Portsmouth Water

Half-Year Report 2022

Unaudited interim results for the six month period ended 30 September 2022

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

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Chair's Statement

Christopher Deacon
Independent Chair

23 December 2022

As we mark the mid-point of the second year of AMP 7, I am pleased to present the operating and financial update for the first six months of the year.

While the impacts of COVID-19 on our business have lessened in the first half of this financial year there remain some more lasting impacts which, as we always seek to do, we have addressed in a collaborative and strategic manner to mitigate the impacts as much as possible. We have sought to minimise impacts on customers, our network and the environment.

The overall economic environment facing the business in the first half of the year has been challenging, with rising inflation and interest rates. We strive to meet our regulatory and financial targets on our day to day business whilst recognising the impact of the current cost of living position for all our customers

Good progress continues on the Havant Thicket reservoir project. Planning approval was awarded and the Section 106 documentation signed in October 2021. Further detailed updates on the reservoir project are provided later in this document.

We continue to work closely alongside the Drinking Water Inspectorate on our Regulatory Collaboration Project, referred to internally as Pure Excellence. This is a major and high priority project for Portsmouth Water and our investment of £3.6m which includes a newly created team of industry specialists demonstrates how seriously we consider our regulatory collaboration.

Additionally, work has already commenced on our PR24 business plan which will shape our business investment needs for the next price review starting 2024. This is a major piece of work requiring the involvement of staff right across the business. I believe we have the right framework in place to deliver an excellent and well researched plan which will put us in a good position for the future.

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CEO’s Statement
Customer Service

Bob Taylor
Chief Executive Officer

23 December 2022

C-MeX

C-MeX is the standard water industry measure of customer service and satisfaction, as measured by independently run customer surveys. With Ofwat’s recent publication of the annual C-MeX results, I can happily announce that for the year just gone the Company sat in third position in the sector and following the Q2 2022/23 results we currently sit in third position. Our focus is now on continuous improvement to attain top spot by the end of the year.

We have further developed our bill recovery processes to take advantage of data sharing with third parties, using this to identify customers who may be vulnerable or have affordability issues. This allows us to proactively offer support to these customers, something we believe to be paramount during today’s cost-of-living crisis. We are working with the Department for Work and Pensions to identify customers that may be eligible for our social tariff, which caps a customer’s bill at our lowest possible bill value.

Whilst we continue to have the lowest bills in the industry, we recognise that customers are facing some of the most challenging times in recent memory with high inflation levels and surging costs for goods and services. We continue to assist with payment holidays, flexible payment plans and cross industry collaboration and we relentlessly engage in pro-active dialogue with our customers to support them wherever we can.

Our future roadmap is focused on delivering new digital platforms for customers to interact with us, through their preferred communication channel and at a time convenient for them.

D-MeX

In Q1 2022/23, for the Developers Measure of Experience (D-MeX), Portsmouth Water was ranked 2nd out of 17 water and wastewater companies in England and Wales, with a score of 91.39%. D-MeX measures the quality of the services we provide to our developer customers, including large and small property developers, self-lay providers (SLP), new appointees and variations (NAV), and other customers requesting a new water connection. Our aim is to achieve upper quartile D-MeX performance throughout the AMP7 period (2020- 25).

MOSL Holistic Reporting

Holistic reporting is a means of monitoring and comparing wholesalers’ performance across a range of measures, to provide a view of trading party performance in the non-household retail market. Holistic reporting replaced the previous peer comparison reporting of Market and Operational Performance Standards. I am delighted to say at half year end we were ranked 1st in MOSL’s holistic reporting.

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

OPERATING RESULTS
I am pleased to present an overview of our business performance for the 6 months ended 30 September 2022.

CEO's Statement
Health, Safety and Wellbeing

Health and Safety continues to be our top priority and our focus on this area is maintained by openly sharing information on accidents and near misses inside and outside the company. We achieve this with an ongoing programme of company-wide campaigns and initiatives and through our extensive staff training and development. These activities have enabled the business to record a dramatic fall in the number of accidents over the last 10 years. We are in the process of putting in place best in class health and safety management arrangements for the Havant Thicket reservoir project.

Our wider approach also includes the area of wellbeing. We now focus on Health, Safety and Wellbeing and this is shown in our annual policy statement endorsed by the Board. Mental health and wellbeing is an area that is becoming more prominent in wider society and the workplace. We have a long history of supporting our employees in many areas of mental health. Wellbeing is now be considered on an equal footing to conventional Health and Safety throughout the business.

CEO's Statement

Investing In Our People

A highly skilled and motivated workforce delivering for our customers.

We work hard to ensure that our staff continually demonstrate behaviours which align with our core values - Excellence, Integrity, and Future Focus. We believe this work is key to successfully achieving our vision of "Excellence In Water, Always." We continue to invest heavily in our people and have utilised just under £500K from the Apprenticeship Levy - this has been allocated mainly to our front-line operations staff. This helps ensure that we have highly trained staff delivering the best service to our customers.

