Portsmouth Water

CARING FOR OUR ENVIRONMENT

Annual Performance Report 2024

portsmouthwater.co.uk |

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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's website at www.portsmouthwater.co.uk.

Registered Office

Brockhampton Springs
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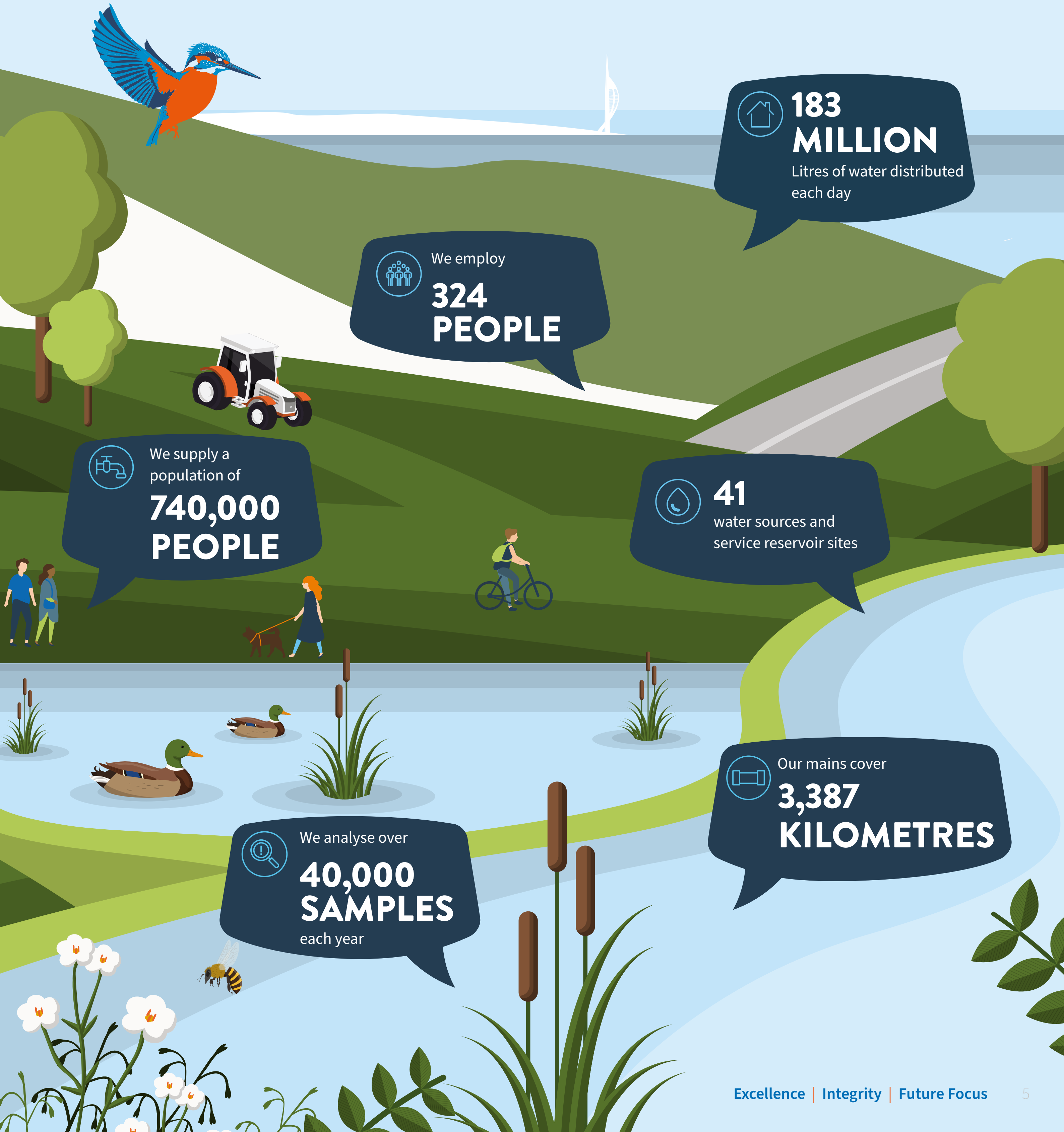
Havant
Hampshire
PO9 1LG

Company Number

2536455

PORTSMOUTH WATER AT A GLANCE



183 MILLION
Litres of water distributed each day

We employ
324 PEOPLE

We supply a population of
740,000 PEOPLE

41
water sources and service reservoir sites

Our mains cover
3,387 KILOMETRES

We analyse over
40,000 SAMPLES
each year

FOREWARD FROM BOB TAYLOR, CEO

Bob Taylor

Chief Executive Officer

June 2024

I am proud and delighted to present Portsmouth Water's Annual Performance Report for 2023-24. This has been a year of transition year as we look ahead to the next regulatory period and beyond, while continuing to deliver the investment and customer commitments in our PR19 plan.

Over the last year we have published our draft 25-year Water Resources Management Plan and our business plan for 2025-30, underpinned by our long-term delivery strategy, setting out an adaptive investment plan to 2050. As we look ahead it is critical that we do not lose focus on delivery for our customers during the current regulatory period. I am therefore very proud that we have delivered another year of excellent operational performance, meeting 19 out of 25 of our PR19 performance commitments – our best ever performance.

I am especially proud that for the second time in this five-year period we are the leading company in our sector on Ofwat's customer satisfaction measure, C-Mex. This measure reflects not only our customers' direct experience of interacting with us, but also how they perceive the overall service that we provide. It therefore reflects the hard work of our people across the whole organisation, from our frontline operational and customer teams to those in support functions, all living our core values of excellence, integrity, and future focus.

We also continue to lead the sector on minimising supply interruptions, one of the service failures that most impacts customers. This year we delivered our best ever performance with an average interruption time of 1 minute, 31 seconds per customer, compared to our Ofwat target of 5 minutes 23 seconds - a reflection of prudent investment in ensuring we have a resilient system as well as a first-class operational response when we have experienced incidents.

Of course, the most important thing we do is looking after our staff and contractors and over the year we have made great strides in enhancing our health, safety and wellbeing performance. For the 19th consecutive year, we have achieved RoSPA's Gold Award for outstanding health and safety performance, earning us a place in RoSPA's Order of Distinction, the highest award that the RoSPA can bestow.

My sincere thanks go to all our people that have helped safely deliver such excellent performance over the past year.

Last year we failed to meet our leakage target following an increase in mains bursts resulting from severe weather during 2022. Leakage continues to be a significant challenge for us. We have not met our target again this year, which partly reflects the three-year averaging approach to measurement. But I am pleased that the recovery plan we put in place, significantly increasing detection and repair resources and using innovative detection techniques, is delivering tangible benefits with a 12% reduction in the year from 32Ml/d to 28Ml/d. We know how important leakage is to customers and we will continue our focus on driving it down.

The other big water supply challenge we face is helping our customers to use water efficiently in their homes. During the Covid-19 pandemic we saw a large increase in household consumption and while it has reduced from this peak, per capita consumption remains above pre-Covid levels and higher than the target set by Ofwat, which reflected pre-Covid assumptions. Critical to helping customers use less water will be our 10-year plan to provide everybody with a Smart meter allowing them to take control of their usage.

We have made good progress over the last year in our preparations for rolling out our metering programme and the supporting systems, helped by Defra's accelerated investment programme. This investment includes switching customers to our new customer billing system, a partnership with the Octopus Energy Group to deliver the first instance of the Kraken system in the water sector. But we must wait for final Government approval of our 2024 Water Resources Management Plan, expected later in 2024, for the legal powers to charge customers based on consumption.

We were disappointed that our CRI score, which reflects our management of water supply risks, increased significantly in the year to 15.6 from 1.2. While we are not complacent, it is important to note that the increase largely reflected issues with the sampling equipment at our largest treatment works at Farlington and did not in any way reflect the quality of water received by our customers. The sampling equipment in question has now been completely replaced and no further sample failures have been recorded at Farlington. Excluding these issues, our score would have been 2.6 – above our target, but better than the industry average.

Underpinning our operational performance over the last year was the successful delivery of our largest ever annual capital investment programme, with £26m of investment during the year (excluding Havant Thicket reservoir), including 11km of mains replacement, installation of 16,500 new meters, investment in energy efficiency measures at our head office and operational sites, and replacement of back-up generators at five of our production sites to improve supply resilience. This demonstrates our capability to step up to deliver the planned increase in investment in the next regulatory period, which will total £190m over five years. To support this much higher investment programme, as part of our transformation programme, we recently appointed a new Chief Asset Officer, Carol Cairns, to enhance our asset management and capital delivery capabilities.

We have also made good progress on construction of the Havant Thicket reservoir, the first to be built in the UK for many decades. Over the year we have been working closely with Southern Water to integrate their proposals to augment the reservoir with recycled water, delivering even greater value from this vital regional resource. The design of our embankment is also being changed to address risk of ground movement after discovering cracks in the clay during further ground investigations. This change in the scope of the project will lead to some increased expenditure and a delay in completion, but integrating the additional works with the main construction programme represents the most efficient and least disruptive approach. We look forward to working with Ofwat over the coming months to agree the regulatory approach to funding of the additional project scope. During 2023, our shareholders committed £170m of new equity to support the project. They remain strongly supportive of the project and, subject to agreeing appropriate regulatory arrangements with Ofwat, are ready to provide additional equity to support the extension of project scope.

Turning to the future, I was excited to deliver our business plan for the next regulatory period, 2025-2030, to Ofwat in October 2023. Our plan is rooted in our long-term Vision, which reflects the four priorities we developed with our customers. It incorporates our latest Water Resources Management Plan, which we updated in August following consultation, and is formally embedded in a Long-Term Delivery Strategy which holistically considers the challenges and opportunities we face to 2050.

It is an ambitious plan which will ensure that we can continue to deliver the high-quality services our customers expect while improving the local and regional environment. The plan includes:

- The provision of smart meters for all our customers by 2035, to help them manage their usage.
- An upgrade of all our core IT systems to maximise efficiency and engagement.
- Significant investment at our water treatment works to maintain water quality, resilience and security.
- Continued reductions in leakage, household and business consumption and interruptions, and enhancements to biodiversity on our land holdings.
- Completing construction of the Havant Thicket reservoir, including integrating Southern Water's recycling scheme.

To deliver all this, over the five-year period we'll invest £347 million, an increase of £130 million compared to the current period. This means, regrettably, that bills will need to rise by 19% (before inflation) but we have worked hard to ensure any increases are kept to a minimum, and our bills will remain by far the lowest in the sector until 2030.

To ensure we can deliver our ambitious plan we need to transform the business and develop new capabilities. To co-ordinate preparation for 2025-2030 we have established a dedicated Transformation Office to oversee delivery of eight strategic programmes of work which will ensure the business is ready to deliver from day one of next period. These transformational strategic programmes include:

- Enhancing our asset management and capital delivery capabilities, including the creation of a new Assets directorate.
- Refreshing and enhancing our entire supply chain to deliver a significantly larger investment programme.
- Transformation of all our core IT systems, including GIS, ERP and billing systems, to support our smart metering programme.
- A ground-up refresh of our organisational design to ensure we are fit for the future.

We have lots to do and there are exciting times ahead for the company, its staff and our customers. But we are already well underway with this journey and have created the momentum and ambition internally to ramp up our activities.

We can't deliver any of this without the ongoing commitment of our people and on behalf of our customers, stakeholders and the local environment, I want to pay tribute to their continued dedication to delivering our vision of 'Excellence in Water, Always'.

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.

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

OWNERSHIP STRUCTURE

The chart on the next page shows the revised ownership structure and 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 Ancala Fornia Topco Pte Limited (which is Singapore registered) 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. 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 now Ancala Fornia Topco Pte Limited (AFTPL) which is incorporated in Singapore. The investors in AFTPL 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.

At the beginning of the year the ultimate parent undertaking was Southern Region Water Holding Limited (SRWHL), an organization domiciled in Hong Kong. To finance the additional capital requirements for Havant Thicket, Ancala established AFTPL as a new investment holding company to replace SRWHL. The transaction to switch the ultimate parent undertaking took place in July 2023.

We consider AFTPL to be the ultimate holding company and Ancala Partners LLP to be the ultimate controlling party. Consolidated group financial statements for the year ended 31 March 2024 will be prepared both the AFTPL and Ancala Fornia Holdco Limited level.

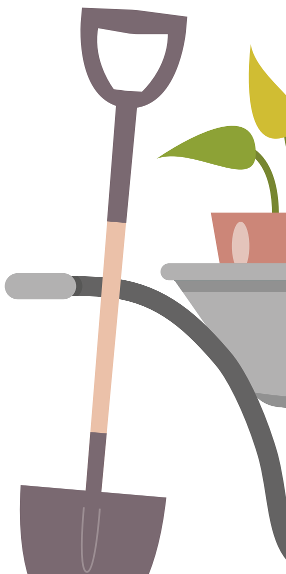
Financing

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 £142.3m (2023 - £130.9m).

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 March 2023 additional debt facilities were raised to finance the development of Havant Thicket Winter Storage Service Reservoir. This was raised under four different debt facilities and total £295m within Portsmouth Water and a further £45m at Brockhampton Holdings Limited (the holding company of Portsmouth Water Limited and Portsmouth Water Holdings Limited). The £295m is split between a syndicate facility of £155m, a facility of £50m with current bankers Lloyds, and a £75m CPI bond. In addition, there remains a £15m Revolving Credit Facility with Lloyds which was renewed in May 2023.

During the year, £120m of new shareholder investment funds were provided into the group by Ancala and there is a commitment for a further £30m of capital which is anticipated to be drawn down later in 2024.



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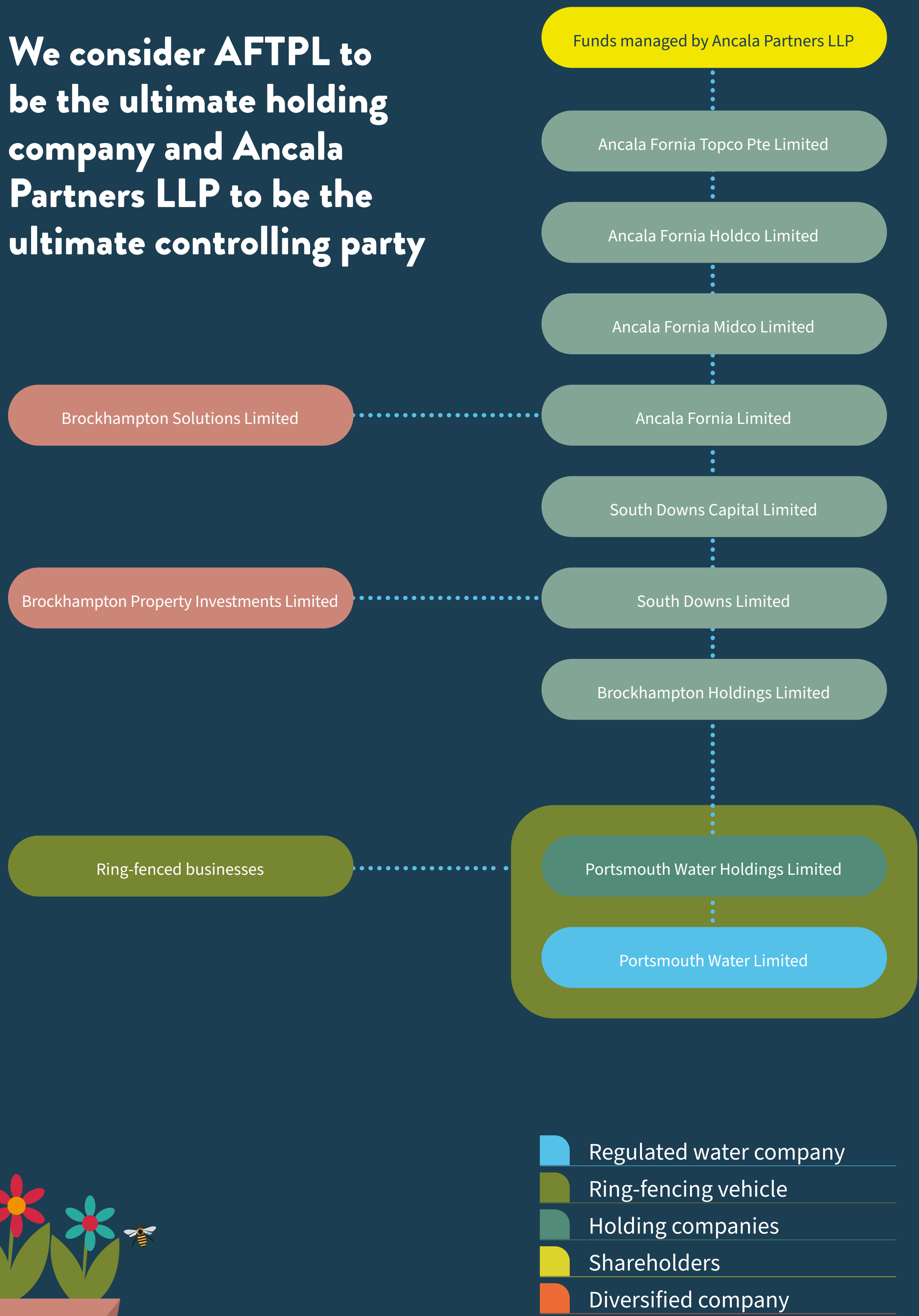


OUR PURPOSE, VISION AND VALUES

Our company's long-term vision and priorities have been developed in partnership with our people, our customers and our communities and our Board takes overall responsibility for our company's purpose and values.

Our purpose is Excellence in Water. Always – and we strive to deliver this through our values of Excellence, Integrity and Future Focus.

It is these values which have shaped the services our customers received in the past year and previous years, many of which are industry-leading.

During 2023-24 we also engaged and consulted with our customers to finalise our Vision and priorities which shape our approach and ambition for our 25-year Long-Term Delivery Strategy and business plan for 2025-30.

These set us on the right path to gear up for significant investment in our future services, protection and improvement for our environment and greater support for those struggling financially.

Clearly recognising the scale and pace of the challenges ahead, we are stepping up our investment and capabilities now to be ready to deliver from 2025 and our Vision and priorities are shaping our approach.

OUR VISION

Our Vision, against the backdrop of climate change and population growth, 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 generations to come.

At its core, our Vision means the experience our customers have will continue to lead the industry. It will also deliver on our purpose – Excellence in Water. Always – and be delivered in line with our values.

Considering the challenges ahead and opportunities for innovation and learning from others, we developed four key priorities in partnership with our customers, to deliver on our Vision. These are:

SECURE AND DELIVER WATER SUPPLIES WHICH ARE HIGH QUALITY, RELIABLE AND SUSTAINABLE

WORK IN PARTNERSHIP WITH OUR CUSTOMERS, COMMUNITIES AND STAKEHOLDERS

INVEST IN THE FUTURE TO MEET GROWING ENVIRONMENTAL CHALLENGES

ACHIEVE AFFORDABLE WATER FOR ALL. ALWAYS.

These priorities and the ambition within them, are rooted firmly in maintaining the excellence we already provide, building on the customer-first approach already within our culture.

They will support our plans from 2025 to 2030 as we transform the way we engage with our customers. Through smart programmes and innovative platforms we will support them to evolve their relationship with water.

The completion and operation of Havant Thicket Reservoir - the first reservoir in a generation - will be instrumental in delivering on many of these priorities, not only in our region, but for the wider South East.

Alongside this, as we invest for the future, we will continually strive to maintain the lowest bills in the sector, while staying aware of our customers' needs and challenges and extending our financial support to make sure water remains Affordable for all. Always.

COMPANY DIRECTION AND PERFORMANCE

As part of the five-yearly business plan process, Ofwat, our economic regulator, sets operational performance targets, known as performance commitments, which we must meet each year.

DURING 2023-24 WE MET OR EXCEEDED 19 OF OUR 25 PERFORMANCE COMMITMENTS

For 2020 to 2025 we have 25 performance commitments (excluding Havant Thicket Reservoir), which cover every aspect of our business from customer service, to supply interruptions and biodiversity.

During 2023-24 we met or exceeded 19 of our 25 performance commitments, a step up from 17 in 2022-23.

Seventeen of our performance commitments have financial incentives associated with them so if we perform worse than the target then we pay a financial penalty and, in some cases, if we beat the target we can earn a reward.

These rewards and penalties are processed through an increase or decrease in the revenues we can recover from our customers through their bills via Ofwat's price controls.

In 2023-24 we received rewards and incurred penalties, with overall a net penalty of £1.0m (2022-23 - £0.370m). We received rewards for our performance on water supply interruptions and the C-Mex measure of customer satisfaction – where we had the best performance in the water sector. We incurred penalties for the CRI water quality metric, leakage and voids.

Customer services

The water sector's main measure of customer satisfaction, C-Mex, is a comparative measure applied to all water companies. Based on the results of an independent survey of customers, we are ranked alongside our peers for overall customer satisfaction.

In 2023-24 we were ranked first out of 17 companies – a great achievement for our customers.

This is a step up from second place in 2022-23 and third place in 2021-22. As a result, we expect to earn a financial reward of £0.3m (2022-23 - £0.2m). Our performance is a tribute to the hard work of our people, combined with our strong core values and community focus.

Another measure of customer satisfaction is the number of complaints we receive. Historically we have received very few complaints and in 2022-23 we had the lowest level of complaints among water-only companies at 22.62 per 10,000 connections (699 complaints).

During 2023-24 we saw an increase in the total number of complaints received to 24.4 per 10,000 connections (754 complaints). This was mostly associated with our metering plans, the associated change in our billing system and a shift to more digital services.

We recognise we have more to do to explain to our customers the benefits of our metering programme and our new billing system.

Despite the increase, our complaints remain well below the average for water-only companies which in 2023-24 was 42.5 per 10,000 connections.

As we switch customers to our new billing system, and roll out our smart metering programme from 2025, we have an opportunity to give our customers an easier, more modern service and provide rich, real-time information about their water use and how they could save money not just on their water bills, but also on their wastewater and energy bills.

We recognise these changes will be unsettling for some customers, and we will work closely with them on a smooth transition.

Affordability and vulnerability

We are proud our water bills, at £120 per year, are the lowest in England and Wales, and we are committed to keeping our bills affordable for all our customers.

Nonetheless, we recognise some of our customers still require extra support, either financially or in the services we provide.

We set ourselves a challenge to increase the number of customers benefitting from our social tariff to 10,000 by 2025. We exceeded this target early in 2023-24, with 13,532 receiving financial help.

We also operate a Priority Services Register (PSR) for our more vulnerable customers who may need extra help, for instance if supplies are interrupted. Our target was to have at least 7.3% of our customers on our PSR by 2023-24. We have also exceeded this target, reaching 12.5%.

Each year we survey local organisations which support customers in vulnerable circumstances on their satisfaction with the support we provide to them and their clients. We target a satisfaction level of at least 85% and in 2023-24 we achieved 85%. (2022-23 - 77%).

As part of our business plan for 2025-2030 we have committed to increasing the help we provide to those who need extra support by extending the reach of our WaterSure and social tariffs. This includes making sure customers are aware of the support available and can easily access it, as well as continuing our payment matching scheme for customers in debt.

We do need to increase bills in the future to continue securing high-quality, resilient water supplies, but we have worked hard to minimise the increase. Our projected increase in an average bill, before inflation, is 19%, equivalent to £21 by 2030. This means our bills remain the lowest in the sector until at least 2030.

Water quality

The key performance commitment for drinking water quality is the Compliance Risk Index (CRI). This is a measure developed by the Drinking Water Inspectorate, which considers the nature of any failures in water quality and the scale of risk to customers.

The target is a score of zero, which equates to no failures, and penalties are incurred for a score above two. CRI is measured over the calendar year from January to December.

For 2023 our CRI score was 15.6 (2022 - 1.24), which is the highest score we have recorded. This means we will incur a financial penalty of £0.8m.

This score was heavily influenced by three sample failures at our Farlington water supply works, which is our largest treatment works serving more than 100,000 properties, so it carries a large weighting in the measure.

The sample failures were due to the sampling equipment and did not reflect the quality of the water supplied to customers. Other monitoring points showed the supply was compliant.

COMPANY DIRECTION AND PERFORMANCE

Without these three sample failures at Farlington our score would have been 2.6, which would still have exceeded our target but is better than the industry average score, which was 3.6 in 2022.

All the sample pipework and pumping equipment which caused the failures has now been replaced.

As well as CRI, we also monitor the number of contacts we receive from customers about taste, odour, discolouration and illness. We measure the number of contacts per 1,000 population served during a calendar year. In 2023 we received 0.42 (2022: 0.42) contacts per 1,000 population, in line with our target of 0.42 and the same as our performance compared to 2022.

Looking forward to 2025-30, we are planning to invest around £30m to make sure our water treatment works remain resilient, address deterioration in the quality of the raw water we abstract and begin to replace more of our customers' lead pipes.

Interruptions to supply

A reliable, constant supply of water is one of our customers' highest priorities and we know interruptions to supply can be very disruptive. So, we are delighted to have improved further on our already industry-leading position in avoiding interruptions.

We measure interruptions as the total number of minutes lost per customer, not including interruptions which last for less than three hours.

In 2023-24 our interruptions totalled 1 minute, 31 seconds per customer, even better than our performance of 2 minutes 21 seconds in 2022-23. This is the best performance we have achieved and significantly better than our target of no more than 5 minutes, 23 seconds.

As a result of this excellent performance, we will earn a financial reward of £0.3m.

To maintain our performance, we're planning to replace 41km of water mains between 2025 and 2030 to make our network more resilient, targeting the mains at highest risk of bursting. We will also continue to make sure we respond quickly and efficiently to incidents when they do happen.

Leakage

We know reducing leaks is a priority for our customers. As we continue to ask customers to increase water efficiency, we recognise the importance of prioritising leakage across our network. We are therefore disappointed that we have not met our leakage target in 2023-24.

Our leakage target is measured as a three-year average, to even out fluctuations in the weather which affect our pipes. In 2023-24 our three-year average performance for leakage was 29.1 Ml/d compared to our target of 24.9 Ml/d. This compares to 27.6 Ml/d in 2022-23.

This means we will incur a financial penalty of £0.7m.

It is the second year we have missed our three-year leakage target, following the very dry summer and harsh winter of 2022, which put significant stress on our mains network.

We put a comprehensive recovery plan in place in 2023, including a significant increase in resources dedicated to locating and repairing leaks, as well as trialling new techniques and equipment such as satellite detection. As a result, we have increased the number of leaks we have detected and repaired from 3,282 to 4,524 during the last year.

While our three-year average performance has increased, we reduced our annual level of leakage by 12% from 32.2 Ml/d to 28.2 Ml/d in 2023-24 because of this recovery plan, which we continue to roll out. However, because of the three-year average calculation, it will be very challenging for us to meet our target for 2024-25.

Looking ahead, our target is to reduce leakage by more than a quarter by 2030, from a 2017-2020 baseline, equivalent to a three-year average of 21.1 Ml/d. We will deliver this through mains replacement, enhancing our network of fixed detection sensors, and reductions in leaks on our customers' supply pipe leakage which will be picked up as part of our smart metering programme.

Per capita consumption

To help reduce the amount of water we abstract from the environment we are supporting our customers to reduce their water use.

We measure use in litres per person per day and, like leakage, our target is a three-year average to even out the impact of weather.

Like all water companies we saw a significant increase in household water use during the Covid-19 pandemic, meaning we could not deliver our consumption reduction target. While household consumption has reduced since the pandemic, changes in personal behaviours, in particular working from home, mean it is no longer possible to meet the reduction targets we set before the pandemic.

Recognising this, Ofwat has suspended penalties which relate to per capita consumption targets and it will review it as part of its review into companies' investment and targets for 2025-30.

We believe installing water meters for our customers and connecting them more directly with the amount of water they use, has **the greatest potential to influence how they use water in the future.**

Our three-year average performance for 2023-24 is 155.7 l/head/day, compared to our target of 141.8 l/head/day. In 2022-23 it was 161.1 l/head/day.

This is a significant reduction from the previous year and largely attributable to the peak Covid-impacted year falling out of the three-year average calculation.

Our annual performance on consumption has remained broadly in line with the previous year at 154.4 l/head/day compared to 152.5 l/head/day.

During the year we continued to support customers to reduce their water use, through social media campaigns, offering subsidised water butts and providing free water-saving gadgets through our Get Water Fit platform. We also trialled a LeakBot device with 1,000 customers to help find household leakage.

We believe installing meters for our customers and connecting them more directly with the amount of water they use, has the greatest potential to influence how they use water in the future.

During the year, we have installed 3,293 meters for customers on a voluntary and change of occupier basis to increase the numbers who pay for their water through a metered charge. We have been working with our customers to understand their needs, offer water-saving devices and support those who use a lot of water.

Between 2025 and 2035 we will be installing smart meters for all our customers and supporting them to better understand and manage their use, as well as identifying more leaks in customers' own homes as well as from our pipes.

Developers

We work with developers and others to connect new properties to our network. We have to make sure we have enough capacity to supply the additional customers and new mains are laid to an appropriate standard to safeguard drinking water quality.

Developers' satisfaction with our service is measured through D-Mex. Like C-Mex, it is a comparative measure, based on a satisfaction survey and performance against specified levels of service.

In 2022-23 we were second place amongst water companies in the D-Mex assessment and in the previous two years we were third. In 2023-24 our relative performance has worsened to ninth place.

While overall we achieved 99.01% compliance with our levels of service metrics, we failed to issue a number of new mains quotations and designs within the target time and this led to negative feedback from the developer. This therefore impacted the quantitative and qualitative elements of D-Mex.

The significant change in our position is partly reflective of the small number of interactions we have with the developers we work with compared to larger companies, so a small change in performance can have a large impact on our ranking. Our score for 2023-24 means we receive neither a penalty nor a reward (2022-23 - £0.1m).

We are continuing to improve the services we provide to our developer customers. We have upgraded our website and online portal during 2023-24 and streamlined the application process for new connections. We will continue to make improvements; we have already streamlined our new mains application process and will also be updating our charges to provide an environmental incentive for developers to build water efficient new homes.

PLANNING FOR THE FUTURE

In October 2023 we submitted our business plan to Ofwat for the period 2025-30. The plan was built on detailed customer and stakeholder research carried out over the last two years and reflected our four key priorities for the next 25 years, which 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.

For the first time, the five-year business plan was formally embedded in a 25-year Long Term Delivery Strategy, an adaptive plan that sets out the key investments that we will need to make under a range of future scenarios, reflecting the uncertain impacts of climate change, population growth, environmental requirements and technological advances.

Our five-year plan represents a step change in the level of investment, with a £130m increase in the level of expenditure to £347m over the five years (excluding the Havant Thicket reservoir). Key elements of the plan include:

- The provision of smart meters for all our customers by 2035, to help them manage their usage.
- An upgrade of all our core IT systems to maximise efficiency and engagement.
- Significant investment at our treatment works to maintain water quality, resilience, and security.
- Continued reductions in leakage, household and business consumption and interruptions, and enhancements to biodiversity on our land holdings.
- Completing construction of the Havant Thicket reservoir, including integrating Southern Water's recycling scheme.

