/23 as we improve communication with customers on key issues such as Havant Thicket Water Recycling.

We expect to receive an ODI rewards for 2022/23.

All this data has been audited by Jacobs.

Our quarterly survey scores are as follows:

2022/23	Q1	Q2	Q3	Q4	Annual
Satisfaction	85.60	85.15	85.15	82.82	84.76
Experience	80.63	81.84	83.24	80.58	81.58
C-MeX	83.12	83.50	84.20	81.70	83.17

We are pleased to report a further drop in household complaints, from 731 in 2021/22 to 699 in 2022/23. The improvement is a result of continued benefit from improved training and processes, particularly around telephony contacts.

Written	393
Telephony	299
Social media	4
Web chat	2
SMS	0
Visits	1
Total	699

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

PERFORMANCE SUMMARY

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	85.78	3D.1
Quantitative component annual results	Number	98.14	3D.2
D-MeX score	Number	91.96	3D.3
Developer services revenue (water)	£m	1.325	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	%	95.24%		3D.W1
W2.1	%	100.00%		3D.W2
W3.1	%	99.90%		3D.W3
W4.1	%	100.00%		3D.W4
W5.1	%	88.89%		3D.W5
W6.1	%	96.55%		3D.W6
W8.1	%	100.00%		3D.W7
W16.1	%	60.00%		3D.W8
W17.1	%	100.00%		3D.W9
W27.1	%	100.00%		3D.W10
W28.1	%	100.00%		3D.W11
W29.1	%	100.00%		3D.W12
SLPM – S1/1	%	100.00%		3D.W13
SLPM – S1/2	%	100.00%		3D.W14
SLPM - S2/1a	%	100.00%		3D.W15
SLPM - S2/1b	%	100.00%		3D.W16
SLPM - S2/2a	%	100.00%		3D.W17
SLPM - S2/2b	%	100.00%		3D.W18
SLPM – S4/1	%	100.00%		3D.W19
SLPM – S5/1a	%	100.00%		3D.W20
SLPM – S5/1b	%	100.00%		3D.W21
SLPM – S7/1	%	100.00%		3D.W22
SLPM – S7/3	%	100.00%		3D.W23
SLPM – S3	%	100.00%		3D.W24
SLPM – S6	%	100.00%		3D.W25
WN1.1	%	100.00%		3D.W26
WN2.1	%	100.00%		3D.W27
WN2.2	%	100.00%		3D.W28
WN3.1	%	100.00%		3D.W29
WN4.1	%	100.00%		3D.W30
WN4.2	%	100.00%		3D.W31
WN4.3	%	100.00%		3D.W32
D-MeX quantitative score (for the relevant reporting period)	%	98.14%		3D.7
D-MeX quantitative score (annual)	Number		0.98	3D.8

PERFORMANCE SUMMARY

Table 3D shows our D-MeX performance for 2022/23. We are pleased to have been ranked second for D-MeX for 2021/22, an improvement from third in 2021/22.

We were ranked first in the developer survey and fourteenth for levels of service.

We expect to receive an ODI reward for 2022/23.

All this data has been audited by Jacobs.

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	92.0	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	94.1	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19PRT_PRT-Retail-05	%	1	46.8	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	15.2	Yes	3E.8
Addressing Vulnerability	PR19PRT_PRT-Retail-04	%	0	77	No	3E.9
RoSPA	PR19PRT_PRT-Network Plus-10	category	0	Provisional: Gold	Yes	3E.10
WINEP Delivery	PR19PRT_NEP01	text	0	Met	Yes	3E.11
Non-financial performance commitments achieved		%			71	3E.29

PERFORMANCE SUMMARY

Table 3E provides stakeholders with information on the performance against each of our reputational ODIs in 2022/23.

We have met 7 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's metric to quantify how companies are delivering against their WRMPs. Several actions we undertook, such as refurbishment of several boreholes and our metering programme were unfortunately not enough to meet this ODI target. We continue with our enhanced water efficiency and leakage reduction programmes to reduce demand.

Priority Services Register

As a result of previous years' work, we have already achieved our end of AMP7 PSR Reach target of 9% and are currently at 10.6%. During the year we met our targets on maintaining our PSR register. We made direct contact with 47% of customers on our PSR against a target of 35%. We attempted to contact a further 94% against a target of 90%.

Resilience schemes to ensure peak demand can be met

These are three capital schemes which were explicitly recognised in our Business Plan and the Final Determination. They are not scheduled for 2022/23 but are later in AMP7.

Avoidance of water restrictions

In the summer of 2022, the Environment Agency issued a statement confirming drought status in most of their areas in England. This included the Solent and South Downs region which covers our area of supply. Following the actions identified in our drought plan, we did deliver an enhanced communications campaign with our customers, asking them to show restraint in the water they used, but it was not necessary for us to impose usage restrictions.

Carbon

We achieved a 15.2% reduction in net operational carbon against the 2019/20 baseline, which is significantly above the 3% target for 2022/23. This was impacted favourably by switching to renewable energy sources and increasing the use of PV generated on site.

Addressing Vulnerability

Despite increasing the number of organisations and reaching the threshold for 50 responses we have failed to meet target of 85%, scoring 77%. We received a high number of neutral responses so we have initiated further work to communicatewith organisations that represent vulnerable customers to ensure they are aware of the support we can offer to their clients.

RoSPA

2022/23 RoSPA accreditation was submitted on 25 May 2023 and at the time of reporting we have not received confirmation.

WINEP Delivery

For 2022/23, we completed the outstanding extensions for our WINEP scheme delivery and met our target.

PERFORMANCE SUMMARY

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	3,386.52	197	58.17	3F.1
Mains repairs - Proactive	Mains repairs per 1000 km	Mains length in km	3,386.52	85	25.10	3F.2
Mains repairs	Mains repairs per 1000 km	Mains length in km	3,386.52	282	83.27	3F.3
Per capita consumption (PCC)	lpd	Total hh pop (000s) and hh consumption (Ml/d)	736.09	112.3	152.50	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 - actual (2022-23)	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	32.2	27.6	2.8	3F.5
Per capita consumption (PCC)	lpd	146.8	151.3	149.9	149.3	170.5	160.3	152.2	161.0	-7.8	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)	324.85	765882	2,212	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	290.5	3.02	1.04%	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									
Priority services for customers in vulnerable circumstances	302.130	31,838	10.5%	27,528	25,915	94.1%	12,878	46.8%	3F.9

PERFORMANCE SUMMARY

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 282 mains repairs in the year, and given our network length is of 3,387km as at 31 March 2023, we determine our ODI performance at 83.3 mains repairs per 1,000 km.

Per capita consumption

Water delivered to households is 112.3 Ml/d, which given the household population of 736k people results in an average household PCC of 152.5 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, 2021/22 and 2022/23, allowing for a new three-year rolling average to be determined.

Water supply interruptions

The total minutes lost is shown as 765,882, which given our total property count as of 31 March 2021 of 325k results in an ODI performance of 2 mins 21 secs. In total 2,212 properties experienced an interruption to supply of more than 3 hours.

Unplanned outage

Our reduction in capacity because of unplanned outage is 3.02 Ml/d which results in a 1.04% reduction in Peak Week Production Capacity.

Priority Service Register

As of 31 March 2023, we have 31,838 customers on our PSR, which is 10.5 percent of our year end household base. We attempted to contact 25,915 customers on our base over the prior two years and were successful with 12,878 customers. This is a significant increase on the previous year and has helped us to improve our service to our customers that require priority services.

PERFORMANCE SUMMARY

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	-	3H.1
Water network plus	(0.344)	3H.2
Residential retail	(0.025)	3H.5
Dummy control	-	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	(0.574)	3H.8
Water network plus	(0.000)	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	No ODI in reward / penalty	0.000	0.000
Network Plus	Water supply interruptions Leakage Mains repairs	0.234 -0.288 -0.290	-0.344
Retail	Voids	-0.025	-0.025
Total			-0.370

Because of the increase on household usage due to changes in working patterns related to Covid and subsequent increased home working, a decision over a potential penalty of £0.574m for PCC has been deferred to the end of the AMP.

PERFORMANCE SUMMARY

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	290.52	10.22	3.52%	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	201.02	18.38	180.38	5.21	754.37	0.92	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 because of planned outage is 10.22 Ml/d which results in a 3.52% reduction in Peak Week Production Capacity. This is an increase on 2021/22 and is related to maintenance work undertaken during period of low demand to ensure our production sides remain operational during peak demand periods.

Risk of severe drought

The table below compares our approved WRMP with the outturn for 2022/23.

The Ofwat table asks for a comparison with a severe drought year and shows that 92% of customers 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, as well as reductions to leakage and customer demand.

We provide a comparison with a dry year. The table below shows that in 2022/23 our water resource position was healthy, despite continued higher demand (distribution input) from the hot summer. Predominantly this was because the bulk supply planned for in our WRMP was not required in full by Southern Water.

We can also confirm that we did not issue a Temporary Use Ban in 2022/23, despite our area being designated as in drought by the Environment Agency.