CEO's Statement
PR19 Business Plan - Outcome Delivery Incentives

The PR19 Final Determination confirmed 26 ODIs, including 1 for Havant Thicket. Ofwat proposed 10 Common ODIs, which apply equally to all companies. We proposed, and Ofwat confirmed, 15 Bespoke ODIs and Ofwat proposed 1 ODI for Havant Thicket. Of the 26 ODIs - 18 are financial and 8 are reputational (non-financial). Financial ODIs may be penalty only or reward and penalty. All ODIs are listed by type.

	Rewards & Penalties	Penalty Only	Reputational
Common ODIs	Interruptions, Leakage, PCC, C-MeX, D-MeX	Compliance Risk Index, mains repairs, unplanned outage	Severe drought, PSR
Bespoke ODIs	Catchment management, AIM, Grant scheme, Voids	Water quality contacts, Biodiversity, Low Pressure, Affordability, WINEP (timing), Havant Thicket	Resilience, TUBs, Carbon, Vulnerability, RoSPA, WINEP (delivery)

CEO's Statement
PR19 Business Plan - Outcome Delivery Incentives

The ODI package is significantly greater than the PR14 determination, with common ODIs being applied to all companies. The financial impacts / adjustments are all within the period for AMP7 (ie annually). In AMP6, for Portsmouth Water all adjustments were applied at the end of the 5 year period.

The following table provides a progress update against each ODI. The data is for the half year ending 30 September 2022. We use a traffic light system to indicate performance and issues.

We are pleased to report that based on overall performance we are forecasting a net ODI reward in respect to year end. We continue to perform well in areas such as Customer Service (C-MeX and D-MeX), and Interruptions, but are disappointed to report that we are likely to fail our stretching targets in relation to three ODIs. The ODI are as follows: Water Quality Contacts, Voids, and Per Capita Consumption; and we have action plans are in place to improve in these areas.

ODIs	Update
1. Compliance Risk Index (measured from 1 January 2022)	We have had 5 compliance failures, with a max estimated CRI impact of 0.832 for the first 9 months of the year. This leaves us limited headroom for the remaining quarter. We are awaiting DWI confirmation of scores for some compliance failures. A further water quality failure at a zonal level (that effects a whole water sampling zone) may result in exceeding the target of 2 leading to an ODI penalty. The sensitivity of the measure and our known aluminium issues mean this is an ongoing risk until our Pure Excellence transformation programme delivers a comprehensive network flushing programme.
2. Interruptions to Supply	Excellent performance has been maintained despite challenges from hot weather. Interruptions continue to be significantly better than expectation, because of good management of both planned and unplanned events. Our forecast position for end of year is 2 mins 39 secs, outperforming our target of 5 mins 45 secs. We are forecasting a reward for 2022/23.
3. Leakage	The Company has seen a rise in leakage levels as a result of extremely dry ground conditions caused by the drought in our area. Despite the additional challenges, we are still forecasting to achieve our leakage target of 25.75 Ml/d for 2022/23. This equates to a 9.2% reduction compared to 2019/20 and a 20.5% reduction compared to 2017/18. We are forecasting a small ODI reward for 2022/23.
4. Mains Repairs	We have continued our industry leading performance in mains repair, despite difficult ground conditions, due to our improvements to pressure control and mains renewal. Our forecast position for end of year is 70.9 repairs per 1,000km of mains, outperforming our target of 71.2. Therefore, we are forecasting not to have an underperformance penalty for 2022/23.
5. Unplanned Outage	The unplanned outage assessment is completed at the end of the financial year. We anticipate at this stage that end of year performance will continue to outperform our target of 2.34%. Therefore, we are forecasting not to have an underperformance penalty for 2022/23.
6. Priority Services Register	In 2020/21, we significantly increased the number of customers we have on our PSR by writing to more than 32,000 customers over the age of 70 who were on the government shield list for COVID-19. As a result, we have already achieved our end of AMP7 target of 9% and are currently at 10.6%.
7. Water Quality Contacts (measured from 1 January 2022)	We have continued to experience a small rise in the number of water quality contacts, albeit still the lowest numbers in the industry. This is due to increased demand from the hot weather, which in turn results in increased calls related to air. We are currently forecasting to marginally fail our target of 0.43 contacts per 1,000 customers and are expecting a small penalty in 2022/23. We are working hard to reduce contacts through further network improvements and have an action plan in place.
8. Household Voids	We have reduced voids to our lowest ever level during the first half of the year and expect further improvement in Q3 and Q4. However, despite this, it is likely that we will underperform against our stretching target of 2.0% of households this year and will incur small penalty.
9. Affordability	We now have over 10,000 customers on our social tariff relative to our target of 9,000 for 2022/23. We have now achieved our end of AMP7 target of 10,000 customers but we are seeking to expand the scheme to provide additional help to those struggling to pay. We are currently conducting research to understand customer views for enhanced support.
10. C-MeX	The results for C-MeX for the first two quarters have been published. We are third overall and leading on Customer Satisfaction (customer views of service provided). We score lower on Customer Experience, with confusion over our involvement in sewerage (we do not provide sewerage services) and national concerns around environmental pollution, but this score is improving as we increase awareness.
11. D-MeX	The results for D-MeX for the first quarter have been published. We are second. We continue to perform well in this metric, especially on developer satisfaction.