The investment is essential if we are to continue to provide the high-quality services our customers expect, while ensuring our assets remain resilient, managing the challenges of population growth and climate change, and ensuring that we minimise our impact on the local environment. By challenging ourselves very hard to become more efficient, we have been able to restrict the level of bill increase to 19% over the next five years (before inflation). This is significantly less than the increases proposed by many of our peers in the sector. It will ensure that our bill, at less than £120 in 2024-25, remains the lowest of all companies in the sector.

As part of the price review Ofwat will also redetermine the cost of capital set at PR19 for the Havant Thicket reservoir, which has a 10-year price control from 2020-30. Ofwat will also be considering what adjustments are required to cost allowances for the reservoir to enable the change in scope to the project proposed by Southern Water and to address risk of ground movement after discovering cracks in the clay during further ground investigations. These changes will facilitate the augmentation of the reservoir with highly treated wastewater, in addition to the use of excess water from the Bedhampton springs, enhancing the value of this resource for the region as a whole. Havant Thicket is the first reservoir to be built in the UK for over forty years and we remain committed to providing this valuable regional resource which will reduce the pressure on the region's precious chalk streams.

Ofwat will provide its initial views on our plan in their draft determination on 11 July 2024 (later than expected due to the calling of the general election). The consultation on the draft determination will last for a period of seven weeks, with Ofwat's final determination expected to be published on 18 December 2024, with new price controls coming in to effect from 1 April 2025. Should we determine that the final determination is not deliverable within the price controls set by Ofwat, we can ask that the Competition & Markets Authority to redetermine the controls.

Transforming our business

To deliver the scale of change set out in our business plan we will need to fundamentally transform the business and develop significant new capabilities. In recognition of the scale of the challenge we have established a dedicated Transformation Office to oversee and co-ordinate the preparatory work for the next regulatory period.

The Transformation Office is led by an experienced change programme manager and is sponsored by the Chief Financial Officer.

We have set up eight strategic programmes of work which will ensure the business is ready to deliver from day one of next period. The eight strategic programmes are:

- **Investment plan delivery / supply chain** – development of our investment plan delivery model, including procurement and mobilisation of our supply chain to manage the 150% increase in our capital investment in AMP8.
- **Organisation design** – identifying and implementing the right organisational structure across operations, asset management, capital delivery and shared services to support the step change in investment in AMP8.
- **Reducing demand** – oversight of our smart metering programme, and associated customer engagement to ensure we can meet our ambitious consumption reduction targets.
- **IT core systems transformation** – co-ordinating the refresh of our core IT systems, including upgrading our ERP and GIS systems, and developing our data strategy.
- **IT security and resilience** – enhancing our cyber and information security capabilities and building resilience through a migration to cloud services.
- **New Head Office** – securing planning, building and relocating to a new head office on our existing site, to replace the existing end-of-life building, with the sale of a portion of the existing site for development to offset the costs.
- **PR29, LTDS and WRMP** – co-ordination of early preparation for future regulatory submissions, including identification of skills and capabilities gaps in the organisation and roll-out of our strategic asset management plan.
- **Leakage improvements** – programme to deliver a sustained reduction in leakage following a rise in 2022-23, along with improving our leakage data to ensure we are meeting best practice in all respects.

The programme is governed through a monthly Executive-level steering group, with quarterly updates to the Board on the overall programme and more detailed engagement on specific topics within the programme, such as our supply chain strategy, as required.

Open Data

We are committed to working in partnership with customers, regulators, and other stakeholders to deliver on our vision. We hold significant amounts of data within the business, some of it reported and published annually, including as part of this Annual Performance Report (APR), but much of which is not freely available. Working collaboratively with third parties we are committed to unlocking the power of that data, through open data, to help us meet our objectives as well as ensuring that we manage all of our data securely.

To date we have published in Excel format all the data that we report to Ofwat in the APR, as well as in our business plan, and we have provided data on an ad hoc basis to third parties on request. We will continue to publish Excel versions of our APR, as it means data from all companies in the sector is available in a consistent and readily accessible format for all stakeholders.

During the year we have taken an important step forward in our open data journey by joining the industry-led Stream Open Data initiative. This programme is funded by Ofwat’s Innovation Fund, along with contributions from participant companies, and aims to ensure that the sector works in a joined-up way to maximise the benefits of open data for customers and the environment. In December 2023 Stream published an Open Data Roadmap for the sector. For a smaller water company, such collaboration is essential to ensure that we maximise the value of our data by making it available in a common format alongside that of our peers in the sector.

In 2023-24 we have reviewed our approach to publishing APR tables in order that they can be accessed and reused by all. As an active member of the Stream programme we have adopted an initial approach to publish a database style format (.csv) which has a machine readable characteristic. The reason for adopting this approach is to provide a standardised model in a flexible format allowing for easier cross industry comparisons at company or specific item level. Our decision is strengthened and influenced by other water companies adopting a similar approach and the ease of creating this dataset. At the same time that we publish the APR tables on our website we will also upload to the Stream portal to allow stakeholders to access all companies’ data in one place.

CORPORATE GOVERNANCE

The Board of Portsmouth Water Limited, on 31 March 2024, comprised two Executive Directors, one independent Chair, two independent Non-Executive Directors and one Investor Director. The Ofwat principles for Board leadership, transparency and governance require that independent non-executives should constitute the largest single group of Directors. Portsmouth Water complies with this requirement.

The Executive Directors are Bob Taylor, who is the Chief Executive Officer, and Chris Milner who is the Chief Financial Officer. The independent Chair is Christopher Deacon, and the independent Non-Executive Directors are Lara Stoimenova and Sharon Darcy. The Investor Director is Christopher Loughlin.

Portsmouth Water is committed to high standards of Corporate Governance and takes the lead from the principles set out in the UK Corporate Governance Code and Ofwat's principles for Board leadership, transparency and governance.

Detailed information on the Company's Corporate Governance processes and compliance, including operation of the Board, Risk Management and Internal Control are set out on pages 75 to 85 of the Company's Annual Report and Accounts (ARA).

Compliance

The Board complies with the Ofwat principles for Board leadership, transparency, and governance in all areas. A summary of how we meet the Ofwat's principles is provided below.

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.

Whistleblowing

Following a fraud event in 2023, the company undertook a refresh of the whistleblowing policy and increased the awareness of that policy. Since then, the Ofwat best practice guidance on the subject has been issued and a further review of the process has been completed. As a result of that review we have changed several parts of the process to, amongst other things, introduce an independent anonymous telephone number via a third party where staff can make a 'safe call' to report incidents, and also started to train the investigators so they are best equipped to undertake their reviews.

The Board has asked to be kept abreast with regular reporting on the frequency and types of notifications and we will continue to review the process and policy to ensure employees continue to be encouraged to speak up if they witness any wrongdoing.

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.	As preparation for PR24, we undertook work to update the Company Purpose. This is set out in more detail on page 12. 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 involved 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". The Board continues to update this area in contemplation of the challenges of AMP8 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 introduced a new People Strategy which will support the alignment of values and 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.

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 11.
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 24.
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 80 of the Annual Report and Accounts.
An explanation of the company's executive pay policy and how the criteria for awarding short and long term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where Directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	This is reflected under "Remuneration Committee" on pages 42 to 50, 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 82 of the Annual Report and Accounts. The Board have updated their assessment of the composition of Board. Early in 2024 the Board updated their skills register to highlight any gaps in their knowledge, and assessed the composition of the Board during their Board evaluation which was undertaken at the same time.
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 89 of the Annual Report and Accounts.
The Chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the Board and executive responsibility for running the business.	This is set out in the Corporate Governance section under "Board of Directors" on page 81 of the Annual Report and Accounts.
There is an annual evaluation of the performance of the Board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	The Board completes an annual performance evaluation and has set this out under "Board of Directors" on page 82 of the Annual Report and Accounts. The Board has also updated its skills matrix and has been mindful of the appropriate balance of skills and experience in making new appointments. The actions arising from the latest 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 89 of the Annual Report and Accounts.
To ensure there is a clear understanding of the responsibilities attached to being a non-executive Director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company Board to meet Ofwat ahead of a formal appointment being made.	This is set out in the section covering the "Nomination Committee" on page 89 of the Annual Report and Accounts. All new non-executive appointments undertake 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 78 and 79 of the Annual Report and Accounts and in the sections covering the Audit, Nomination and Remuneration Committees. The Audit and Risk Committee and the Remuneration Committee are solely made up of independent non-executive directors. A majority of the membership of the Nomination Committee is made up of the same independent directors.

DIVIDEND POLICY

Annual Performance Report Dividend Disclosures

In May 2023 Ofwat introduced a new licence condition that required that dividends should only be declared or paid in accordance with a dividend policy that has been approved by the Board and which complies with the following principles:

(a) that dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term.

(b) that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations; and

(c) that dividends declared or paid reward efficiency and the effective management of risks to the Appointed Business.

In June 2023 Ofwat issued guidance on the factors it would consider in assessing dividends paid or declared, for the purposes of compliance with the licence condition.

We describe below the dividend policy approved by the Board, how this meets Ofwat's expectations and how the policy has been implemented in respect of dividends paid in 2023-24 (in respect of 2022-23 performance) and dividends declared in respect of 2023-24 performance.

Dividend policy

Dividend policy is set to align with the five-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 (compare with 5% in the previous published dividend policy). The policy is reviewed annually to reflect feedback on the Annual Performance Report and further guidance from Ofwat.

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

(a) Delivery of performance commitments to customers and stakeholders over a rolling three-year period, this includes:

   a. Customer Service: C-Mex, D-Mex, Written complaints.

   b. Performance Commitments: Leakage, Interruptions to supply.

   c. Commitments to customers: Vulnerable customers, Sustainable abstraction, Community commitments.

   d. Employees: Health & Safety, Pensions.

(b) Overall financial performance of the appointed and non-appointed business including performance against Totex allowances and other regulatory financial incentives.

(c) 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.

(d) Compliance with regulatory requirements, in particular Licence Condition P and Licence Condition F.

In considering these factors the Board is confident that we meet the requirements of our licence condition and Ofwat's guidance, which require an in-the-round assessment of performance over time against its performance commitments (factors (a) and (b)), its investment plans and cost efficiency (factor (c)) and other areas of its operations (factor (d)).

In accordance with the policy a base dividend is calculated as 4% of the equity component of the average RCV for the financial period.

- We calculate our base dividend based on the notional company to align to the risk and reward assumptions at PR19. We base distributions on the notional company structure to reduce volatility due to the timing of deployment on new equity through AMP7, and to create clarity for investors.

- We monitor the dividend yield in line with the calculation methodology in the Annual Performance Report that reflects dividend yield on the actual company equity component to ensure we remain in line with PR19 guidance and Ofwat expectations.

- We review annually whether the dividend yield should be reduced where there is significant RCV growth that is not adequately supported with shareholder equity.

The base dividend payable is automatically adjusted for the 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 the of the financial year).

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

- The Company performance over a rolling three-year performance does not deliver on commitments to customers and stakeholders.
- Financial performance does not support payment of a dividend.
- Forecast five-year totex 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 base dividend 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 2022-23 performance)

The dividend paid in the financial year 2023-24 relates to performance in 2022-23. The Directors declared a dividend of £2.342m in last year's accounts. This was paid in July 2023. 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 following commitment for an a total of £170m of new equity; £20m of new equity was received in 2022-23 and a further £120m was received in year as £60m new equity and repayment of a legacy intercompany loan structure. The final £30m is anticipated to be drawn down later in 2024. Repayment of the intercompany loan also removed requirement for a recirculating dividend paid in previous years.

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 28 and 29.

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 three-year period. Further details of performance in each year can be found in the relevant APR commentaries.

DIVIDEND POLICY

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 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 to 2022-23. Written complaint levels were the lowest in the industry in 2021-22 and while complaint numbers increased marginally in 2022-23, we remained an upper quartile performer.

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 1975. 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.

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 2022-23 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 concluded that overall performance supported payment of a dividend.

Full details of ODI performance are outlined in the 2022-23 Annual Performance Report which can be found on our website.

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 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 supported maintaining a dividend policy of a 4% yield on regulated equity. Subsequently Portsmouth Water investors have confirmed a further £150m equity commitment (£170m in total) to support the increased costs of Havant Thicket and £120m was received in first half year of 2023-24.

The Board noted the successful financing exercise conducted to finance Havant Thicket. The confirmation of £340m of new debt facilities and £150m of additional 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 (now received from Ofwat).

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's conclusion was that payment of a dividend is appropriate.

Adjustment to dividend paid

One adjustment was made to the dividend paid 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 was made to the dividend in relation to ODI performance.
- A net ODI reward was included in charges for 2023-24 based on performance in 2021-22. However, the Board did not recommend any adjustment to dividend at this stage, with ODI performance in respect of 2022-23 to be considered following publication of Ofwat's final determination of in-period ODIs in November 2023.

Dividend Yield

Regulatory gearing and calculated dividend yield for 2023-24, as reported in Table 4H, is 49% and 1.8% respectively based on the PR19 Final Determination.

The calculations do not reflect the increased Totex allowance agreed with Ofwat through the Cost Adjustment Mechanism for Havant Thicket that concluded in January 2023. The result is that regulatory gearing is overstated for 2023-24 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 33% and a dividend yield of 0.9% (below the PR19 guidance of a 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 POLICY

Dividend workings for 2023-24 (paid in year)

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 accumulated	£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**
	Interim Dividend - Return on Regulated Equity	£0.000m
	Interim Dividend - Recirculating dividend	£0.000m
	Interim Dividend Paid/Proposed	**£0.000m**
	Final Dividend - Return on Regulated Equity	£2.342m
	Final Dividend - Recirculating dividend	£0.000m
	Final Dividend (paid in following year)	**£2.342m**

* See the 2022-23 Annual Performance Report for further details

Dividend yield calculations		2022-23
	Dividend Paid - Return on Regulated Equity	£2.342m
	Dividend Paid - Recirculating Dividend	£0.000m
	Dividend Paid In Year	**£2.342m**
PR19 Final Determination		
	Closing RCV - Water Resources	£9.792m
	Closing RCV - Water Network +	£195.171m
	Closing RCV - Havant Thicket	£50.713m
	Closing RCV - Total	**£255.676m**
	Actual gearing (RAR per stats & PR19 RCV)	48.99%
	Net debt	£125.258m
	Actual equity	£130.418m
	Actual yield	**1.80%**
PR19 Final Determination and Cost Adjustment Mechanism		
	Closing RCV - Water Resources	£9.792m
	Closing RCV - Water Network +	£195.171m
	Closing RCV - PR19 Havant Thicket	£50.713m
	Closing RCV - Havant Thicket CAM additional RCV (recognised at PR24)	£128.909m
	Closing RCV - Total	**£384.585m**
	Actual gearing	32.57%
	Net debt	£125.258m
	Actual equity	£259.327m
	Actual yield	**0.90%**

Cost Adjustment Mechanism RCV Increase		2022-23
	CAM RCV Adjustment, Real 2017-18 Prices	£98.578m
	CPIH Index (closing)	136.28
	CPIH Index (actual) - FYE - inflate from FYE 2017-18	130.8%
	CAM RCV Adjustment, Nominal	**£128.909m**

Dividend declared for 2023-24 (to be paid in July 2024)

The Board have declared a dividend relating to performance in 2023-24 of £3.223m. No interim dividend relating to financial year 2023-24 was paid in year so the full amount is expected to be paid in July 2024.

The dividend does not include a recirculating element as the intercompany loan structure was unwound in 2023. Portsmouth Water's investor Ancala has committed £170m of further equity to support Havant Thicket reservoir development. The initial £20m was received in February 2022 and a further £120m was received into the group in July 2023, £60m has been deployed as new equity and the remaining amount has been used to repay the intercompany loan to South Downs Limited. The final £30m is anticipated to be drawn down later in 2024.

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 pages 32 and 33.

Performance for customers 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 three-year period.

DIVIDEND POLICY

Performance	Measure	2021-22	2022-23	2023-24
Customer service	C-Mex Rank	3rd	2nd	1st
Developer service	D-Mex Rank	3rd	2nd	9th
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	18/26	19/26	20/26

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 has been upper quartile in each year and for 2023-24 C-Mex performance is the best in the sector. Our ranking on the D-Mex measure of service to developers has deteriorated in the year but remains average for the sector. The deterioration is because we failed to issue a number of new mains quotations and designs within the target time. The significant change in our position is partly reflective of the small number of interactions with developers we work with, compared to larger companies, as a small change in performance can have a large impact on our ranking.

The number of complaints per 10,000 connections remains extremely low compared to our peers, despite a small increase in the year from 669 to 754.

Customer interruptions have been the lowest in the industry through the period and performance for 2023-24 was the best performance in recent years. 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 Ofwat leakage target was missed for the second time this regulatory cycle. Leakage initially increased in 2022-23 as a result of very dry conditions followed by severe winter weather and following this a recovery programme was implemented. While we have not met the target, which is based on a three-year average calculation, leakage has reduced during the year from 32.2 Ml/d to 28.2 Ml/d, a reduction of 12%. Not meeting the leakage target has had no direct impact on customers and we have not had to put in place any usage restrictions. The Board therefore concludes that missing the leakage target should not result in an adjustment to dividends beyond the impact on the overall ODI penalties, especially in the light of the success of the recovery programme.

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.

Overall ODI performance over the last three years remains strong with >70% performance commitments being met, and a net reward being achieved over the four years of the regulatory period. Per capita consumption remained above the ODI target, as it was impacted by increased consumption during Covid and has remained above target. The smart metering programme in AMP8 will be the key to unlocking consumption reduction in future.

The Board also considered the increase in the CRI water quality score in the year. It noted that the increase in the CRI score was driven principally by issues with sampling equipment at our Farlington water treatment works and did not reflect the quality of water received by customers. Having considered the root causes of the increase in the CRI score, the fact that there was no impact on the water quality received by customers and the corrective action that has been taken, the Board concluded that no further adjustment to dividends, beyond that arising from the ODI penalty of £0.8m, was appropriate.

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 remains in line with forecast and within the PR19 final determination cost allowance. Underlying regulatory gearing was 33% 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 level of RCV growth in AMP7 but were satisfied that the extent of the equity commitments made by shareholders to support the construction of the Havant Thicket reservoir – a total of £170m - supported maintaining a dividend policy of a 4% yield on regulated equity.

The Board is satisfied that following the successful financing exercise conducted in 2022-23 with confirmation of £340m of new debt facilities and £170m 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 has noted the potential for an additional financing requirement to fund changes in the scope of the Havant Thicket reservoir scheme to support Southern Water's water recycling project, which will require adjustments to the reservoir pipeline and reservoir inlet. These changes will be subject to a regulatory process during 2024 and any additional funding requirements, including the need for additional equity, will be considered as part of that process. The Board is satisfied that, based on the current agreed project scope, appropriate funding and facilities are in place to support delivery of the current scheme.

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. It is satisfied that there are no compliance issues which would impact the payment of any dividend.

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's 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 £0.604m for intercompany interest and £0.054m in relation to ODI performance following confirmation of the net penalty in Ofwat's final determination of ODIs for 2022-23 in November 2023.
- Brought forward net rewards from the first two years of AMP7 were £1.004m; an increase to base dividend for £0.054m has been applied to offset the net penalty for 2022-23.
- The Board has not recommended any adjustment to dividend at this stage in relation to 2023-24 performance but noted that we expect to apply an adjustment to reflect a net ODI penalty for 2023-24 performance when Ofwat publish their ODI final determination in November 2024.
- The Board believe it appropriate to apply adjustments to dividends in the year that penalties are reflected in customer charges. This ensures dividends reflect performance for the customer and environment but also ensure that investors are sighted to changes to earnings and ensures it can be reflected in forward planning.
- We anticipate the net adjustment to 2024-25 dividends will be a reduction of £0.3m.

ODI Reward / Penalty	2020-21	2021-22	2022-23	2023-24	2024-25
ODI reward b/f	£0.000m	£0.000m	£0.360m	£0.934m	£0.950m
Indexation		£0.000m	£0.032m	£0.070m	£0.025m
Ofwat ODI Final Determination (November in following year)		£0.889m	£0.543m	(£0.054m)	(£1.265m)
Penalty adjustment to dividends		£0.000m	£0.000m	£0.054m	£1.265m
Reward adjustment to dividends		(£0.529m)	£0.000m	(£0.054m)	(£0.975m)
ODI reward c/f	**£0.000m**	**£0.360m**	**£0.934m**	**£0.950m**	**(£0.000m)**

DIVIDEND POLICY

Dividend workings for 2023-24 (declared to be paid in July 2024)

Dividend calculations		2023-24
	Total: Average RPI inflated RCV (year average) - nominal (year average prices)	£83.197m
	Total: Average CPIH inflated RCV (year average) - nominal (year average prices)	£77.350m
	Total: Average post 2020 investment RCV (year average) - nominal (year average prices)	£79.245m
	Total: Average total RCV (year average) - nominal (year average prices)	£239.792m
	Regulatory equity notional (PR19FD)	40%
	Regulatory equity notional (PR19FD)	£95.917m
	Dividend yield (per dividend policy)	4%
	Base Dividend - Return on Regulated Equity	£3.837m
	Base Dividend - Recirculating Dividend	£0.000m
	Base Dividend	**£3.837m**
Less	Adjustment for intercompany interest payable to holding companies	(£0.604m)
Less	Adjustment for in-period Outcome Delivery Incentive penalties	(£0.054m)
Add	Adjustment for in-period Outcome Delivery Incentive rewards accumulated	£0.054m
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	**£3.233m**
	Interim Dividend - Return on Regulated Equity	£0.000m
	Interim Dividend - Recirculating dividend	£0.000m
	Interim Dividend Paid/Proposed	**£0.000m**
	Final Dividend - Return on Regulated Equity	£3.233m
	Final Dividend - Recirculating dividend	£0.000m
	Final Dividend (paid in following year)	**£3.233m**

ODI Reward / Penalty		2023-24
	ODI reward b/f	£0.934m
	Indexation	£0.070m
	Ofwat ODI Final Determination (November in following year)	(£0.054m)
	Penalty adjustment to dividends	£0.054m
	Reward adjustment to dividends	(£0.054m)
	ODI reward c/f	**£0.950m**

Projected Dividend Yield for 2024-25 (reflecting dividend relating 2023-24)

The projected dividend yield paid in 2024-25 reflecting the final dividend for 2023-24 is expected to be broadly in line with the PR19 guidelines and will reflect our published dividend policy.

The declared dividend from 2023-24 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. Projected regulated gearing and dividend yield for the 2024-25 Annual Performance Report is 72% and 4.0% - respectively.

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 2023-24 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 39% and a dividend yield of 1.0% (below the PR19 guidance of a 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 POLICY

Dividends workings for 2024-25

Dividend yield calculations		2024-25
	Dividend Paid - Return on Regulated Equity	£3.233m
	Dividend Paid - Recirculating Dividend	£0.000m
	Dividend Paid In Year	**£3.233m**
PR19 Final Determination		
	Closing RCV - Water Resources	£11.369m
	Closing RCV - Water Network +	£201.110m
	Closing RCV - Havant Thicket	£76.946m
	Closing RCV - Total	**£289.425m**
	Actual gearing (RAR per stats & PR19 RCV)	72.19%
	Net debt	£208.939m
	Actual equity	£80.486m
	Actual yield	**4.02%**
PR19 Final Determination and Cost Adjustment Mechanism		
	Closing RCV - Water Resources	£11.369m
	Closing RCV - Water Network +	£201.110m
	Closing RCV - PR19 Havant Thicket	£76.946m
	Closing RCV - Havant Thicket CAM additional RCV (recognised at PR24)	£245.429m
	Closing RCV - Total	**£534.854m**
	Actual gearing (RAR per stats & PR19 RCV)	39.06%
	Net debt	£208.939m
	Actual equity	£325.915m
	Actual yield	**0.99%**
	CAM RCV Adjustment, Real 2017 - 18 Prices	£182.964m
	CPIH Index (closing)	139.80
	CPIH Index (actual) - FYE - inflate from FYE 2017-18	134.1%
	CAM RCV Adjustment, Nominal	**£245.429m**

VIABILITY STATEMENT

1. Assessment of prospects

The Board has assessed the prospects of the Company over a future period of 11 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 46 to 49 of our Annual Report & Accounts. 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 five-year regulatory review cycle. Consequently, the five-year regulatory business plan (AMP7 which runs from 1 April 2020 to 31 March 2025 and for the Havant Thicket Reservoir price control for 10 years to 2030) and the related Ofwat Final Determination are the primary drivers for the Company's prospects. The Final Determination sets out the allowed revenue, operating expenditure, capital expenditure and agreed business outcomes for the regulatory period. In addition, we have extended our assumptions for the core business to reflect our estimate of the regulatory outcome (for the core business) for the next two five-year regulatory periods, being AMP8 and AMP9. This is based upon the current view of these periods which are aligned, where possible, to Ofwat indications and guidance. More information in respect of the regulatory regime is set out in page 42.

The Company has just completed the fourth year of the current regulatory cycle 2020-2025 (for the Havant Thicket Reservoir price control the period from 2020-2030) and together with an estimate of the regulatory outcome for the period to 2035 considers 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 outperforming 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 other major capital programmes and a more challenging regime of rewards and penalties.

The assessment process of the Company prospects

The Board recognises the assessment of viability is dependent upon forecasts which, by nature, involve 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 March 2025 and the Havant Thicket Reservoir price control to 2030 which drives the key budget assumptions.

The budget prepared included;

- Detailed budget analysis by department for the forthcoming (2024-25) financial period.
- Longer term analysis to March 2025 in line with the current Final Determination.
- Cash flow projections to March 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 five-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 March 2024.

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 and ongoing geopolitical uncertainties;
- Increase in CPIH (which drives tariffs and costs);
- Levels of capital and renewals spend and related efficiency and cost savings;
- Levels of capital spend relating to Havant Thicket reservoir and other approved capital projects;
- Headcount and salary increases;
- Interest rates and loan indexation rates;
- Levels of operating expenditure out-performance against the final determination and targeted cost savings; and
- 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 which 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 2024. As part of the 2020-25 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. This review was updated during the current financial year as part of the initial submissions to Ofwat for the 2025-30 final determination.

The overall summary of the principal risks and uncertainties reflects this consideration of "resilience in the round". Details of the Board risk assessment process are set out on page 83 of our Annual Report & Accounts. The purpose of the principal risks table is, primarily, to summarise those matters that could prevent the Company from delivering on its strategy. Several 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. They were 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 2020-25 business plan, and updates to this for the initial submissions to Ofwat for the AMP8 final determination.

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 to 2035, to include the 2025-30 and 2030-35 periods 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 10-year Havant Thicket Reservoir price control. This period covers; for the "core business" the one year remaining of the 2020-25 regulatory period and an assessment of the results for the successive 2025-30 and 2030-35 periods; and for the Havant Thicket Reservoir price control the six years to the end of the price control and the successive 2030-35 period. 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 current 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 2020-25 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 expected to remain as key drivers to 2035.

VIABILITY STATEMENT

2. Assessment of viability

The assessment of viability therefore uses; for the "core business" a period of one-year of regulatory business plan to 31 March 2025 and a further 10 years of projection to 2035; and for the Havant Thicket Reservoir price control a period of six years of the regulatory business plan together with a further five 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 (Artesian) and the retention of an investment grade credit rating with Moody's (such as covenant and regulatory gearing, and interest cover (ICR). These scenarios (which are summarised on page 39), have been driven from the Board's assessment of "resilience in the round" (and are reflected in the principal risks and uncertainties set out in pages 66 and 67 of our Annual Report & Accounts). 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 which could reasonably be taken to reduce the impact was considered. 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 its parent company Brockhampton Holdings Limited (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 indicate that, while gearing levels remain modest in the Company's projections, a lower Interest Cover Ratio would 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 adjusting its operating plans within the normal course of business. This included both the restriction and deferral of dividend payments.

During the year ended 31 March 2024 the Company has performed some actions to increase financial resilience, including:

- Additional equity investment from shareholders brought into the company, predominantly to support the planned investment in Havant Thicket Reservoir and other capital programmes. These equity investments and additional equity commitments from shareholders provide mitigation against high interest environments and help maintain a relatively low gearing level.
- Negotiated swap instruments with external banks to align risks from future increases in index-linked debt (Artesian Loan) from increases in RPI to increases in CPI, and so better match to expected allowed increases in future revenues.
- Negotiated swap instruments (floating to fixed) with external banks to mitigate the risks associated with floating rate debt facilities put in place through the next five-year period.