Annual Average	**rWRMP19 Forecast 2022-23**	**Outturn Values 2022-23**
Final Plan Deployable Output	213.5	213.1
Outage	6.7	3.3
Treatment works losses and operational use	2.4	10.2
Water Available For Use in a Dry Year (Own Sources) (DO-Outage-losses)	204.4	199.7
Potable water exported (bulk supplies to SWS)	30.0	12.2
Total Water Available for Use (WAFU-Exports)	174.4	187.4
Distribution Input	173.7	179.6
Target headroom	5.1	5.1
Supply Demand Balance (Total WAFU – DI – Target Headroom)	**-4.3**	**2.8**

Section 4

ADDITIONAL REGULATORY INFORMATION

ADDITIONAL REGULATORY INFORMATION

4A WATER BULK SUPPLY INFORMATION

Table 4A - Water bulk supply information
for the 12 months ended 31 March 2023

	Volume	Operating costs	Revenue	RAG 4 reference
	Ml	£m	£m	
Bulk supply exports				
Southern Water - Sussex North	1,304.000	0.080	0.204	4A.1
Southern Water - Hampshire	2,854.400	0.195	0.663	4A.2
Leep - Graylingwell	88.500	0.020	0.056	4A.3
Leep - Berewood	139.490	0.032	0.066	4A.4
IWNL	33.880	0.008	0.008	
Southern Water - Havant Thicket	-	-	0.882	4A.5
Total bulk supply exports	4,420.270	0.335	1.879	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 2022/23.

For this APR we continue to include bulk supplies to NAVs. We have one NAV operating in our region in 2022/23 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 £882k relates to the payment by Southern Water in the year.

This data has been audited by Jacobs.

ADDITIONAL REGULATORY INFORMATION

4B ANALYSIS OF DEBT

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

ADDITIONAL REGULATORY INFORMATION

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 2023			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)	4.460	33.117	8.382	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	4.547	29.603	27.061	4C.2
Transition expenditure	-	-	-	4C.3
Disallowable costs	0.036	0.344	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	4.511	29.259	27.061	4C.5
Variance	0.051	(3.858)	18.679	4C.6
Variance due to timing of expenditure	0.874	(0.659)	18.679	4C.7
Variance due to efficiency	(0.823)	(3.199)	-	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	(0.329)	(1.280)	-	4C.12
Company share of totex overspend	-	-	-	4C.13
Company share of totex underspend	(0.494)	(1.919)	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	1.980	1.896	-	4C.15
Actual totex - business rates and abstraction licence fees	1.988	1.754	-	4C.16
Variance - business rates and abstraction licence fees	0.008	(0.142)	-	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	0.006	(0.107)	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	0.002	(0.036)	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	0.286	-	4C.22
Actual totex - not subject to cost sharing	0.036	0.770	-	4C.23
Variance - 100% company allocation	0.036	0.484	-	4C.24
Total customer share of totex over/under spend	(0.323)	(1.386)	-	4C.25
RCV				
Total customer share of totex over/under spend	(0.323)	(1.386)	-	4C.26
PAYG rate	97.37%	67.65%	0.00%	4C.27
RCV element of totex over/underspend	(0.009)	(0.448)	-	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

ADDITIONAL REGULATORY INFORMATION

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)	15.015	91.633	25.589	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	12.739	77.337	39.671	4C.2
Transition expenditure	-	-	5.029	4C.3
Disallowable costs	0.056	0.521	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	12.683	76.816	44.700	4C.5
Variance	(2.332)	(14.817)	19.111	4C.6
Variance due to timing of expenditure	(0.918)	(6.066)	19.111	4C.7
Variance due to efficiency	(1.414)	(8.751)	-	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	(0.566)	(3.500)	-	4C.12
Company share of totex overspend			-	4C.13
Company share of totex underspend	(0.848)	(5.251)	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	5.557	5.320	-	4C.15
Actual totex - business rates and abstraction licence fees	5.594	5.262	-	4C.16
Variance - business rates and abstraction licence fees	0.037	(0.058)	-	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	0.028	(0.044)	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	0.009	(0.015)	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	0.801	-	4C.22
Actual totex - not subject to cost sharing	0.062	2.386	-	4C.23
Variance - 100% company allocation	0.062	1.585	-	4C.24
Total customer share of totex over/under spend	(0.538)	(3.544)	-	4C.25
RCV				
Total customer share of totex over/under spend	(0.538)	(3.544)	-	4C.26
PAYG rate	86.56%	68.39%	0.00%	4C.27
RCV element of totex over/underspend	(0.072)	(1.120)	-	4C.28
Adjustment for ODI out/under performance payment	-	-	-	4C.29
Green recovery	-	-	-	4C.30
RCV determined at FD at 31 March	7.830	184.720	27.865	4C.31
Projected 'shadow' RCV	7.758	183.600	27.865	4C.32

ADDITIONAL REGULATORY INFORMATION

4D TOTEX ANALYSIS – WATER RESOURCES AND WATER NETWORK+

Table 4D - Totex analysis for the 12 months ended 31 March 2023 - 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	5.517	-	0.035	5.357	12.023	22.932	4D.1
Enhancement operating expenditure	0.270	-	-	-	-	0.270	4D.2
Developer services operating expenditure	-	-	-	-	0.770	0.770	4D.3
Total operating expenditure excluding third party services	5.787	-	0.035	5.357	12.793	23.972	4D.4
Third party services	-	-	-	-	0.457	0.457	4D.5
Total operating expenditure	5.787	-	0.035	5.357	13.250	24.429	4D.6
Grants and contributions							
Grants and contributions - operating expenditure	-	-	-	-	0.862	0.862	4D.7
Capital expenditure							
Base capital expenditure	0.587	-	0.011	2.313	5.856	8.767	4D.8
Enhancement capital expenditure	0.161	-	-	0.618	3.657	4.436	4D.9
Developer services capital expenditure	-	-	-	-	2.043	2.043	4D.10
Total gross capital expenditure (excluding third party)	0.748	-	0.011	2.931	11.556	15.246	4D.11
Third party services	-	-	-	-	-	-	4D.12
Total gross capital expenditure	0.748	-	0.011	2.931	11.556	15.246	4D.13
Grants and contributions							
Grants and contributions - capital expenditure	-	-	-	-	0.494	0.494	4D.14
Net totex	6.535	-	0.046	8.288	23.450	38.319	4D.15
Cash expenditure							
Pension deficit recovery payments	-	-	-	-	-	-	4D.16
Other cash items	-	-	-	-	-	-	4D.17
Totex including cash items	6.535	-	0.046	8.288	23.450	38.319	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

ADDITIONAL REGULATORY INFORMATION

WHOLESALE TOTEX ANALYSIS

Totex variance analysis

In the Final Determination, the allowed Totex expenditure is £41.740m, in 2022/23 prices. This is before the ex-ante adjustment of £1.743m and gives a favourable variance to actual Totex in the year of £3.421m. The following table shows this variance for each element, and the total actual costs reconcile to Table 4D Line 18. Havant Thicket is excluded from this table.

2022/23 prices

	Allowed Totex 2022/23	Actual Totex 2022/23	Variance 2022/23
Operating expenditure	21,341	18,992	(2,349)
Third Party costs	286	457	171
Abstraction costs and Rates	3,877	3,742	(135)
Renewals	4,934	3,327	(1,607)
Capital expenditure	12,554	13,157	603
Grants and Contributions	(1,252)	(1,356)	(104)
Wholesale Totex	41,740	38,319	(3,421)
Ex-ante cost sharing adjustment	(1,743)		

Operating Expenditure

Actual performance is favourable to the Final Determination by £2.349m, 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 ex-ante cost sharing adjustment of -£1.743m 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 2022/23 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 lower than the FD by £1.607m. Activity in the year was less than in the FD, with 12.5km of pipe being renewed, compared to 14km in the FD. The underspend also reflects efficiency in delivery of the programme.

Capital Expenditure

Capital expenditure is higher than the Business Plan by £0.603m. A number of capital schemes were delayed due to the Covid restrictions in 2020/21. The significant variances are as follows:

1. Non-infrastructure maintenance work was postponed in 2020/21, and there was also an underspend in 2021/22 of £4.722m. In 2022/23 there is an underspend of £2.983m.
2. Work on delayed enhancement schemes have resumed, and there is a catch-up and corresponding overspend in the year of £1.879m.
3. New mains expenditure was £2.035m, compared to £1.162m in the FD, giving an adverse variance of £0.873m.
4. Optional metering expenditure was higher than in the FD by £0.132m.
5. There were several schemes not included in the Final Determination but completed in 2022/23. This includes planning work for the PR24 Smart Metering and Billing project, amounting to £0.701m.

Third Party Costs

This includes expenditure for the provision of Bulk Supplies, as well as non-s185 mains diversions. These amount to £0.159m and are not included in the FD.