CEO's Statement
PR19 Business Plan - Outcome Delivery Incentives

ODIs	Update
12. Per Capita Consumption	Permanent changes in water usage habits since the COVID-19 pandemic (such as increased working from home), combined with the hot, dry summer of 2022, have resulted in high PCC. Our forecast end of year position is 164 litres per person per day, compared to a target of 138. Increased demand during, and after, the COVID-19 pandemic is an issue Ofwat have recognised and have changed the assessment of this metric. The ODI reward/penalty will now assessed at the end of the AMP, rather than in year. We are working hard to reduce PCC by acceleration of our AMP7 metering programme and have a new water efficiency programme in place. We are planning universal SMART metering beyond 2025.
13. Catchment Management	We have actively engaged with a number of farmers in the last quarter as part of our WINEP catchment schemes to secure their involvement and commitment. In addition, we recognize that the optimum time for soil sampling and analysis is late winter/early spring for nutrient management planning. Now we have entered this period we are actively contacting farmers to recruit them for the ODI action plan now and are confident in securing the target 10 farms by the end of Q3 for delivery in Q4. Therefore, we are forecasting an underperformance penalty for 2022/23.
14. Grant Scheme	Applications for the 2022/23 scheme have closed as we are oversubscribed for this year. The scheme will open again for bids on 1st April 2023. This is a successful outcome and shows the effectiveness of our engagement with the farming and land management communities. Therefore, we are not forecasting an underperformance penalty for 2022/23.
15. Biodiversity	After putting in place mitigation measures to deliver improvements in 2021/22, we continue to perform well against this metric. We are expected to outperform our 90% target and therefore are not expecting an underperformance penalty in 2022/23.
16. AIM	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. Therefore, we are not forecasting an underperformance payment for 2022/23.
17. Low Pressure	We have a performance commitment to reduce the registered number of properties at risk of low pressure to 40 by the end of March 2023. Work is underway to increase pressure where required during the current year and we expect to achieve this target. Therefore, we are not forecasting an underperformance penalty for 2022/23.
18. Carbon	We achieved a 29% reduction in this measure in 2021/22, 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 solar power generated on site. We are expecting similar great performance in 2022/23.
19. Havant Thicket	We continue to maintain progress on Havant Thicket despite serious market related challenges, with the project remaining on schedule. Our ODI does not apply until 2026.
20. Avoidance of Restrictions	This summer, 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 delivered an enhanced communications campaign to our customers, asking them to show restraint in the water they used, but it was not necessary for us to impose usage restrictions. Following the heavy rainfall this autumn we have started to see a small recovery in groundwater levels. Our modelling would indicate that we need to receive more than 80% long term average levels of rainfall to be fully replenish groundwater levels.
21. Severe Drought Index	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 planned to undertake are in progress, such as refurbishment of several boreholes and our metering programme. The completion of these actions is crucial to meeting this ODI. We are also continuing with our enhanced water efficiency programme to reduce demand.
22. WINEP Delivery	We have 18 schemes in our agreed WINEP programme for AMP7, with 7 due by March 2023. 6 schemes are already completed, with the remaining scheme expected to be finished on schedule.
23. WINEP Timing	As above, progress on all schemes is positive, including those being undertaken jointly with Southern Water and South East Water. Therefore, we are not forecasting an underperformance penalty for 2022/23.
24. Resilience Schemes	These are the three resilience capital schemes which were explicitly identified in our Business Plan and the Final Determination. They are not scheduled for 2022/23 but are later in AMP7.
25. RoSPA Recognition	The application for the 2022 RoSPA accreditation will be submitted in February 2023. There are no indications that our current approach to Health, Safety and Wellbeing and our plans for the rest of the year will prevent us from achieving the "order of distinction" next year.
26. Vulnerability Survey	We will undertake this survey with agencies who support customers at the end of the regulatory year i.e., Jan – March 2023.

CEO's Statement
Biodiversity Management

We have been planning and implementing our autumn and winter programme of site enhancements including Priority Habitat Management during the latter half of this year. This has been challenging due to a backlog of work and increased vegetation growth on all sites.

We successfully launched the third year of our Biodiversity Grant Scheme as part of our environmental commitments to enhance the habitat network within Portsmouth Water's catchment area. So far this year we have received 6 applications totaling just under £50,000.

The range of activities include:

- South Downs National Park - Dew Pond restoration;
- South Downs National Park - River Lavant Condition assessment survey;
- ARRT - River Ems Condition assessment survey;
- ARRT - water quality monitoring equipment;
- Portsmouth CC - Cut & collect mower for grassland management;
- Wickham Parish Council - restoration of water meadows.

CEO’s Statement
Catchment Management

We are currently in the third year of our AMP7 WINEP Catchment Management programme. This includes the Payment for Ecosystem Service (PES) package of funding to support farmers to reduce pollution across our priority catchments in areas that are at risk of failing due to levels of nitrates. The results have included putting up to 1500 hectares of arable land into schemes to help reduce nitrate leaching, including funding provided to farmers for enhanced soil testing that has enabled better nutrient management plans.