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

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

Individual Scenario	Assumptions	Results/ Impact	Mitigation
Cost of living -impact on inflation & customer debt risk	FY25 bad debt + £750k, FY26 + £500k, Inflation + 2% FY25 and FY26.	EBITDA decreases by £0.6m in FY25 and £0.4m in FY26. Capex increases by £0.2m in FY25 and £3.4m in FY26. Artesian ICR breach to 1.32x in FY26	Increased borrowing on Opco facility (£9.9m by FY26 and £11.7m by the end of AMP8 to finance £14.5m higher capex due to higher inflation)
Market interest rates - SONIA	AMP8 SONIA + 100bps	£6.5m increase to interest payments in AMP8, partially mitigated by £4.1m increase in interest received on cash investments. Artesian ICR fails in FY28 and FY30	£1.4m drawdown on debt in FY28, repaid FY29 £3.7m drawdown on debt in FY30, repaid FY31
Non-performance of business & regulatory penalties - 3% RORE ODI penalty	£2.3m penalty per year in AMP8	£12.1m reduction in EBITDA between AMP8 and first two years of AMP9 Artesian breaches in FY28 and FY30 at 1.41x and 1.37x	£1.4m drawdown on debt in FY28, repaid FY29 £2.2m drawdown on debt in FY30, repaid FY31
Reduced future allowed revenues - 50bps reduction in AMP8 WACC	AMP8 WACC 50bps lower than projected	£7.0m reduction of AMP8 EBITDA, £9.8m in AMP9. This assumes HTR WACC is unchanged from Base Case. Artesian ICR 1.35x in FY26, 1.43x in FY27 and 1.42x in FY30	Increased borrowing on OpCo facility of £3.4m by FY28, repaid in FY29. Increased borrowing on OpCo facility of £1.4m in FY30
Capital project delay & overspend on HTWSR - 10% overspend + 2-year delay	ODI penalty of £1.0m in FY27 and FY28 for dry commissioning and £3.8m in FY30 and FY31 for wet commissioning. Underspend of £78.6m throughout FY25 and FY26. Overspend of £106.7m throughout the next 6 years, resulting in cumulative £28.1m higher capex throughout the construction of Havant Thicket Reservoir ('HTR')	Cumulative negative EBITDA deviation of £12.0m in AMP8 and first year of AMP9 Artesian ICR breaches in FY27, FY28 and FY30 at 0.91x, 0.33x and 0.15x, respectively	76m of OpCo facility draw down in FY26 delayed to FY27 and FY28, which results in £17.1m additional drawdowns during the three years
Other Capital project overspend - core business capex overspend 20%	AMP8 and AMP9 capex programme (non-HTR) execution 20% higher than expected	£29.2m additional capex in AMP8 and £27.3m in AMP9. Artesian ICR failed in FY26, FY27, FY28 (1.07x, 1.16x and 1.21x respectively)	£25m additional OpCo drawdown in AMP8, £6m of which repaid in AMP9. Additional £6.4m additional interest paid across both AMPs as a result
Combination - reduced future allowed revenues - core business capex overspend	AMP8 WACC 50bps lower than projected AMP8 and AMP9 capex programme (non-HTR) execution 20% higher than expected	£6.9m EBITDA reduction in AMP8 and £1.6m in AMP9, Artesian ICR failed in FY26, 27 and 28 (0.91x, 1.07x and 1.14x respectively) £29.2m higher capex in AMP8 and £27.3m in AMP9	£18.9m additional drawdowns in AMP8 and £12.1m in AMP9. £3.8m additional interest paid in AMP8 and £3.3m in AMP9
Combination - market interest rates (SONIA) - HTWSR overspend and delay -	AMP8 SONIA + 100bps ODI penalty of £1.0m in FY27 and FY28 and £3.8m in FY30 and FY31 Underspend of £78.6m throughout FY25 and FY26. Overspend of £106.7m throughout the next 6 years, cumulative £28.1m higher capex throughout the construction of Havant Thicket Reservoir	Artesian ICR failed in FY27, FY28 and FY30 (1.00x, -0.22x and 0.15x, respectively). £9.8m reduction across AMP8 and AMP9 EBITDA. £6.5m increase in interest payments in AMP8 and £17.9m in AMP9, mitigated by £15.6m of interest receivable in AMP8 and £1.0m in AMP9 Capex £17.1m and £17.8m across AMP8 and AMP9	76m in OpCo drawdowns in FY26 delayed. AMP8 OpCo debt increases by £29.4m. Interest paid decreases £2.1m in AMP8 but increases £19.6m in AMP9

TAX STRATEGY

Corporate structure

The group structure is set out on page 11. As noted above, the Company and wider group is wholly owned by funds managed by Ancala Partners LLP (Ancala), through a Singapore registered holding company, Ancala Fornia Topco Pte 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 which 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 considers our wider corporate reputation and are always managed in line with the Company's values.

Corporate interest restriction

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. Since 1 April 2020 the group has elected in to the Public Benefit Infrastructure Exemption.

Governance in relation to UK taxation

The ultimate responsibility for the tax strategy of the Company rests 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 always maintained and a continuous cycle of training occurs to ensure the 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.

At all times the Company 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 can 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 we claim appropriate levels of capital allowances and helps maximise legitimate taxation opportunities where possible.

Working with HMRC

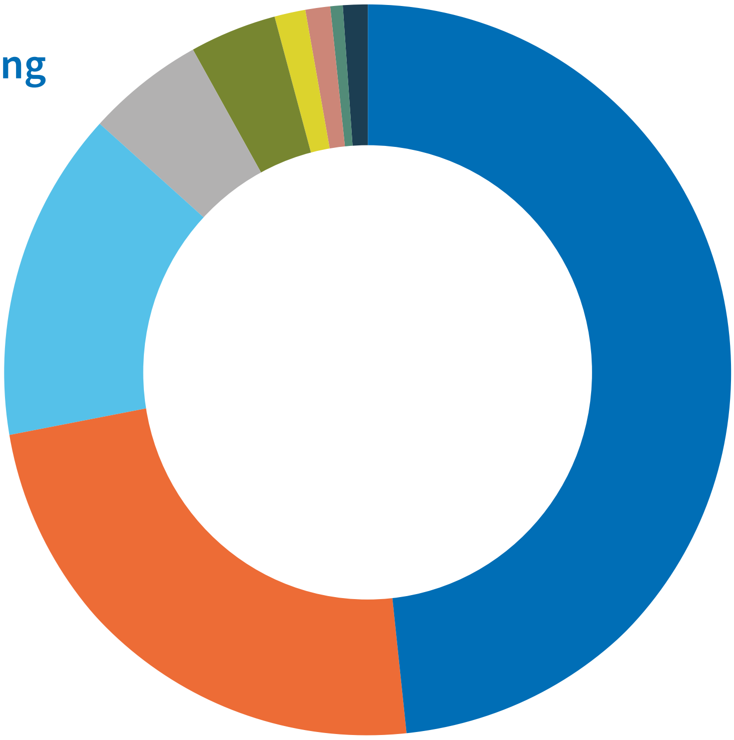
Portsmouth Water seeks to have a transparent, respectful and proactive relationship with HMRC, be that directly or through intermediaries acting on our behalf.

Any inadvertent errors which 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 the Company is a member. This wider industry forum allows us an opportunity to discuss how any future tax legislation can be interpreted and applied appropriately across the wider water industry.

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

PAYE	£2,749k
Employer's NI	£1,382k
Employee's NI	£836k
Climate Change Levy	£203k
Permit Schemes	£219k
Fuel Duty	£79k
Insurance Premium Tax	£66k
Road Fund Licence	£41k
Apprenticeship Levy	£50k



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 the Company and wider group.

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 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 our people to adhere to. If our employees are 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 we identify.

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 the same standard of preventing tax evasion;
- Any employee found in breach of our policy will be subject to disciplinary procedures; and
- 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 COMMITTEE

Sharon Darcy
Chair of Remuneration Committee

June 2024

Audit & Risk Committee Members

Sharon Darcy (Chair)

Christopher Deacon

Dr. Lara Stoimenova

UK Corporate Governance Principles

Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long term strategy.

A formal and transparent procedure for developing policy on executive remuneration and determining Director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Ofwat guidance on "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 companies are 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 90 to 98. Section 3.2 of the Regulatory Accounting Guideline 3 provides information that Boards should consider in explaining how they have met the relevant principles.

Role of Committee

On 1 October 2023, Sharon Darcy replaced Angela Smith as chair of the Remuneration Committee.

I am pleased to share the Remuneration Committee Report for 2023-24.

This report outlines our approach to executive remuneration and actions taken by the Committee to ensure a fair and transparent reward structure for our wider workforce, aligned to our performance commitments and overall company performance.

This year the Remuneration Committee revised our terms of reference so that our remuneration policies for executives are structured to ensure and promote the long-term sustainable success of the company and are more clearly linked to delivery for our customers, community and environment.

We recognise the landscape of executive compensation is evolving and we firmly believe executive remuneration should be designed to attract, retain, motivate, and engage leadership talent, whilst maintaining a transparent link between pay and stretching performance.

We developed principles around how executives and senior leaders are remunerated which are linked to delivering the right outcomes for our customers and communities while having a positive impact in the environment in which we operate.

The Committee reviewed the remuneration policy on executive pay and performance-related pay and introduced an all-employee bonus, where the majority of people are eligible to receive up to a maximum of 6% of base salary aligned to delivering stretching performance for customers and the environment.

We reviewed the bonus structure for executives and our most senior leaders to reflect Ofwat policy guidance and dialogue and amended the bonus and the Long Term Incentive Plan (LTIP)1 scheme that applies to Executive Directors and Executive team members for 2023-24 to improve transparency of the linkage between performance for customers, community and the environment.

The Remuneration Committee want to ensure performance related pay is linked to our performance commitments and that the targets set are stretching in nature and are continually assessed to make sure they remain so and deliver real value to our customers whilst continuing to provide the lowest price water in the country.

To align with good practice, the Remuneration Committee has also strengthened malus and clawback provisions by including a new clause in our Executive directors and executive team member contracts. The policy ensures there is sufficient flexibility to adjust bonus and LTIP payments through malus and clawback and gives the Committee an overriding discretion to depart from formulaic outcomes and use complete downward discretion for poor performance. Malus and clawback mechanisms apply for two years from bonus and LTIP payments and cover, amongst other things, material adverse impacts for customers, communities and the environment.

Activities During the Year

During the year the Committee dealt with the following matters:

- Review and approve personal objectives for the Executive Directors;
- Review Executive Directors and executive team members performance and remuneration;
- Through regular reporting, monitor and assess achievement of the targets set out in this report and overall company performance, including in terms of wider Outcome Delivery Incentives (ODIs), environmental issues and financial resilience;

Discuss, challenge, and agree the Executive Directors pay and benefits, ensuring that their long- term incentives and bonuses were payable on achievement of the targets set out in this report. The achievement of these results against target are noted on pages 46-47;

- Review and approve the all-employee bonus scheme;
- Approve the Remuneration principles for executives and senior leaders; and
- Reviewed current pay trends, labour market and inflation data ahead of negotiations with our Trade Unions around pay awards for all employees.

In addition, the Committee continue to review the reward structure for our wider workforce and introduced salary benchmarking for new and existing roles to ensure remuneration remains fair and competitive against market rate.

We are proud to be a real Living Wage employer and have regraded our entry level salaries in recognition of the challenges faced to the cost-of-living. We have also carried out an employee benefits review to assess the current benefits package offered to our employees. The review highlighted areas of strength, as well as potential improvements, with recommendations made to enhance the benefits we offer. Since carrying out the review we have made improvements to our family friendly offerings (see pages 36-39 of our Annual Report & Accounts for further details), introduced an additional life event day for all employees and increased our annual leave entitlement for our lower paid employees.

In addition to remuneration, we offer a range of wellbeing incentives such as medical health checks, physiotherapy treatment and an Employee Assistance Programme. We have 1 in 18 trained mental health first aiders, have formed a wellbeing working group, will be partnering with a financial education company, and will be rolling out people leaders mental health awareness training.

We continue to review our gender pay gap – data for this can be seen in our 2023-24 report. Whilst we recognise we still have a lot more work to do in addressing our gender pay gap, it's a journey we are embracing and this year we have seen some improvements in both the mean and median measures, which is an important step in the right direction.

We are committed to:

- Having remuneration policies and practices aligned to our purpose, values and long-term sustainable success and executive remuneration designed to attract and retain high-calibre individuals and promote stretching performance linked to the successful delivery of the company's long- term strategy.
- Regularly evaluate and refine our remuneration policies and practices to make sure they continue to align with best practices and are fair and transparent and meet the needs of the company and its stakeholders.
- Providing an inclusive place to work where people feel able to be their authentic selves and creating a diverse workforce that is reflective of the community we serve.

Sharon Darcy

Chair of the Remuneration Committee

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 remuneration committee considers the impact of any base salary increase on the total remuneration package. The Company currently provides a range of taxable benefits such as medical insurance, car allowance, life insurance and paid holiday.	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.	15% of salary into a defined contributions scheme, or equivalent amount paid as salary.	None
Annual bonus (Variable Pay) To reward performance by linking to achievement of key performance objectives aligned to the strategy of the Company. A significant proportion to be linked to stretching performance objectives.	Bonus awards to Executive Directors are made each year and are approved by the remuneration committee. A significant portion (80%) 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 65% (CEO) / 50% (CFO) of base salary of which two thirds is payable during the first half of the following financial year and one third is payable at the end of the AMP period (see Long term incentive scheme (Variable Pay) (1) below).	The incentive scheme is split between; Stretching delivery targets (operational and financial) 80% and personal performance objectives 20%
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) / 15% (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 COMMITTEE

Alignment to customers, community and the environment

Through AMP7 we have reviewed our policy on executive pay and performance related pay.

Deloitte were engaged to provide advice on best practice in terms of pay and rewards structures in the water sector. Deloitte led the Committee through a review of the existing bonus scheme and options to better align our scheme with Ofwat guidance.

The Committee reviewed and approve the changes to the bonus structure, including the introduction of an all-employee bonus, to bring the company into line with good practice.

All company employees now have a performance-related pay structure aligned to delivering performance for customers, communities and the environment.

The short-term and long-term components of executive pay have been amended for 2023-24 as follows:

- The weighting of the measures was reviewed to ensure the customer, community and environment components equate to 60% of performance-related pay.
- Three new measures were introduced to align with good practice and our 25 year vision priorities on health and safety, carbon, and social value (community partnership initiative).
- These new measures were in addition to the existing basket of ten ODI measures covering issues including water supply and quality and other environmental and customer related outcomes.
- A capex measure was replaced with a new totex measure to recognise the importance of operational expenditure.
- The weighting of financial and personal objectives were correspondingly reduced.

Targets were selected to provide a balanced package of measures representing the key areas of importance for delivering excellence for customers, stakeholders and shareholders, as well as taking consideration of Ofwat's guidance and Deloitte recommendations.

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	65%	45%	20%
Chief Financial Officer	50%	35%	15%
Commercial Director	35%	25%	10%
Executive Scheme	25%	20%	5%
Senior Leadership Team	15%	15%	-
Graded Staff	6%	6%	-

REMUNERATION COMMITTEE

The table below provides further information about how the bonus components are determined. Once the bonus pot for any year has been determined, the maximum achievable bonus will be split by the annual variable element and the long-term variable element as detailed on page 45. The annual element will be paid during the first half of the following financial year, and the long-term element 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 2023-24.

Customers, Communities & the Environment		**60%**	**Change**
Service Objective is made up of 10 Current ODIs:		45%	3 new measures
Compliance Risk Index	Unplanned Outage		
Interruptions	C-Mex		
Leakage	D-Mex		
PCC	Priority Services		
Mains Repairs	Severe Drought		
New Measure:	Health & Safety i.e. reportable accidents		
Carbon Net Zero			
Community Partnership Initiative			
TOTEX		15%	Replaces Capex and +2%
Financial		**20%**	**Change**
EBITDA		15%	+2%
Cash		5%	-2%
Personal including customer supporting		**20%**	**Change**
Individual Objectives (including customer element Objectives (including customer element)		20%	-13%

Service metric targets	Ofwat AMP7 Target	Company AMP7 Target	2023-24 spot target
Compliance Risk	0	< 1.5 reducing to <1.0 in year 4	< 2.0
Interruptions	6 mins 30 to 5 mins over AMP7	3 mins 32 secs per property in year 4	5 mins 23 secs per property
Leakage	15.2% reduction over AMP7	15.2% reduction over AMP7	12.2% reduction from 2019-20 base year
PCC	6.3% reduction over AMP7	5.0% reduction from 2019-2020 base year	5.0% reduction from 2019-20 base year
Mains repairs	73.8 repairs reducing to 68.6 over AMP7	< 60.0 repairs per 1,000km	70.0 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	9.0%
Severe Drought	84% reducing to 32% over AMP7	84% reducing to 32% over AMP7	68%

Financial objectives	Target
Financial: Measured vs budget targets	
EBITDA	£15.5m
Cash from Operations HY1	£6.2m
Cash from Operations HY2	£4.7m

The performance related pay detailed above has been funded through totex in line with the regulatory framework and compliant with Ofwat guidance on remuneration.

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. The introduction of the all-employee bonus in year has helped to strengthen this alignment.

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 2024 £000	Total 2023 £000	Movement £000
Executive:								
C.R.Taylor	215	8	70	**293**	43	**336**	209	**127**
J.C.Milner	149	6	30	**185**	30	**215**	176	**39**
Non-Executive:								
Christopher Deacon	58			**58**		**58**	52	**6**
Lara Stoimenova	32			**32**		**32**	29	**3**
Angela Smith (Wilson) *Resigned November 2023*	22			**22**		**22**	29	**-7**
Sharon Darcy *Appointed October 2023*	15			**15**		**15**		**15**
	491	14	100	**605**	73	**678**	495	**183**

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 five 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

Year-on-year movements for the Executives total remuneration are shown below:

Chief Executive Officer (C.R.Taylor)

		Taxable Benefits						
Year	Salary/Fee £000	Car £000	Medical Insurance £000	Other £000	Bonus Scheme £000	Sub-total £000	Pension £000	Total 2024 £000
2024	215	7	2		70	**293**	43	**336**
2023	201	7	2			**209**		**209**
Movement	14	0	0	0	70	**84**	43	**127**

Note that C. R Taylor joined the Defined Contribution Pension Scheme which represents the increase in pension contributions in the year. In 2023 there was zero bonus paid in year due a fraud incident in year, as detailed on page 65 of the Annual Report and Accounts 2023.

Chief Financial Officer (J. C. Milner)

		Taxable Benefits						
Year	Salary/Fee £000	Car £000	Medical Insurance £000	Other £000	Bonus Scheme £000	Sub-total £000	Pension £000	Total 2024 £000
2024	149	6			30	**185**	30	**215**
2023	133	6		22		**161**	15	**176**
Movement	16	0	0	-22	30	**24**	15	**39**

Note that J. C. Milner received a salary increase and increase in bonus allowance from 1 Dec 2023 in recognition of achievements.
Other taxable benefits paid in 2023 relate to relocation expenses.
In 2023 there was zero bonus paid in year due a fraud incident in year, as detailed on page 85 of the Annual Report and Accounts 2023.

Details of the Executive Bonus Scheme calculations are shown below:

Chief Executive Officer (C.R.Taylor)

	Bonus Objectives	Weighting	Achievement of Targets	Weighted Bonus	Bonus applicable salary £000	Bonus %	Bonus £000	Bonus £000 by Objective	Proportion Paid in Year %	Proportion Paid in Year £000	Proportion Deferred (LTIP 1)%	Proportion Deferred (LTIP 1) £000
Maximum Bonus	Service	60%	100%	60%	215	65%	140	84	45%	97	20%	43
	Financial	20%	100%	20%				28				
	Personal	20%	100%	20%				28				
	Total	**100%**		**100%**				140				
Total					**215**	**65%**	**140**	**140**		**97**		**43**
Actual Bonus	Service	60%	63%	38%	215	65%	101	53	45%	70	20%	31
	Financial	20%	81%	16%				23				
	Personal	20%	91%	18%				25				
	Total	**100%**		**72%**				**101**				
Total					**215**	**65%**	**101**	**101**		**70**		**31**

Chief Financial Officer (J.C. Milner)

	Bonus Objectives	Weighting	Achievement of Targets	Weighted Bonus	Bonus applicable salary £000	Bonus %	Bonus £000	Bonus £000 by Objective	Proportion Paid in Year %	Proportion Paid in Year £000	Proportion Deferred (LTIP 1)%	Proportion Deferred (LTIP 1) £000
Maximum Bonus (April 23-Nov 23)	Service	60%	100%	60%	96	35%	33	20	25%	24	10%	10
	Financial	20%	100%	20%				7				
	Personal	20%	100%	20%				27				
	Total	**100%**		**100%**				**33**				
Maximum Bonus (Dec 23-March 24)	Service	60%	100%	60%	53	50%	27	16	35%	19	15%	8
	Financial	20%	100%	20%				5				
	Personal	20%	100%	20%				5				
	Total	**100%**		**100%**				**27**				
Total					**149**	**40%**	**60**	**60**		**43**		**18**
Actual Bonus (April 23-Nov 23)	Service	60%	63%	38%	96	35%	24	13	25%	17	10%	7
	Financial	20%	81%	16%				5				
	Personal	20%	85%	17%				6				
	Total	**100%**		**71%**				**24**				
Actual Bonus (Dec 23-March 24)	Service	60%	63%	38%	53	50%	19	10	35%	13	15%	5
	Financial	20%	81%	16%				4				
	Personal	20%	85%	17%				5				
	Total	**100%**		**71%**				**19**				
Total					**149**	**29%**	**43**	**43**		**30**		**12**

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	4,300	30%	1,290
Non Regulated EBITDA	4,750		30%	

The projected bonus is set out below:

	Maximum %	Project 5 Year Period £000	LTIP2 - earned* in year £000
Chief Executive Officer C. R. Taylor	50%	645	129
Chief Financial Officer J.C. Milner	25%	226	65

(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.

Achievement of this is uncertain and dependent on the PR24 Final Determination from Ofwat. As a result, there is no provision held in the accounts for LTIP2.

REMUNERATION COMMITTEE

Long term incentive scheme 3 (LTIP3)
This scheme is payable based on on-time delivery of wet commissioning (in line with 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 for year £000
Chief Executive Officer C. R. Taylor	70	31	129	**230**
Chief Financial Officer J.C. Milner	30	13	65	**107**

* LTIP2 amounts will only be paid if targets set are fully achieved at end of AMP period on 31 March 2025.

Pension Entitlements (Audited Information)

The Company participates a defined contribution scheme. Mr C. R. Taylor and Mr J. C. Milner are members of the defined contribution scheme. Contributions amounting to £72,750 were made on their behalf by the Company in the year.

The Non-Executive Directors are not members of the pension scheme.

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:	2019	2020	2021	2022	2023	**2024**
Total remuneration excluding pension (£000)	167	240	275	287	209	**336**

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]	7%	12%
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	2024	2023
25th percentile	**13:1**	20:1
50th percentile	**10:1**	12:1
75th percentile	**7:1**	8:1

This report was approved by the Board on 20 June 2024 and will be subject to shareholder approval at the Annual General Meeting to be held on 31 July 2024.

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

Sharon Darcy
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.

In addition to their responsibilities under Companies Act, 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.

Condition F of the licence requires us to:

(a) keep appropriate accounting records which are consistent with guidelines published by Ofwat;

(b) prepare a set of regulatory accounting statements, in respect of the twelve-month period ending on 31 March in each Charging Year, which are in accordance with the Regulatory Accounting Guidelines; and

(c) comply with all other requirements that are set out in the Regulatory Accounting Guidelines.

We confirm that to the best of our knowledge that these regulatory accounting statements 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 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 our licence we hereby present a ring-fencing certificate.

This certificate confirms that, in the opinion of the Board of Portsmouth Water Limited:

(a) The company 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) The company 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) The company 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.

(d) 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.

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 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. Ongoing monitoring of the funding requirements associated with the construction of Havant Thicket, including the additional £150m of new equity provided to support the project. 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 members attendance at stakeholder forums, including the Your Water, Your Say public meetings. 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 as at 31 March 2024, and as forecast for the next five years. The Board approved the raising of £340m of new debt facilities in February and March 2023 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 PR24 Business Plan, including consideration of independent advice from Centrus in respect of financial resilience. Review and challenge by the Board of evidence to support the going concern and the Viability Statements. Approval of those statements. Ongoing monitoring of the capital requirements associated with the Havant Thicket Winter Storage Reservoir project.
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 particular 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 Nominations Committee has oversight of appointment of members of the senior leadership team and makes the final appointment. During the year the need for additional asset management expertise at executive level was identified and an additional executive post was created. A new Chief Asset Officer joined the business in May 2024.
Succession planning for key management/staff	An independent review of the Board performance was undertaken during 2021 and internal Board evaluation exercises have taken place annually since then. The Board has put into place a programme to address the matters identified in those reviews. 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. During the year a new non-executive director joined the Board, bringing additional expertise to the board in the areas of sustainability and regulation.
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 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 been implementing 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 Customer Scrutiny Panel. 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. The Board also joined the Management Team in undertaking an EDI refresher training course prior to its role-out across the business.
Board or management activities, reports or statements	The Board meets six 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 created a steering group to provide oversight to the PR24 programme. 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	Independent Non-Executive Directors are the largest single group on the Board, consistent with Ofwat's principles on Board Leadership, transparency and governance. The Chair is independent of management and investors.

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 & Risk Committee, annually reviews the approach to regulatory reporting and assurance and considers the outcomes of that assurance in approving the Annual Performance Report. 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's 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 & Risk 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 and complete training on these at least annually.

Rights and resources other than financial resources

Factors	Summary of Board considerations
Corporate purpose, vision and values	As part of the preparations for PR24, the Board oversaw 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 PR24 Business Plan process the Company assessed asset health, risk and resilience and this informed the asset maintenance programme for future periods. The Board considered the proposals for asset maintenance for AMP8 as part of their scrutiny and sign off of the PR24 Business Plan. The Board receives regular reports in relation to operational performance, including asset health metrics and progress in delivery of 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. As part of the preparations for AMP8 the Board will be closely involved with the refresh of our supply chain. The Board is closely involved in providing oversight, strategic direction, and challenge of the Havant Thicket project. It is closely involved in the process to develop the scope of the project to align with Southern Water's recycling proposals.
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 remains closely involved in the oversight of this programme and has representation on the HTWSR Steering Committee. The Board has maintained oversight of the development of the project, including and is closely involved in the process to develop the scope of the project to align with Southern Water's recycling proposals. During 2023 it oversaw the process of securing £340m of new debt financing and the injection of an additional £150m of new equity to support the project. As part of its consideration of financing strategy and financial resilience the Board receives independent advice from Centrus. 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.

Licence Derogation – Credit Ratings

In May 2023 Ofwat modified the ring fencing provisions in the licences of all water undertakers to include a requirement to maintain an Investment Grade Issuer Credit Rating with at least two Credit Rating Agencies, other than where Ofwat provides its written agreement for the Appointee to maintain only one Issuer Credit Rating.

In July 2023 Portsmouth Water sought Ofwat agreement for a derogation of this requirement on the basis that, for a small company, the costs of maintaining two credit ratings were disproportionate to the benefits, that there are additional financial protections contained within our financing structure, and that additional information would be provided to Ofwat in the form of our Investor Report. Having considered the evidence provided, Ofwat provided its consent to maintain one issuer credit rating for a period of five years in a letter dated 14 July 2023. This consent is subject to provision of Investor Reports to Ofwat, and of there being no material change in the rating analysis from the Credit Rating Agency and no material change in our financial standing or operational performance.

We can confirm that through the relevant period we have maintained a single issuer credit rating from Moody's, and that we comply with the conditions attached to Ofwat's licence derogation.

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 principles of the Regulatory Accounting Guideline 5, in so far as they apply to the Company. Transactions with associated companies are at arm's length and cross subsidy is not occurring. Details of all transactions with associates are provided on pages 165 to 166 of this document.

Licence condition G: customer focus

In February 2024 Ofwat introduced a new customer-focused licence condition designed to help ensure companies are focused on meeting customers' needs and encourage the very best service for customers. It requires companies to develop or have in place policies and approaches to meet Ofwat's principles for customer care.

We are committed to meeting Ofwat's customer-focused licence conditions by ensuring our customers are well supported and informed. Historically, we have delivered excellent service, earning the trust of our customers, as reflected in the performance of C-Mex and UKCSI. Our community-centric approach involves strong partnerships with local organisations like East Hants Citizens Advice, Shaping Portsmouth and minority groups, enhancing our customer engagement and support. We work closely with CCW to develop and implement customer care policies, as evidenced by our industry-leading incidents page on our website. Our digital transformation has significantly improved our communication capabilities, offering omnichannel options, a new app and web portal, and a fully integrated omnichannel platform. These advancements have streamlined our operations, reduced handovers, and increased first-time resolution rates, all while providing real-time data access and enriched customer insights.

Looking ahead, we are enhancing our customer support through sentiment analysis, asynchronous messaging, and continuous improvement processes. Our innovative initiatives, such as the Water Lab partnership with Kraken, focus on driving customer-centric outcomes like water efficiency and engagement. We are also expanding our data analytics capabilities to better identify and support vulnerable customers and those struggling to pay. Our holistic customer journey approach integrates affordability support with usage reduction strategies, leveraging partnerships with local stakeholders and advanced analytics. Through these efforts, we continue to publish our learnings and share insights with the industry, reinforcing our commitment to deliver for customers.

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

Statement on Risk and Compliance

The Directors confirm that the Company, in their opinion:

- has a full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet 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 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 on page 83 of the Company's Annual Report and Accounts.

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 our performance. This is key to establishing trust and legitimacy in the industry. This information is primarily reported through this Annual Performance Report.

To ensure that all stakeholders, including Ofwat, can rely on the data that we publish we have worked to operate and embed a three lines of defence assurance model.

- The first line of defence is the data producers and owners, who have primary responsibility for the accuracy of the data they report. All data is produced in accordance with documented methodologies and is subject to sign off by the relevant senior manager and executive.
- The Data & Insight team provide a second level of internal assurance, independently reviewing and challenging the data to be reported.
- Independent external assurance represents the third line of defence. For 2023-24 we engaged Jacobs to ensure our non-financial data and our statutory auditors KPMG to assure our regulatory accounts and other financial data.

The Audit & Risk Committee oversee the assurance process on behalf of the Board and the committee hears directly from the independent third-party assurers, including taking the opportunity to have discussion with the assurers without management being present.

Based on the assurances it has received from management and the external assurance providers, the Board is satisfied that the Company has in place appropriate processes and internal systems of control to enable it to report on its performance with an appropriate degree of reliability, accuracy and completeness.

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, including performance commitments and the capital investment programme. 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 & Risk Committee, reviews the outcome of all data assurance activities undertaken for the APR. The Audit & Risk 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 & Risk Committee has close oversight over both the performance of third-party assurance providers and the appointment of those parties. A competitive 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. In preparation for the next regulatory period, over the next twelve months the Board will oversee the retendering of the contract for 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 and 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.

- The Board, through the Audit & Risk Committee, has considered the results of the data assurance process and has discussed the outcomes with the independent assurance providers – Jacobs and KPMG.
- The Board, through the Audit & Risk 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 & Risk Committee also tracks any remediation of control deficiencies including improvement in the documentation of processes.
- All key regulatory 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 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

The Board has overseen a number of improvements to the Company's reporting processes over the last twelve months. This includes:

- An updated risk assessment approach to determine the risk of the probability of inaccurate reporting of data. This risk assessment was used in prioritising assurance activity for the year end.
- The introduction of process audits ahead of the year end to identify and mitigate any risks inherent in our reporting processes.
- Reinforcement of the respective roles of data providers and data owners and a greater focus on first and second-line assurance.

In addition to these internal process improvements, 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 assurance on technical elements of our regulatory submissions, and our financial auditors, KPMG, audit our key financial data.

This process is the responsibility of the Audit & Risk Committee and is signed off by the Chair 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 & Risk 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;

DIRECTORS' STATEMENTS AND RESPONSIBILITIES

- reviews and scrutinises the Company's business plans; and
- assesses the risk management and control arrangements including risk reporting.

The Audit & Risk Committee is chaired by an independent non-executive director with appropriate finance qualifications and experience and extensive assurance experience.

The Audit & Risk Committee:

- oversees the work undertaken by our independent assurers, Jacobs and KPMG, and receives reports from these assurers;
- reviews and where appropriate, approves non-audit services undertaken by the statutory auditor;
- considers reports from management and external auditors on the system of internal control and any material control weaknesses identified;
- discusses with management the actions taken on any problem areas identified by the Board members and management or in the external audit reports; and
- The Chair of the Committee reports the outcome of the Audit & Risk Committee Meetings to the Board and the Board receives the minutes of all Audit Committee meetings.