ADDITIONAL REGULATORY INFORMATION

Havant Thicket

Havant Thicket Winter Storage Reservoir Project continued in 2022/23, where the costs amounted to £ 27.1m primarily driven by the mobilisation of the project working towards the MRW and MPW contracts.

a) Project Works continues to move forward with the advance work on tree clearance and Habitat Mitigation strategy together with planning commitments in preparation of the commencement of the project.

b) The Enabling Works was initiated to maintain the project delivery schedule whilst the contract with the supplier was agreed, which was awarded in February 2023 to Future Water.

c) The final determination with Ofwat was awarded to Portsmouth Water in January 2023 of £339m.

d) The Pipeline contract was awarded to Ward & Burke in August 2022 where planning and design works have been carried out evaluating the route.

ADDITIONAL REGULATORY INFORMATION

4H FINANCIAL METRICS

Table 4H - Financial metrics for the 12 months ended 31 March 2023

	Units	Current year	CY restated for Havant Thicket CAM	AMP to date	RAG 4 reference
Financial indicators					
Net debt	£m	172.773	172.773		4H.1
Regulatory equity	£m	47.642	95.603		4H.2
Regulatory gearing	%	78.39%	64.38%		4H.3
Post tax return on regulatory equity	%	-19.77%	-13.31%		4H.4
RORE (return on regulatory equity)	%	3.70%		1.63%	4H.5
Dividend yield	%	7.13%	3.55%		4H.6
Retail profit margin - Household	%	-2.35%			4H.7
Retail profit margin - Non household	%	n/a			4H.8
Credit rating - Moody's	Text	Baa2 (Stable)			4H.10
Return on RCV	%	4.27%	3.84%		4H.12
Dividend cover	dec	-2.45			4H.13
Funds from operations (FFO)	£m	8.556			4H.14
Interest cover (cash)	dec	2.13			4H.15
Adjusted interest cover (cash)	dec	0.84			4H.16
FFO/Debt	dec	0.05			4H.17
Effective tax rate	%	0.00%			4H.18
Retained cash flow (RCF)	£m	5.159			4H.19
RCF/Net debt	dec	0.03			4H.20
Borrowings					
Proportion of borrowings which are fixed rate	%	9.22%			4H.21
Proportion of borrowings which are floating rate	%	0.00%			4H.22
Proportion of borrowings which are index linked	%	90.78%			4H.23
Proportion of borrowings due within 1 year or less	%	0.00%			4H.24
Proportion of borrowings due in more than 1 year but no more than 2 years	%	9.09%			4H.25
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	0.00%			4H.26
Proportion of borrowings due in more than 5 years but no more than 20 years	%	90.78%			4H.27
Proportion of borrowings due in more than 20 years	%	0.13%			4H.28

ADDITIONAL REGULATORY INFORMATION

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.

2017/18 PRICES	2020/21	2021/22	2022/23	AMP Average	
REGULATED EQUITY	61.104	66.129	70.636	65.956	Average notional regulatory equity
Return on Regulatory Equity	4.12%	4.18%	4.21%	4.17%	Final Detemination
NET INCOME - FD	2.517	2.764	2.974	2.750	Notional return on Equity
Adjustment for actual equity	-0.704	-0.817	-1.186	-0.902	FD return applied to actual equity
Totex PAY G adjustments	0.265	1.368	1.218	0.950	Including customer cost sharing
Retail cost adjustments	-0.376	-0.124	-1.416	-0.639	
ODI reward/penalty	0.413	-0.209	-0.370	0.084	As reported in Table 3A
C-MeX	0.000	0.283	0.203	0.162	Reported one year in arrears
D-MeX	0.000	0.099	0.101	0.067	Reported one year in arrears
Exceptional items	-0.087	-4.163	-0.695	-1.648	Settlement and related costs on pension scheme
Cost of Debt	-1.697	-0.595	-1.061	-1.118	FD vs real cost of debt
Gearing	0.704	0.817	1.186	0.902	
Tax on adjustments	-0.059	0.190	1.657	0.469	Tax rate of 19%
NET INCOME - Adjusted	0.977	-0.349	2.611	1.078	Used to calculate adjusted RoRE %'s
Return on Regulatory Equity	1.60%	-0.53%	3.70%	1.63%	Actual return on regulatory equity

Adjusted Interest Cover ratio

Ofwat have specified that companies should provide a breakdown of their Adjusted Interest Cover Ratio, to show how the Interest paid value used in the ratio ties back to the Net Interest paid in the Cashflow Statement.

£m	Interest Cover	Adjusted Interest Cover
Funds from operations	8.556	8.556
Cash Interest paid	6.939	6.939
Cash Interest income	-0.686	-0.686
Net interest paid	6.253	6.253
Regulated depreciation	-	-8.970
	14.809	5.839
Cash Interest paid	6.939	6.939
Ratio	2.13	0.84

Revised ratios for Havant Thicket CAM adjustments

On 28 October 2022, Portsmouth Water submitted a request to amend the level of Totex Ofwat included in its Havant Thicket Price Control for the period 2020-2030 (this is the cost adjustment mechanism or 'CAM').

Several of the financial ratios have been restated for the inclusion of the CAM additions. In particular, these adjustments impact the Gearing and Dividend Cover ratios.

ADDITIONAL REGULATORY INFORMATION

RCV and Gearing restated

RCV	Opening 2022/23	Closing 2022/23	Average 2022/23	Closing Net Debt
Water Resources	7.276	7.830	-	-
Water Network+	164.255	184.720	-	-
Havant Thicket	17.913	27.865	-	-
Total	189.444	220.415	208.489	172.773
Gearing ratio		78.39%		
RCV + CAM adjustments			-	
Water Resources	7.276	7.830	-	-
Water Network+	164.255	184.720	-	-
Havant Thicket revised	17.913	75.826	-	-
Total	189.444	268.376	231.759	172.773
Gearing ratio		64.38%		

ADDITIONAL REGULATORY INFORMATION

4J BASE EXPENDITURE ANALYSIS – WATER RESOURCES AND WATER NETWORK+

Table 4J - Base expenditure analysis for the 12 months ended 31 March 2023 - 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	1.249	-	0.002	0.145	1.531	2.927	4J.1
Income treated as negative expenditure	-	-	-	-	-	-	4J.2
Bulk supply	-	-	-	-	-	-	4J.3
Renewals expensed in year (infrastructure)	-	-	-	-	1.238	1.238	4J.4
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-	4J.5
Other operating expenditure	2.280	-	0.021	4.034	8.461	14.796	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	1.507	-	-	-	-	1.507	4J.9
Other abstraction charges/ discharge consents	-	-	-	-	-	-	4J.10
Location specific costs & obligations							
Costs associated with Traffic Management Act	-	-	-	-	0.229	0.229	4J.11
Costs associated with lane rental schemes	-	-	-	-	-	-	4J.12
Statutory water softening	-	-	-	-	-	-	4J.13
Total base operating expenditure	5.517	-	0.035	5.357	12.023	22.932	4J.14
Capital expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	2.267	2.267	4J.15
Maintaining the long term capability of the assets - non-infra	0.587	-	0.011	2.313	3.589	6.500	4J.16
Total base capital expenditure	0.587	-	0.011	2.313	5.856	8.767	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.

ADDITIONAL REGULATORY INFORMATION

4N DEVELOPER SERVICES EXPENDITURE – WATER RESOURCES AND WATER NETWORK+

Table 4N - Developer services expenditure for the 12 months ended 31st March 2023 - water resources and water network+

£m	Water Network+			RAG 4 reference
	Treated Water Distribution			
	Capex	Opex	Totex	
New connections	-	0.761	0.761	4N.1
Requisition mains	1.858	-	1.858	4N.2
Infrastructure network reinforcement	0.185	-	0.185	4N.3
s185 diversions	-	0.009	0.009	4N.4
Other price controlled activities	-	-	-	4N.5
Total developer services expenditure	**2.043**	**0.770**	**2.813**	4N.7

4P EXPENDITURE ON NON-PRICE CONTROL DIVERSIONS

Table 4P - Expenditure on non-price control diversions
for the 12 months ended 31 March 2023

£m	Water resources	Water network+	Total	RAG 4 reference
Non-price control diversions - opex				
Opex associated with NSWRA diversions	-	0.160	0.160	4P.5
Opex associated with other non-price control diversions	-	-	-	4P.6
Other developer services non-price control opex	-	-	-	4P.7
Developer services non-price control opex	-	0.160	0.160	4P.8

ADDITIONAL REGULATORY INFORMATION

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)	2,201	2,201	4Q.1
New connections (business – excluding NAVs)	101	101	4Q.2
Total new connections served by incumbent	2,302	2,302	4Q.3
New connections – SLPs	827		4Q.4
Properties volume data			
New properties (residential - excluding NAVs)	2,201	2,201	4Q.5
New properties (business - excluding NAVs)	101	101	4Q.6
Total new properties served by incumbent	2,302	2,302	4Q.7
New residential properties served by NAVs	522	522	4Q.8
New business properties served by NAVs	4	4	4Q.9
Total new properties served by NAVs	526	526	4Q.10
Total new properties	2,828	2,828	4Q.11
New properties – SLP connections	827		4Q.12
New water mains data			
Length of new mains (km) - requisitions	4		4Q.13
Length of new mains (km) - SLPs	4		4Q.14

This table relates to new connections, properties and new mains in the year 2022/23. 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.