We organised several farmer workshops in the summer to promote our field trials which look at reducing nitrate leaching into groundwater. We have also completed our second year of our carbon accounting toolkit that sets out practical ways to reduce nitrate leaching whilst not affecting overall yields and farm income.

We have also organised our yearly Equine workshop with Natural England which focuses on “healthy soils, healthy horse;” over 50 members of the equine community attended this previously. This was a better than expected turnout and provided a forum to discuss several key issues such as launching field trials to cultivate herbal lays which require less fertilizers; and pollution prevention techniques to reduce impacts upon the environment.

CEO’s Statement
Leakage

The Company has seen a rise in leakage levels as a result of extremely dry ground conditions caused by the drought in our area. Despite the additional challenges, we are still forecasting to achieving our leakage target of 25.75 Ml/d for 2022/23. This equates to a 9.2% reduction compared to 2019/20 and a 20.5% reduction compared to 2017/18.

To reduce leakage, a Leakage Recovery Plan is currently in place focusing on four main areas; Data, Detection, Repair and Pressure. We are actively looking to build upon our already excellent performance in leak run times by ensuring that our data is “smart” and dependable. This will allow our detection team to locate leaks quicker, resulting in a quicker response from our repair teams. We are also proactively calming the network through pressure optimisation schemes, which prevents leaks from occurring.

We continue to utilise innovative leak detection techniques and participate in many industry-wide projects that aim to detect and locate difficult to detect leaks quicker and more efficiently. Leaks on plastic pipelines continue to prove more difficult to locate, so we are building a “Digital Twin” of our network, which will allow us to use transient pressure analysis to locate more leaks and anomalies through data. This will also allow us to react quicker to bursts, limiting customer impact. We think this project will be the first of its kind in the sector and have far reaching impacts on how we deliver further leakage reduction in the future.

We understand the critical role that lowering leakage has on abstraction, encouraging water efficiency and increasing resilience. Leakage is and will continue to be of great importance to our customers and stakeholders, and we aim to continue our industry leading performance.

CEO's Statement
Pure Excellence

Portsmouth Water is blessed with exceptionally good raw water quality and relatively simple and robust treatment processes, enabling us to have conducted the same work tasks and processes in the same way for many years. However, the industry, led by the DWI, has moved on significantly, requiring a detailed risk-based approach to maintaining water quality. DWI audits have identified a need to make improvements in this area and they have issued a Management and Training Legal Notice. The "Water Quality 2020 & Beyond" programme was already established to deliver improvements in this area, but in recognising the importance, we have enhanced our response by creating a company-wide change programme called "Pure Excellence".

The Pure Excellence programme responds to the areas of improvement required by the Management and Training Notice including:

- a review of all water supply policies and procedures, document reviews and changes;
- evaluation of roles and responsibilities and competence assessment procedures;
- a review of company training procedures, training records and training programmes to ensure they are up to date; and
- a structured review of the Company's operating standards and implementation of improvements.

The programme focusses on delivering cultural change throughout the business to ensure that future processes are in line with DWI expectations.

The quality of the water we deliver to our customers is measured by the Drinking Water Inspectorate, using the Compliance Risk Index (CRI) score. We have had 5 compliance failures, with a max estimated CRI impact is 0.832 for the first 9 months of the year. This leaves us limited headroom for the remaining quarter. We are awaiting DWI confirmation for some compliance failures. A further water quality failure at a zonal level (that effects a whole water sampling zone) may result in exceeding a score of 2 and resulting in a ODI penalty. The sensitivity of this measure and known aluminium issues mean this is an ongoing risk until Pure Excellence programme completes the planned network flushing programme to remove aluminium residual.

CEO's Statement
Capital Investment

Capex Forecast Headlines
At the end of September, the total spend was £5.6m. The programme still represents a significant challenge due to the multiple unprecedented impacts as a result of the Pandemic. However, the second half of the year has started strongly due to an increase in headcount and at the end of October total spend is £7.3m. The Capex target for the year has been revised upwards to £16.7k (not including contributions, charges and allowances or Havant Thicket Reservoir).

Non-Infrastructure
The major programmes of work are being delivered by Trant under the framework contract and by Stonbury under the new reservoir maintenance contract. Both have delivered their targeted spend in the first six months. Progress has been made on several 'high value' bespoke projects that remain in the planning/enabling phase including the new Lavant WTW and the Racton Booster Station. It is anticipated that these will not progress to construction until Year 4. The 'Pure Excellence' and PR24 projects have accelerated over the first six months of the year along with Worlds End Boreholes and The River Itchen works, both of which are 'on site'.

Infrastructure (delivered via Cappagh)

Mains renewals
The mains renewal spend target for the year remains at £3,200k of which 30% is anticipated to be Capex. At the end of September 6.8km of mains were renewed at a cost of £1,697k. The infrastructure contract has consistently met spend targets. However, outturn will be lower than in previous years as there is a 20% efficiency reduction in the mains renewals budget achieved by reducing the cost per metre by use of trenchless technologies.