Further information on the Audit & Risk Committee, including a summary of the activities undertaken by the Committee during the year is included in our Annual Report & Accounts for 2023-24.

Signed on 3 July 2024 by:

Mr. C. Deacon
Independent Chairman

Dr. L. Stoimenova
Independent Non-Executive Director

Mrs. S. Darcy
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

1A INCOME STATEMENT

Table 1A - Income statement for the 12 months ended 31 March 2024

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Revenue	2	47.919	(0.188)	0.294	(0.482)	47.437	1A.1
Operating costs	3	(39.756)	0.151	(0.079)	0.230	(39.526)	1A.2
Other operating income	4	(0.031)	-	-	-	(0.031)	1A.3
Exceptional items	4	-	-	-	-	-	
Operating profit		8.132	(0.037)	0.215	(0.252)	7.880	1A.4
Other income	5	-	1.865	-	1.865	1.865	1A.5
Interest income	6	6.265	-	-	-	6.265	1A.6
Interest expense	7	(18.745)	(8.832)	-	(8.832)	(27.577)	1A.7
Other interest income	6	-	-	-	-	-	1A.8
Profit before tax and fair value movements		(4.348)	(7.004)	0.215	(7.219)	(11.567)	1A.9
Fair value gains/(losses) on financial instruments		-	-	-	-	-	1A.10
Profit before tax		(4.348)	(7.004)	0.215	(7.219)	(11.567)	1A.11
UK Corporation tax	8	0.014	-	-	-	0.014	1A.12
Deferred tax	8	0.904	-	-	-	0.904	1A.13
Profit for the year		(3.430)	(7.004)	0.215	(7.219)	(10.649)	1A.14
Dividends	9	(2.342)	-	-	-	(2.342)	1A.15
Tax analysis							
Current year	8	(0.014)	-	-	-	(0.014)	1A.16
Adjustments in respect of prior years	8	-	-	-	-	-	1A.17
UK Corporation tax		(0.014)	-	-	-	(0.014)	1A.18

Analysis of non-appointed revenue	Non-appointed	RAG 4 reference
Imported sludge	-	1A.19
Tankered waste	-	1A.20
Other non-appointed revenue	0.294	1A.21
Revenue	0.294	1A.22

REGULATORY FINANCIAL REPORTING

1B STATEMENT OF COMPREHENSIVE INCOME

Table 1B - Statement of comprehensive income for the 12 months ended 31 March 2024

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Profit for the year		(3.430)	(7.004)	0.215	(7.219)	(10.649)	1B.1
Actuarial gains/(losses) on post-employment plans	22	0.364	-	-	-	0.364	1B.2
Other comprehensive income	20	0.194	-	-	-	0.194	1B.3
Total Comprehensive income for the year		(2.872)	(7.004)	0.215	(7.219)	(10.091)	1B.4

REGULATORY FINANCIAL REPORTING

1C STATEMENT OF FINANCIAL POSITION

Table 1C - Statement of financial position for the 12 months ended 31 March 2024

£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	264.605	(13.966)	-	(13.966)	250.639	1C.1
Intangible assets	11	15.191	(1.131)	-	(1.131)	14.060	1C.2
Investments - loans to group companies	12	-	-	-	-	-	1C.3
Retirement benefit assets	23	-	-	-	-	-	1C.6
Total		279.796	(15.097)	-	(15.097)	264.699	1C.7
Current assets							
Inventories		0.576	-	-	-	0.576	1C.8
Trade & other receivables	13,14	111.411	-	-	-	111.411	1C.9
Financial instruments		0.380	-	-	-	0.380	1C.10
Cash & cash equivalents	15	25.959	-	0.442	(0.442)	25.517	1C.11
Total		138.326	-	0.442	(0.442)	137.884	1C.12
Current liabilities							
Trade & other payables	17	(18.387)	0.258	-	0.258	(18.129)	1C.13
Capex creditor	17	(11.337)	-	-	-	(11.337)	1C.14
Borrowings	16	(19.939)	-	-	-	(19.939)	1C.15
Financial instruments	22	(0.437)	-	-	-	(0.437)	1C.16
Current tax liabilities	17	-	-	-	-	-	1C.17
Provisions	17	-	-	-	-	-	1C.18
Total		(50.100)	0.258	-	0.258	(49.842)	1C.19
Net Current assets/(liabilities)		88.226	0.258	0.442	(0.184)	88.042	1C.20
Non-current liabilities							
Borrowings	18	(218.346)	-	-	-	(218.346)	1C.22
Financial instruments	22	(1.415)	-	-	-	(1.415)	1C.23
Deferred income - G&C's	19	(34.223)	2.578	-	2.578	(31.645)	1C.26
Deferred tax	20	(8.330)	-	-	-	(8.330)	1C.29
Total		(262.314)	2.578	-	2.578	(259.736)	1C.30
Net assets		105.708	(12.261)	0.442	(12.703)	93.005	1C.31
Equity							
Called up share capital	21	81.078	-	-	-	81.078	1C.32
Retained earnings & other reserves	21	24.630	(12.261)	0.442	(12.703)	11.927	1C.33
Total Equity		105.708	(12.261)	0.442	(12.703)	93.005	1C.34

1D STATEMENT OF CASHFLOWS

Table 1D - Statement of cashflows for the 12 months ended 31 March 2024

£m	Note	Statutory	Adjustments			Total appointed activities	RAG 4 reference
			Differences between statutory and RAG definitions	Non-appointed	Total adjustments		
Operating activities							
Operating profit		8.132	(0.037)	0.215	(0.252)	7.880	1D.1
Other income		-	1.865	-	1.865	1.865	1D.2
Depreciation		6.322	-	-	-	6.322	1D.3
Amortisation - G&C's		(1.048)	(1.696)	-	(1.696)	(2.744)	1D.4
Changes in working capital		(1.102)	(0.132)	-	(0.132)	(1.234)	1D.5
Pension contributions		0.364	-	-	-	0.364	1D.6
Movement in provisions		0.031	-	-	-	0.031	1D.7
Loss on sale of fixed assets		-	-	-	-	-	1D.8
Cash generated from operations		12.699	0.000	0.215	(0.215)	12.484	1D.9
Net interest paid		(3.392)	-	-	-	(3.392)	1D.10
Tax paid		-	-	-	-	-	1D.11
Net cash generated from operating activities		9.307	0.000	0.215	(0.215)	9.092	1D.12
Investing activities							
Capital expenditure		(61.024)	-	-	-	(61.024)	1D.13
Grants & Contributions		0.761	-	-	-	0.761	1D.14
Disposal of fixed assets		0.014	-	-	-	0.014	1D.15
Other		(0.314)	-	-	-	(0.314)	1D.16
Net cash used in investing activities		(60.563)	-	-	-	(60.563)	1D.17
Net cash generated before financing activities		(51.256)	0.000	0.215	(0.215)	(51.471)	1D.18
Cashflows from financing activities							
Equity dividends paid		(2.342)	-	-	-	(2.342)	1D.19
Net loans received		25.484	-	-	-	25.484	1D.20
Cash inflow from equity financing		-	-	-	-	-	1D.21
Net cash generated from financing activities		23.142	-	-	-	23.142	1D.22
Increase (decrease) in net cash		(28.114)	0.000	0.215	(0.215)	(28.329)	1D.23

REGULATORY FINANCIAL REPORTING

1E NET DEBT ANALYSIS (APPOINTED ACTIVITIES)

Table 1E - Net debt analysis (appointed activities) at 31 March 2024

	*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	2.512	142.285	78.026	243.729	1E.1
Preference share capital					-	1E.2
Total borrowings	20.906	2.512	142.285	78.026	243.729	1E.3
Cash					(25.959)	1E.4
Short term deposits					(90.000)	1E.5
Net Debt					127.770	1E.6
Gearing						
Gearing					49.97%	1E.7
Adjusted Gearing - excluding intercompany debt					41.91%	1E.8
Adjusted Gearing - for Havant Thicket CAM					*38.66%*	
Interest						
Full year equivalent nominal interest cost	0.629	0.042	11.513	4.599	16.783	1E.9
Full year equivalent cash interest payment	0.629	0.042	5.172	2.052	7.895	1E.10
Indicative interest rates						
Indicative weighted average nominal interest rate	3.009%	1.672%	8.092%	5.894%	6.886%	1E.11
Indicative weighted average cash interest rate	3.009%	1.672%	3.635%	2.630%	3.239%	1E.12
Time to maturity						
Weighted average years to maturity	1.336	38.016	8.000	13.000	9.315	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 £3.563m. This consists of deferred arrangement fees and loan refinance fees, shown in the table below:

	B/S Table 1C	Gearing Table 1E	Difference
Finance Lease liability	1,041	1,041	
RPI-CPI swap	1,852	1,852	0
Interest rate swap (asset)		-381	381
Deferred arrangement fees	-29		
Bank Revolving Credit Facility			
Deferred arrangement fees	-1,396		-1,396
Loan finance fees	646		646
Term Loan Facility			
Deferred arrangement fees	-567		-567
Bank Facility			
Deferred arrangement fees	-326		-326
Debenture loans	283	283	
Bank Loan	142,285	142,285	
Loan finance fees	2,184		2,184
Deferred arrangement fees	-482		-482
CPI Bond	78,026	78,026	
Prepaid Artesian Restructuring fees	-2,057		-2,057
Deferred arrangement fees	-1,237		-1,237
Intra-group loan	20,623	20,623	
Deferred arrangement fees	-709		-709
	240,137	**243,729**	**-3,563**

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 2024
(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	76.972	76.972	70.224	76.972	76.972	70.224	1F.1
Return on regulatory equity	4.22%	3.85%	4.22%	3.248	2.963	2.963	1F.2
Financing							
Impact of movement from notional gearing		0.37%	0.16%		0.285	0.111	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		3.00%	3.29%		2.310	2.310	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-6.35%	-7.35%		(4.885)	(5.161)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.22%	0.87%	0.32%	3.248	0.673	0.223	1F.9
Operational Performance							
Totex out / (under) performance		-2.91%	-3.19%		(2.242)	(2.242)	1F.10
ODI out / (under) performance		-2.22%	-2.43%		(1.708)	(1.708)	1F.11
C-Mex out / (under) performance		0.32%	0.35%		0.243	0.243	1F.12
D-Mex out / (under) performance		0.11%	0.12%		0.085	0.085	1F.13
Retail out / (under) performance		-1.09%	-1.19%		(0.838)	(0.838)	1F.14
Other exceptional items		-0.03%	-0.04%		(0.025)	(0.025)	1F.15
Operational performance total		-5.83%	-6.39%		(4.485)	(4.485)	1F.16
RoRE (return on regulatory equity)	4.22%	-4.95%	-6.07%	3.248	(3.812)	(4.262)	1F.17
RCV growth from inflation	4.49%	4.49%	4.49%	3.456	3.456	3.153	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	8.71%	-0.46%	-1.58%	6.704	(0.356)	(1.108)	1F.20
Dividends							
Gross Dividend	4.19%	2.44%	2.68%	3.225	1.879	1.879	1F.21
Interest Received on Intercompany loans	0.00%	-1.60%	-1.76%	-	(1.233)	(1.233)	1F.22
Retained Value	4.52%	-1.30%	-2.50%	3.479	(1.002)	(1.754)	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.21%	-0.23%		(0.161)	(0.161)	1F.24
ODI out / under performance		-0.91%	-1.00%		(0.704)	(0.704)	1F.25
Total out / under performance		-1.12%	-1.23%		(0.865)	(0.865)	1F.26

REGULATORY FINANCIAL REPORTING

1F FINANCIAL FLOWS

Table 1F - Financial flows average for the years 2021-2024
(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	68.710	68.710	50.826	68.710	68.710	50.826	1F.1
Return on regulatory equity	4.18%	3.09%	4.18%	2.874	2.126	2.126	1F.2
Financing							
Impact of movement from notional gearing		1.09%	0.54%		0.748	0.275	1F.3
Gearing benfits sharing		0.00%	0.00%		-	-	1F.4
Variance in corporation tax		1.35%	1.83%		0.929	0.929	1F.5
Group relief		0.00%	0.00%		-	-	1F.6
Cost of debt		-3.00%	-4.54%		(2.060)	(2.306)	1F.7
Hedging instruments		0.00%	0.00%		-	-	1F.8
Return on regulatory equity including Financing adjustments	4.18%	2.54%	2.01%	2.874	1.743	1.024	1F.9
Operational Performance							
Totex out / (under) performance		0.62%	0.84%		0.429	0.429	1F.10
ODI out / (under) performance		-0.90%	-1.22%		(0.618)	(0.618)	1F.11
C-Mex out / (under) performance		0.27%	0.36%		0.183	0.183	1F.12
D-Mex out / (under) performance		0.10%	0.14%		0.071	0.071	1F.13
Retail out / (under) performance		-1.00%	-1.35%		(0.688)	(0.688)	1F.14
Other exceptional items		-1.81%	-2.44%		(1.242)	(1.242)	1F.15
Operational performance total		-2.71%	-3.67%		(1.865)	(1.865)	1F.16
RoRE (return on regulatory equity)	4.18%	-0.18%	-1.65%	2.874	(0.122)	(0.841)	1F.17
RCV growth from inflation	6.09%	6.09%	6.09%	4.181	4.181	3.093	1F.18
Voluntary sharing arrangements		0.00%	0.00%		-	-	1F.19
Total shareholder return	10.27%	5.91%	4.43%	7.055	4.059	2.252	1F.20
Dividends							
Gross Dividend	4.19%	3.83%	5.18%	2.879	2.631	2.631	1F.21
Interest Received on Intercompany loans	0.00%	-1.55%	-2.10%	-	(1.065)	(1.065)	1F.22
Retained Value	6.08%	3.63%	1.35%	4.176	2.493	0.686	1F.23
Cash impact of 2015-20 performance adjustments							
Totex out / under performance		-0.22%	-0.30%		(0.154)	(0.154)	1F.24
ODI out / under performance		-0.98%	-1.32%		(0.673)	(0.673)	1F.25
Total out / under performance		-1.20%	-1.63%		(0.827)	(0.827)	1F.26

REGULATORY FINANCIAL REPORTING

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_2024_Overall- '.
- The gearing and cost of debt calculations use the year-end RCV numbers published by Ofwat in 'PR19RCV-PRT '.
- The gearing calculation adjusts the actual return on net debt by average CPIH for 2023-24.
- Actual returns include exceptional items, which are very small in the current year.

Variances between the Final Determination and the results for 2023-24

We have considered the significant variances arising between the return assumed in the Final Determination and the actual return for 2023-24. In overall terms the actual total shareholder return is -£1.108m and the dividend paid is £0.646m, compared to the notional total shareholder return of £6.704m and notional dividend paid of £3.225m, based upon the Final Determination.

The material differences are driven by:

- Higher average 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 underperformance.
- Retail operational underperformance
- ODI penalties relating to the year (including C-Mex and D-Mex)

Gearing

Actual average gearing of 63.4% is above the notional gearing of 60% by 3 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 36.6% 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 average gearing reduces to 46.7%. This is 17 percentage points below the notional gearing.

Gearing Benefits Sharing

The threshold for this adjustment is 71% in 2023-24. Portsmouth Water's year end gearing is 50%, which is below this threshold. However, this does not reflect the true gearing of the Company, as the RCV for Havant Thicket has been revised upwards in the latest CAM Final Determination.

The revised year end gearing is 38.7% which is further below the 71% threshold.

REGULATORY FINANCIAL REPORTING

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, 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.

2017-18 price base	£'000	£'000
Allowed Corporation Tax Charge in Final Determination	-	107
Tax payable on loss at the standard rate of Corporation Tax 19%	(2,320)	-
Adjusted for the tax impact of:		
Timing differences on capital allowances	131	-
Prior year adjustments	(14)	-
	-	(2,204)
Difference (favourable)	-	2,310

Cost of Debt

The Company's actual real cost of debt is 6.92% (mainly index linked debt) and exceeds the allowed cost of debt of 2.54% (as published by Ofwat), and together with the higher gearing levels this results in a £5.161m reduction in financial returns.

Totex outperformance

The 2023-24 variance on capital expenditure is £8.045m (underperformance), after an adjustment for timing differences of (£0.841m). The variance on operating expenditure is (£0.506m) (outperformance) with no adjustment for timing differences. 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. The cost sharing percentages are published by Ofwat in the Financial Flows source file.

See commentary relating to table 4D on page 132 for more details on the Totex expenditure variance to FD.

Retail out/under performance

The 2023-24 Household Retail expenditure is above the FD and was driven by a combination of factors which are explained further on page 111.

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

There are a number of ODI rewards and penalties relating to 2023-24. They are mainly paid on an in-period basis (within AMP7 as opposed to the end of AMP7), except the PCC ODI, and none of them have an impact on the RCV. The total net penalties for the year amount to -£1.708m, in 2017-18 prices.

Portsmouth Water ODI performance 2023/24

2017/18 prices	Payment (£m)	Water Resources	Network Plus	Retail
Compliance Risk Index	-0.848		-0.848	
Interruptions	0.243		0.243	
Leakage	-0.672		-0.672	
Mains repairs	0.000		0.000	
Water Quality contacts	0.000		0.000	
Household Voids	-0.034			-0.034
Per Capita Consumption	-0.397	-0.397		
	-1.708	-0.397	-1.277	-0.034
C-Mex (2022/23 performance)	0.243			0.243
D-Mex (2022/23 performance)	0.085		0.085	
Total ODI's	-1.380	-0.397	-1.192	0.209

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 2022-23, and these are published by Ofwat in the Financial Flows data source file.

REGULATORY FINANCIAL REPORTING

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS

For the year ended 31 March 2024

	Statutory £'000	Regulatory £'000	Commentaries
Income statement			
Revenue	47,919	47,437	See a) below
Operating profit	8,132	7,880	See b) below
Statement of financial position			
Tangible fixed assets (net book value)	264,605	250,639	See c) below
Intangible fixed assets (net book value)	15,191	14,060	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 Annual Report & Accounts (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 £0.159m 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 also a 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 from the amount recognised in the ARA.

	£'000
Statutory revenue	47,919
Amortisation of Developer Contributions	(973)
Income from Connection Charges	(892)
Income from Mains Diversions	-
Non-appointed revenue	(135)
Non-appointed meter reading revenue	(159)
Void debt provision	(19)
Havant Thicket bulk supply revenue	1,696
	47,437

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 £0.215m 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 £0.132m to offset the innovation allowed revenue is excluded in the APR.

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS

	£'000
Statutory operating profit	8,132
Amortisation of Developer Contributions	(973)
Income from Connection Charges	(892)
Income from Mains Diversions	-
Non-appointed commercial revenue	(135)
Non-appointed commercial costs	166
Non-appointed meter reading revenue	(159)
Non-appointed rents receivable	(119)
Non-household meter reading costs	32
Innovation cost provision	132
Havant Thicket bulk supply revenue	1,696
Regulatory operating profit	7,880

c) The difference in the Tangible and Intangible Fixed Assets net book values relates to the accounting treatment of borrowing costs for the Havant Thicket project and Development projects. These have been capitalised in the ARA, but this treatment is not allowed in the Regulatory Accounts.

	£'000
Statutory Tangible fixed assets	264,605
Borrowing costs capitalised - Havant Thicket 2024	(7,918)
Borrowing costs capitalised - Havant Thicket prior years	(6,048)
Regulatory Tangible fixed assets	250,639

	£'000
Statutory Intangible fixed assets	15,191
Borrowing costs capitalised	(914)
Borrowing costs capitalised - prior years	(217)
Regulatory Intangible fixed assets	14,060

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 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 estimate of unbilled water consumed. This is calculated using known factors such as the date of the customers’ last bill and the customer tariff 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 £6.5m 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 (not expected before 2029-30). 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.

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.

Costs incurred relating to the development of longer term projects and related assets are capitalised as intangible fixed assets. These include the costs of direct materials, supplier services and incidental expenses, as well as the costs of employees directly involved in the project and the generation of the intangible asset. Development projects include those involving the design and development of specific new and improved processes, systems and services used throughout the company.

Amortisation is recognised so as to write off the cost or valuation of assets over their useful lives on the following basis:

Software	3-5 years
Other development projects	3-7 years

(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. 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 separation 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 basis of allocation for the operating costs, excluding depreciation, is included below:

Annual Performance Report - Business Unit Tables 2023-24

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

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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	FTEs
Legal & Property	FTEs
Financial Services	FTEs
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/FTEs
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	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 114 of the Annual Report and Accounts.

2. Revenue

	Appointed 2024 £000	**Non Appointed 2024 £000**	**Total 2024 £000**	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000
Unmeasured household supplies	**21,562**	**-**	**21,562**	20,775	-	20,775
Measured household supplies	**13,389**	**-**	**13,389**	12,163	-	12,163
Non-household supplies	**9,710**	**-**	**9,710**	9,722	-	9,722
*Third party supplies	**1,015**	**294**	**1,309**	1,124	246	1,370
Havant Thicket bulk supply	**1,696**	**-**	**1,696**	882	-	882
Other sources	**65**	**-**	**65**	70	-	70
	47,437	**294**	**47,731**	44,736	246	44,982

*Appointed Third Party services includes Bulk Supply revenue of £0.924m from Southern Water.

Measured Income Accrual

For the year 2022-23 the measured income accrual was £2,922,178, and the corresponding actual billed revenue was £3,018,257. This is a difference of £96,079.

3. Analysis of operating costs

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

	Appointed 2024 £000	**Non Appointed 2024 £000**	**Total 2024 £000**	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000
Employee costs	**10,721**	**233**	**10,954**	10,245	181	10,426
Other costs of employment	**403**	**-**	**403**	519	-	519
Power	**5,903**	**-**	**5,903**	3,205	-	3,205
*Rates	**(142)**	**-**	**(142)**	2,424	-	2,424
Hired and contracted services	**7,863**	**19**	**7,882**	7,371	25	7,396
Materials and consumables	**2,997**	**-**	**2,997**	2,596	-	2,596
Service charges	**1,507**	**-**	**1,507**	1,507	-	1,507
Renewals expensed	**3,201**	**-**	**3,201**	1,238	-	1,238
Provision of bad and doubtful debts	**520**	**-**	**520**	1,004	-	1,004
Other operating costs	**209**	**(173)**	**36**	223	(187)	36
Depreciation and amortisation	**6,344**	**-**	**6,344**	6,347	-	6,347
	39,526	**79**	**39,605**	36,679	19	36,698

*Rates costs above include the impact of a one-off business rates rebate of £1,573k received in the year.

Employee 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:

	2024 £000	2023 £000
Employee costs as reported	**10,721**	10,245
Notional Pension Cost	**(364)**	(494)
Employee Cost for Efficiency and Price Determination purposes	**10,357**	11,774

4. Other operating income

	Appointed 2024 £000	**Non Appointed 2024 £000**	**Total 2024 £000**	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000
Profit/(loss) arising on disposal of fixed assets	**-**	**-**	**-**	142	-	142
Exceptional item - Settlement and related costs on pension scheme	**(31)**	**-**	**(31)**	(820)	-	(820)
	(31)	**-**	**(31)**	(678)	-	(678)

REGULATORY FINANCIAL REPORTING

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5. Other income

	Appointed 2024 £000	Non Appointed 2024 £000	Total 2024 £000	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000
Amortisation of Developer Contributions	**973**	**-**	**973**	665	-	665
S45 Connection Charges	**892**	**-**	**892**	822	-	822
Mains Diversions	**-**	**-**	**-**	40	-	40
	1,865	**-**	**1,865**	1,527	-	1,527

6. Interest income

	2024 £000	2023 £000
Loan from Group Company	**1,536**	1,920
Bank and short term investment interest receivable	**4,163**	-
Income receivable from inflation-linked SWAP financial instrument	**566**	-
Other interest income from pension scheme (See Note 22)	**-**	427
	6,265	2,347

7. Interest expense

	Appointed 2024 £000	Appointed 2023 £000
Inflation-linked RPI Bank loan and CPI Bond - interest	**7,255**	4,583
- indexation	**14,854**	14,384
- amortisation of fees	**1,286**	57
- administration expenses	**1,331**	114
	24,726	19,138
Inflation-linked SWAP financial instrument - fair value loss at year end	**1,853**	-
Revolving loan facility - interest	**-**	484
Revolving loan facility - amortisation of fees	**299**	299
Intercompany loan - interest	**620**	994
Finance lease interest charge	**64**	-
Debenture Stock - interest	**15**	5
Other interest payable	**-**	101
	27,577	21,021

In the Statutory Accounts an amount of £8.832m (£7.918m relating to Havant Thicket and £0.914m relating to Intangible fixed assets) has been capitalised, but this is disallowed in the Regulatory Accounts. This reduces the interest expense in 2024 to £18.745m in the Statutory Accounts.

8. Taxation (appointed business only)

	2024 £000	2023 £000
Current tax		
United Kingdom corporation tax at 25% (2023 - 19%)	**-**	-
Adjustment in respect of prior year periods	**(14)**	-
	(14)	-
Deferred tax		
Origination and reversal of timing differences	**(918)**	(1,578)
Effect of tax rate charge on opening balance	**-**	-
Adjustment in respect of prior periods	**14**	116
	(904)	(1,462)
Tax on profit on ordinary activities	**(918)**	(1,462)

The tax charge for the year is higher (2023 - higher) than the standard rate of Corporation tax in the UK of 25% (2023 - 19%), explained as follows:

	2024 £000	2023 £000
Profit/(loss) on ordinary activities before tax	**(11,567)**	(9,768)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 25% (2023 - 19%)	**(2,892)**	(1,856)
Fixed asset differences	**163**	27
Effect of change in tax rate	**-**	(378)
Prior year adjustments - deferred tax	**14**	116
Prior year adjustments - current tax	**(14)**	-
Other tax adjustments	**1,811**	629
Current tax charge for the year	**(918)**	(1,462)

Current Tax - United Kingdom corporation tax at 25% (2023 - 19%)

Due to the company's trading losses, no current tax charges have been incurred for the year (2023 - £nil). The adjustment in respect of prior periods arose from the alignment of the group loss position, and is off-set by a similar off-setting adjustment in the deferred tax credit.

Deferred Tax

Total deferred tax credited to the income statement was £903k (2023 - £1,462k credit). 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 £14.9m (2023 - £13.2m).

Offset against this is the deferred tax benefit of other timing differences – these primarily relate to unutilised tax losses. A deferred tax asset of £6.6m (2023 - £4.1m) 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 £8.3m (2023 - £9.1m). Details of the overall deferred tax net liability are set out in Note 20.

An increase in the UK corporation tax rate from 19% to 25% became effective on 1 April 2023. The deferred tax liability at 31 March 2024 has been calculated based on this 25% tax rate, reflecting the expected timing of the future reversal of the related timing differences (2023 - 25%).

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Reconciliation between current tax charge and current tax in price limits

	Note	Statutory Accounts £'000	Non Appointed and other differences £'000	Regulartory Appointed Accounts £'000	Final Determination Wholesale £'000	Final Determination Retail £'000	Tax Difference @25% £'000
Profit per FD - Wholesale	a	(4,348)	1,613	(5,961)	(697)	-	1,316
Profit per FD - Retail	a	-	-	-	-	782	196
Other income (grants and contributions)	a	-	-	-	638	-	160
Additional interest - notional to actual	a	-	-	-	(1,017)	-	(254)
Earnings before tax		(4,348)	1,613	(5,961)	(1,076)	782	1,417
Add depreciation	b	6,344	-	6,344	7,291	-	237
Less Capital allowances	b	(1,795)	-	(1,795)	(8,551)	-	(1,689)
Pension contributions adjustment	c	364	-	364	-	-	(91)
Loan relationship adjustments	d	(15,459)	(8,832)	(6,627)	-	-	1,657
Other adjustments	e	(230)	-	(230)	1,115	-	336
Tax losses utilised in the period	f	6,385	7,219	(834)	1,221	-	514
Loss in the year carried forward	f	8,739	-	8,739	-	-	(2,185)
Adjusted loss chargeable to CT	g	-	-	-	-	782	196
@ tax rate 25%		-	-	-	-	-	(63)
Current Tax charge		-	-	-	-	-	-
Prior year adjustment		(14)	-	(14)	-	-	-
Tax charge for the period		(14)	-	(14)	-	133	133

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 (FD) of £0.133m. 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 £1.017m. The actual resultant adjusted PBT is lower in the current year as a result of high interest costs offset by lower operating costs. This drives a significant tax difference of £1.417m as we compare an outturn loss for the year of (£5.961m) versus a net loss before tax of (£0.294m).

b) Depreciation & capital allowances

There are differences in the levels of depreciation and capital allowances resulting in a net tax difference of (£0.237m).

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 £0.364m must be reversed in line with the tax treatment. This results in a tax difference of (£0.091m).

d) Loan relationship adjustments

£8.832m of these adjustments relate to capitalised borrowing costs in the year, and are excluded in the Regulatory Accounts. The remaining £6.627m is interest on a loan to other group companies, giving a tax difference of £1.657m.

e) Other tax adjustments

Other tax adjustments in the current year include profit from rental properties of (£0.120m), capitalised revenue expenditure (£0.132m). This results in a difference in the tax charge of £0.336m.

f) Tax losses utilised/generated

The tax calculation for the year results in an overall chargeable loss in the appointed business of £7.905m, which is offset by utilising tax losses. Whereas in the FD, the Wholesale tax calculation results in an overall tax loss of £1.221m which increases overall tax losses. This results in a difference in the tax charge between the current year and the FD of £1.671m.

g) Rate of tax

The difference in the rate of tax between the FD (17%) and the current year (25%) results in a tax difference of (£0.063m).

9. Dividends

Equity: Ordinary/'A' Ordinary

	2024 £000	2023 £000
Interim paid	**-**	-
Final paid	**2,342**	3,397
	2,342	3,397

	2024 £000	2023 £000
Dividend ultimately for group shareholders	**2,342**	2,711
Servicing of intercompany debt net of tax	**-**	686
Total Dividends	**2,342**	3,397

Proposed dividend for financial year 2022-23 (paid in 2023-24):

The Directors recommended a total dividend of £2,342k, all being related to an equity dividend with no recirculating dividend. This was paid in July 2023. No additional interim dividends where paid in the year to 31 March 2024.

Proposed dividend for financial year 2023-24 (to be paid in 2024-25):

The Directors are proposing a total dividend of £3.233m, all being related to an equity dividend. As noted above, no recirculating dividend will be paid. The full proposed dividend is anticipated to paid in July 2024.