ADDITIONAL REGULATORY INFORMATION

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	195.427	106.698	302.125	6.692	4R.1
Residential wastewater only customers	000s	-	-	-	-	4R.2
Residential water and wastewater customers	000s	-	-	-	-	4R.3
Total residential customers	000s	195.427	106.698	302.125	6.692	4R.4
Business water only customers	000s	1.511	11.946	13.457	2.454	4R.5
Business wastewater only customers	000s	-	-	-	-	4R.6
Business water & wastewater customers	000s	-	-	-	-	4R.7
Total business customers	000s	1.511	11.946	13.457	2.454	4R.8
Total customers	000s	196.938	118.644	315.582	9.146	4R.9

	Units	Water			
Property numbers - average during the year		Unmeasured	Measured	Total	
Residential properties billed	000s	195.427	106.698	302.125	4R.10
Residential void properties	000s			6.692	4R.11
Total connected residential properties	000s			308.817	4R.12
Business properties billed	000s	1.511	11.946	13.457	4R.13
Business void properties	000s			2.454	4R.14
Total connected business properties	000s			15.911	4R.15
Total connected properties	000s			324.728	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	-	-	-			-	-	2.201	-			2.201	2.201	4R.17
Total new business properties connected in year	000s	-	-	-			-	-	0.101	-			0.101	0.101	4R.18
Residential properties billed at year end	000s	193.091	-	-			193.091	-	109.523	-			109.523	302.614	4R.19
Residential properties unbilled at year end															4R.20
Residential void properties at year end	000s						4.056						2.353	6.409	4R.21
Total connected residential properties at year end	000s						197.147						111.876	309.023	4R.22
Business properties billed at year end	000s	1.536	-	-			1.536	-	11.926	-			11.926	13.462	4R.23
Business properties unbilled at year end															4R.24
Business void properties at year end	000s						0.394						1.968	2.362	4R.25
Total connected business properties at year end	000s						1.930						13.894	15.824	4R.26
Total connected properties at year end	000s						199.077						125.770	324.847	4R.27

Population data	Units	Water	Wastewater	
Resident population	000s	740.541	-	4R.28
Non-resident population (wastewater)	000s		-	4R.29

This table shows the number of properties, customers and population for the year 2022/23. 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 all data we differentiate between billed and connected properties. There is a category in the MOSL data called 'vacant' which we categorise as 'voids' as per the RAG4 guidance.

This data has been audited by Jacobs.

ADDITIONAL REGULATORY INFORMATION

4W DEFINED BENEFIT PENSION SCHEME – ADDITIONAL INFORMATION

Table 4W - Defined Benefit Pension Scheme - Additional Information

	Defined Benefit Pension Scheme			RAG 4 reference
	Pension scheme 1	Pension scheme 2	Pension scheme 3	
Scheme details				
Scheme name	Brockhampton Pension Scheme			4W.1
Scheme status	Closed to future Accrual			4W.2
Scheme valuation under IAS/IFRS/FRS				
Scheme assets	98.853			4W.3
Scheme liabilities	98.853			4W.4
Scheme surplus / (deficit) Total	-			4W.5
Scheme surplus / (deficit) Appointed business	0.00%			4W.6
Pension deficit recovery payments	n/a			4W.7
Scheme valuation under part 3 of Pensions Act 2004				
Scheme funding valuation date	31/03/2021			4W.8
Assets	177.900			4W.9
Technical Provisions	172.900			4W.10
Scheme surplus / (deficit)	5.000			4W.11
Discount rate assumptions	Pre-retirement 3.08 Post-retirement 1.60			4W.12
Recovery plan (where applicable)				
Recovery Plan Structure	n/a			4W.13
Recovery plan end date	n/a			4W.14
Asset Backed Funding (ABF) arrangements	n/a			4W.15
Responsibility for ABF arrangements	n/a			4W.16

Section 5

ADDITIONAL REGULATORY INFORMATION – WATER RESOURCES

ADDITIONAL REGULATORY INFORMATION – WATER RESOURCES

5A WATER RESOURCES ASSET AND VOLUMES DATA

Table 5A - Water resources asset and volumes data for the 12 months ended 31st March 2023

	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	20.3	5A.3
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	180.8	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	28.56	5A.23
Energy consumption - raw water abstraction	MWh	11,215.45	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	201.0	5A.29
Total number of completed investigations (WINEP/NEP), cumulative for AMP	nr	7	5A.30

This table provides detail of our Water Resources assets and associated volumes for 2022/23.

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.

ADDITIONAL REGULATORY INFORMATION – WATER RESOURCES

5B WATER RESOURCES OPERATING COST ANALYSIS

Table 5B - Water resources operating cost analysis for the 12 months ended 31st March 2023

£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	Other	Total	RAG 4 reference
Power	-	-	0.104	1.145	-	-	-	1.249	5B.1
Income treated as negative expenditure	-	-	-	-	-	-	-	-	5B.2
Abstraction charges/ discharge consents	-	-	0.265	1.242	-	-	-	1.507	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	-	-	0.010	2.540	-	-	-	2.550	5B.7
Local authority and Cumulo rates	-	-	-	0.481	-	-	-	0.481	5B.9
Total operating expenditure (excluding 3rd party)	-	-	0.379	5.408	-	-	-	5.787	5B.10

Section 6

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

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 2023

	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	61.42	9	6A.13
W1 works	0.00	0	0.00	0	6A.14
W2 works	0.00	0	12.71	1	6A.15
W3 works	0.00	0	0.00	0	6A.16
W4 works	0.00	0	106.34	7	6A.17
W5 works	20.34	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%	4	6A.20
WTWs in size band 2	0.0%	1	6A.21
WTWs in size band 3	5.9%	2	6A.22
WTWs in size band 4	29.4%	8	6A.23
WTWs in size band 5	25.5%	3	6A.24
WTWs in size band 6	10.1%	1	6A.25
WTWs in size band 7	29.0%	1	6A.26
WTWs in size band 8	0.0%	0	6A.27

Water treatment - other information	Units	Input	
Peak week production capacity (PWPC)	Ml/d	290.52	6A.28
Total peak week production capacity (PWPC) having enhancement expenditure for grey solution improvements to address raw water quality deterioration	Ml/d	24.76	6A.29
Total peak week production capacity (PWPC) having enhancement expenditure for green solutions improvements to address raw water quality deterioration	Ml/d	0.00	6A.30
Total water treated at more than one type of works	Ml/d	0.00	6A.31
Number of treatment works requiring remedial action because of raw water deterioration	nr	2	6A.32
Zonal population receiving water treated with orthophosphate	000's	671.000	6A.33
Average pumping head – water treatment	m.hd	2.09	6A.34
Energy consumption ~ water treatment	mWh	3667.733	6A.35
Total number of water treatment imports	nr	0	6A.36
Water imported from 3rd parties' water treatment works	Ml/d	0.00	6A.37
Total number of water treatment exports	nr	0	6A.38
Water exported to 3rd parties' water treatment works	Ml/d	0.00	6A.39

This table provides detail of our raw water assets (of which we have none), our water treatment assets and other associated data for 2022/23.

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.

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

6B TREATED WATER DISTRIBUTION – ASSETS AND OPERATIONS

Table 6B - Treated water distribution - assets and operations for the 12 months ended 31st March 2023