Mains growth (new mains on development sites)
Post pandemic, developer demand has slumped and in the first six months of the year only 1.5km of new mains were installed set against a six-month average of 5km (pre pandemic). Mains requisition requests have not decreased by a commensurate amount and although overall demand in the sector has reduced, it is evident that developers are progressing more of their schemes via 'self-lay' organisations and NAV arrangements.

Mains Diversions
As with 'mains growth,' developer demand has been slow and only one small project was completed in the first six months at a cost of £65k. We are however, seeing demand increasing and designs are in progress for the delivery of several major projects next year at an estimated cost of £1,200k, including works at the A27 Arundel Bypass and the M27 Junction 10.

Network Reinforcements
One project is underway at West Walberton Lane, Yapton. Expenditure on this project was £121k in the first six months and the project is estimated to out turn at circa £325k by the end of the year. A modelling exercise is currently being completed by consultants HydroCo for the Littleheath and Pagham areas and schemes will be developed for delivery in Years 4 and 5 at an anticipated cost of circa £2,500k.

CEO's Statement
Havant Thicket Winter Storage Reservoir

The Havant Thicket project is at a critical stage following a successful planning application last year. The programme has awarded the main works procurement package to construct the pipeline from the springs at Bedhampton to the reservoir at Havant Thicket. The successful contractors Ward & Burke are working with the programme team to evaluate an alternative route to the scheme which would reduce costs and the carbon impact of the scheme through greater use of micro tunnelling.

Good progress has been made on enabling works to prepare the site of the reservoir for main construction. The access road junction from the B2149 is expected to be completed in Autumn 2022 and archaeological studies and tree clearance work is underway on site. Construction of the trial embankment was delayed but good progress has been made in the latter part of the summer and work continues into the Autumn despite the challenges of a wet October. The project was expected to benefit from the high quality of the London Clay on site and are early indications from construction support are that this will be the case.

The scheme is an environmentally led project. Great care is being taken to ensure materials from the site are used sustainably. Timber from the tree clearance is being retained for construction of the visitor's centre, foliage will be recycled to support biodiversity activity and larger tree specimens have been reserved for use in restoring HMS Victory.

Expenditure for the year was £11.3m up to 30 September 2022 and total expenditure on the scheme is £31.3m. Expenditure on the scheme is expected to increase in HY2 as the construction phase of the contract gets fully underway.

The PR19 final determination from Ofwat included provision for a cost adjustment mechanism to review the cost allowances for the scheme aligned with the planning and procurement gateways, recognising that the scheme was at an early stage of maturity at PR19. We expect the scheme cost to be higher than the early estimates included in the PR19 plan, and we are now in negotiations with Ofwat and Southern Water to agree the funding for the scheme.

CEO’s Statement
Development of Non-Regulated Business

1.6MW of solar generation capacity has been installed behind the meter at six locations across the PW estate and will provide around 10% of PW’s energy requirements. Planning permission for a further 4.5MW remains outstanding with a number of different Local Authorities which, when constructed, will deliver power to 4 more sites. We hope to make use of large-scale battery storage to increase usage and site resilience.

The project to use ground sourced potable water to supply heat to homes via an ambient loop network, has applied for funding from the Green Heat Network, with the outcome expected soon. The designs and infrastructure to extract the heat continue and work to ensure compliance continues.

More established commercial ventures such as Property Searches and HomeServe have both continued to grow this year and are further supported by the launch of PW’s meter reading service for retailers. So far 80% of NHH meters within the PW area of supply are being read by PW with the remainder expected to come on board next year.

CEO's Statement
Economy

There are a number of challenges emerging in the wider economy that pose some risk to the Company, as outlined below.

The cost-of-living crisis puts pressure on the Company's ability to collect cash from customers. Management remains confident that the enhanced bad debt provision at year end (which took account of projected macro-economic factors) provides suitable coverage. In addition to this, the size of the average Portsmouth Water bill remains relatively affordable and the lowest in the sector.

The Company enjoys a natural hedge against inflationary pressures in the market, such that cost pressures emerging from increased inflation are offset against an increase in the allowed revenues that can be charged to customers as per the regulatory regime.

The rising cost of energy presents some risk to the Company as a relatively energy intensive business, which is not naturally mitigated through the regulatory regime. However, the Company has a forward purchasing contract. This secures the price paid for energy at a rate substantially below the current and projected market rate until 31 March 2023, protecting the Company from the significant price pressures over the winter period. Management is monitoring this closely, seeking mitigations to future energy prices before 1 April 2023.

Actual and projected interest rate rises over the coming 12 months present a risk to the Company where debt is linked to underlying base rates (SONIA). This puts pressures on the Company's financing metrics. Management continues to monitor this closely and active treasury management in Portsmouth Water Limited ensures that the interest burden in the Group remains as low as possible.