Please refer to the Dividend Policy on page 24 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 2023	107,062	78,971	74,531	33,268	293,832
Transfer to intangible fixed assets and between categories	(3,028)	(194)	2,331	203	(688)
Additions	37,139	6,056	5,791	3,357	52,343
Disposals	-	-	-	(789)	(789)
At 31 March 2024	141,173	84,833	82,653	36,039	344,698
Depreciation					
At 1 April 2023	16,234	10,468	38,970	22,964	88,636
Charge for year	657	1,218	2,198	2,125	6,198
Disposals during year	-	-	-	(775)	(775)
At 31 March 2024	16,891	11,686	41,168	24,314	94,059
Net book value					
At 31 March 2024	124,282	73,147	41,485	11,725	250,639
At 1 April 2023	90,828	68,503	35,561	10,304	205,196

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 2023	49,672	7,220	6,703	1,566	65,161
Reclassification to Intangibles	-	-	-	-	-
Additions	35,606	5,265	5,474	2,503	48,848
Transferred into fixed assets	(2,907)	242	2,225	(179)	(619)
Transfers into completed tangible fixed assets	(1,355)	(3,861)	(461)		(5,677)
At 31 March 2024	81,016	8,866	13,941	3,890	107,713
At 1 April 2023	49,672	7,220	6,703	1,566	65,161

Of the balance of assets in the course of construction, £79.5m (2023 - £47.3m) relates to Havant Thicket Winter Storage Reservoir

11. Intangible fixed assets

	Development Projects £000	Software, consultancy and internal costs £000	Total £000
Cost			
At 1 April 2023	2,900	5,160	8,060
Transfer from tangible fixed assets and between categories	565	123	688
Additions (WIP completed assets)	4,962	3,719	8,681
Disposals	-	(243)	(243)
At 31 March 2024	8,427	8,759	17,186
Amortisation			
At 1 April 2023	-	3,245	3,245
Charge for the year	-	124	124
Disposals	-	(243)	(243)
At 31 March 2024	-	3,126	3,126
Net book value			
At 31st March 2024	8,427	5,633	14,060
At 1st April 2023	2,900	1,915	4,815

Included in the above table are assets in the course of construction with a net book value of £13.6m.

12. Fixed asset investment

	Loan to Group Undertakings £000
At 1 April 2023	55,484
Repayment in the year	(55,484)
At 31 March 2024	-

Non-current asset investment above represented a loan due from the parent entity South Downs Limited. In July 2023, as part of the wider refinancing on the Company, the loan was fully repaid, along with interest that had accrued on the loan.

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13. Debtors

	2024 £000	2023 £000
Trade debtors	**6,668**	4,635
Amounts owed by Group companies	**3,733**	2,982
Prepayments and accrued income	**5,770**	4,389
Financial derivatives (Note 22)	**380**	-
Other debtors	**5,238**	3,258
	21,789	15,264

All of the above amounts fall due within one year, with the exception of the financial derivatives (see Note 22).

As at 31 March 2024, trade debtors had a carrying value of £10.856m (2023 - £9.110m) 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 £4.188m as at 31 March 2024 (2023 - £4.475m) as noted further below.

The ageing of these debtors was as follows:

	2024 £000	2023 £000
Up to 12 months	**6,759**	6,250
Over 12 months	**4,097**	2,860
	10,856	9,110

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 £4.188m provision (2023 - £4.475m) £59k (2023 - £419k) relates to non-household debtors and £4.129m (2023 - £4.096m) relates to household debtors.

	2024 £000	2023 £000
At 1 April 2023-2022	**4,475**	3,782
Provision for bad debt required in the year - charged to income statement	**539**	1,500
Provisions released in year	**(360)**	(413)
Debt written off in the year as uncollectable includes fully provided debt over 6 years old	**(466)**	(394)
At 31 March 2024-2023	**4,188**	4,475

	2024 £000	2023 £000
Total Debtors Outstanding > 30 days		
Household	**6,063**	5,898

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 customer balances, management considers various factors including the aging profile of the balance, historical collection rates and debt write off. Accordingly, our provision is based on the debtor balance at the end of the period, its age and the applicable 2 year average collection rate.

The Bad Debt Provision applies the following provision rates as at 31 March 2024:

	Overdue under 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
Debit balances	30%	67%	92%	100%	-	-
Credit balances	5%	84%	90%	95%	98%	100%

14. Current asset investments

	2024 £000	2023 £000
Unlisted investments	**2**	2
Short term deposits	**90,000**	-
	90,002	2

Short term deposits comprise bank deposits which have a maturity, when placed on deposit, of between 3 months and 1 year.

15. Cash at bank and in hand

	2024 £000	2023 £000
Cash at bank and in hand	**10,273**	54,073
Cash equivalents	**15,686**	-
	25,959	54,073

Cash equivalents relates to short term investment deposits with a maturity date within 90 days of deposit.

16. Borrowings: due within one year

	2024 £000	2023 £000
Bank RCF loan facility draw down	**-**	-
Accrued bank loan refinance fees	**646**	627
Less deferred arrangement costs	**(1,394)**	(1,205)
Inter-group subordinated loan (see Note 19)	**20,623**	0
Finance lease liability (see Note 19)	**64**	0
Financial derivatives (see Note 22)	**437**	0
	20,376	(578)

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17. Other current liabilities

	Appointed 2024 £000	**Non Appointed 2024 £000**	**Total 2024 £000**	Appointed 2023 £000	Non Appointed 2023 £000	Total 2023 £000
Payments received on account	**1,315**	**-**	**1,315**	1,244	-	1,244
Trade creditors	**3,082**	**258**	**3,340**	2,657	126	2,783
Amounts owed to Group companies	**2,460**	**-**	**2,460**	2,488	-	2,488
Other creditors	**396**	**-**	**396**	544	-	544
Accruals	**2,294**	**-**	**2,294**	1,081	-	1,081
Water Rates in advance	**8,150**	**-**	**8,150**	7,581	-	7,581
Trade and other payables	**17,697**	**258**	**17,955**	15,595	126	15,721
Capex creditor	**11,337**	**-**	**11,337**	9,377	-	9,377
Other taxation and social security	**432**	**-**	**432**	424	-	424
	29,466	**258**	**29,724**	25,396	126	25,522

18. Non-current liabilities

	2024 £000	2023 £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	**142,285**	130,940
Accrued bank loan refinance fees	**2,184**	2,512
Bank facility	**-**	-
Bond	**78,026**	75,000
Less: deferred arrangement costs	**(5,410)**	(7,023)
Finance lease liaility	**977**	-
Financial derivatives	**1,415**	-
Intra-group subordinated creditor	**-**	20,623
	219,761	222,335

Bank loan

The bank RPI Artesian loan of £142.3m (2023 - £130.9m) relates to a thirty year £66.5m index-linked bank loan which was issued in June 2002 and is repayable in September 2032. 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 £0.482m (2023 - £0.539m). 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 £4.5m was incurred in 2021-22 relating to fees associated with the restructuring of the RPI Artesian loan. Of this exceptional charge, £2.5m remains payable at 31 March 2024 (2023 - £2.8m), with £2.2m falling due in over one year (2023 - £2.5m).

CPI Bond

In March 2023, the company issued a new £75m ‘CPI-linked’ bond. At year end the bond had a revised book value of £78.0m (2023 - £75.0m). The 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 2023 the prior £55m bank revolving credit facility (RCF) 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 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 was originally due to mature in March 2028, but has been extended during the current financial year to March 2029. 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.

In addition to these facilities, a further £15m revolving credit facility was agreed with Lloyds Bank in May 2023. This facility has a maturity in May 2027, with interest payable based on SONIA, plus a 1.1% margin

No balances had been drawn down on either the NatWest or Lloyds March 2023 or the Lloyds May 2023 facilities (2023: £nil).

Fees associated with the bond issued and the bank facilities are deferred and amortised over the duration of the bond or loan facility. The balance of fees deferred at the year end date are offset 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, a further £16m of additional group loans were provided via Portsmouth Water Holdings Limited. In March 2023, £20m of the loan balance was capitalised through the issue of £20m new ordinary shares (see Note 24). At the same time, the remaining group loan facility, having reduced from £50m to £30m following the £20m capitalisation, was increased from £30m to £45m.

Interest accrues daily at 3.0% 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

	2024 Appointed £000	2023 Appointed £000
At 1 April 2023		
Capital contributions	**28,039**	28,266
Deferred bulk supply revenues	**4,781**	5,663
	32,820	33,929
Additions - capital contributions	**760**	480
Release to Turnover - capital contributions	**(1,048)**	(707)
Release to Turnover - bulk supply revenues	**(1,696)**	(882)
At 1 April 2024		
Capital contributions	**27,751**	28,039
Deferred bulk supply revenues	**3,085**	4,781
	30,836	32,820

The release to turnover includes an amount for the recognition of Havant Thicket Bulk Supply revenues in 2023-24 of £1.696m.

NOTES TO THE ACCOUNTS

20. Provisions for liabilities

	2024 £000	2023 £000
Deferred taxation:		
At 1 April	**9,047**	10,378
Charged during the year to other comprehensive income	**186**	-
Charged during the year in profit and loss account	**(903)**	(1,331)
At 31 March	**8,330**	9,047

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 and other timing differences. The deferred taxation provision balance relating to the defined pension scheme is off-set against the related net pension asset recognised.

	2024 £000	2023 £000
Deferred tax including that relating to pension asset:		
Accelerated capital allowances	**14,954**	13,205
Other timing differences	**(6,624)**	(4,158)
Pension asset (note 22)	**-**	-
Total provision for deferred tax	**8,330**	9,047
At April 2023-2022	**9,047**	14,044
Deferred tax charged in income statement (note 8)	**(903)**	(1,462)
Deferred tax credited to the statement of comprehensive income	**186**	(3,535)
At 31 March 2024-2023	**8,330**	9,047

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantially enacted in May 2021. The deferred tax liability at 31 March 2024 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2023 - 25%).

21. Changes in equity (Regulatory Accounts)

	Called up Share Capital £000	Share Premium Account £000	Capital Redemption Reserve £000	Cash Flow Hedge Reserve £000	Retained Earnings £000	Total £000
Balance at 1 April 2023	21,078	9,382	3,250	-	11,728	45,438
Loss for the year	-	-	-		(10,649)	(10,649)
Remeasurement of hedging financial instruments	-	-		380	-	380
Remeasurement of net defined benefit asset	-	-	-	-	364	364
Share Issue	60,000	-	-	-	-	60,000
Movement on deferred tax relating to pension scheme and hedging financial instruments	-	-	-	(95)	(91)	(186)
Total comprehensive income for the year	60,000	0	0	285	(10,376)	49,909
Dividends	-	-	-		(2,342)	(2,342)
Balance at 31 March 2024	81,078	9,382	3,250	285	(990)	93,005

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. Derivative financial instruments

As part of the Company's risk management procedures, new derivative financial instruments have been taken out during the year (2023: none). These derivative financial instruments ('swaps') are used to hedge the risks associated with the following:

- Floating interest rate risks on the long term bank revolving credit facilities (RCF), established in March 2023. In April 2023, specific 'floating-to-fixed' swaps were put in place to manage an appropriate portion of this floating interest rate risk. These swaps have effective dates commencing in September 2025 when initial draw-down on the RCF are expected, and increase in line with the projected draw-down on the RCF in the period through to March 2028. The swap contract amounts and effective dates were amended during the year to 31 March 2024 to match the expected draw-down amounts on the RCF, based on updated forecasts. In line with the FRS102 requirements, these swaps were considered to be effective and qualify for hedge accounting when they were put in place, and throughout the period to and at 31 March 2024.
- The bank Artesian loan is index-linked, with annual increases in the capital value directly linked to changes in the RPI inflation index, in the period through to September 2032. Increases in this loan liability do not therefore match against expected increases in future revenues from customers, which are linked more closely to changes in the CPI inflation index. In April 2023, a specific 'RPI-CPI' swap instrument was put in place to help manage this mis-match in the period through to September 2032. In line with the FRS102 requirements, given the nature of the risk being managed and the RPI-CPI swap contract, it is not possible to undertake hedge accounting for this derivative financial instrument.

The following balances, based on market valuations of each derivative financial instrument, have been recorded at the year end date:

	2024 £000	2023 £000
Interest rate swap fair value asset (see Note 16)		
Due < 1 year	-	-
Due > 1 year	380	-
	380	-
RPI-CPI swap fair value liability (see Note 18 & 19)		
Due < 1 year	(437)	-
Due > 1 year	(1,415)	-
	(1,852)	-

The interest rate swaps were entered into with ING Bank and Lloyds Bank. These are 'fixed for variable' interest rate swaps with total notional loan amounts increasing from £9.1m in September 2025 to £99.0m in March 2028. The fixed leg (paid by the Company) pays at a range of 3.08%-3.18%, with the floating leg (received by the Company) paying at published SONIA. These swaps qualify as a hedging instrument under the conditions of FRS102 (s.12.17) at the year end date. Hedge accounting has been applied from the point that the swap derivative contract was arranged on the basis of the criteria set out in FRS102 (s.12.18).

The RPI-CPI swap was entered into with Lloyds Bank. Under the term of the swap, the Company pay an annual charge on 30 September each year from 2023 to 2032, based on increases in CPI applied to a capital value of £131.7m (the value of the bank Artesian loan during 2023), plus an annual charge of £1,664k, and receive an annual income based on increases in RPI applied to a capital value of £131.7m. As noted above, the swap does not qualify for hedge accounting.

The fair value of the swaps at the year end date have been determined on valuations based on expected future discounted cashflows, and available market information, including CPI and RPI inflation forecasts across the terms of Artesian loan and the swap arrangements. The valuation is also supported by valuations provided by the counter-parties (ING Bank and Lloyds Bank) at the year end date.

NOTES TO THE ACCOUNTS

The following table indicates the periods in which the cash flows associated with swaps are expected to occur:

Interest Rate swaps (Hedge accounting applied)

	Carrying amount £000	Expected cashflows < 1 year £000	Expected cashflows 1-2 years £000	Expected cashflows 2-5 years £000	Expected cashflows > 5 years £000	Expected cashflows Total £000
31 March 2024	380	-	27	403	-	430
31 March 2023	-	-	-	-	-	-

RPI-CPI swap (Hedge accounting not applied)

	Carrying amount £000	Expected cashflows < 1 year £000	Expected cashflows 1-2 years £000	Expected cashflows 2-5 years £000	Expected cashflows > 5 years £000	Expected cashflows Total £000
31 March 2024	(1,852)	(449)	(72)	(668)	(1,054)	(2,243)
31 March 2023	-	-	-	-	-	-

23. Pensions

The company 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 of employees of the company. 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 covered the majority of the current pensioner liabilities and significantly reduced the risk within the Scheme relating to future payments due to these pensioners.

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 became members of the existing company defined contribution pension scheme, with effect from 1 April 2023, and receive enhanced contributions from the company for a number of years from 1 April 2023. The closure of the Brockhampton pension scheme to future accrual has also significantly reduced the ongoing risks to the company and the wider group. Future contributions payable by the company after 1 April 2023 ceased, and are not expected to be required in future, based on the current funding surplus in the scheme. As a result, it is no longer considered appropriate, in line with the requirements of FRS102, to recognize any calculated net pension surplus in the statements of financial position of the company.

The latest full triennial actuarial valuation for the scheme was carried out as at 31 March 2021. This has been updated to 31 March 2024 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 resulted in a ‘one-off’ settlement cost of £453k in the year to 31 March 2023, and this was recorded 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 2025, commencing 1 April 2024, is £NIL (2024 actual - £NIL). In periods prior to 1 April 2023, contributions paid by the company 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 2024 were £1,786k (2023 - £554k).

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

	2024 % per annum	2023 % per annum	2022 % per annum
RPI inflation	**3.2**	3.3	3.7
CPI inflation	**2.7**	2.9	3.3
Discount Rate	**4.8**	4.7	2.8
Pension increases	**2.7**	2.9	3.3
Salary growth	**n/a**	3.0	3.4

Assumption	31 March 2024	31 March 2023	Comments on assumptions
RPI inflation	3.2% pa	3.3% 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 3.5% pa (2023 - 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	2.7% pa	2.9% pa	• As an approximation to reflect the differences pre/post 2030 from the upcoming 2030 RPI reform, a reduction of 0.5% pa (2023 - 0.4% pa) has been applied in calculating the CPI inflation rate. • This reflects the average expected reduction in RPI - CPI gap, giving broadly equivalent results to a stepped gap of 1.0% / 0.2% pa pre/post 2030.
Discount rate	4.8% pa	4.7% 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 an average duration of about 13 years (2023 - 14 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 31 March 2024 is 21.6 years (2023 - 21.8 years) and for a female is 24.2 years (2023 - 24.4years).

Life expectancy of a male aged 65 years at 31 March 2044 (ie. 20 years after the accounting date) is 22.9 years (2023 - 23.1 years) and for a female is 25.5 years (2023 - 25.8 years).

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 2023 year end to use a more recent model, CMI2022, continuing with the previous core approach to the smoothing factor and initial improvement addition.

The CMI 2022 projections model also includes a weighting (or 'w') parameter, referred to as w2022, in addition to retaining the similar w2020 and w2021 parameters introduced in CMI 2021. These parameters are used to vary the weight that is placed on the nation's mortality experience for 2020 to 2022 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, and 40% on the data for 2022.

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, as reflected by the mortality assumptions set out above.

NOTES TO THE ACCOUNTS

As an indication of the sensitivity of the results to changes in the key assumptions used at 31 March 2024:

- A decrease in the discount rate of 0.1% per annum and 0.5% per annum would increase the defined benefit obligation by around £1.2m and £6.2m 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 £1.1m and £5.7m respectively.
- A 5% fall in performance asset values would reduce the assets by around £0.2m.
- 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:

		2024		2023		2022
		Fair Value		Fair Value		Fair Value
	%	**£000**	%	£000	%	£000
Equities	-	-	-	-	25	41,752
Absolute Return Bonds	-	-	-	-	13	21,108
Leveraged Liability Driven Investments	20	23622	19	23,679	11	18,896
Unleveraged index-linked gilt LDIs	23	26304	22	27,941	-	-
Property fund	3	4062	5	5,988	5	8,487
Credit fund	8	8818	6	8,274	-	-
Cash and other	2	2480	6	8,270	4	6,845
Buy-in policy	44	51854	42	53,593	42	68,773
	100	117,140	100	127,745	100	165,861

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 £4.062m (2023: £5.988m) 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.

RPI and CPI inflation has been trending significantly above expected long term levels during the two year period to 31 March 2024. 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, and the cessation to future benefit accrual for employees effective from 1 April 2023.

REGULATORY FINANCIAL REPORTING

	2024 **£000**	2023 £000
Total fair value of scheme assets	**117,140**	127,745
FRS 102 value of scheme defined benefit obligation	**(94,121)**	(98,853)
Impact of asset ceiling	**(23,019)**	(28,892)
Pension asset	**-**	-
Related deferred tax liability	**-**	-
Net pension asset recognised	**-**	-

Under FRS 102, the scheme is represented on the statement of financial position at 31 March 2024 by an asset of £Nil (2023 - £NIL). 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.

Movement in the net balance sheet position

The FRS 102 value of scheme assets moved over the period as follows:	**2024** **£000**	2023 £000
Opening asset	**-**	14,662
Expense charged to profit and loss	**(364)**	(1,682)
Gain/(loss) recognised outside of profit and loss	**364**	(14,142)
Employer contributions	**-**	1,162
Closing Asset	**-**	-

Movement in present value of defined benefit obligation

The FRS 102 value of scheme defined benefit obligation moved over the period as follows:	**2024** **£000**	2023 £000
Opening scheme liabilities	**98,853**	128,606
Employer's part of current service cost	**364**	1,656
Settlement exceptional cost	**-**	453
Interest on scheme liabilities	**4,506**	3,528
Benefits paid and running costs	**(6,037)**	(5,217)
Actuarial loss/(gain)	**(3,565)**	(30,173)
Closing scheme defined benefit obligation	**94,121**	98,853

Movement in fair value of scheme assets

The FRS 102 fair value of scheme assets moved over the period as follows:	**2024** **£000**	2023 £000
Opening fair value of scheme assets	**127,745**	165,861
Interest on scheme assets	**5,864**	4,588
Contributions by Portsmouth Water Limited, including employee contributions	**-**	1,162
Benefits paid and running costs	**(6,037)**	(5,217)
Actual return on scheme assets less interest on scheme assets	**(10,432)**	(38,649)
Closing fair value of scheme assets	**117,140**	127,745

NOTES TO THE ACCOUNTS

Expense recognised in income statement

The following amounts have been included within operating profit:	**2024 £000**	2023 £000
Current service cost (employer's part only, including scheme running costs)	**(364)**	(1,656)
Total operating charge	**(364)**	(1,656)

The following amounts have been included within exceptional charges in the year:	**2024 £000**	2023 £000
Pension settlement charge	**-**	(453)
Other costs and fees relating to closure of the pension scheme to future accrual	**(31)**	(367)
Total exceptional charge	**(31)**	(820)

The following amounts have been included as other finance income under FRS 102:	**2024 £000**	2023 £000
Interest on pension scheme assets	**5,864**	4,588
Interest on asset limit	**(1,358)**	(633)
Interest on pension scheme defined benefit obligation	**(4,506)**	(3,528)
Total other finance income	**-**	427
Total expense recognised in the income statement	**395**	(2,049)

Amounts recognised outside income statement

The following amounts have been recognised within the statement of changes in equity:	**2024 £000**	2023 £000
Actual return on assets less interest	**(10,432)**	(38,649)
Experience gains/(loss) arising on scheme defined benefit obligation	**(553)**	(10,068)
Gain/(loss) due to changes in assumptions	**4,118**	40,241
Change in asset limit other than interest	**7,231**	(5,666)
Remeasurement gain/(loss) on net defined benefit asset	**364**	(14,142)

24. Ultimate controlling party

The Company's intermediate parent company in the UK is Ancala Fornia Holdco Limited ('AFHL'). In September 2019, the Company's ultimate controlling party, Ancala Partners LLP ('Ancala'), incorporated Southern Region Water Holding Limited ('SRWHL') in Hong Kong and transferred 100% of the investment held in AFHL to SRWHL. As part of a reorganisation of its investment portfolio, Ancala incorporated Ancala Fornia Topco Pte Limited ('AFTPL') in Singapore, and in July 2023 transferred the ownership of AFHL from SRWHL to AFTPL. Procedures to liquidate SRWHL were commenced later in the year.

The group structure is set out on page 11.

We consider AFTPL to be the ultimate holding company at 31 March 2024 (2023: SRWHL), and the ultimate controlling party to be Ancala Partners LLP. Consolidated group financial statements for the year ended 31 March 2024 will be prepared by AFTPL (the largest group for which consolidated financial statements are prepared) and by AFHL (the smallest group for which consolidated financial statements are prepared).

25. Capital commitments

	2024 £000	2023 £000
Relating to fixed assets	**265,800**	291,800

Of the capital commitments of £259.5m (2023 - £291.0m), 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 2024, and excluding capitalised borrowing costs, £79.5m of this approved budget amount had been incurred as capital expenditure on the project (2023 - £47.3m), as set out in Note 10.

Section 2

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2A SEGMENTAL INCOME STATEMENT

Table 2A - Segmental income statement for the 12 months ended 31 March 2024

£m	Residential Retail	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Revenue - price control	5.163	6.741	32.806	1.696	46.406	2A.1
Revenue - non price control	-	-	1.031	-	1.031	2A.2
Operating expenditure - excluding PU recharge impact	(5.168)	(6.496)	(21.538)		(33.202)	2A.3
PU opex recharge	(0.198)	(0.041)	0.239		0.000	2A.4
Operating expenditure - including PU recharge impact	(5.366)	(6.537)	(21.299)	-	(33.202)	2A.5
Depreciation - tangible fixed assets	(0.002)	(0.236)	(5.962)	-	(6.200)	2A.6
Amortisation - intangible fixed assets	-	-	(0.124)	-	(0.124)	2A.7
Other operating income	-	-	(0.031)	-	(0.031)	2A.8
Operating profit	(0.205)	(0.032)	6.421	1.696	7.880	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 2024 - wholesale

£m	Water resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Base operating expenditure					
Power	2.298	3.267	-	5.565	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)	-	0.094	-	0.094	2B.5
Renewals expensed in year (Non-Infrastructure)	-	-	-	-	2B.6
Other operating expenditure	2.520	17.176	-	19.696	2B.7
Local authority and Cumulo rates	(0.029)	(0.104)	-	(0.133)	2B.8
Total base operating expenditure	6.296	20.433	-	26.729	2B.9
Other operating expenditure					
Enhancement operating expenditure	0.241	-		0.241	2B.10
Developer services operating expenditure	-	0.591		0.591	2B.11
Total operating expenditure excluding third party services	6.537	21.024	-	27.561	2B.12
Third party services	-	0.275		0.275	2B.13
Total operating expenditure	6.537	21.299	-	27.836	2B.14
Grants and contributions					
Grants and contributions - operating expenditure	-	0.892	-	0.892	2B.15
Capital expenditure					
Base capital expenditure	0.959	13.822	-	14.781	2B.16
Enhancement capital expenditure	0.702	5.813	33.625	40.140	2B.17
Developer services capital expenditure	-	1.205	-	1.205	2B.18
Total gross capital expenditure (excluding third party)	1.661	20.840	33.625	56.126	2B.19
Third party services	-	-	-	-	2B.20
Total gross capital expenditure	1.661	20.840	33.625	56.126	2B.21
Grants and contributions					
Grants and contributions - capital expenditure	-	0.728		0.728	2B.22
Net totex	8.198	40.519	33.625	82.342	2B.23
Cash expenditure					
Pension deficit recovery payments	-	-	-	-	2B.24
Other cash items	-	-	-	-	2B.25
Totex including cash items	8.198	40.519	33.625	82.342	2B.26

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2C COST ANALYSIS – RETAIL

Table 2C - Cost analysis for the 12 months ended 31 March 2024 - retail

£m	Residential	Total	RAG 4 reference
Operating expenditure			
Customer services	2.479	2.479	2C.1
Debt management	0.300	0.300	2C.2
Doubtful debts	0.500	0.500	2C.3
Meter reading	0.219	0.219	2C.4
Other operating expenditure	1.681	1.681	2C.6
Local authority and Cumulo rates	(0.011)	(0.011)	2C.7
Total operating expenditure excluding third party services	5.168	5.168	2C.8
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	-	-	2C.9
Depreciation on tangible fixed assets acquired after 1 April 2015	0.002	0.002	2C.10
Amortisation on intangible fixed assets existing at 31 March 2015	-	-	2C.11
Amortisation on intangible fixed assets acquired after 1 April 2015	-	-	2C.12
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.156	0.156	2C.13
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	-	-	2C.14
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	0.042	0.042	2C.15
Income from wholesale assets acquired after 1 April 2015 principally used by retail	-	-	2C.16
Net recharges costs	0.198	0.198	2C.17
Total retail costs excluding third party and pension deficit repair costs	5.368	5.368	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	5.368	5.368	2C.21
Debt written off			
Debt written off	0.594	0.594	2C.22
Capital expenditure			
Capital expenditure	0.149	0.149	2C.23
Comparison of actual and allowed expenditure			
Cumulative actual retail expenditure to reporting year end	20.181		2C.30
Cumulative allowed expenditure to reporting year end	16.863		2C.31
Total allowed expenditure 2020-25	21.239		2C.32

2D HISTORIC COST ANALYSIS OF TANGIBLE FIXED ASSETS – WHOLESALE & RETAIL

Table 2D - Historic cost analysis of tangible fixed assets

£m	Residential Retail	Water Resources	Water Network+	Havant Thicket	Total	RAG 4 reference
Cost						
At 1 April 2023	1.516	26.923	225.722	39.671	293.832	2D.1
Disposals	-	-	(0.789)	-	(0.789)	2D.2
Additions	0.132	1.245	17.341	33.625	52.343	2D.3
Adjustments	-	-	(0.688)	-	(0.688)	2D.4
At 31 March 2024	1.648	28.168	241.586	73.296	344.698	2D.6
Depreciation						
At 1 April 2023	(1.190)	(4.970)	(82.476)	-	(88.636)	2D.7
Disposals	-	-	0.775	-	0.775	2D.8
Adjustments	-	-	0.002	-	0.002	2D.9
Charge for year	(0.002)	(0.236)	(5.962)	-	(6.200)	2D.10
At 31 March 2024	(1.192)	(5.206)	(87.661)	-	(94.059)	2D.11
Net book amount at 31 March 2024	0.456	22.962	153.925	73.296	250.639	2D.12
Net book amount at 1 April 2023	0.326	21.953	143.246	39.671	205.196	2D.13
Depreciation charge for year						
Principal services	(0.002)	(0.236)	(5.962)	-	(6.200)	2D.14
Third party services	-	-	-	-	-	2D.15
Total	(0.002)	(0.236)	(5.962)	-	(6.200)	2D.16

The net book value includes £107.7m 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 2024 - 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	0.892	-	-	0.892	2E.9
Infrastructure charge receipts	-	0.875	-	0.875	2E.10
Requisitioned mains	-	0.431	-	0.431	2E.11
Diversions - s185	-	-	-	-	2E.12
Other contributions (price control)	-	-	-	-	2E.13
Price control grants and contributions before deduction of income offset	0.892	1.306	-	2.198	2E.14
Income offset	-	0.578	-	0.578	2E.15
Price control grants and contributions after deduction of income offset	0.892	0.728	-	1.620	2E.16
Diversions - NRSWA	-	-	-	-	2E.17
Diversions - other non-price control	-	-	-	-	2E.18
Other contributions (non-price control)	-	-	-	-	2E.19
Total	0.892	0.728	-	1.620	2E.20
Value of adopted assets	-	-	-	-	2E.21

	Water resources	Water network+	Wastewater network+	Total	
Movements in capitalised grants and contributions					
b/f	-	28.081	-	28.081	2E.34
Capitalised in year	-	0.728	-	0.728	2E.35
Amortisation (in income statement)	-	(0.973)	-	(0.973)	2E.36
c/f	-	27.836	-	27.836	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	29.788			2F.1
Retail revenue	5.163			2F.2
Total residential revenue	34.951			2F.3
Retail revenue				
Revenue Recovered ("RR")	5.163			2F.4
Revenue sacrifice	-			2F.5
Actual revenue (net)	5.163			2F.6
Customer information				
Actual customers ("AC")		303.104		2F.7
Reforecast customers		304.820		2F.8
Adjustment				
Allowed revenue ("R")	5.161			2F.9
Net adjustment	(0.002)			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 2023-24 tariffs and the outturn for 2023-24.

The table below uses data from Table 6 of the Notification of the Final Determination (FD) of Price Controls for Portsmouth Water. It also provides details of our assumptions when setting 2023-24 charges, including the in-period ODI reward for Retail.

2023-24	Final Determination	23-24 Reforecast Allowed Revenue	In-period ODI	23-24 Reforecast + In-period ODI
Customers	305,860	304,820		
Modification Factor	16.15	16.15		
Total Revenue (£m)	4.940	4.923	0.238	5.161

We aimed to raise residential retail revenue of £5.161m in 2023-24, based on our forecast number of properties of 304,820, when we set our tariffs in January 2023 (Line 2F.9). The number of properties we actually served in 2023-24 was 303,104.