	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
Water delivered (non-potable)	Ml/d	0.00	6B.4
Water delivered (potable)	Ml/d	159.86	6B.5
Water delivered (billed measured residential)	Ml/d	38.14	6B.6
Water delivered (billed measured business)	Ml/d	32.27	6B.7
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.000	6B.8
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.000	6B.9
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.101	6B.10
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.899	6B.11
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	0.000	6B.12
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	0.000	6B.13
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	0.000	6B.14
Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	0.000	6B.15
Total number of potable water pumping stations that pump into and within the treated water distribution system	nr	22	6B.16
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	1	6B.17
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	0	6B.18
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	21	6B.19
Number of potable water pumping stations that pump water imported from a 3rd party supply into the treated water distribution system	nr	0	6B.20
Total number of service reservoirs	nr	17	6B.21
Number of water towers	nr	0	6B.22
Energy consumption ~ treated water distribution	mWh	20634.653	6B.23
Average pumping head – treated water distribution	m.hd	30.77	6B.24
Total number of treated water distribution imports	nr	0	6B.25
Water imported from 3rd parties to treated water distribution distribution systems	Ml/d	0.00	6B.26
Total number of treated water distribution exports	nr	3	6B.27
Water exported to 3rd parties from treated water distribution systems	Ml/d	12.22	6B.28
Peak 7 day rolling average distribution input	Ml/d	223.70	6B.29
Peak 7 day rolling average distribution input / annual average distribution input	%	124.78%	6B.30
Water balance - company level			
Measured household consumption (excluding supply pipe leakage)	Ml/d	33.00	6B.31
Unmeasured household consumption (excluding supply pipe leakage)	Ml/d	79.27	6B.32
Measured non-household consumption (excluding supply pipe leakage)	Ml/d	31.70	6B.33
Unmeasured non-household consumption (excluding supply pipe leakage)	Ml/d	0.56	6B.34
Total annual leakage	Ml/d	32.19	6B.35
Distribution system operational use	Ml/d	0.54	6B.36
Water taken unbilled	Ml/d	2.38	6B.37
Distribution input	Ml/d	179.64	6B.38
Distribution input (pre-MLE)	Ml/d	179.28	6B.39
Components of total leakage (post MLE) - company level			
Leakage upstream of DMA	Ml/d	0.00	6B.58
87 Distribution main losses	Ml/d	19.25	6B.59
Customer supply pipe losses – measured households excluding void properties	Ml/d	5.14	6B.60
Customer supply pipe losses – unmeasured households excluding void properties	Ml/d	6.79	6B.61
Customer supply pipe losses – measured non-households excluding void properties	Ml/d	0.58	6B.62
Customer supply pipe losses – unmeasured non-households excluding void properties	Ml/d	0.05	6B.63
Customer supply pipe losses – void measured households	Ml/d	0.10	6B.64
Customer supply pipe losses – void unmeasured households	Ml/d	0.18	6B.65
Customer supply pipe losses – void measured non-households	Ml/d	0.08	6B.66
Customer supply pipe losses – void unmeasured non-households	Ml/d	0.02	6B.67

This table provides detail of our water distribution assets and other associated data for 2022/23.

There are no significant issues to raise in this commentary.

This data has been audited by Jacobs.

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

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 2023

	Units	Input	RAG 4 reference
Treated water distribution - mains analysis			
Total length of potable mains as at 31 March	km	3386.5	6C.1
Total length of potable mains relined	km	0.0	6C.2
Total length of potable mains renewed	km	11.3	6C.3
Total length of new potable mains	km	9.0	6C.4
Total length of potable water mains (< ≤320mm)	km	3026.7	6C.5
Total length of potable water mains >320mm and ≤ 450mm	km	150.8	6C.6
Total length of potable water mains >450mm and ≤610mm	km	149.9	6C.7
Total length of potable water mains > 610mm	km	59.2	6C.8
Treated water distribution - mains age profile			
Total length of potable mains laid or structurally refurbished pre-1880	km	55.7	6C.9
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	79.5	6C.10
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	111.8	6C.11
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	461.8	6C.12
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	377.6	6C.13
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	664.6	6C.14
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	872.0	6C.15
Total length of potable mains laid or structurally refurbished between 2001 and 2020	nr	709.9	6C.16
Total length of potable mains laid or structurally refurbished post during and after 2021	nr	53.7	6C.17
Communication pipes			
Number of lead communication pipes	nr	80289	6C.18
Number of galvanised iron communication pipes	nr	17916	6C.19
Number of other communication pipes	nr	227386	6C.20
Number of lead communication pipes replaced or relined for water quality	nr	8	6C.21
Other			
Company area	km^2	864	6C.22
Compliance Risk Index	nr	1.24	6C.23
Event Risk Index	nr	19	6C.24
Properties below reference level at end of year	nr	36	6C.25

This table provides detail of our network plus assets and other associated data for 2022/23.

There are no significant issues to raise in this commentary.

This data has been audited by Jacobs.

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

6D DEMAND MANAGEMENT – METERING AND LEAKAGE ACTIVITIES

Table 6D - Demand management - Metering and leakage activities
for the 12 months ended 31 March 2023

	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference
Metering activities - Totex expenditure					
New optant meter installation for existing customers	£m	0.707	-	-	6D.1
New selective meter installation for existing customers	£m	0.820	-	-	6D.2
New business meter installation for existing customers	£m	0.002	-	-	6D.3
Residential meters renewed	£m	-	-	-	6D.4
Business meters renewed	£m	0.998	-	-	6D.5
Metering activities - Explanatory variables					
New optant meters installed	000s	1.625	-	-	6D.6
New selective meters installed	000s	10.695	-	-	6D.7
New business meters installed	000s	0.150	-	-	6D.8
Residential meters renewed	000s	-	-	-	6D.9
Business meters renewed	000s	-	-	-	6D.10
Replacement of basic meters with smart meters for residential customers	000s	-	-	-	6D.11
Replacement of AMR meter with AMI meters for residential customers	000s	-	-	-	6D.12
Replacement of basic meters with smart meters for business customers	000s	-	-	-	6D.13
Replacement of AMR meter with AMI meters for business customers	000s	-	-	-	6D.14
New residential meters installed for existing customers – supply-demand balance benefit	Ml/d	0.087	-	-	6D.15
New business meters install ed for existing customers – supply-demand balance benefit	Ml/d	-	-	-	6D.16
Replacement of basic meter with smart meters for residential customers – supply-demand balance benefit	Ml/d	-	-	-	6D.17
Replacement of AMR meter with AMI meter for residential customers– supply-demand balance benefit	Ml/d	-	-	-	6D.18
Replacement of basic meter with smart meters for business customers – supply-demand balance benefit	Ml/d		-	-	6D.19
Replacement of AMR meter with AMI meter for business customers– supply-demand balance benefit	Ml/d		-	-	6D.20
Residential properties - meter penetration	%	35.3%	-	-	6D.21
Leakage activities - Totex expenditure	**Units**	**Maintaining leakage**	**Reducing leakage**	**Total**	
Total leakage activity	£m	3.813	0.301	4.114	6D.22
Leakage improvements delivering benefits in 2020-25	Ml/d			(5.30)	6D.23
Per capita consumption (excluding supply pipe leakage)					
Per capita consumption (measured customers)	l/h/d	146.87			6D.24
Per capita consumption (unmeasured customers)	l/h/d	155.01			6D.25

This table provides detail of our demand management and metering data for 2022/23.

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 152.5 l/p/d

This data has been audited by Jacobs.

ADDITIONAL REGULATORY INFORMATION – WATER NETWORK+

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	0.076	0.120	0.162	0.162	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	1.025	0.810	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	0.000	0.307	1.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	-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	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-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	0.014	0.025	0.025	0.025	0.025	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	0.000	0.000	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	0.000	0.010	0.002	0.000	0.000	6.184	0.000	0.000	0.000	0.000	0.000	0.000	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	0.670	0.000	0.001	0.009	0.014	0.058	0.000	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	27.100	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	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.00	0.00	0.00	0.00	0.00	0.00	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	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.00	0.00	0.00	0.00	0.00	0.00	6F.13
Total			7.047	6.299	29.249	20.207	20.611	60.293	0.014	0.058	0.000	0.288	1.215	53.259	24.94	27.14	30.24	30.95	51.94	74.94	

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.

Section 9

ADDITIONAL REGULATORY INFORMATION – INNOVATION COMPETITION

ADDITIONAL REGULATORY INFORMATION – INNOVATION COMPETITION

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		
Innovation fund income from customers	0.130	9A.2
Income from customers to fund innovation projects the company is leading on	-	9A.3
Income from other water companies to fund innovation projects the company is leading on		9A.4
Income from customers that is transferred to other companies as part of the innovation fund		9A.5
Non-price control revenue (e.g. royalties)	0.130	9A.6

	Total amount of funding awarded to the lead company through the innovation fund	Forecast expenditure on innovation fund projects in year (excl 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Forecast project lifecycle expenditure on innovation fund projects (excl 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Allowed future expenditure on innovation fund projects	Allowed future expenditure on innovation fund projects	Cumulative 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.23

This table provides detail of the outcome of the innovation competition for 2022/23.

We were unsuccessful in 2022/23 and thus have only entered our contribution in the table, which is in 2017/18 price base.