Financial Results

Chris Milner
Chief Financial Officer

23 December 2022

	6 months to 30 September 2022 £m	6 months to 30 September 2021 £m
Turnover	**22.7**	21.8
Operating costs (excluding depreciation)	**(14.9)**	(15.7)
Depreciation and amortisation	**(3.1)**	(3.0)
Profit before exceptional items and profit on disposal of fixed assets	**4.7**	3.1
Exceptional item	**-**	-
Gain on disposal of Fixed Asset	**0.1**	(0.1)
Operating profit	**4.8**	3.0

The results for the period have been prepared in compliance with UK Accounting Standards and reflect the provisions of Financial Reporting Standard 102 (FRS102) and on a Going Concern basis. A summary of the financial performance for the 6 months to 30 September 2022 is set out above.

Revenue
Revenue has increased by £0.9m in the current year compared to the comparative period of the previous year (£22.7m against £21.8m in September 2021). £0.7m of this increase is due to our Non-Household market, where consumption has increased significantly from the comparative period last year when COVID-19 was severely restricting Non-Household business operations. Water sales to Southern increased by £0.4m due to the record summer temperatures. Domestic customer revenue has risen by £0.8m in the current year. However, this was offset by a comparable decline in Rechargeable Works income.

Operating costs
Operating costs of £14.9m have decreased £0.8m since last year. This has been mainly driven by decreased Chargeable Works £1.3m activity in the year following a relaxation of COVID-19 restrictions. Chemicals and salaries are up costs are up £0.2m each. Bad debt provision has risen by £0.1m

There was as a fixed asset gain on disposal of £0.1m in addition to the operational savings.

The energy price hike will not effect the second half of the year due a hedge fixing prices until the end of March 2023.

Operating Profit
Operating profit at £4.8m represents a £1.8m improvement from the comparative period in the prior year.

Capital Investments
Cash capital investment in the half year period was £15.7m (prior period - £8.6m).

Cash and Cash Flow
Operating cash flow in the half year of £4.5m inflow is lower than that in the prior year (£5.8m inflow). This is largely due to an £8.8m cash outflow in April 2020 in relation to the final tranche of share payments.

During the period a further £6.5m of the revolving credit facility was utilised. The half year end balance was £8.5m. This debt facility is currently being renegotiated in line with the SONIA interest rate transition.

No dividend has been paid within the first six month period.

Capital Cash Contributions
The Company receives capital contributions primarily in connection with new mains for housing developments. In accordance with the requirement of FRS102 these contributions are deferred and amortised to the Income Statement. Amounts received year to date were £0.4m (prior year to date £0.4m) with £0.4m released in the period to turnover (prior year to date £0.4m).

Interest and other finance income
Interest payable between the two periods has been negatively impacted by the level of RPI movement. Other finance income remains constant for the two periods at £0.1m.

Financing
On the 29 May 2020 the Company extended the revolving credit facility by £5.0m to a total of £25.0m. In total the Company has a £25.0m working capital facility and a £0.5m overdraft facility. As at 30 September, the utilised working capital facility was £23.0m (30 September 2021 - £8.5m utilised).

Financial Results

Financing structure
Since 2002 the Company has largely been financed through a 30 year (to 2032) index linked loan with a base value of £66.5m. This was drawn in 2002, with inflation risks on the cost of the loan being effectively hedged against regulated revenues which are also currently linked to the Retail Prices Index (RPI). Interest is charged at a fixed rate of 3.635% on the indexed amount of the loan. The indexed carrying value of the loan at 30 September 2022 was £123.7m (30 September 2021 - £119.9m).

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

Fees associated with the loan amount to £1.305m and are amortised over the duration of the facility. On 2 March 2021 Portsmouth Water Limited entered into an intercompany loan agreement with Portsmouth Water Holdings Limited permitting borrowing to a total facility value of £50m, initially drawing down £24,6m. Interest accrues daily at 3% p.a. on the total amount drawn, payable six monthly in arrears. This loan has a five year term, maturing in 31 March 2025.

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

During 2019, the Company's shareholders incorporated Southern Region Water Holding Limited in Hong Kong on the 13 September 2019 and transferred 100% of the investment held in Ancala Fornia Holdco Limited to Southern Region Water Holding Limited. Accordingly, Southern Region Water Holding Limited is the ultimate parent undertaking at the year end date. There was no change in the composition of the ultimate investors as a result of this. Further information on the group structure can be found in the Portsmouth Water Annual Report & Accounts 2021.

Covenant Compliance
We confirm that;

- There are no potential trigger events, trigger events, potential acceleration events or acceleration events outstanding under the Borrower Finance Documents as at the date of this report.
- The Debt Service Payment Account and Operating Account are funded to the required levels.
- There has been no event, which would reasonably be expected to give rise to an insurance claim in excess of 5% of the Regulated Asset Value.
- There has not been any other event, which has or would be reasonably likely to have a Material Adverse Effect.

Ratios
The ratios set out below and those included later in this document are calculated at the Portsmouth Water (operating Company) level.