We actually raised £5.163m (Line 2F.2), which is only £0.002m more than target (line 2F.9).

The average revenue collected per customer was higher than the FD allowed amount due to the inclusion of the in-period ODI and other small variances during the year. For example, a variance can also be driven by the actual number of households compared to our simple forecast of equal monthly increases in customers.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2I REVENUE ANALYSIS

Table 2I - Revenue analysis for the 12 months ended 31 March 2024

£m	Household	Non-household	Total	Water resources	Water network+	Total	RAG 4 reference
Wholesale charge - water							
Unmeasured	18.547	0.279	18.826	3.259	15.567	18.826	2I.1
Measured	11.241	9.431	20.672	3.483	17.189	20.672	2I.2
Third party revenue	-	0.049	0.049	-	0.049	0.049	2I.3
Total wholesale water revenue	29.788	9.759	39.547	6.741	32.806	39.547	2I.4
Wholesale Total	29.788	9.759	39.547	6.741	32.806	39.547	
Wholesale charge - Additional control							
Unmeasured	-	-	-				2I.13
Measured	-	1.696	1.696				2I.14
Total wholesale additional control revenue	-	1.696	1.696				2I.15
Wholesale Total	29.788	11.455	41.243				2I.16
Retail revenue							
Unmeasured	3.015	-	3.015				2I.17
Measured	2.148	-	2.148				2I.18
Other third party revenue	-	-	-				2I.19
Retail Total	5.163	-	5.163				2I.20
Third party revenue - non-price control							
Bulk supplies - water			0.966				2I.21
Other third party revenue			0.065				2I.23
Principal services - non-price control							
Other appointed revenue			-				2I.24
Total appointed revenue			47.437				2I.25

The Wholesale charge - Additional control is revenue from Southern Water, for Havant Thicket reservoir.

This is the amount included in the Final Determination, indexed to 2023-24 prices.

2J INFRASTRUCTURE NETWORK REINFORCEMENT COSTS

Table 2J - Infrastructure network reinforcement costs for the 12 months ended 31 March 2024

£m	Network reinforcement capex	On site / site specific capex (memo only)	RAG 4 reference
Wholesale water network+ (treated water distribution)			
Distribution and trunk mains	0.319	-	2J.1
Pumping and storage facilities	-	-	2J.2
Other	-	-	2J.3
Total	0.319	-	2J.4

2K INFRASTRUCTURE CHARGES RECONCILIATION

Table 2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2024

£m	Water	Total	RAG 4 reference
Impact of infrastructure charge discounts			
Infrastructure charges	0.875	0.875	2K.1
Discounts applied to infrastructure charges	-	-	2K.2
Gross Infrastructure charges	0.875	0.875	2K.3
Comparison of revenue and costs			
Variance brought forward	2.392	2.392	2K.4
Revenue	0.875	0.875	2K.5
Costs	(0.319)	(0.319)	2K.6
Variance carried forward	2.948	2.948	2K.7

The cost of £0.319m for water mains network reinforcement in 2023-24 was associated with a number of schemes, including Street End, Shopwhyke Lakes footbridge and Havant Road Horndean.

The variance between revenue and cost is due to the infrastructure charges being related to future network reinforcement. The cost of network reinforcement is not linear from year to year and is associated with the timing of specific developments.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2M REVENUE RECONCILIATION – WHOLESALE

Table 2M - Revenue reconciliation for the 12 months ended 31 March 2024 - wholesale

£m	Water resources	Water network+	Additional Control	Total	RAG 4 reference
Revenue recognised					
Wholesale revenue governed by price control	6.741	32.806	1.696	41.243	2M.1
Grants & contributions (price control)	-	1.620	-	1.620	2M.2
Total revenue governed by wholesale price control	6.741	34.426	1.696	42.863	2M.3
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	6.755	34.161	1.696	42.612	2M.4
Allowed grants & contributions before adjustments (or modified by CMA)	-	1.303	-	1.303	2M.5
Revenue adjustment	0.045	(0.868)	-	(0.823)	2M.6
Other adjustments	-	(0.441)	-	(0.441)	2M.7
Revenue cap	6.800	34.155	1.696	42.651	2M.8
Calculation of the revenue imbalance					
Revenue cap	6.800	34.155	1.696	42.651	2M.9
Revenue Recovered	6.741	34.426	1.696	42.863	2M.10
Revenue imbalance	0.059	(0.271)	-	(0.212)	2M.11

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

2N RESIDENTIAL RETAIL – SOCIAL TARIFFS

Table 2N - Residential retail - social tariffs

	Revenue £m	Number of customers 000s	Average amount per customer £	RAG 4 reference
Number of residential customers on social tariffs				
Residential water only social tariffs		12.606		2N.1
Residential wastewater only social tariffs		-		2N.2
Residential dual service social tariffs		-		2N.3
Number of residential customers not on social tariffs				
Residential water only no social tariffs		290.498		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			26.81	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	0.338			2N.10
Total customer funded cross-subsidies for wastewater only social tariffs	-			2N.11
Total customer funded cross-subsidies for dual service social tariffs	-			2N.12
Average customer funded cross-subsidy per water only social tariffs			1.12	2N.13
Average customer funded cross-subsidy per wastewater only social tariffs			-	2N.14
Average customer funded cross-subsidy per dual service social tariffs			-	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			3.00	2N.23
Section B - WaterSure tariffs				
Number of unique customers on WaterSure		0.174		2N.24
Total reduction in bills for WaterSure customers	0.024			2N.25
Average reduction in bills for WaterSure customers			137.93	2N.25

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 2023-24 was 12.606. In total they received a discount of £0.338m in the 12 months up to the end March 2024. 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 303,104, the average discount of £26.81 is recovered from 290,498 households at an extra charge of £1.12 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 2023	1.321	0.500	6.239	8.060	2O.1
Disposals	-	-	(0.243)	(0.243)	2O.2
Additions	0.017	0.417	8.247	8.681	2O.3
Adjustments	-	-	0.688	0.688	2O.4
Assets adopted at nil cost	-	-	-	-	2O.5
At 31 March 2024	1.338	0.917	14.931	17.186	2O.6
Amortisation					
At 1 April 2023	(0.749)	(0.169)	(2.327)	(3.245)	2O.7
Disposals	-	-	0.243	0.243	2O.8
Adjustments	-	-	-	-	2O.9
Charge for year	-	-	(0.124)	(0.124)	2O.10
At 31 March 2024	(0.749)	(0.169)	(2.208)	(3.126)	2O.11
Net book amount at 31 March 2024	0.589	0.748	12.723	14.060	2O.12
Net book amount at 1 April 2023	0.572	0.331	3.912	4.815	2O.13
Amortisation for year					
Principal services	-	-	(0.124)	(0.124)	2O.14
Third party services	-	-	-	-	2O.15
Total	-	-	(0.124)	(0.124)	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 2023-24, which complied with the Final Determination. This included a C-Mex reward amounting to £0.238m which relates to 2021-22.

Revenue	Actual £'000	FD £'000	Difference £'000
Retail Charge:			
Household - Unmeasured	3,015	3,099	-84
Household - Measured	2,148	2,062	86
Total revenue from charges	5,163	5,161	2

Operating expenditure within the Household Retail price control was higher than the Final Determination allowance, by £1.043m, with operating costs of £5.368m (including depreciation and recharges) versus the final determination of £4.325m.

This variance was due to the following items:

- Doubtful Debts were lower than the FD by £(0.125)m.
- Customer Services department costs were higher by £0.536m, mainly due to higher staff costs.
- Regulation costs were £0.117m higher due to additional resources for the management of data and increased PR24 activities.
- Other shared services costs were higher by £0.371m, this included additional IT and Finance costs.
- Depreciation and recharges were higher than the FD 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	18,547	19,053	-506
Household - Measured	11,241	11,527	-286
Non-Household - Unmeasured	279	257	22
Non-Household - Measured	9,431	8,815	616
Total revenue from charges	39,498	39,652	-154
Grants and Contributions	1,620	1,303	317
Third Party price control	49	-	49
Total revenue	41,167	40,955	212

We have compared actual revenue with that implicit in tariff setting for 2023-24, and this complied with the Final Determination. The Wholesale revenue variance was £0.212m favourable, with more capital contributions from developers of £0.317m offset by decreased revenue from standard charges of £(0.154)m.

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

The household unmeasured wholesale revenue is lower than the FD, due to an increase in house moves and a timing difference in billing the new occupants, as well as more customers switching to a lower social tariff.

Non-household wholesale revenue is significantly higher than the FD, reflecting a recovery of businesses post COVID-19, and people returning to the work environment.

PRICE REVIEW AND OTHER SEGMENTAL REPORTING

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 -0.4%.

The total variance of wholesale revenue relative to the Final Determination is 0.5%.

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	Forecast of total 2020-25 outperformance or underperformance payment	RAG 4 reference
						£m	£m	
Financial								
Water quality compliance (CRI)	PR19PRT_PRT-Network Plus-01	nr	2	15.62	No	(0.848)	(1.050)	3A.1
Water supply interruptions	PR19PRT_PRT-Network Plus-02	hh:mm:ss	-	00:01:31	Yes	0.243	1.130	3A.2
Leakage	PR19PRT_PRT-Network Plus-07	%	1	(2.5)	No	(0.672)	(0.740)	3A.3
Per capita consumption	PR19PRT_PRT-Water Resources 03	%	1	(4.3)	No	-	-	3A.4
Mains repairs	PR19PRT_PRT-Network Plus-03	nr	1	52.8	Yes	-	(0.343)	3A.5
Unplanned outage	PR19PRT_PRT-Network Plus-04	%	2	1.97	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	-	16	Yes	-	-	3A.8
Catchment Management	PR19PRT_PRT-Network Plus-08	nr	-	33	No	(0.006)	-	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	0.200	Yes	-	-	3A.11
Biodiversity (penalty)	PR19PRT_PRT-Water Resources-06	%	1	98.1	Yes	-	(0.019)	3A.12
Voids	PR19PRT_PRT-Retail-02	%	2	2.24	No	(0.034)	(0.148)	3A.13
Affordability	PR19PRT_PRT-Retail-03	nr	-	13,532	Yes	-	-	3A.14
Water Industry National Environment Programme	PR19PRT_NEP02	nr	-	7	Yes	-	(0.089)	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)		%			76			3A.28

OUTCOME PERFORMANCE TABLE

Table 3A provides stakeholders with information on the performance against each of our financial ODIs in 2023-24, excluding C-Mex and D-Mex.

We have met the target for 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 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

For 2023 our CRI score was 15.6 (2022: 0.90), which is the highest score that we have seen historically. This means we will incur a financial penalty of £0.9m. This score was heavily influenced by three sample failures at our Farlington water supply works, which is our largest treatments works, serving over 100,000 properties, and hence carries a large weighting in the measure. These sample failures were the result of the sampling equipment and did not reflect the quality of water supplied to customers. Other monitoring points were compliant at the same time. Without these three sample failures at Farlington our score would have been 2.6, which exceeds our target but is better than the industry average score (which was 3.6 in 2022). All the sample pipework and pumping equipment at Farlington has now been replaced. For the four months to the end of April 2024, we have had no incidents and our CRI score for the year remains at zero.

Water supply

We have improved further on our industry-leading position in avoiding interruptions to supply. For 2023-24 we incurred interruptions totalling 1 minute, 31 seconds (2022-23: 2 minutes, 21 seconds). This is the best performance we have achieved and is better than our target of no more than five minutes, 23 seconds. As a result of this excellent performance, we will earn a financial reward of £0.2m.

Leakage

This is the second year that we have missed our leakage target, following the very dry summer and harsh winter of 2022, which caused significant stress on our mains network. We put in place a comprehensive recovery plan last year, including significant increases in resources dedicated to locating and repairing leaks as well as trialling new techniques and detection equipment such as satellite detection. Over the last year our leak detection rate improved and we the number we repaired increased from 3,282 to 4,524. While we report an increase in the three-year average performance, as a result of our recovery plan during 2023-24 we have reduced the annual level of leakage by 12% from 32.2 Ml/d to 28.2 Ml/d. We will continue to implement our recovery plan to further reduce annual leakage levels. However, as a result of the three-year average calculation, it will be very challenging to meet our target for 2024-25.

Per capita consumption

Like all companies in our sector, we saw significant increases in household consumption during the Covid-19 pandemic, meaning that we could not deliver our consumption reduction target. While household consumption has reduced since the pandemic, changes in personal behaviours, in particular working from home, mean that meeting the pre-pandemic reduction targets is no longer possible. As a result of the pandemic, Ofwat has suspended any penalties relating to per capita consumption targets and will review the position as part of its 2024 price review process. Our three-year average performance for 2023-24 is 155.7 l/head/day (2022-23:161.1 l/head/day) compared to our target of 141.9 l/head/day. This represents a significant reduction from the prior year; this is largely attributable to the peak Covid-impacted year falling out of the three-year average calculation. In-year consumption has remained broadly in line with the previous year at 154.4 l/head/day compared to 152.5 l/head/day. We continue to work with our customers to help them reduce their usage. During the year we continued our campaigns on social media, offered customers subsidised water butts and provided free water saving gadgets through our Get Water Fit platform. We also trialled the LeakBot device with 1,000 customers receiving a free LeakBot to help identify household leakage. Longer term, between 2025 and 2035 we will be installing smart meters for all our customers. With our support, this will enable them to better understand and manage their consumption and will enable the rapid identification and repair of leaks in customers' homes.

Mains repairs

We have seen significant improvements this year and report a figure of 52.8 failures per 1,000km against a target of 70 and a 2022-23 figure of 83.3. Although we experienced an extreme event in January 2024 (50 bursts) which continues to demonstrate the relationship between burst rate and weather conditions, the effect of other influential factors such as pressure variations and overall asset condition have been minimised by the continuation of our mains replacement programme and the implementation of further active pressure management. This ODI is penalty only.

PERFORMANCE SUMMARY

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 1.97%. This performance is below the target set by Ofwat although it has increased from the previous year. There were no specific trends in outage driving the increase in the reported figure.

Water quality contacts

We measure the number of contacts per 1,000 population served on a calendar year basis. For 2023 we received 0.42 (2022: 0.42) contacts per 1,000 population, in line with our beating our target of 0.42 and consistent with 2022. Our performance on this measure remains amongst the best in the sector.

Low Pressure

We met the performance commitment to reduce the registered number of properties at risk of low pressure to 30, achieving 16 by the end of March 2024. A mixture of re-zoning, reviewing pressure reduction valve settings and booster pump installations have pro-actively reduced our properties at risk of low pressure.

Catchment Management

We have missed our target of 10 farms in 2023-24 and are reporting that 3 farms successfully undertook activities to reduce the risk of raw water deterioration. This was due to 7 out of 10 farms not needing a Nutrient Management Plan (NMP), due to satisfactory nutrient levels after testing had been carried out. It should be noted that the number of farms that are eligible is reducing and for 2024-25 it will be challenging to engage and undertake soil sampling, testing and NMP updates. Some farmers strongly object to interference from outside organisations such as water companies, or government agencies. This Performance commitment has been subject to late clarification from Ofwat, subsequently a penalty of £5,600 will be due. This amount was omitted from the Annual Report & Accounts due to the timing of report production and regulatory clarification received.

Abstraction Incentive Mechanism

For this measure, 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 at our Northbrook pumping station. The primary reason for AIM not applying is that the reduction in groundwater levels was not as large as previous years as a result of higher than average rainfall during the latter part of the summer supressing demand.

Biodiversity

This measures the percentage of sites in good stewardship each year, with the results being agreed and endorsed by Natural England. For 2023-24 98.1% of our sites met the required standard, exceeding the target of 90%.

Voids

We had a monthly average of 2.24% of households categorized as void and have underperformed against our target of 2.0% of households this year. We will pay an ODI penalty of £34k. This is a small increase in reported Voids from last year (2.18%) despite continued activity from our visiting officers and data purchases from a third-party provider. The ongoing cost of living crisis with the nationwide increase in the number of long-term empty households of 5% in 2023 is greater than the 2.8% increase in reported numbers year-on-year.

Affordability

We now have 13,532 customers on our social tariff compared to the Ofwat target of 9,500 for 2022-23. We have already achieved our 2024-25 target of 10,000 customers. We have demonstrated an ongoing commitment to addressing the affordability challenges many of our customers face. A pivotal strategy in our success has been the decision to increase the eligibility threshold for social tariffs to £21,000. This adjustment has widened the net of support, ensuring that more individuals and families facing financial challenges are eligible for the Social Tariff. We further collaborated with Southern Water with data sharing processes. This has enabled both parties to streamline the identification of eligible customers and expedite the application process. Our proactive engagement with stakeholders has been instrumental in raising awareness about social tariffs and fostering community outreach initiatives.

Water Industry National Environment Programme

We have 18 schemes in our agreed WINEP programme for AMP7, with seven due by March 2024. All seven schemes were completed on schedule. Progress on all WINEP 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 delivery delayed, with agreement from Ofwat due to the Hampshire Water Transfer & Water Recycling Project and the discovery of cracks in the clay during further ground investigations. This change in scope will allow the reservoir to to take recycled wastewater from Budds Farm wastewater treatment works. This will impact the dates stated in the Performance Commitments. A delay of two to three years is expected. However, Ofwat has confirmed it will not penalise Portsmouth Water for delays that arise from this change. In accordance with the definitions of the PC, Portsmouth is reporting -20 months as the number of months it estimates the project is behind the original programme.

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	83.57	3C.1
Annual customer satisfaction score for the customer experience survey	Number	82.21	3C.2
Annual C-MeX score	Number	82.89	3C.3
Annual net promoter score	Number	36.50	3C.4
Total household complaints	Number	754	3C.5
Total connected household properties	Number	310,725	3C.6
Total household complaints per 10,000 connections	Number	24.266	3C.7
Confirmation of communication channels offered	TRUE or FALSE	TRUE	3C.8

Table 3C shows our C-Mex performance for 2023-24. The results for C-Mex for the year have been provisionally published and we are first, an improvement from second 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 2022-24 despite pressures created by the implementation of our new CRM system.

We expect to receive an ODI reward for 2023-24.

All this data has been audited by Jacobs.

Our quarterly survey scores are as follows:

2023-24	Q1	Q2	Q3	Q4	Annual
Satisfaction	83.75	84.30	83.21	82.96	83.57
Experience	83.11	80.02	83.91	81.49	82.21
C-Mex	83.43	82.16	83.56	82.23	82.89

We saw an increase in the number of household complaints, from 699 in 2022-23 to 754 in 2023-24. The increase in complaints is predominantly as a result of concerns about compulsory metering and communications around the new CRM system.

Total household complaints

Written	484
Telephony	268
Social media	0
Web chat	2
SMS	0
Visits	0
Total	754

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	79.79	3D.1
Quantitative component annual results	Number	99.01	3D.2
D-MeX score	Number	49.51	3D.3
Developer services revenue (water)	£m	2.198	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	%	94.74%		3D.W1
W2.1	%	100.00%		3D.W2
W3.1	%	99.88%		3D.W3
W4.1	%	100.00%		3D.W4
W5.1	%	87.50%		3D.W5
W6.1	%	88.24%		3D.W6
W8.1	%	100.00%		3D.W7
W16.1	%	100.00%		3D.W8
W27.1	%	100.00%		3D.W9
W28.1	%	100.00%		3D.W10
W29.1	%	100.00%		3D.W11
SLPM – S1/1	%	100.00%		3D.W12
SLPM – S1/2	%	100.00%		3D.W13
SLPM - S2/1a	%	100.00%		3D.W14
SLPM - S2/1b	%	100.00%		3D.W15
SLPM - S2/2a	%	100.00%		3D.W16
SLPM - S2/2b	%	100.00%		3D.W17
SLPM – S4/1	%	100.00%		3D.W18
SLPM – S5/1b	%	100.00%		3D.W19
SLPM – S7/1	%	100.00%		3D.W20
SLPM – S7/3	%	100.00%		3D.W21
SLPM – S3	%	100.00%		3D.W22
SLPM – S6	%	100.00%		3D.W23
WN1.1	%	100.00%		3D.W24
WN2.1	%	100.00%		3D.W25
WN2.2	%	100.00%		3D.W26
WN3.1	%	100.00%		3D.W27
WN4.1	%	100.00%		3D.W28
WN4.2	%	100.00%		3D.W29
WN4.3	%	100.00%		3D.W30
D-MeX quantitative score (for the relevant reporting period)	%	99.01%		3D.7
D-MeX quantitative score (annual)	Number		0.99	3D.8

PERFORMANCE SUMMARY

Table 3D shows our D-Mex performance for 2023-24.

We have been ranked ninth for D-Mex for 2023-24, a worsening from second in 2022-23.

Our quantitative score has improved from last year but our qualitative core was impacted by negative feedback from a developer over the time to issue new mains quotations.

Our score for 2023-24 means we receive neither a penalty nor a reward (2022-23 - £0.085m reward).

All this data has been audited by Jacobs.

PERFORMANCE SUMMARY

3E OUTCOME PERFORMANCE – NON FINANCIAL PERFORMANCE COMMITMENTS

Table 3E - Outcome performance - Non financial performance commitments

	Unique reference	Unit	decimal places	Performance level - actual	PCL met?	RAG 4 reference
Common						
Risk of severe restrictions in a drought	PR19PRT_PRT-Water Resources-04	%	1	88.0	No	3E.1
Priority services for customers in vulnerable circumstances - PSR reach	PR19PRT_PRT-Retail-05	%	1	12.5	Yes	3E.2
Priority services for customers in vulnerable circumstances - Attempted contacts	PR19PRT_PRT-Retail-05	%	1	93	Yes	3E.3
Priority services for customers in vulnerable circumstances - Actual contacts	PR19PRT_PRT-Retail-05	%	1	46.7	Yes	3E.4
Bespoke PCs						
Resilience schemes to ensure peak demands can be met	PR19PRT_PRT-Network Plus-12	%	0	33	-	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	7.8	Yes	3E.8
Addressing Vulnerability	PR19PRT_PRT-Retail-04	%	0	85	Yes	3E.9
RoSPA	PR19PRT_PRT-Network Plus-10	category	0	Distinction	Yes	3E.10
WINEP Delivery	PR19PRT_NEP01	text	0	met	Yes	3E.11
Non-financial performance commitments achieved		%			89	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 8 of the 9 reputational ODIs which apply for 2023-24. 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 Water Resources Management Plans (WRMP). Our commitment to reduce leakage within the year surpassed our forecast. However, the metering roll-out within our WRMP continues to be challenging and whilst we have had a degree of success in signing up customers to our GetWaterFit platform, the engagement by customers is lower than planned. To help compensate we are running projects to reduce non-household consumption. However, the combined benefits from our water efficiency activities are relatively small compared with those from leakage reduction, metering and supply-side schemes.

Priority Services Register

We are pleased to that report performance in all three Priority Services Register (PSR) metrics have exceeded target. The 'Reach' figure saw a large increase due to the data share with SSEN. This partnership became a two-way data share in April 2024. Other routes continued to be natural increases from business as usual activities and ongoing community involvement and newsletters. Attempted and Actual contacts met their targets due to outbound communication campaigns via letter, email and SMS. As a result we have already achieved our end of AMP7 PSR Reach target of 9% and are currently at 12.4%. We made direct contact with 47% of customers on our PSR against a target of 35%. We attempted to contact a further 93% against a target of 90%.

Resilience schemes to ensure peak demand can be met

By the end of 2023-24, we had completed one resilience scheme, and made progress on the remaining two schemes, which are expected to be completed in 2024-25.

Avoidance of water restrictions

Groundwater levels did not cross our Level 1 trigger within 2023-24 and therefore our Drought Plan was not implemented. The last time we had to introduce restrictions was in 1976.

Carbon

We report a 7.84% reduction from the baseline figure against a target reduction of 4%. The reductions have been achieved by the following: 100% renewable grid electricity contracts, which offset 100% of grid electricity and increased solar generation and export due to expansion of our solar assets.

Addressing Vulnerability

We achieved a 85% satisfaction rating (in line with our target) from the 51 organisations surveyed. Our Customer Support and Engagement Team have built additional alliances in the past year with support organisations who assist vulnerable clients. We actively promote our various schemes and tariffs to support organisations, which assists customers who will benefit from extra support. These good links enable organisations to refer customers direct to us for assistance, either by acting as an intermediary or providing us with information to make direct contact with a customer

RoSPA

For the 19th consecutive year, we have achieved RoSPA's Gold Award for outstanding health and safety performance, earning us a place in RoSPA's Order of Distinction, the highest award that the RoSPA can bestow.

WINEP Delivery

We have 18 schemes in our agreed WINEP programme for AMP7, with seven due by March 2024. All seven schemes were completed on schedule.

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	3,409.00	99	29.04	3F.1
Mains repairs - Proactive	Mains repairs per 1000 km	Mains length in km	3,409.00	81	23.76	3F.2
Mains repairs	Mains repairs per 1000 km	Mains length in km	3,409.00	180	52.80	3F.3
Per capita consumption (PCC)	lpd	Total hh pop (000s) and hh consumption (Ml/d)	739.63	114.0	154.40	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 - actual (2023-24)	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	28.2	29.1	-2.5	3F.5
Per capita consumption (PCC)	lpd	146.8	151.3	149.9	149.3	170.5	160.3	152.5	154.4	155.7	-4.3	3F.6

	Unit	Standardising data indicator	Standardising data numerical value	Total minutes lost	Number of properties supply interrupted	Calculated performance level	RAG 4 reference
Water supply interruptions							
Water supply interruptions	Average number of minutes lost per property per year	Number of properties (thousands)	326.30	493,227	1,451	00:01:31	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	296.6	5.84	1.97%	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	310.730	38,739	12.5%	27,062	25,178	93.0%	12,645	46.7%	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 split our mains repairs between reactive and planned. In total we had 180 mains repairs in the year, and given our network length is of 3,409km as at 31 March 2024, our ODI performance is 52.8 mains repairs per 1,000 km.

Per capita consumption

Water delivered to households is 114.0 Ml/d, which given the household population of 740,000 people results in an average household PCC of 154.4 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 2021-22, 2022-23 and 2023-24, allowing for a new three-year rolling average to be determined.

Water supply interruptions

The total minutes lost is shown as 493,227, which given our total property count of 327,000 results in an ODI performance of 1 mins 31 secs. In total 1,451 properties experienced an interruption to supply of more than 3 hours.

Unplanned outage

Our reduction in capacity because of unplanned outage is 5.84 Ml/d which equates to a 1.97% reduction in Peak Week Production Capacity.

Priority Service Register

As of 31 March 2024, we have 38,739 customers on our PSR, which is 12.5 percent of our year end household base. We attempted to contact 25,178 customers on our base over the prior two years and were successful with 12,645 customers. This is a slight decrease on the previous year.

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	(1.280)	3H.2
Residential retail	(0.030)	3H.5
Dummy control	-	3H.7
Initial calculation of end of period revenue adjustment by price control		
Water resources	(0.460)	3H.8
Water network plus	-	3H.9
Residential retail	-	3H.12
Dummy control	-	3H.14
Initial calculation of end of period RCV adjustment by price control		
Water resources	-	3H.15
Water network plus	-	3H.16
Residential retail	-	3H.19
Dummy control	-	3H.21

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

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

Business Unit	ODI	Reward / penalty (£m)	Aggregate (£m)
Water Resources	No ODI in reward / penalty	0.000	0.000
Network Plus	Water supply interruptions Leakage Catchment Management CRI	0.243 -0.672 -0.006 -0.848	-1.283
Retail	Voids	-0.034	-0.034
Total			-1.317

Because of the increase in household usage due to changes in working patterns related to Covid and subsequent increased home working, a decision over a potential penalty of £0.459m for PCC has been deferred to the end of the AMP.

3I SUPPLEMENTARY OUTCOMES INFORMATION

Table 3I - Supplementary outcomes information

	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %	RAG 4 reference
Unplanned or plannned outage				
Planned outage	296.58	10.48	3.53%	3I.1

	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk	
Risk of severe restrictions in drought							
Risk of severe restrictions in drought	201.89	19.09	177.4	5.35	759.52	0.88	3I.2

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

Looking at each component in turn:

Planned outage

Our reduction in capacity because of planned outage is 10.48 Ml/d which results in a 3.53% reduction in Peak Week Production Capacity. This is a very slight increase on 2023-24 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 2023-24.

The Ofwat table asks for a comparison with a severe drought year and shows that 88% of customers would have been at risk of restrictions in the event of a severe drought.

Annual Average	rWRMP19 Forecast 2023-24	'Uplifted' Outturn Values 2023-24
Final Plan Deployable Output	213.49	210.12
Outage	6.7	6.46
Treatment works losses and operational use	2.4	4.82
Water Available For Use in a Dry Year (Own Sources) (DO-Outage-losses)	204.39	198.85
Potable water exported (bulk supplies to SWS and NAVs)	30.0	30.8
Total Water Available for Use (WAFU-Exports)	174.39	168.04
Distribution Input	174.15	186.74
Target headroom	5.05	5.05
Supply Demand Balance (Total WAFU – DI – Target Headroom)	**-4.81**	**-23.75**

Mild temperatures and wet conditions were experienced for most of 2023-24 which meant that we maintained healthy groundwater levels and overall water resource position. However, our WRMP Annual Review explores what our position would have been in 2023-24 if we had experienced a 1 in 200 year drought event.

The table above shows that in the unprecedented scenario that Southern Water had requested the full 30 Ml/d bulk supply every day throughout the whole year in a 1 in 200 year drought event, the supply demand balance would have been in deficit.

We continue to work hard to reduce customers at risk in an extreme drought event through the completion of our schemes aimed at maximising the Deployable Output, through investing a significant amount of money and resources into reducing leakage, by installing thousands of meters in preparation for the implementation of universal metering in 2025-26, and encouraging water efficiency via GetWaterFit.

We can also confirm that we did not issue a Temporary Use Ban in 2023-24.

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 2024

	Volume	Operating costs	Revenue	RAG 4 reference
	Ml	£m	£m	
Bulk supply exports				
Southern Water - Sussex North	720.557	0.121	0.246	4A.1
Southern Water - Hampshire	1,233.859	0.143	0.528	4A.2
Leep - Graylingwell	78.850	0.022	0.045	4A.3
Leep - Berewood	143.685	0.040	0.066	4A.4
IWNL	100.575	0.028	0.039	
Southern Water - Havant Thicket	-	-	1.696	4A.5
Total bulk supply exports	2,277.526	0.354	2.620	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 2023-24.

For this APR we continue to include bulk supplies to NAVs. We have three NAV sites in our region in 2023-24.