Section 11

ADDITIONAL REGULATORY INFORMATION – OPERATIONAL GREENHOUSE GAS EMISSIONS REPORTING

ADDITIONAL REGULATORY INFORMATION – OPERATIONAL GREENHOUSE GAS EMISSIONS REPORTING

11A OPERATIONAL GREENHOUSE GAS EMISSIONS REPORTING

Table 11A - Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

Line description	DPs	Water	Total	RAG 4 reference
		tCO2e	tCO2e	
Scope one emissions				
Burning of fossil fuels (location-based)	3	245.960	245.960	11A.1
Burning of fossil fuels (market-based)	3	245.960	245.960	11A.2
Process and fugitive emissions	3	141.250	141.250	11A.3
Vehicle transport	3	347.570	347.570	11A.4
Total scope one emissions (location-based)	3	734.780	734.780	11A.6
Total scope one emissions (market-based)	3	734.780	734.780	11A.7
Scope one emissions; GHG type CO2	3	587.280	587.280	11A.8
Scope one emissions; GHG type CH4		0.320	0.320	11A.9
Scope one emissions; GHG type N2O	3	5.940	5.940	11A.10
Scope two emissions				
Purchased electricity - location based	3	4,774.080	4,774.080	11A.12
Purchased electricity - market based	3	610.550	610.550	11A.13
Total scope two emissions (location-based)	3	4774.080	4774.080	11A.17
Total scope two emissions (market-based)	3	610.550	610.550	11A.18
Scope two emissions; GHG type CO2	3	4,720.510	4,720.510	11A.19
Scope two emissions; GHG type CH4	3	19.750	19.750	11A.20
Scope two emissions; GHG type N2O	3	33.820	33.820	11A.21
Scope three emissions				
Business travel	3	3.050	3.050	11A.23
Outsourced activities	3	208.000	208.000	11A.24
Purchased electricity; extraction, production, transmission and distribution (location-based)	3	436.720	436.720	11A.25
Purchased electricity; extraction, production, transmission and distribution (market-based)	3	436.720	436.720	11A.26
Chemicals	3	528.980	528.980	11A.29
Disposal of waste	3	14.300	14.300	11A.30
Total scope three emissions (location-based)		1,191.050	1,191.050	11A.31
Total scope three emissions (market-based)	3	1,191.050	1,191.050	11A.32
Scope three emissions; GHG type CO2	3	641.390	641.390	11A.33
Scope three emissions; GHG type CH4	3	1.730	1.730	11A.34
Scope three emissions; GHG type N2O	3	4.65	4.650	11A.35
Gross operational emissions (Scope 1,2 and 3)				
Gross operational emissions - location based	3	6,699.910	6,699.910	11A.37
Gross operational emissions - market based	3	2,536.380	2,536.380	11A.38
Emissions reductions				
Exported renewables (market based)	3	9.270	9.270	11A.39
Other emissions reductions	3	-	-	11A.42
Total emissions reductions	3	9.270	9.270	11A.43
Net annual emissions				
Net annual emissions - location based	3	6,690.640	6,690.640	11A.44
Net annual emissions - market based	3	2,536.380	2,536.380	11A.45

Line description	DPs	Water	RAG 4 reference
		kgCO2e/Ml	
GHG intensity ratios			
Emissions per Ml of treated water	3	73.990	11A.46
Emissions per Ml of sewage treated (water distribution input)	3		11A.47

Line description	DPs	Water	RAG 4 reference
		tCO2e	
Other			
Green tariff electricity	3	4,774.080	11A.48
Captial projects			
Capital projects (cradle-to-gate)	3	-	11A.49
Capital projects (cradle-to-build)	3	-	11A.50
Purchased goods and services			
Purchased goods and services	3	-	11A.51

ADDITIONAL REGULATORY INFORMATION – OPERATIONAL GREENHOUSE GAS EMISSIONS REPORTING

The table provides detail on operational greenhouse gas emissions for 2022/23.

We have worked hard to reduce emissions by 15.2% compared to 2019/20.

This significantly outperforms our performance committment target of a 3% reduction in emissions.

ADDITIONAL REGULATORY INFORMATION – OPERATIONAL GREENHOUSE GAS EMISSIONS REPORTING

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 long-term loan outstanding, owed by South Downs Limited, a parent company, to Portsmouth Water Limited. This loan was made as a part of the refinancing package carried out in 2003. The balance of the loan at 31 March 2023 amounts to £55.484m capital outstanding (2022: £55.484m), and £1.923m in accrued interest (2022: £0.827m). Interest receivable on the loan for the year was £1.920m (2022: £0.686m). Interest receivable is charged at a rate based on the Sterling Overnight Interest Average rate ('SONIA'), plus a margin.

Portsmouth Water Holdings Limited

In March 2021 the company entered into an inter-group loan agreement with Portsmouth Water Holdings Limited, its immediate parent company, permitting borrowing to a total facility value of £50.0m, initially drawing down £24.623m. A further £20.0m was drawn down during the year to 31 March 2023, and this additional £20.0m loan balance was capitalised in March 2023 through the issue of £20.0m new ordinary shares. Also in March 2023, the company repaid £4.0m of the original loan balance, reducing the loan outstanding to £20.623m at 31 March 2023. The loan facility, having reduced from £50.0m to £30.0m, was increased from £30m to £45m in March 2023. Interest payable on the loan for the year was £0.994m (2022: £0.690m). Interest payable is charged at a fixed rate of 3% p.a. on the total amount drawn, payable six monthly in arrears. The loan balance matures in March 2025.

Dividends paid to Associated Undertakings

Dividend policy is set to align with the 5-year business plan agreed with Ofwat. The policy was set in line with regulatory guidance in Ofwat's PR19 Final Methodology and the Draft Determination. The policy was updated in 2022 to reflect additional guidance provided in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity, compared to 5% in the previous published dividend policy.

Our normal equity dividend reflects a 4% return on the average RCV of the company in the year, to reflect the updated guidance provided with the PR19 Final Determination. The Board then considers adjustment (upwards or downwards) depending upon the following factors, which reflect financial resilience and overall Company performance:

- Overall financial performance of the appointed and non-appointed business;
- The Company's performance against commitments to customers and stakeholders;
- Demonstrating compliance with financeability tests to ensure sufficient liquidity for the medium term and testing the financial viability of the company; and
- Recognising Regulatory requirements, in particular Licence Condition F.

Dividends relating to financial year 2021/22 paid in year:

The dividend policy for financial year 2021/22 reflected a change in Ofwat guidance in line with the PR19 Final Determination. The base dividend yield was revised from 5% to 4% of regulated equity. The Directors recommended a total dividend of £3.397m, being £2.711m (based on the 4% of regulated equity), plus a recirculating dividend of £0.686m, for the financial year 2021/22. This was paid in June 2022.

Proposed dividend for financial year 2022/23:

The Directors are proposing a total dividend of £2.3m, all being related to an equity dividend. No recirculating dividend will now be paid. The full proposed dividend is anticipated to paid in July 2023.

Historically dividends have been calculated based upon two elements – a return on the equity component of the Regulatory Capital Value (RCV) and a "recirculating" element, which permits interest on certain intercompany loans receivable to be serviced. This second element is received by the Company in the form of interest payments from its parent company and does not result in any net cash outflow from the wider group. This recirculating element has been stopped from 31 March 2023, as the company intends to payback the related intercompany loan balances, including interest accrued from 2002/23, in July 2023 as part of a new shareholder equity investment.

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

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	210*	Market Tested	30

*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 £210k, of which £173k relates to total income from solar power.

Directors Remuneration and Other Services Provided

There was a recharge of Directors salaries amounting to £29,831 paid by Portsmouth Water Limited to 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	£36,636
Brockhampton Holdings Limited	£41,784
Brockhampton Property Investments Limited	£3,838
Brockhampton Solutions Limited	£2,139
South Downs Limited (charged into Brockhampton Property Investments Limited)	£1,552
South Downs Capital Limited (charged into Brockhampton Property Investments Limited)	£1,007
Ancala Fornia Limited	£1,658
Ancala Fornia Midco Limited	£1,476
Ancala Fornia Holdco Limited	£4,470

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 2023 ("the Regulatory Accounting Statements") which comprise:

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

We have not audited the outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, and 11A. We have also not audited tables 2F and 2N on the basis that these contain non-financial information, and tables 2G, 2H, and 10A to 10E which is in line with RAG 4.11.

In our opinion, the Company's Regulatory Accounting Statements have been properly prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2), set out on page 69.

Basis for opinion

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

Our responsibilities under ISAs (UK) are further described in the 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 other entities of public interest], and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

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

REPORT OF THE INDEPENDENT AUDITOR

The Regulatory Accounting Statements on pages 54 to 58 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 from the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of these matters.

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.

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 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.

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 pages 44 to 52, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, appendix 2).

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

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to

REPORT OF THE INDEPENDENT AUDITOR

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.

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

The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, the Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note [x] 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 Regulatory Accounting Statements 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 2023 on which we reported on 29 June 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

James Ledward

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

29 June 2023

HAVANT THICKET WINTER STORAGE RESERVOIR

1 Executive Summary

The financial year to 31 March 2023 (FY23) has seen significant developments for the Havant Thicket Reservoir Project (the Project); some of the most notable milestones achieved for the year were:

- New regulatory allowance of £339m (indexed to Nov 21) set by Ofwat in January 2023;
- Awarding the main pipeline contract to Ward & Burke in August 2022 and the main reservoir works contract to Future Water MJJV in February 2023;
- Completion of enabling works that were critical to the project schedule, including construction of a trial embankment, tree removal and wildlife translocation; and
- Discharging planning conditions which were required prior to commencement of the works in 2023.

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

- Consultations with stakeholders to progress planning conditions, such as securing the Section 278 agreement to the Northern Access Road.
- Appointing the Construction Engineer (in accordance with the Reservoir Act 1975), Design Guardian (for planning and contract assurance) and a Panel of Specialists (in accordance with reservoir best practice) to provide design and construction assurance.
- Mobilisation of the project management team and implementation of management information systems and processes.