Gearing
Net debt to regulatory capital value is a key covenant by the Company's index linked loan documents. Gearing at 75.9% (30 September 2021 - 71.5%) has remained broadly consistent from the prior year. Gearing remained comfortably within the 86% ceiling imposed by the bond covenants.

Artesian Interest Cover
The interest cover ratio of 1.73 times (September 2021 – 1.77 times) remain well above the 1.5 times covenant required.

Pensions
The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest valuation as at 31 March 2022 based on FRS102 assumptions and market movements was calculated and estimates a net pension asset (after deferred tax) of £10.996m (March 2021 value after deferred tax £17.609m). A full FRS102 actuarial valuation will be undertaken at the year-end in line with UK GAAP requirements.

Credit Rating
As at the period end the Company had a credit rating with Moody's which remained at Baa1 on negative watch.

Outlook
As we move into the second year of the regulatory review period we will continue our operational focus on delivering exceptional customer service and providing high quality water. We will work to implement our action plans in relation to meeting the 26 stretching regulatory ODIs and to deal with any ongoing impact from the COVID-19 pandemic. This will include catching up on elements of the capital programme that were delayed and developing relevant business responses as the "new norm" Post COVID-19 continues to emerge. Significant programmes of work in the forthcoming year will include the ongoing development of the Havant Thicket programme together with a number of actions relating to notices issued by the Drinking Water Inspectorate. We will continue to see a focus on cost reduction and efficiency savings to offset both the impact of a tough PR19 regulatory settlement and wider emerging cost pressures.

Liquidity
We have considered liquidity as most essential, in the first instance, as we must have sufficient cash resources to be able to continue to reliably deliver our core service. We successfully raised additional financing in March 2021 and we believe we have sufficient liquidity to meet our needs but we will continue to monitor the outlook on a continuous basis and review any emerging risk associated with COVID-19.

Key financial ratios
Managing liquidity alone is insufficient to address the down-side pressures. The impacts on revenue/bad debt and operating costs have a downward pressure on profit. Accordingly, mitigating actions, such as reduction in expenditure and increasing headroom on our RCF are being used effectively to manage the impact on key financial ratios.

Income Statement

	Unaudited 6 months ended 30 September 2022 £000	Unaudited 6 months ended 30 September 2021 £000	Audited 12 months ended 31 March 2022 £000
Turnover	**22,673**	21,763	42,670
Cost of sales	**(13,655)**	(13,029)	(25,864)
Gross profit	**9,017**	8,734	16,806
Net operating expenses	**(4,461)**	(5,600)	(8,316)
Operating profit before loss on disposal of fixed assets and exceptional items	**4,556**	3,134	8,490
(Loss)/gain on sale of fixed assets	**118**	(41)	(62)
Exceptional item - Financing restructure fees	**-**	-	(4,519)
Operating profit after loss on disposal of fixed assets and exceptional items and before interest	**4,674**	3,093	3,909
Investment income	**678**	303	686
Other finance income	**100**	100	448
	5,452	3,496	5,043
Interest payable and similar charges	**(10,219)**	(5,048)	(10,073)
(Loss)/profit on ordinary activities before taxation	**(4,767)**	(1,552)	(5,030)
Taxation of profit/(loss) on ordinary activities	**-**	-	(1,186)
(Loss)/profit for the financial period	**(4,767)**	(1,552)	(6,216)

Statement of Other Comprehensive Income

As at 30 September 2022

	Unaudited as at 30 September 2022 £000	Unaudited as at 30 September 2021 £000	Audited as at 31 March 2022 £000
(Loss)/profit for the financial period	**(4,767)**	(1,552)	(6,216)
Remeasurement of net defined benefit asset	**-**	-	(7,174)
Movement in deferred tax relating to pension asset	**-**	-	489
Total comprehensive income for the period	**(4,767)**	(1,552)	(12,901)

Summarised Statement of Financial Position

	Unaudited as at 30 September 2022 £000	Unaudited as at 30 September 2021 £000	Audited as at 31 March 2022 £000
Non current assets	**242,081**	223,325	229,778
Current assets	**35,941**	38,648	37,567
Creditors: Amounts falling due within one year	**(36,216)**	(27,152)	(37,323)
Net current assets/ (liability)	**(275)**	11,496	244
Total assets less current liabilities	**241,806**	234,821	230,022
Creditors: Amounts falling due after more than one year	**(202,840)**	(179,147)	(182,892)
Provisions for liabilities	**(9,834)**	(8,527)	(9,834)
Net assets excluding pension asset	**29,132**	47,147	37,296
Pension asset	**10,996**	17,609	10,996
Net assets including pension asset	**40,128**	64,756	48,292
Capital and reserves			
Called up share capital	**1,078**	1,078	1,078
Reserves	**38,750**	63,678	47,214
Shareholders' funds	**40,128**	64,756	48,292