The volumes and revenues for all of these bulk supplies are taken from invoicing of our 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 NAV 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 when Havant Thicket is constructed. The sum of £1.696m 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 2024			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)	6.566	33.523	21.994	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	6.489	40.579	33.625	4C.2
Transition expenditure	-	-	-	4C.3
Disallowable costs	0.027	0.253	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	6.462	40.326	33.625	4C.5
Variance	(0.104)	6.803	11.631	4C.6
Variance due to timing of expenditure	(1.399)	1.659	-	4C.7
Variance due to efficiency	1.295	5.144	11.631	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	0.648	2.572	-	4C.11
Customer share of totex underspend	-	-	-	4C.12
Company share of totex overspend	0.648	2.572	-	4C.13
Company share of totex underspend	-	-	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	2.090	2.001	-	4C.15
Actual totex - business rates and abstraction licence fees	1.478	(0.104)	-	4C.16
Variance - business rates and abstraction licence fees	(0.612)	(2.105)	-	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	(0.459)	(1.579)	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	(0.153)	(0.526)	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	0.301	-	4C.22
Actual totex - not subject to cost sharing	0.027	0.528	-	4C.23
Variance - 100% company allocation	0.027	0.227	-	4C.24
Total customer share of totex over/under spend	0.189	0.993	-	4C.25
RCV				
Total customer share of totex over/under spend	0.189	0.993	-	4C.26
PAYG rate	76.64%	69.65%	0.00%	4C.27
RCV element of totex over/underspend	0.044	0.301	-	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)	21.582	125.155	47.583	4C.1
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	19.228	117.916	73.296	4C.2
Transition expenditure	-	-	5.029	4C.3
Disallowable costs	0.083	0.774	-	4C.4
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	19.145	117.142	78.325	4C.5
Variance	(2.437)	(8.013)	30.742	4C.6
Variance due to timing of expenditure	(2.317)	(4.407)	19.111	4C.7
Variance due to efficiency	(0.120)	(3.606)	11.631	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	(0.048)	(1.442)	-	4C.12
Company share of totex overspend			-	4C.13
Company share of totex underspend	(0.072)	(2.164)	-	4C.14
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	7.647	7.321	-	4C.15
Actual totex - business rates and abstraction licence fees	7.072	5.158	-	4C.16
Variance - business rates and abstraction licence fees	(0.575)	(2.163)	-	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	(0.431)	(1.622)	-	4C.20
Company share of totex over/underspend - business rates and abstraction licence fees	(0.144)	(0.541)	-	4C.21
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	-	1.103	-	4C.22
Actual totex - not subject to cost sharing	0.089	2.914	-	4C.23
Variance - 100% company allocation	0.089	1.811	-	4C.24
Total customer share of totex over/under spend	(0.479)	(3.065)	-	4C.25
RCV				
Total customer share of totex over/under spend	(0.479)	(3.065)	-	4C.26
PAYG rate	84.08%	68.71%	0.00%	4C.27
RCV element of totex over/underspend	(0.076)	(0.959)	-	4C.28
Adjustment for ODI out/under performance payment	-	-	-	4C.29
Green recovery	-	-	-	4C.30
RCV determined at FD at 31 March	9.792	195.171	50.713	4C.31
Projected 'shadow' RCV	9.716	194.212	50.713	4C.32

ADDITIONAL REGULATORY INFORMATION

4D TOTEX ANALYSIS – WATER RESOURCES AND WATER NETWORK+

Table 4D - Totex analysis for the 12 months ended 31 March 2024 - 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	6.296	-	0.019	4.487	15.927	26.729	4D.1
Enhancement operating expenditure	0.241	-	-	-	-	0.241	4D.2
Developer services operating expenditure	-	-	-	-	0.591	0.591	4D.3
Total operating expenditure excluding third party services	6.537	-	0.019	4.487	16.518	27.561	4D.4
Third party services	-	-	-	-	0.275	0.275	4D.5
Total operating expenditure	6.537	-	0.019	4.487	16.793	27.836	4D.6
Grants and contributions							
Grants and contributions - operating expenditure	-	-	-	-	0.892	0.892	4D.7
Capital expenditure							
Base capital expenditure	0.959	-	0.017	2.275	11.530	14.781	4D.8
Enhancement capital expenditure	0.702	-	-	3.605	2.208	6.515	4D.9
Developer services capital expenditure	-	-	-	-	1.205	1.205	4D.10
Total gross capital expenditure (excluding third party)	1.661	-	0.017	5.880	14.943	22.501	4D.11
Third party services	-	-	-	-	-	-	4D.12
Total gross capital expenditure	1.661	-	0.017	5.880	14.943	22.501	4D.13
Grants and contributions							
Grants and contributions - capital expenditure	-	-	-	-	0.728	0.728	4D.14
Net totex	8.198	-	0.036	10.367	30.116	48.717	4D.15
Cash expenditure							
Pension deficit recovery payments	-	-	-	-	-	-	4D.16
Other cash items	-	-	-	-	-	-	4D.17
Totex including cash items	8.198	-	0.036	10.367	30.116	48.717	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 PR19 Final Determination (FD), the allowed Totex expenditure is £44.482m, in 2023-24 prices excluding the ex-ante adjustment of £1.838m and Havant Thicket. The table below shows the comparison of the allowed expenditure against the actual expenditure for 2023-24.

Summary comparison of Totex expenditure against FD allowed expenditure.

2023-24 prices

	FD Totex 2023-24	Actual Totex 2023-24	Variance 2023-24
Operating costs	22,247	26,248	(4,001)
Abstraction costs and Rates	4,091	1,374	2,717
Mains renewals - opex	4,166	95	4,071
Recharge to Retail	-	(156)	156
Base Operating expenditure	30,504	27,561	2,943
Infra Capital costs	2,213	4,928	(2,715)
Non-Infra Capital costs	5,590	9,936	(4,346)
Base Capital expenditure	7,803	14,864	(7,061)
Enhancement Capex	7,135	7,637	(502)
Third Party Costs	302	275	27
Grants and Contributions	(1,262)	(1,620)	358
TOTEX	44,482	48,717	(4,235)

Further detail on the variances is given below.

Base Totex

Base operating expenditure was less than the FD by £2.9m, including abstraction costs and business rates and opex mains renewals.

Operating costs were £4.0m more than the FD primarily due to increased power costs and other operating costs. This was offset by reduced abstraction costs £2.7m and lower renewals opex.

Operating costs include a recharge to Retail Household of £0.2m. This relates to principal use assets in Wholesale and is an office rental charge at market rate.

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 £1.8m to the FD totex which reduced our allowed revenues. The Company is targeting a lower level of opex expenditure than in the FD, to reflect this revenue adjustment and to deliver outperformance. In 2023-24 the actual operating expenditure is at a reduced level, which is an efficiency saving.

Base capital expenditure was higher than the FD by £7.0m which was due to increased mains renewals, £2.7m and higher non-infrastructure maintenance costs by £4.3m, which was needed to recover the delayed maintenance work due to Covid and underspend in 2021-2023.

The total mains renewals expenditure (totex) for the year was lower than the FD by £1.2m. Activity in the year was less than in the FD, with 11.1km of pipe being renewed, compared to 14km in the FD. The underspend also reflects efficiency in delivery of the programme.

Enhancement Totex

Enhancement expenditure is higher than the FD by £0.5m in 2023-24. In the AMP to date there is an overspend across our enhancement programme of £3.8m. This includes additional spend on raw water deterioration of £2.3m and leakage enhancement of £2.1m, which was not in the FD.

A number of capital schemes were delayed due to the Covid restrictions in 2020-21 and as such have been delivered in 2023-24. The main variances to the FD in 2023-24 were

- Additional spend on raw water deterioration £0.7m.
- New metering expenditure in 2023-24 was higher than in the FD by £0.8m.
- Delay to resilience spend of £0.6m against the PR19 business plan.
- Lower WINEP spend of £0.3m and WRMP spend of £0.1m as the majority of schemes already completed.

Further detail is shown in Table 4L.

Accelerated Schemes

There were several schemes not included in the Final Determination but completed in 2023-24. This includes planning work for the PR24 Smart Metering and Billing project, amounting to £4.7m. This is part of the approved Accelerated spend scheme approved by Ofwat.

Havant Thicket

Havant Thicket Winter Storage Reservoir Project continued in 2023-24, where the costs amounted to £33.6m primarily driven by the mobilisation of the project working towards the main reservoir works and main pipeline works contracts and the lease of land for environmental compensation and mitigation.

- Project works continue in the reservoir for the habitat mitigation strategy together with planning commitments in preparation of the commencement for construction of the project.
- The advance work on tree clearance has now been completed as part of the preparation on the Havant Thicket site, where the ancient trees felled as part of the programme have been shipped to the HMS Victory as part of their restoration programme and stored for the future construction of the reservoir visitor centre.
- The main reservoir works contract was awarded to Future Water in February 2023, works have started on the main access road to the B2149 and the northern access road into the site and the main site compound has been erected in preparation for the construction to start in 2024-25.
- The main pipeline contract, awarded to Ward & Burke in August 2022, has undertaken planning, design and evaluation of the potential pipeline routes.
- The Farlington to Nelson pipeline design and planning has been commenced, with the development of a procurement strategy and trial ground investigations.

ADDITIONAL REGULATORY INFORMATION

4H FINANCIAL METRICS

Table 4H - Financial metrics for the 12 months ended 31 March 2024

	Units	Current year	CY restated for Havant Thicket CAM	AMP to date	RAG 4 reference
Financial indicators					
Net debt	£m	127.770	127.770		4H.1
Regulatory equity	£m	127.906	202.737		4H.2
Regulatory gearing	%	49.97%	38.66%		4H.3
Post tax return on regulatory equity	%	-13.19%	-7.76%		4H.4
RORE (return on regulatory equity)	%	-4.95%		-0.18%	4H.5
Dividend yield	%	1.83%	1.16%		4H.6
Retail profit margin - Household	%	-0.58%			4H.7
Credit rating - Moody's	Text	Baa2 (Stable)			4H.10
Return on RCV	%	4.07%	3.53%		4H.12
Dividend cover	dec	-4.55			4H.13
Funds from operations (FFO)	£m	10.326			4H.14
Interest cover (cash)	dec	1.49			4H.15
Adjusted interest cover (cash)	dec	0.47			4H.16
FFO/Debt	dec	0.08			4H.17
Effective tax rate	%	0.12%			4H.18
Retained cash flow (RCF)	£m	7.984			4H.19
RCF/Net debt	dec	0.06			4H.20
Borrowings					
Proportion of borrowings which are fixed rate	%	8.58%			4H.21
Proportion of borrowings which are floating rate	%	1.03%			4H.22
Proportion of borrowings which are index linked	%	90.39%			4H.23
Proportion of borrowings due within 1 year or less	%	8.46%			4H.24
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%			4H.25
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	-0.16%			4H.26
Proportion of borrowings due in more than 5 years but no more than 20 years	%	91.15%			4H.27
Proportion of borrowings due in more than 20 years	%	0.54%			4H.28

COMMENTARY ON THE RoRE FINANCIAL METRIC

RoRE movements compared to base RoRE set at PR19

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

2017-18 PRICES	2020-21	2021-22	2022-23	2023-24	AMP Average	
REGULATED EQUITY	61.104	66.129	70.636	76.972	68.710	Average notional regulatory equity
Return on Regulatory Equity	4.12%	4.18%	4.21%	4.22%	4.18%	Final Determination
NET INCOME - FD	2.517	2.764	2.974	3.248	2.874	Notional return on Equity
Adjustment for actual equity	-0.704	-0.817	-1.186	-0.111	-0.704	FD return applied to actual equity
Totex PAY G adjustments	0.382	1.943	1.631	-2.242	0.429	Including customer cost sharing
Retail cost adjustments	-0.376	-0.124	-1.416	-0.838	-0.688	
ODI reward/penalty	0.090	-0.195	-0.658	-1.708	-0.618	As reported in Table 3A
C-Mex	0.000	0.283	0.203	0.243	0.183	Reported one year in arrears
D-Mex	0.000	0.099	0.101	0.085	0.071	Reported one year in arrears
Exceptional items	-0.087	-4.163	-0.695	-0.025	-1.242	Settlement and related costs on pension scheme
Cost of Debt	-1.697	-0.595	-1.061	-4.885	-2.060	FD vs real cost of debt
Gearing	0.704	0.817	1.186	0.111	0.705	
Tax on adjustments	-0.059	-0.190	1.657	2.310	0.929	
NET INCOME - Adjusted	0.771	-0.178	2.736	-3.812	-0.122	Used to calculate adjusted RoRE %'s
Return on Regulatory Equity	1.26%	-0.27%	3.87%	-4.95%	-0.18%	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	10.326	10.326
Cash Interest paid	9.206	9.206
Cash Interest income	-5.814	-5.814
Net interest paid	3.392	3.392
Regulated depreciation	-	-9.434
	13.718	4.284
Cash Interest paid	9.206	9.206
Ratio	1.49	0.47

Revised ratios for Havant Thicket CAM adjustments

In January 2023 Ofwat agreed 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 2023-24	Closing 2023-24	Average 2023-24	Closing Net Debt
Water Resources	7.830	9.792	-	-
Water Network+	184.720	195.171	-	-
Havant Thicket	27.865	50.713	-	-
Total	220.415	255.676	239.792	127.770
Gearing ratio		49.97%		
RCV + CAM adjustments			-	
Water Resources	7.830	9.792	-	-
Water Network+	184.720	195.171	-	-
Havant Thicket revised	75.826	125.545	-	-
Total	268.376	330.508	276.715	127.770
Gearing ratio		38.66%		

ADDITIONAL REGULATORY INFORMATION

4I FINANCIAL DERIVATIVES

Table 4I - Financial derivatives

	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate		RAG 4 reference
	0 to 1 years	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable	
	£m	£m	£m	£m	£m	£m	£m	%	%	
Interest rate swap (sterling)										
Floating to fixed rate	-	0.027	0.403	-	0.430	0.380	-	3.13%	3.50%	4I.1
Floating from fixed rate	-	-	-	-	-	-	-	0.00%	0.00%	4I.2
Floating to index linked	-	-	-	-	-	-	-	0.00%	0.00%	4I.3
Floating from index linked	-	-	-	-	-	-	-	0.00%	0.00%	4I.4
Fixed to index-linked	-	-	-	-	-	-	-	0.00%	0.00%	4I.5
Fixed from index-linked	-	-	-	-	-	-	-	0.00%	0.00%	4I.6
Index-linked to index-linked	(0.449)	(0.072)	(0.668)	(1.054)	(2.243)	(1.852)	-	0.00%	0.00%	4I.7
Total	(0.449)	(0.045)	(0.265)	(1.054)	(1.813)	(1.472)	-			4I.8
Foreign Exchange										
Cross currency swap USD	-	-	-	-	-	-	-			4I.9
Cross currency swap EUR	-	-	-	-	-	-	-			4I.10
Cross currency swap YEN	-	-	-	-	-	-	-			4I.11
Cross currency swap Other	-	-	-	-	-	-	-			4I.12
Total	-	-	-	-	-	-	-			4I.13
Currency interest rate										
Currency interest rate swaps USD	-	-	-	-	-	-	-			4I.14
Currency interest rate swaps EUR	-	-	-	-	-	-	-			4I.15
Currency interest rate swaps YEN	-	-	-	-	-	-	-			4I.16
Currency interest rate swaps Other	-	-	-	-	-	-	-			4I.17
Total	-	-	-	-	-	-	-			4I.18
Forward currency contracts										
Forward currency contracts USD	-	-	-	-	-	-	-			4I.19
Forward currency contracts EUR	-	-	-	-	-	-	-			4I.20
Forward currency contracts YEN	-	-	-	-	-	-	-			4I.21
Forward currency contracts CAD	-	-	-	-	-	-	-			4I.22
Forward currency contracts AUD	-	-	-	-	-	-	-			4I.23
Forward currency contracts HKD	-	-	-	-	-	-	-			4I.24
Forward currency contracts Other	-	-	-	-	-	-	-			4I.25
Total	-	-	-	-	-	-	-			4I.26
Other financial derivatives										
Other financial derivatives	-	-	-	-	-	-	-			4I.27
Total financial derivatives	(0.449)	(0.045)	(0.265)	(1.054)	(1.813)	(1.472)	-			4I.28

All the Financial Derivatives have also been reported as 'Financial derivatives - (D) Other swaps' on lines 4I.113 to 4I.130

ADDITIONAL REGULATORY INFORMATION

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

Table 4J - Base expenditure analysis for the 12 months ended 31 March 2024 - water resources and water network+

£m	Water resources	Water network+				Total	RAG 4 reference
		Raw water transport	Raw water storage	Water treatment	Treated water distribution		
Operating expenditure							
Power	2.298	-	0.001	0.269	2.997	5.565	4J.1
Income treated as negative expenditure	-	-	-	-	-	-	4J.2
Bulk supply	-	-	-	-	-	-	4J.3
Renewals expensed in year (infrastructure)	-	-	-	-	0.094	0.094	4J.4
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-	4J.5
Other operating expenditure	2.520	-	0.019	4.288	12.581	19.408	4J.6
Local authority and Cumulo rates	(0.029)	-	(0.001)	(0.070)	(0.033)	(0.133)	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	-	-	-	-	0.128	0.128	4J.11
Costs associated with lane rental schemes	-	-	-	-	0.160	0.160	4J.12
Statutory water softening	-	-	-	-	-	-	4J.13
Total base operating expenditure	6.296	-	0.019	4.487	15.927	26.729	4J.14
Capital expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	4.845	4.845	4J.15
Maintaining the long term capability of the assets - non-infra	0.959	-	0.017	2.275	6.685	9.936	4J.16
Total base capital expenditure	0.959	-	0.017	2.275	11.530	14.781	4J.17
Traffic Management Act							
Projects incurring costs associated with Traffic Management Act	-	-	-	-	-	-	4J.18

4L ENHANCEMENT CAPITAL EXPENDITURE BY PURPOSE – WHOLESALE WATER

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

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

Table 4N - Developer services expenditure for the 12 months ended 31st March 2024 - water resources and water network+

£m	Water Network+			RAG 4 reference
	Treated Water Distribution			
	Capex	Opex	Totex	
New connections	-	0.591	0.591	4N.1
Requisition mains	0.886	-	0.886	4N.2
Infrastructure network reinforcement	0.319	-	0.319	4N.3
s185 diversions	-	-	-	4N.4
Other price controlled activities	-	-	-	4N.5
Total developer services expenditure	**1.205**	**0.591**	**1.796**	4N.7

ADDITIONAL REGULATORY INFORMATION

4P EXPENDITURE ON NON-PRICE CONTROL DIVERSIONS

Table 4P - Expenditure on non-price control diversions for the 12 months ended 31 March 2024

£m	Water resources	Water network+	Total	RAG 4 reference
Non-price control diversions - opex				
Opex associated with NSWRA diversions	-	-	-	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	-	-	-	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)	1,470	1,470	4Q.1
New connections (business – excluding NAVs)	101	101	4Q.2
Total new connections served by incumbent	1,571	1,571	4Q.3
New connections – SLPs	502		4Q.4
Properties volume data			
New properties (residential - excluding NAVs)	1,484	1,484	4Q.5
New properties (business - excluding NAVs)	101	101	4Q.6
Total new properties served by incumbent	1,585	1,585	4Q.7
New residential properties served by NAVs	916	916	4Q.8
New business properties served by NAVs	2	2	4Q.9
Total new properties served by NAVs	918	918	4Q.10
Total new properties	2,503	2,503	4Q.11
New properties – SLP connections	502		4Q.12
New water mains data			
Length of new mains (km) - requisitions	3		4Q.13
Length of new mains (km) - SLPs	6		4Q.14

This table relates to new connections, properties and new mains in the year 2023-24.

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 2023-24.

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	191.178	111.926	303.104	6.770	4R.1
Residential wastewater only customers	000s	-	-	-	-	4R.2
Residential water and wastewater customers	000s	-	-	-	-	4R.3
Total residential customers	000s	191.178	111.926	303.104	6.770	4R.4
Business water only customers	000s	1.548	11.948	13.496	2.203	4R.5
Business wastewater only customers	000s	-	-	-	-	4R.6
Business water & wastewater customers	000s	-	-	-	-	4R.7
Total business customers	000s	1.548	11.948	13.496	2.203	4R.8
Total customers	000s	192.726	123.874	316.600	8.973	4R.9

	Units	Water			
Property numbers - average during the year		Unmeasured	Measured	Total	
Residential properties billed	000s	191.178	111.926	303.104	4R.10
Residential void properties	000s			6.770	4R.11
Total connected residential properties	000s			309.874	4R.12
Business properties billed	000s	1.548	11.948	13.496	4R.13
Business void properties	000s			2.203	4R.14
Total connected business properties	000s			15.699	4R.15
Total connected properties	000s			325.573	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	-	-	-			-	-	1.470	-			1.470	1.470	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	189.265	-	-			189.265	-	114.329	-			114.329	303.594	4R.19
Residential properties unbilled at year end															4R.20
Residential void properties at year end	000s						4.307						2.824	7.131	4R.21
Total connected residential properties at year end	000s						193.572						117.153	310.725	4R.22
Business properties billed at year end	000s	1.559	-	-			1.559	-	11.970	-			11.970	13.529	4R.23
Business properties unbilled at year end															4R.24
Business void properties at year end	000s						0.365						1.679	2.044	4R.25
Total connected business properties at year end	000s						1.924						13.649	15.573	4R.26
Total connected properties at year end	000s						195.496						130.802	326.298	4R.27

Population data	Units	Water	Wastewater	
Resident population	000s	754.110	-	4R.28
Non-resident population (wastewater)	000s		-	4R.29

This table shows the number of properties, customers and population for the year 2023-24. 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

4V MARK-TO-MARKET OF FINANCIAL DERIVATIVES ANALYSED BASED ON PAYMENT DATES

Table 4V - Mark-to-market of financial derivatives analysed based on payment dates

	Derivatives - Analysed by earliest payment date				Derivatives - Analysed by expected maturity date				RAG 4 reference
	Net settled	Gross settled outflows	Gross settled inflows	Total	Net settled	Gross settled outflows	Gross settled inflows	Total	
Due within one year	(0.437)	-	-	(0.437)	(0.437)	-	-	(0.437)	4V.1
Between one and two years	(0.042)	-	-	(0.042)	(0.042)	-	-	(0.042)	4V.2
Between two and three years	0.095	-	-	0.095	0.095	-	-	0.095	4V.3
Between three and four years	(0.218)	-	-	(0.218)	(0.218)	-	-	(0.218)	4V.4
Between four and five years	(0.103)	-	-	(0.103)	(0.103)	-	-	(0.103)	4V.5
After five years	(0.767)	-	-	(0.767)	(0.767)	-	-	(0.767)	4V.6
Total	**(1.472)**	**-**	**-**	**(1.472)**	**(1.472)**	**-**	**-**	**(1.472)**	4V.7

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	94.121			4W.3
Scheme liabilities	94.121			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

ADDITIONAL REGULATORY INFORMATION

4X ACCELERATED INFRASTRUCTURE DELIVERY PROJECT EXPENDITURE – WATER RESOURCES AND WATER NETWORK+

Table 4X - Accelerated infrastructure delivery project expenditure for the 12 months ended 31 March 2024 - water resources and water network+

£m		Expenditure in report year						RAG 4 reference
		Water resources	Water network+				Total	
			Raw water transport	Raw water storage	Water treatment	Treated water distribution		
Accelerated infrastructure delivery project								
Smartmeter Infrastructure	Capex	-	-	-	-	4.748	4.748	4X.1
Smartmeter Infrastructure	Opex	-	-	-	-	-	-	4X.2
Smartmeter Infrastructure	Totex	-	-	-	-	4.748	4.748	4X.3

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 2024

	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	12.5	5A.3
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	177.3	5A.4
Water from artificial recharge (AR) water supply schemes	Ml/d	0.0	5A.5
Water from aquifer storage and recovery (ASR) water supply schemes	Ml/d	0.0	5A.6
Water from saline abstractions	Ml/d	0.0	5A.7
Water from water reuse schemes	Ml/d	0.0	5A.8
Number of impounding reservoirs	nr	0	5A.9
Number of pumped storage reservoirs	nr	0	5A.10
Number of river abstractions	nr	1	5A.11
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	20	5A.12
Number of artificial recharge (AR) water supply schemes	nr	0	5A.13
Number of aquifer storage and recovery (ASR) water supply schemes	nr	0	5A.14
Number of saline abstraction schemes	nr	0	5A.15
Number of reuse schemes	nr	0	5A.16
Total number of sources	nr	21	5A.17
Total number of water reservoirs	nr	1	5A.18
Total volumetric capacity of water reservoirs	Ml	135	5A.19
Total number of intake and source pumping stations	nr	21	5A.20
Total installed power capacity of intake and source pumping stations	kW	6190	5A.21
Total length of raw water abstraction mains and other conveyors	km	25.61	5A.22
Average pumping head – raw water abstraction	m.hd	29.79	5A.23
Energy consumption - raw water abstraction	MWh	9,625.33	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	201.9	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 2023-24.

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 predominantly 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 2024

£m	Impounding Reservoir	Pumped Storage	River Abstractions	Groundwater, excluding MAR water supply schemes	Artificial Recharge (AR) water supply schemes	Aquifer Storage and Recovery (ASR) water supply schemes	Other	Total	RAG 4 reference
Power	-	-	0.145	2.153	-	-	-	2.298	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	-	-	-	2.761	-	-	-	2.761	5B.7
Local authority and Cumulo rates	-	-	-	(0.029)	-	-	-	(0.029)	5B.9
Total operating expenditure (excluding 3rd party)	-	-	0.410	6.127	-	-	-	6.537	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 2024

	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	61.64	8	6A.13
W1 works	0.00	0	0.00	0	6A.14
W2 works	0.00	0	9.49	1	6A.15
W3 works	0.00	0	0.00	0	6A.16
W4 works	0.00	0	98.67	8	6A.17
W5 works	9.84	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%	2	6A.20
WTWs in size band 2	0.0%	1	6A.21
WTWs in size band 3	5.9%	3	6A.22
WTWs in size band 4	29.4%	7	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	296.58	6A.28
Total peak week production capacity (PWPC) having enhancement expenditure for grey solution improvements to address raw water quality deterioration	Ml/d	7.27	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	674.000	6A.33
Average pumping head – water treatment	m.hd	2.17	6A.34
Energy consumption ~ water treatment	mWh	1406.823	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	1	6A.38
Water exported to 3rd parties' water treatment works	Ml/d	3.21	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 2023-24.

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 2024

	Units	Input	RAG 4 reference
Assets and operations			
Total installed power capacity of potable water pumping stations	kW	2569	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	162.81	6B.5
Water delivered (billed measured residential)	Ml/d	38.96	6B.6
Water delivered (billed measured business)	Ml/d	32.61	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	0.058	6B.10
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.942	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	23	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	1	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	14218.211	6B.23
Average pumping head – treated water distribution	m.hd	29.06	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	2	6B.27
Water exported to 3rd parties from treated water distribution systems	Ml/d	2.17	6B.28
Peak 7 day rolling average distribution input	Ml/d	211.52	6B.29
Peak 7 day rolling average distribution input / annual average distribution input	%	118.28%	6B.30
Water balance - company level			
Measured household consumption (excluding supply pipe leakage)	Ml/d	33.54	6B.31
Unmeasured household consumption (excluding supply pipe leakage)	Ml/d	73.94	6B.32
Measured non-household consumption (excluding supply pipe leakage)	Ml/d	32.03	6B.33
Unmeasured non-household consumption (excluding supply pipe leakage)	Ml/d	0.59	6B.34
Total annual leakage	Ml/d	28.19	6B.35
Distribution system operational use	Ml/d	0.51	6B.36
Water taken unbilled	Ml/d	2.41	6B.37
Distribution input	Ml/d	177.90	6B.38
Distribution input (pre-MLE)	Ml/d	178.83	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	15.09	6B.59
Customer supply pipe losses – measured households excluding void properties	Ml/d	5.42	6B.60
Customer supply pipe losses – unmeasured households excluding void properties	Ml/d	6.68	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	0.12	6B.64
Customer supply pipe losses – void unmeasured households	Ml/d	0.15	6B.65
Customer supply pipe losses – void measured non-households	Ml/d	0.09	6B.66
Customer supply pipe losses – void unmeasured non-households	Ml/d	0.01	6B.67

This table provides detail of our water distribution assets and other associated data for 2023-24.

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 2024

	Units	Input	RAG 4 reference
Treated water distribution - mains analysis			
Total length of potable mains as at 31 March	km	3409.0	6C.1
Total length of potable mains relined	km	0.0	6C.2
Total length of potable mains renewed	km	10.7	6C.3
Total length of new potable mains	km	23.5	6C.4
Total length of potable water mains (< ≤320mm)	km	3047.7	6C.5
Total length of potable water mains >320mm and ≤ 450mm	km	151.5	6C.6
Total length of potable water mains >450mm and ≤610mm	km	150.4	6C.7
Total length of potable water mains > 610mm	km	59.4	6C.8
Treated water distribution - mains age profile			
Total length of potable mains laid or structurally refurbished pre-1880	km	55.8	6C.9
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	78.6	6C.10
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	111.7	6C.11
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	462.1	6C.12
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	376.6	6C.13
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	665.0	6C.14
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	873.1	6C.15
Total length of potable mains laid or structurally refurbished between 2001 and 2020	km	713.4	6C.16
Total length of potable mains laid or structurally refurbished during and after 2021	km	72.8	6C.17
Communication pipes			
Number of lead communication pipes	nr	80072	6C.18
Number of galvanised iron communication pipes	nr	17839	6C.19
Number of other communication pipes	nr	228387	6C.20
Number of lead communication pipes replaced or relined for water quality	nr	23	6C.21
Other			
Company area	km^2	864	6C.22
Compliance Risk Index	nr	15.62	6C.23
Event Risk Index	nr	1422	6C.24
Properties below reference level at end of year	nr	16	6C.25

This table provides detail of our water distribution assets and other associated data for 2023-24.

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 2024

	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference
Metering activities - Totex expenditure					
New optant meter installation for existing customers	£m	0.691	-	-	6D.1
New selective meter installation for existing customers	£m	1.082	-	-	6D.2
New business meter installation for existing customers	£m	-	-	-	6D.3
Residential meters renewed	£m	-	-	-	6D.4
Business meters renewed	£m	-	-	-	6D.5
Metering activities - Explanatory variables					
New optant meters installed	000s	1.411	-	-	6D.6
New selective meters installed	000s	15.059	-	-	6D.7
New business meters installed	000s	-	-	-	6D.8
Residential meters renewed	000s	-	-	-	6D.9
Business meters renewed	000s	0.003	-	-	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	0.120	-	-	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	%	37.7%	-	-	6D.21
Leakage activities - Totex expenditure	**Units**	**Maintaining leakage**	**Reducing leakage**	**Total**	
Total leakage activity	£m	5.283	0.272	5.555	6D.22
Leakage improvements delivering benefits in 2020-25	Ml/d			4.00	6D.23
Per capita consumption (excluding supply pipe leakage)					
Per capita consumption (measured customers)	l/h/d	136.41			6D.24
Per capita consumption (unmeasured customers)	l/h/d	163.31			6D.25

This table provides detail of our demand management and metering data for 2023-24.