The Project has continued to progress well, despite the need for considerable due diligence to support the evaluation of tender submissions for the main works contracts and to satisfy Ofwat and Southern Water (SWS) in their cost adjustment mechanism to the regulatory allowance made at PR19.

PW welcomes Ofwat's continued support to the Project, particularly in relation to supporting a successful outcome to the procurement process and associated Cost Adjustment Mechanism. In these areas, PW has worked with Ofwat and SWS to address the impact of a number of significant market forces and implement commercial strategies that have enabled the Project to maintain progress with critical path activities, while remaining focussed on the environmental benefits and delivering value for money to customers.

2 Introduction

This report provides summary of the key activities undertaken during the year to 31 March 2023 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
- Site Works
- Design Work
- Ofwat Engagement
- Consultation with Customers and Stakeholders
- Governance
- Preparing for Contract Management

3 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 2023, the requirements of the BSA have been met. The key activities undertaken during the year included:

- Administering the monthly JPAG meetings, which have maintained strong communication, governance and assurance of the Project
- Coordination of interfaces between the reservoir project and the Hampshire Water Transfer and Water Recycling (HWTWR) Project
- Agreeing key strategies, particularly with respect to tender evaluation, the cost adjustment mechanism and maintaining progress to the project programme
- Securing key SWS approval to BSA Reserved Matters, such as Tender Evaluation and Contract Award recommendations for

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the Main Reservoir and Main Pipeline works contracts

- SWS approvals for increasing the scope and budget for the Enabling Works contract for the reservoir
- SWS approval to award a 80 year lease for a 80 hectare rewilding environmental compensation project

4 Hampshire Water Transfer and Water Resources Project

In December 2021, SWS submitted details of its options appraisal for regional water resilience ("Water for Life Hampshire Programme") 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. If approved, this option would require changes to the operation of the reservoir by introducing the supply of highly treated recycled water to the reservoir and a direct pipe to transfer raw water from the reservoir to SWS treatment works at Otterbourne.

Figure 1. Illustration of Hampshire Water Transfer and Water Resources Project

During the year to 31 March 2023, PW has supported SWS to develop the project options in greater detail. These works have been reimbursed to PW by SWS through a Collaboration Agreement between the parties.

The key activities undertaken during the year include:

- Maintaining regular Strategic Resource Options (SRO) meetings between SWS and PW to promote close collaboration and establishing a number of working groups to progress specific workstreams.
- Identifying areas of physical interfaces between the two projects (Alignment Works) and starting the process of establishing the feasibility and impact of progressing those during the design and construction of the reservoir. While Alignment Works would result in an increase in costs and delay to ODI milestones for the reservoir, they were expected to deliver community, environmental and customer benefits, including significantly better value for money to customers.
- Working together to communicate and engage with stakeholders.
- Joint engagement with RAPID, working to establish the budget and strategy for development of the RAPID Gate 3 report with consideration to emerging guidance from RAPID on their expectations for this report.
- Joint engagement with Ofwat to consider the merits of, and regulatory framework for proceeding with alignment works.
- Working together to establish a commercial agreement between PW and SWS which could enable the alignment works to proceed.

5 Regulatory Alignment

A regulatory framework for the delivery of the Project was agreed with Ofwat at the Final Determination (PR19) which allowed 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' (CAM), 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.

Several factors had a significant impact on the project forecast spend. Brexit, the Covid-19 pandemic, and war in Ukraine all served to create high inflation. When combined with scope increase associated with the planning application process and development of the design, the forecast budgetary requirement for the project had increased from £123.6m to £310m (in 2017/18 prices). As a result, there was a need for significant due diligence to satisfy PW, SWS and Ofwat that the project remained value for money to customers.

During the year to 31 March 2023, key activities undertaken during the year including implementing an agreed methodology to enable the completion of the cost adjustment mechanism. This included:

- Providing updates to Ofwat throughout the year on the key areas in which project costs changed and working with Ofwat to agree a methodology for the CAM
- Implementing value engineering changes and changes to terms and conditions to the main design and build contracts. This included certain requirements for professional indemnity insurance and certain inflation indices to be treated as a 'pass through cost' to maintain best value for money to customers.
- Completion of joint procurement alignment workstream between PW and SWS. This involved significant third-party due diligence on aspects including contractor financial standing (by Agilia), technical capability and capacity (by Binnies), cost review (by Arcadis), review of the procurement process (by Baunton Consulting), market assessment by other clients (by Faithful and Gould). This review concluded that the contractors were financially and technically robust, that the procurement process was representative of industry best practice and that the tender outcomes represented good value for money.
- 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).
- Submission of a Cost Adjustment Mechanism application.
- Completion of a consultation period by Ofwat, concluding with a final determination of the regulatory allowance of £339m (in November 2021 prices) in January 2023.

Project Finance and Accounting

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

During the year to 31 March 2023, key activities undertaken during the year included:

- Finalising agreement with existing lenders to award the Main Works contracts.
- Undertaking a shadow credit rating review to ensure that PW could securing a BAA2 Moody's credit rating
- Raising additional finance for the Project during AMP7, including a combination of debt and equity, including securing £50m from the UKIB, its first investment in the water sector.

6 Planning and Consents

During FY22-23 a Section 278 agreement was secured with respect to works to the Northern Access road and modification to the B2149, a precondition to the commencement of development as set out in the reservoir planning conditions.

PW maintained the necessary European Protected Species licenses from Natural England that are required to undertake the tree clearance works.

Completion of tree clearance activity required access to the site and also site welfare facilities. To enable these works to continue:

- An interim Construction Traffic Management Plan was agreed with Hampshire County Council as the Highways Authority, to enable the development of a site welfare compound on Swanmore Road
- An access permit was agreed with Forestry England to allow the use of an existing forestry track for the purpose of tree felling works

The Environmental Mitigation and Compensation Strategy included works to bring Southleigh Forest into sustainable management. This management plan requires some works to create vehicular access tracks, and planning permission was granted for these works.

7 Procurement

During the year to 31 March 2023, PW has undertaken the following key procurement activities:

- Completed the evaluation of tender submissions for the Main Pipeline Contract and awarded the contract to Ward and Burke in August 2022 .
- Completed the evaluation of tender submissions for the Main Reservoir Contract and awarded the contract to Future Water in February 2023 .
- Undertaken a Value for Money review and market engagement of the MRW procurement strategy in collaboration with SWS (August 2022).
- Negotiated and awarded an enabling works contract so that a trial embankment could be constructed in summer 2022 and to allow for ground investigations to be done in 2022.
- Completion of the procurement process and awarded the contract for appointment of a Construction Engineer (required for compliance with the Reservoir Act 1975) to Binnies .
- Completion of the procurement process for appointment of a Design Guardian and awarded the contract to Atkins.
- Appointed three contractors to a framework agreement for future pipeline works.
- Developed a delivery strategy for the Farlington to Nelson pipeline contract, approved by JPAG and Steering Committee in December 2022 and commissioned a route proving exercise.

Main Pipeline Contract

The tender evaluations and economic and financial standing test assessments commenced in February 2022 were completed in April 2022. Considerable effort went into the finalisation of the contracts between April 2022 and August 2023, including the following main areas:

- Finalisation of the contract – reflecting the tenderers proposals within the contract;
- Updating the assessment of the financial standing of Ward and Burke, reflecting up to date financial information.
- Agreeing a bespoke mechanism to reflect a potential alternative pipeline route and savings sharing mechanism.
- Securing approvals from SWS and Ofwat ahead of the CAM.

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Main Reservoir Contract

The tender evaluations and economic and financial standing test assessments commenced in late February 2022 which continued until late 2022. The main activities included:

- Evaluation of initial tender submissions in April 2022
- Developing opportunities register and negotiating with the tenderer for savings (April – October 2022)
- Requesting and evaluation of two further commercial submissions (April – October 2022)
- Resolution of technical issues associated with the embankment drainage (April – October 2022)
- Finalisation of the contract – reflecting the tenderers proposals within the contract (April 2022 – Jan 2023)
- Updating the assessment of the financial standing of JT Mackley and Jones Bros, reflecting up to date financial information (July 2022)
- Securing independent assurance on the technical capability of the tenderer (August 2022)
- Undertaking a Value for Money review and market engagement of the MRW procurement strategy in collaboration with SWS (August 2022)
- Negotiation of a bond arrangement to provide third party security for the contractual commitments (January 2023)
- Securing independent assurance from Arcadis on an independent 'should cost model', considering changes arising from planning permission, inflation and other variations when compared with the PR19 Final Determination (April - October 2022)
- Securing approvals to award the contract from SWS and Ofwat.