Summarised Statement of Changes in Equity

As at 30 September 2022

	Unaudited 6 months ended 30 September 2022 £000	Unaudited 6 months ended 30 September 2021 £000	Audited 12 months ended 31 March 2022 £000
Called up share capital	**1,078**	1,078	1,078
Share premium account	**9,382**	9,382	9,382
Capital redemption reserve	**3,250**	3,250	3,250
Retained earnings brought forwards	**34,582**	52,598	52,598
Opening balance	**48,292**	66,308	66,308
(Loss)/profit for the period	**(4,767)**	(1,552)	(6,216)
Remeasurement of defined benefit asset	**-**	-	(7,174)
Movement of deferred tax relating to pension scheme	**-**	-	489
Total comprehensive (loss) for the period	**(4,767)**	(1,552)	(12,901)
Dividends	**(3,397)**	-	(5,115)
Closing balance	**40,128**	64,756	48,292

Summarised Statement of Cash Flows

	Unaudited 6 months ended 30 September 2022 £000	Unaudited 6 months ended 30 September 2021 £000	Audited 12 months ended 31 March 2022 £000
Cash generated/(used) from operations	**4,502**	5,792	10,654
Investing activities			
Sale of tangible fixed assets	**443**	1	3
Purchase of tangible fixed assets net of contributions	**(15,013)**	(8,313)	(16,661)
Purchase of intangible fixed assets	**(729)**	(270)	(981)
Infrastructure charges received	**400**	410	865
Interest received	**-**	-	240
Net cash used in investing activities	**(14,899)**	(8,172)	(16,534)
Cash flows from financing activities			
Net drawdown/(repayment) working capital facility	**500**	6,500	(10,500)
Receipts from borrowing	**12,000**	-	23,500
Net inter-company loan	**-**	-	-
Dividend payments	**(3,397)**	-	(5,115)
Interest paid	**(2,889)**	(2,261)	(4,688)
Net cash generated/(used in) financing activities	**6,214**	4,239	3,197
Net increase/(decrease) in cash and cash equivalents	**(4,183)**	1,859	(2,683)
Cash at beginning of year	**25,694**	28,377	28,377
Cash and equivalents at end of year	**21,511**	30,236	25,694
Comprising			
Debt service account	**2,209**	2,124	2,209
Other cash accounts	**19,302**	28,112	23,485
Cash and equivalents at end of year	**21,511**	30,236	25,694

Appendix 1 KPI Calculations

a) Gearing - Net Debt: RCV

	Unaudited as at September 2022 £000	Unaudited as at September 2021 £000	Audited as at March 2022 £000
(i) Debt			
Bank loan	**123,776**	113,776	116,556
Intra-group subordinated creditor	**36,623**	24,623	24,623
Bank facility	**23,000**	7,500	22,500
Revolving credit facility	**-**	8,500	-
Debenture stock	**283**	284	283
Cash at bank and in hand	**(21,511)**	(30,236)	(25,694)
Net debt	**162,171**	124,447	138,268
(ii) Regulatory capital value indexed to 31 March	**213,736**	174,156	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**75.9%**	71.5%	73.0%

b) Gearing - Net Debt: RCV - As defined for banking covenant purposes.

	Unaudited as at September 2022 £000	Unaudited as at September 2021 £000	Audited as at March 2022 £000
(i) Debt			
Bank loan	**123,736**	113,776	116,556
Bank facility	**23,000**	7,500	22,500
Revolving credit facility	**-**	8,500	-
Debenture stock	**283**	284	283
Cash at bank and in hand	**(21,511)**	(30,236)	(25,694)
Net debt	**125,548**	99,824	113,645
(ii) Regulatory capital value	**213,736**	174,156	189,444
(iii) Gearing - Debt: RCV ratio (i) ÷ (ii)	**58.7%**	57.3%	60.0%

c) Cash interest cover	**Unaudited as at September 2022 £000**	Unaudited as at September 2021 £000	Audited as at March 2022 £000
Operating profit	**4,556**	3,134	8,490
Less exceptional COVID-19 bad debt provision (below operating profit)	**-**	-	-
Gain/(loss) on disposal of fixed assets (below operating profit)	**118**	(41)	(62)
Notional pension costs	**-**	-	352
Depreciation and amortisation charges	**3,115**	3,026	5,991
Taxation	**(23)**	-	-
Capital expenditure (net of contributions)	**(14,899)**	(8,172)	(16,774)
Amortisation of deferred capital contributions	**(363)**	(369)	(672)
Amortised meter reading	**-**	(77)	(156)
Loan draw-down	**28,000**	8,500	15,000
Repayment of loan draw-down	**(27,500)**	(2,000)	(2,000)
Receipt of intercompany loan	**12,000**	-	-
	5,004	4,001	10,169
(ii) Interest paid	**2,889**	2,261	4,688
(iii) Cash interest cover ratio (i) ÷ (ii)	**1.73**	1.77	2.17

Notes

1. The interim results for the six months to 30 September 2022 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2022.

   The interim financial information is unaudited and does not constitute statutory accounts as defined in s.434 of the Companies Act 2006. The results for the year to 31 March 2022 have been extracted from the latest published accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

2. Copies of the interim report are available to the public from the Company's Registered Office, PO Box 8, West Street, Havant, Hants PO9 1LG or from our website www.portsmouthwater.co.uk/news/publications/accounts.

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