8 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 FY23 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 and Strategic Advisory Group meetings (merged into a single group), independently chaired and attended by around 70 different statutory bodies and representatives of local interest groups.
- Consultation on a proposed alternative route for the MPW Bedhampton pipeline
- Maintaining six sub-groups to enable more detailed engagement with specific interest groups. Sub-groups included:
  i. Economy
  ii. Recreation
  iii. Access
  iv. Environment
  v. Pipeline
  vi. Skills and Education
- Presentations to local community groups, regulatory bodies and MPs, such as the Rowlands Castle Women's Institute, Forestry Commission, school visits and the Rt Hon Suella Braverman (Home Secretary and MP for Fareham).
- Continued community involvement through volunteer groups that helped to complete a sapling rescue project, and keep tree planting areas free of invasive species

Figure 2 Local volunteers helped to maintain our tree planting and sapling rescue sites

Portsmouth Water remains committed to the creation of a learning legacy and has delivered lectures on good practice and lessons learned to other water companies who are developing reservoir projects, such as Thames Water and Affinity, as well as delivering lectures to the British Dam Society and the Chartered Institute of Water and Environmental Management.

Figure 3 Thames Water visit to the project

- Advanced notice of planned enabling works and regular updates on progress, including letters, newsletters, Facebook, website, local newspaper and radio station coverage. The project also published short videos on YouTube and recorded a podcast with CCW .

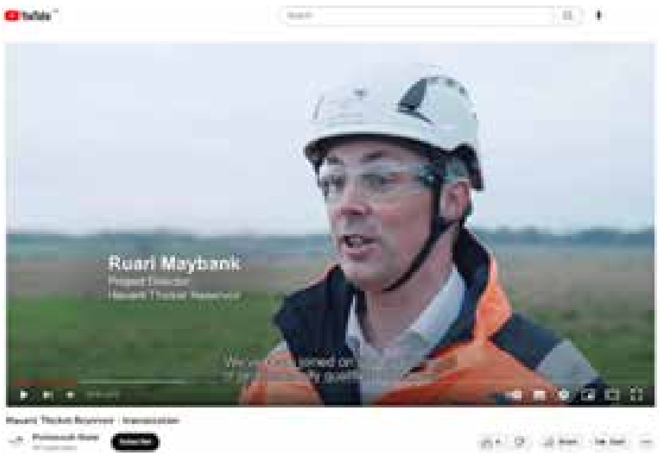

Figure 4 Portsmouth Water continued to publish multi-media updates on the project

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 FY2023, tripartite meetings have been held to collaborate on development of the site Recreation Plan for the construction phase, to coordinate environmental works and to prepare for development of the Site Management Plan. These are all important aspects to deliver the environmental commitments of the Project and enable design and implementation of long-term recreational facilities.

9 Design and construction

In the year ending 31 March 2023, enabling works contracts were required to keep the programme on track:

Construction of a Trial Embankment

In April 2022 an enabling works contract was awarded to Future Water to construct a trial embankment using clay from the site which would then be monitored over a 6-month period. The results of this work are used in the detailed design; it was therefore important that the work was undertaken in the 2022 earthworks season so that detailed design could take place in 2023/2024.

The trial embankment was completed in December 2022, delayed due to the unusually wet autumn.

Figure 5 Construction Works on 250mm sand drainage blanket for the Trial Embankment

Figure 6 Trian embankment completed on 3 December and subject to ongoing monitoring

Highways Re-alignment

As a condition of the planning application, PW needed to develop a new site access from the B2149.   This required PW to secure a Section 278 agreement with Hampshire County Council under the Highways Act and undertake works to realign the highway so that a new northern access route could be constructed.   The highway re-alignment works were undertaken by Future Water in late 2022 so that the construction of the northern access could start in early 2023. These works were on the critical path, so it was crucial that these were undertaken in 2022.

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Figure 7 Construction Works on the re-alignment of the B2149 highway

Figure 8 Works to the B2149 has improved safety ahead of creating a new junction for a northern access route to the site

Detailed Design and Schedule De-risking Activities

While the main reservoir tender evaluation continued, a small number of other schedule de-risking activities were carried out by Future Water, including developing the archaeology strategy with the County Archaeologist, undertaking additional Ground Investigations and developing Environmental Plans.

Figure 9 Initial archaeological investigations reveal stone age tools

Tree removal

PW commissioned TillHill to commence with the 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 2021. The majority of the tree clearance activities were carried out in Autumn 2022 (the window for tree clearance is constrained by bird nesting seasons and bat roosting seasons). The site is now clear of trees, ancient woodland soil has been translocated and the site is ready for embankment construction to commence.

Figure 10 Second phase of tree removal, which commenced in September 2022

Design Works

Now that the Main Works Contractors have been appointed, the detailed design works are in underway, including close alignment between Future Water, Ward and Burke and PW. Key activities during the year include:

- Mobilising Panel of Specialists and Construction Engineer who form key elements of the design assurance proposals for the project.
- Ensuring safe compliance of design proposals for the embankment drainage, culvert, tower and pedestrian bridge with the Construction Engineer requirements
- Developing embankment alignment proposals to minimise the impact on ancient woodland
- Progressing design of the alternative pipeline proposed by Ward and Burke in preparation for submission of a revised planning application which would reduce impact on residents and carbon impact, as well as reducing costs.
- A proposal has been secured from Atkins to undertake the detailed design of the Farlington to Nelson pipeline.

The detailed design for the embankment and Bedhampton pipeline is expected to be completed in early 2024.

10 Environmental mitigation and compensation

As an environmental led project, there has been activities to progress the mitigation and compensation strategy for the project. 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:

- Ongoing Maintenance of the existing ‘phase 1’ planting
- Ensuring compliance with the European Protected Species Licences (EPSL) for the 2022/23 tree clearance season, including an extension of activities commenced last year for the translocation of dormice and creation of new bat roosts, using a combination of bat boxes and natural roost features.
- Translocation of macrophytes from the reservoir site to receptor sites in Southleigh Forest
- Translocation of the ancient woodland soil to a new onsite location which forms part of the 13-ha woodland creation project on site, covering an area of approx. circa 2 ha.
- Development of a Detailed Environmental Mitigation and Compensation Strategy, (building on the outline strategy that was approved as a part of the planning application for the reservoir project)
- Development of commercial terms for an 80-hecatre rewilding project involving the Pigshed Trust which forms a key element of the project off-site environmental mitigation strategy. This approach has been commended by the Forestry Commission, Natural England and HCC Ecology.
- Development of plans for the Southleigh Forest mitigation works – preparations for works have commenced, including planning permissions have been secured for the access track.
- Delivery plans have progressed for the Article 4.7 (Aquatic Mitigation Works) and a proposal for detailed design has been submitted by Atkins.

Figure 11 Macrophyte translocation from the reservoir site

Figure 12. Over 200 trees were saved for translocation

11 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 the year to 31 March 2023.

The Steering Committee comprises the CEO, CFO and representatives of the Board together with the Project Team. The

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Steering Committee meets monthly as a formal sub-committee of the Board.

In addition, the Commercial Group comprising the CEO, CFO, Project Director, Board representatives and the Project Team provided a weekly informal oversight of the project.

Key activities included:

- Approvals to the strategy for the CAM and any changes of procurement strategy to reflect the needs of stakeholders (SWS and Ofwat)
- Approval granted to award the main works contracts
- Changes in commercial terms of the main contracts agreed in response to tender submissions and commercial negotiations
- Approval granted for award of the Enabling works contract for the main reservoir, Design guardian contract
- Scrutiny and approval of the CAM submission
- Oversight of the financing for the project.

Monitoring and reporting

Monthly project update reports have been issued to SWS and Ofwat 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 the year to 31 March 2023, 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.

12 Readiness for Design and Construction

Over the course of the year to 31 March 2023, PW has established an 'in house' project management team for the contract management phase for the project.

Key activities include:

- Recruitment and on-boarding of PW team of circa 15 FTE in early 2022, supplemented with specialist advice from Agilia, Atkins, Binnies, Phoenix, Mott MacDonald and Faithful and Gould. PW continues to recruit for roles as the project continues to evolve.
- Commissioned Gardiner and Theobald to undertake a readiness review of the project delivery resources in April / May 2022.
- A contract readiness workstream was established to implement the recommendations of the readiness review and to ensure that systems and processes for the contract management phase were documented and embedded in the project.
- Implementation of Portsmouth Water management information systems, including a Sharepoint site for project information and CEMAR for contract management of the Main Reservoir Works and Main Pipline Works contacts

13 Conclusion and Next Steps

The last year has been a year of transition from the development phase to the delivery phase of the project. In the year to 31 March 2023, the two main works contracts have been awarded and uplifts to budgets secured from Ofwat, supported by SWS. In FY2023/2024 the project will progress the detailed design, discharge planning permissions and secure the site access ready for the main construction works to start on site.

In addition, it is anticipated that agreement will be reached with SWS and Ofwat on whether or not to progress alignment works that will provide the flexibility and capacity to accommodate water from the SWS Hampshire Water Transfer and Water Recycling Project.

Our promise to all of our customers:

'WE AIM TO SUPPLY DRINKING WATER OF THE HIGHEST QUALITY, PROVIDING HIGH LEVELS OF CUSTOMER SERVICE AND EXCELLENT VALUE FOR MONEY.'

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