We have exceeded the PR19 basic meter installations targets, although the numbers of customers on metered tariffs remains low. We continue to struggle to encourage customers to switch to a meter. We have started our accelerated programme for smart meters.

The cost of leakage has been allocated to maintenance as we were not allowed any leakage enhancement funding at PR19. We have excluded the £4.0m of mains renewals (2022-23 - £3.3m) from these numbers as leakage was not the primary driver for the activity.

The unmeasured and measured PCCs are provided which, when weighted by number, give the average household PCC of 155.7 l/p/d (2022-23 152.5 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	0.000	0.000	0.000	0.000	0.000	0.000	0.032	0.076	0.120	0.054	0.054	0.000	0.00	0.00	0.00	0.01	0.07	0.07	6F.1
Maximising DO	Supply-side improvements delivering benefits in 2020-2025	2020-21	0.199	0.380	0.449	0.883	0.274	0.057	0.000	0.000	0.000	0.013	0.180	0.085	0.00	0.00	0.00	2.90	7.80	7.80	6F.2
Water saving devices - Spray taps	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2020-21	0.000	0.000	0.000	0.000	0.000	0.000	0.014	0.025	0.025	0.015	0.015	0.000	0.00	0.00	0.00	0.00	0.00	0.00	6F.3
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	0.000	0.000	0.00	0.00	0.00	0.00	0.00	0.00	6F.4
Source S - Drought Permit	Supply-side improvements delivering benefits in 2020-2025	2020-21	0.000	0.000	0.067	0.077	0.001	0.011	0.014	0.058	0.000	0.000	0.121	0.055	0.00	0.00	0.00	0.00	8.50	8.50	6F.5
Havant Thicket Winter Storage Reservoir	Supply-side improvements delivering benefits in 2020-2025	2029-30	6.802	5.808	27.100	33.625	83.006	226.021	0.000	0.000	0.000	0.000	0.000	0.769	0.00	0.00	0.00	0.00	0.00	23.00	6F.6
Mandatory Restraint	Demand-side improvements delivering benefits in 2020-2025 (excl leakage and metering)	2022-23	0.000	0.000	0.000	0.000	0.374	0.343	0.000	0.000	0.000	0.000	0.167	0.001	0.00	0.00	0.00	0.00	8.30	8.30	6F.7
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	0.187	0.037	0.000	0.000	0.000	0.000	0.143	0.002	0.00	0.00	0.00	0.00	8.10	8.10	6F.8
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.9
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.10
Total			7.001	6.188	27.616	34.585	83.842	226.469	0.060	0.159	0.145	0.082	0.680	0.912	0.00	0.00	0.00	2.91	32.77	55.77	

This table provides detail on the expenditure and benefits of supply and demand-side improvements outlined in our WRMP19 excluding metering and leakage management.

We have 13 schemes including Havant Thicket reservoir, although some of these are only triggered in a drought year. The water saving devices and customer subsidy for water efficient appliances were not taken forward after a cost benefit review. We selected a revised suite of demand management and leakage reduction activity to provide the necessary benefits to water supply.

We have included costs out to 2100 for the columns asking for 'After 2024-25', to align with our WRMP submission. For operational costs we have the averaged fixed and variable costs from 2025-26 to 2100.

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 2023-24.

Section 10

ADDITIONAL REGULATORY INFORMATION – GREEN RECOVERY

ADDITIONAL REGULATORY INFORMATION – GREEN RECOVERY

10F ADDITIONAL REPORTING TO ACCOUNT FOR IMPACTS OF THE ACCELERATED INFRASTRUCTURE DELIVERY PROJECTS

Table 10F - Additional reporting to account for impacts of the accelerated infrastructure delivery projects for the 12 months ended 31 March 2024

SECTION 1: Water Resources and Water Network+

From Table 6C

Other	Units	Input	RAG 4 reference	Main table reference
Total length of new potable mains	km	0.0	10F.1	6C.4
Number of lead communication pipes replaced for water quality	nr	0	10F.2	6C.21

From Table 6D

Metering activities - Totex expenditure	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference	Main table reference
New selective meter installation for existing customers	£m			-	10F.3	6D.2
New business meter installation for existing customers	£m			-	10F.4	6D.3
Residential meters renewed	£m			-	10F.5	6D.4
Business meters renewed	£m			-	10F.6	6D.5

Metering activities - Explanatory variables	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference	Main table reference
New selective meters installed for existing customers	000s			-	10F.7	6D.7
New business meters installed for existing customers	000s			-	10F.8	6D.8
Residential meters renewed	000s			-	10F.9	6D.9
Business meters renewed	000s			-	10F.10	6D.10
Replacement of basic meters with smart meters for residential customers	000s		-	-	10F.11	6D.11
Replacement of AMR meter with AMI meters for residential customers	000s			-	10F.12	6D.12
Replacement of basic meters with smart meters for business customers	000s		-	-	10F.13	6D.13
Replacement of AMR meter with AMI meters for business customers	000s			-	10F.14	6D.14
New residential meters installated for existing customers – supply-demand balance benefit	Ml/d			-	10F.15	6D.15
New business meters installed for existing customers – supply-demand balance benefit	Ml/d			-	10F.16	6D.16
Replacement of basic meter with smart meters for residential customers – supply-demand balance benefit	Ml/d		-	-	10F.17	6D.17
Replacement of AMR meter with AMI meter for residential customers– supply-demand balance benefit	Ml/d			-	10F.18	6D.18
Replacement of basic meter with smart meters for business customers – supply-demand balance benefit	Ml/d		-	-	10F.19	6D.19
Replacement of AMR meter with AMI meter for business customers– supply-demand balance benefit	Ml/d			-	10F.20	6D.20

Metering activities - Impact on PCC and leakage performance	Units	Input	RAG 4 reference	Main table reference
Per capita consumption reduction	l/h/d	-	10F.21	
Leakage reduction	Ml/d	-	10F.22	

Leakage activities	Units	Input	RAG 4 reference	Main table reference
Leakage improvements delivering benefits in 2020-25	Ml/d	-	10F.23	6D.23

ADDITIONAL REGULATORY INFORMATION – GREEN RECOVERY

10G ADDITIONAL REPORTING TO ACCOUNT FOR IMPACTS OF TRANSITION EXPENDITURE

Table 10G - Additional reporting to account for impacts of transition expenditure for the 12 months ended 31 March 2024

SECTION 1: Water Resources and Water Network+

From Table 6C

Other	Units	Input	RAG 4 reference	Main table reference
Total length of new potable mains	km	0.0	10G.1	6C.4
Number of lead communication pipes replaced for water quality	nr	0	10G.2	6C.21

From Table 6D

Metering activities - Totex expenditure	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference	Main table reference
New selective meter installation for existing customers	£m			-	10G.3	6D.2
New business meter installation for existing customers	£m			-	10G.4	6D.3
Residential meters renewed	£m			-	10G.5	6D.4
Business meters renewed	£m			-	10G.6	6D.5

Metering activities - Explanatory variables	Units	Basic meter	AMR meter	AMI meter	RAG 4 reference	Main table reference
New selective meters installed for existing customers	000s			-	10G.7	6D.7
New business meters installed for existing customers	000s			-	10G.8	6D.8
Residential meters renewed	000s			-	10G.9	6D.9
Business meters renewed	000s			-	10G.10	6D.10
Replacement of basic meters with smart meters for residential customers	000s		-	-	10G.11	6D.11
Replacement of AMR meter with AMI meters for residential customers	000s			-	10G.12	6D.12
Replacement of basic meters with smart meters for business customers	000s		-	-	10G.13	6D.13
Replacement of AMR meter with AMI meters for business customers	000s			-	10G.14	6D.14
New residential meters installated for existing customers – supply-demand balance benefit	Ml/d			-	10G.15	6D.15
New business meters installed for existing customers – supply-demand balance benefit	Ml/d			-	10G.16	6D.16
Replacement of basic meter with smart meters for residential customers – supply-demand balance benefit	Ml/d		-	-	10G.17	6D.17
Replacement of AMR meter with AMI meter for residential customers– supply-demand balance benefit	Ml/d			-	10G.18	6D.18
Replacement of basic meter with smart meters for business customers – supply-demand balance benefit	Ml/d		-	-	10G.19	6D.19
Replacement of AMR meter with AMI meter for business customers– supply-demand balance benefit	Ml/d			-	10G.20	6D.20

Metering activities - Impact on PCC and leakage performance	Units	Input	RAG 4 reference	Main table reference
Per capita consumption reduction	l/h/d	-	10G.21	
Leakage reduction	Ml/d	-	10G.22	

Leakage activities	Units	Input	RAG 4 reference	Main table reference
Leakage improvements delivering benefits in 2020-25	Ml/d	-	10G.23	6D.23

ADDITIONAL REGULATORY INFORMATION – GREEN RECOVERY

10H ACCELERATED SCHEMES DATA CAPTURE RECONCILIATION MODEL INPUT

Table 10H - Accelerated schemes data capture reconciliation model input for the 12 months ended 31 March 2024

Scheme 1	Cost 2022-25, £m
Smart metering	11.5

					2023-24		2024-25		
	Name	Unit	decimal places	Component level at completion	Component level to date	Percentage complete	Component level to date	Percentage complete	RAG 4 reference
Component 1	PR19 delivery basic meters – unmeasured properties	Nr	0	1,494	1,494	100.0%	-	-	10G.110
Component 2	Acceleration new AMI smart meters installed	Nr	0	470	-	0.0%	-	-	10G.111
Component 3	Acceleration AMI for basic replacements	Nr	0	30	-	0.0%	-	-	10G.112
Component 4	Baseline basic meters	Nr	0	141,848	152,102	107.2%	-	-	10G.113

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 2024

Line description	DPs	Water tCO2e	Total tCO2e	RAG 4 reference
Scope one emissions				
Burning of fossil fuels (location-based)	3	168.694	168.694	11A.1
Burning of fossil fuels (market-based)	3	168.694	168.694	11A.2
Process and fugitive emissions	3	11.574	11.574	11A.3
Vehicle transport	3	370.759	370.759	11A.4
Total scope one emissions (location-based)	3	551.027	551.027	11A.6
Total scope one emissions (market-based)	3	551.027	551.027	11A.7
Scope one emissions; GHG type CO2	3	533.779	533.779	11A.8
Scope one emissions; GHG type CH4		0.261	0.261	11A.9
Scope one emissions; GHG type N2O	3	5.366	5.366	11A.10
Scope two emissions				
Purchased electricity - location based	3	4,581.055	4,581.055	11A.12
Purchased electricity - market based	3	770.310	770.310	11A.13
Total scope two emissions (location-based)	3	4581.055	4581.055	11A.17
Total scope two emissions (market-based)	3	770.310	770.310	11A.18
Scope two emissions; GHG type CO2	3	4,534.281	4,534.281	11A.19
Scope two emissions; GHG type CH4	3	19.822	19.822	11A.20
Scope two emissions; GHG type N2O	3	26.952	26.952	11A.21
Scope three emissions				
Business travel	3	6.583	6.583	11A.23
Outsourced activities	3	218.695	218.695	11A.24
Purchased electricity; extraction, production, transmission and distribution (location-based)	3	1,103.260	1103.260	11A.25
Purchased electricity; extraction, production, transmission and distribution (market-based)	3	396.332	396.332	11A.26
Chemicals	3	322.020	322.020	11A.29
Disposal of waste	3	90.811	90.811	11A.30
Total scope three emissions (location-based)		1,859.679	1,859.679	11A.31
Total scope three emissions (market-based)	3	1,152.751	1,152.751	11A.32
Scope three emissions; GHG type CO2	3	615.907	615.907	11A.33
Scope three emissions; GHG type CH4	3	1.741	1.741	11A.34
Scope three emissions; GHG type N2O	3	3.961	3.961	11A.35
Gross operational emissions (Scope 1,2 and 3)				
Gross operational emissions - location based	3	6,991.761	6,991.761	11A.37
Gross operational emissions - market based	3	2,474.088	2,474.088	11A.38
Emissions reductions				
Exported renewables (market based)	3	-	-	11A.39
Other emissions reductions	3	-	-	11A.42
Total emissions reductions	3	-	-	11A.43
Net annual emissions				
Net annual emissions - location based	3	6,991.761	6,991.761	11A.44
Net annual emissions - market based	3	2,474.088	2,474.088	11A.45

Line description	DPs	Water kgCO2e/Ml	RAG 4 reference
GHG intensity ratios			
Emissions per Ml of treated water	3	106.823	11A.46
Emissions per Ml of sewage treated (water distribution input)	3		11A.47

Line description	DPs	Water tCO2e	RAG 4 reference
Other			
Green tariff electricity	3	4,581.055	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 2023-24.

We have worked hard to reduce emissions by 8% compared to 2019-20.

This significantly outperforms our performance committment target of a 4% reduction in emissions.

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

The long-term loan and accrued interest owed by South Downs Limited, a parent company to Portsmouth Water Limited, was repaid in September 2023. This loan was made as a part of the refinancing package carried out in 2003. The balance of the loan at 31 March 2024 was £Nil (2023 - £55.484m), and accrued interest £Nil (2023 - £1.923m). Interest receivable on the loan during the year was £1.536m (2023 - £1.920m). Interest receivable was charged at a rate based on the Sterling Overnight Interest Average rate ('SONIA'), plus a margin.

Portsmouth Water Holdings Limited

The company has an inter-group loan agreement with Portsmouth Water Holdings Limited, its immediate parent company, permitting borrowing to a total facility value of £45.0m (facility value at March 2023 - £45m). The loan drawn down on the facility is £20.623m (loan drawn at 31 March 2023 - £20.623m). Interest payable on the loan for the year was £0.620m (2023 - £0.994m). 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 aligns with regulatory guidance in Ofwat's PR19 Final Determination to reflect a yield of 4% on regulated equity on the average RCV of the company in the year. Details of our dividend policy are set out on pages 24 and 25.

Proposed dividend for financial year

The Directors propose a dividend of £3.2m based on the 4% of regulated equity (proposed dividend 2023 - £2.3m). The proposed dividend is anticipated to paid in July 2024 (proposed 2023 dividend was paid in July 2023).

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	140*	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 £140k (2023 - £179k), of which £132k (2023 - £173k) relates to total income from solar power.

Directors Remuneration and Other Services Provided

There was a recharge of Directors salaries amounting to £33,646 (2023 - £29,831) paid by Portsmouth Water Limited to Brockhampton Holdings Limited, representing 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:

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

	31 March 2024	31 March 2023
Brockhampton Pension Scheme	£0	£36,636
Brockhampton Holdings Limited	£49,355	£41,784
Brockhampton Property Investments Limited	£52,715	£3,838
Brockhampton Solutions Limited	£20,277	£2,139
South Downs Limited (charged into Brockhampton Property Investments Limited)	£14,701	£1,552
South Downs Capital Limited (charged into Brockhampton Property Investments Limited)	£0	£1,007
Ancala Fornia Limited	£10,502	£1,658
Ancala Fornia Midco Limited	£8,261	£1,476
Ancala Fornia Holdco Limited	£21,860	£4,470

We performed a review of the group recharges in 2023-24 and as a result have increased the level of recharges to better reflect the time spent by Finance on the group companies. This includes and allocation of contractor costs from the Finance team.

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 recent years, 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 (2023 - £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 the Company's Annual Performance Report for the year ended 31 March 2024 ("the Regulatory Accounting Statements") which comprise:

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

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4Y, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10G and 11A. We have also not audited tables 2G and 2H which is in line with RAG 4.12.

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 2.08, RAG 2.09, RAG 3.14, RAG 4.12 and RAG 5.07) ("the Regulatory Accounting Guidelines") and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2), set out on pages 73 to 78.

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[s], 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 adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in

REPORT OF THE INDEPENDENT AUDITOR

statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 62 to 65 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. 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; and
- 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:

- Inquiring 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;
- Using analytical procedures to identify any unusual or unexpected relationships;
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors

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 possible pressures to meet profit targets and 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, and the risk of bias in accounting estimates and judgements such as provisions for household customer debt and capitalisation of costs relating to the capital programme.

On this audit we do not believe there is a fraud risk related to revenue recognition streams because the low value, high volume nature of transactions reduces the opportunities for fraudulent activity.

Further detail in respect of the provisions for household customer debt and capitalisation of costs relating to the capital programme are set out in in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included journals relating to revenue, cash and borrowings posted to unexpected or unrelated accounts; and
- Assessing significant accounting estimates and judgements for bias.

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), 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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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

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

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, The Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial 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 regulations imposed by Ofwat, Environment Agency, Competition law, Drinking Water Inspectorate, GDPR compliance, health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated 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 financial 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 financial 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.

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 52 to 60, 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(s), 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 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

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

REPORT OF THE INDEPENDENT AUDITOR

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 ww.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 (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 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 2024 on which we reported on 28 June 2024, 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

9 July 2024

HAVANT THICKET WINTER STORAGE RESERVOIR

1 Executive Summary

The financial year to 31 March 2024 has seen significant developments for the Havant Thicket Reservoir Project (the Project); some of the most notable milestones achieved for the year were:

- Completing mobilisation of our Portsmouth Water (PW) project management team and developing collaborative working practices with our contractors;
- Agreement to change the scope of the project, to future proof the reservoir in order to be ready to accommodate recycled water, which will significantly increase the environmental benefits of the project;
- Progressing the portfolio of projects and commercial agreements which will ensure that the project delivers a net gain to wildlife habitats. This includes the start of our 80-year, 80 hectare rewilding project at South Holt Farm;
- Progression of enabling works including completion of a northern access road to the reservoir and a new contractors' compound, which will keep most of the construction traffic away from residential areas.

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

- Engagement with Southern Water (SWS) and Ofwat, to agree the regulatory framework and commercial agreements with which to proceed with the Hampshire Water Transfer and Water Recycling (HWTWR) project alignment works.
- Consultations with stakeholders to progress planning conditions and consents, such as agreeing the strategy for implementing changes to the scope and design arising from this change in scope.
- Reflection on the results of surveys which have resulted in changes to the design and which require modifications to our planning permission.
- Further design development and market engagement, as we prepare for our next Main Works procurement process for the Farlington to Nelson pipeline.

The Project continues to have the support of its stakeholders and community, despite some local concern about the prospect of introducing recycled wastewater into the reservoir. While the technology is well proven in other parts of the world, it is a new concept to many customers. The completion of the project has been delayed by these changes, and the full impact of delay will not be known until planning permission is granted, towards the end of 2024.

We welcome Ofwat's continued support to the Project, particularly in relation to planning a second Cost Adjustment Mechanism to cater for the HWTWR alignment works. We have worked with Ofwat and SWS to secure continued support in the selection of strategies that enabled the Project to maximise environmental benefits, keep safety at the forefront of decision making and continue to deliver value for money to customers.

2 Introduction

This report provides summary of the key activities undertaken during the year to 31 March 2024 on the Project. It provides 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 (BSA)
- 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, we signed an 80-year BSA with SWS which governs the supply of water from PW to SWS. Under the BSA, we 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 2024, 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

HAVANT THICKET WINTER STORAGE RESERVOIR

- Coordination of interfaces between the reservoir project and the Hampshire Water Transfer and Water Recycling (HWTWR) Project
- Agreeing key strategies, particularly with respect to the progression of HWTWR alignment works so that the reservoir is ready to accommodate recycled water.
- Securing SWS approval to the procurement strategy for the Farlington to Nelson Main Works contract, award of a potential Main Service contract, and of significant changes to terms and conditions for existing Main Works contracts.
- Providing updates to SWS about the detailed design process, which identified the need for changes to the reservoir design considering more detailed ground condition survey information. We are progressing this through an Other Material Change in Circumstances (OMCC) process under the terms of its BSA with SWS.

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 our Board, in which Havant Thicket water recycling was identified as the preferred option. If approved, this 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 2024, we have supported SWS to develop the project in greater detail. This work has been reimbursed to us by SWS through agreements between the parties.

The key activities undertaken during the year include:

- Maintaining regular Strategic Resource Options (SRO) meetings between SWS and us to promote close collaboration and establishing several working groups to progress specific workstreams, including a new, Water Quality Steering Group.
- Confirming the specification and feasibility of completing works to support the physical interfaces between the two projects (Alignment Works).
- Joint engagement with Ofwat to consider the merits of, and regulatory framework for proceeding with alignment works. This concluded with Ofwat confirming its request that we proceed with the design and planning of these alignment works.
- Entering into a HWTWR Alignment Works Agreement between PW and SWS, which enabled us to stop work on certain aspects of the Havant Thicket 'classic' scope and focus on the design and planning permissions needed to implement these alignment works with a minimum of delay to the project. Under the terms of this agreement, SWS is reimbursing us for these works until such time that Ofwat provides us with a regulatory allowance to implement them.
- While these Alignment Works will increase costs and delay completion of the reservoir by at least two years, they are accepted by Ofwat as providing significantly better value for money to customers, lower carbon emissions and lower impact to our local community when compared with implementing these works after the reservoir has been completed.
- Working together to communicate and engage with stakeholders.
- Joint engagement with RAPID, working to complete their SWS RAPID Gate 3 report. SWS has reimbursed us for the cost of supporting this RAPID process through the continued Collaboration Agreement.

5 Regulatory Alignment

A regulatory framework for the delivery of the Project was agreed with Ofwat at the Final Determination (PR19) which allowed us to spend £123.6m (2017-18 prices) 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 us and will form part of the company's overall Regulated Capital Value (RCV).

In January 2023, Ofwat completed a cost adjustment mechanism (CAM) with a final determination of the regulatory allowance of £339m (in November 2021 prices) to account for changes in scope arising from the planning application process, and procurement of the design and build contracts.

During the year to 31 March 2024, key activities undertaken during the year included included:

- Providing updates to Ofwat throughout the year on the project progress and working with Ofwat to agree a methodology for a second CAM associated with the HWTWR Alignment Works.
- Responding to Ofwat requests for further information in support of cost, scope and programme variations arising from the HWTWR Alignment Works.
- Submission of a Rough Order of Magnitude impact assessment for the HWTWR Alignment Works.
- Providing updates to Ofwat about the Other Material Change in Circumstances (OMCC) process under the terms of its BSA with SWS (as described above). If agreed as an OMCC event, then this will be presented to Ofwat for regulatory determination.

5.1 Project Finance and Accounting

Additional finance was secured for the design and construction phase in 2023 following the CAM final determination. Implementation of the HWTWR Alignment Works, and consideration of the impact of the OMCC related changes is expected to result in the need for additional project finance.

During the year to 31 March 2024, key activities undertaken during the year included:

- Discussions with Moodys on the timetable for updating the company credit rating in preparation for the second CAM process
- Reviewing the market to consider appropriate project finance vehicles for additional funding
- Engagement with Ofwat and our shareholder to agree a process which will enable the regulatory allowance to be determined as a part of PR29.

6 Planning and Consents

During 2023-24 a non-material amendment was secured with respect to the design of the reservoir embankment which will avoid the need for additional tree felling.

Further conditions associated with the 2021 planning permission have been discharged, following engagement with statutory consultees and local stakeholders.

The HWTWR Alignment Works will require additional infrastructure to be built which will need a new planning permission. As such, a pre-application consultation process has been completed ahead of submitting the planning application, which is expected to be submitted early in the next financial year.

Following the award of the Main Works Contracts for the Bedhampton to Reservoir Pipeline (to Ward & Burke), and to the Reservoir Contractor (Future Water), considerable responsibility for planning and consents has transferred to the contractors.

We have maintained a planning and consents team, both to continue work on discharging its obligations (including an abstraction and impounding licence from the EA for the reservoir), and also to provide support and continuity in the planning application process.

In order to mitigate the risk of delays to the ongoing planning and consents process, we entered into a Planning Performance Agreement with the two local planning authorities, East Hampshire District Council and Havant Borough Council.

With widespread engagement by both contractors and us, discussions are progressing on the potential for a similar form of agreement with the Environment Agency.

7 Procurement

During the year to 31 March 2024, we have undertaken the following key procurement activities:

- The Farlington to Nelson pipeline procurement strategy was approved by SWS and our Steering Committee in 2023, with three bidders (Clancy Docwra, Farrans and Ward & Burke) shortlisted to take part in the tender process. The form of framework contract for the three bidders had been approved in December 2023 and contracts were entered into shortly afterwards. Market engagement briefings with the shortlisted vendors have been held during design development in 2023-24, to keep them informed and to seek their feedback on the design and constructability.
- A market engagement briefing was held for the Visitor Centre prior to seeking a price from AtkinsRealis under the terms of their framework Principal Designer contract to progress the design. The procurement strategy for the construction and fit out of the visitor centre is in development and due to be presented to our Steering Committee and SWS in 2024-25.
- Work has been started on the procurement strategies for watercourse improvement works, with surveys being carried out by AtkinsRealis to inform the design.
- The 80-year, 80 hectare rewilding project contract was signed with the Pig Shed Trust in May 2024, having been approved by SWS under the terms of the Bulk Supply Agreement earlier in the month.
- The form of contract for sustainable management of Southleigh Forest was progressed with the Hampshire and Isle of Wight Wildlife Trust. Contract signature was deferred at the request of Natural England, so that surveys could be carried out to inform the Woodland Management Plan. A short-term purchase order was placed with the Wildlife Trust so that they could carry out essential works over the winter.

HAVANT THICKET WINTER STORAGE RESERVOIR

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.

During 2023-24 we have continued to engage with local interest and community groups by providing presentations and giving groups an opportunity to be heard. Key activity has included:

- Holding quarterly Strategic Advisory Group meetings, independently chaired and attended by around 70 different statutory bodies and representatives of local interest groups.
- Consultation on a the HWTWR Alignment Works for the MPW Bedhampton pipeline
- Consultation on the proposed Farlington Water Treatment Works
- Several stakeholder workshops, to review proposed changes to the reservoir embankment, to avoid the need for tree felling, in response to ground condition surveys and detailed design development.
- Six stakeholder sub-groups have been maintained, to enable more detailed engagement with specific interest groups. Sub-groups included:
    - i. Economy, Skills and Education
    - ii. Recreation
    - iii. Access
    - iv. Environment
    - v. Pipeline
    - vi. Recycled water
- Presentations to local community groups, regulatory bodies and MPs, including the new CEO of the Environment Agency.
- Continued community involvement through volunteer groups that helped to complete a sapling rescue project.
- Local metal detectorists were provided access to the site prior to the commencement of enabling works.

Figure 2 *Solent metal detectorist club*

We remain 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. Contact has been maintained with Thames Water, Anglian Water and Affinity to share information as they progress their reservoir projects.

Maximising the skills and educational benefits of the project is also a key objective. The project will create apprenticeship and workplace opportunities over the coming years. During this year, we have supported local STEM initiatitves, including the Solent Primary School STEM Fair.

SWS's gate 3 RAPID report confirming that they were proceeding with the HWTWR project was met with some concern by the Local Planning Authorities and some members of the local community. In June, we attended a Scrutiny Committee meeting at Havant Borough Council to address concerns raised by local councillors. A new stakeholder sub-group was established to discuss the HWTWR Alignment Works and agree appropriate ways to communicate with our local community. A series of short videos were released on social media, and the website was updated with answers to FAQs.

Figure 3 *Community Events were used as an opportunity to survey customers about their views on recycled water*

- 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.

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

9 Design and construction

Following signature of the Main Reservoir Works and Main Pipeline Works contracts, the year ending 31 March 2024 saw further progression of enabling works:

9.1 Trial Embankment analysis

The trial embankment, which was built in 2022 was deconstructed, allowing the performance of the clay and construction methodology to be analysed. This information is being used to ensure that the efficient and safe methods of construction can be applied to the main embankments construction, when this commences in the summer of 2024.

Figure 5 *Deconstruction of the trial embankment*

9.2 Northern access road

Following completion of improvements to the B2149, a new access route was built to the reservoir site. This northern access road will enable the majority of construction traffic to avoid going through residential areas. A dead hedge has been built along the western side of this road, to provide a barrier to local farmland and create a new wildlife habitat.

Figure 6 *A new northern access road will keep construction traffic away from residential areas*

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Figure 7 ***A dead-hedge has been built, creating a barrier to local farmland and a new wildlife habitat***

9.3 Ground investigations

Following the appointment of Future Water MJJV as the reservoir design and build contractor, detailed ground investigations were carried out to inform the detailed design of the reservoir. These detailed investigations revealed the need to change the design of our embankment to address risk of ground movement after discovering unforeseen cracks in the clay. As a result we will have to carry out more extensive ground conditioning and plan reduce the slope of the embankment.

Figure 8 ***Deep ground investigations were carried out to inform detailed design of the embankments***

9.4 Site compound

A new site compound has been built at the northern end of the reservoir site, accessible by the northern access route. This provides collocated offices for Portsmouth Water and Future Water, allowing greater collaboration during the design and construction phases.

9.5 Design Works

Detailed design works are have progressed, including close alignment between Future Water, Ward and Burke and us. Key activities during the year include:

- As a result of ground condition survey results, the reservoir design has been changed. Less steep gradients will be applied to the embankment. The design of below-ground features has been refined, to ensure that water does not seep through underlying sand formations. These changes are expected to result in delay to completion of the embankment works of between 18 and 24 months, due to a combination of design and planning requirements, and also an increased volume in embankment material.
- Following agreement to implement the HWTWR Alignment Works, we met with SWS to agree the definition of requirements. This has resulted in changes to the Bedhampton to Reservoir pipeline. Instead of one bi-directional pipelines, this will now require two pipes. These changes are driving the critical path to completion of the project, as they required a significant re-design, a new planning application and some impact on construction periods. It is expected that these changes will delay completion of the reservoir project by at

least two years and, because of seasonal constraints to reservoir filling period, possibly three years.

- A water quality working group was established, to assess findings from a SWS recycled water pilot plant and establish the impact on the reservoir and Farlington Water Treatment Works. This water quality modelling is complex, with results expected in June 2024.
- 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.
- AtkinsRealise has progressed the detailed design of the Farlington to Nelson pipeline, which is expected to completed in the summer of 2024.

The detailed design of the embankment is expected to be completed in the summer of 2024.

10 Environmental mitigation and compensation

As an environmentally led project, there have 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
- Translocation of wildlife from the reservoir site to receptor sites in Southleigh Forest, including 67 lizards, 6 snakes, over 800 frogs and toads, 1 hedgehog, 220 fish and 23 eels.
- Signing an 80-year agreement with Pig Shed Trust to rewild 80-hecatres of agricultural land at South Holt Farm. This approach has been commended by the Forestry Commission, Natural England and HCC Ecology.
- Surveys at Southleigh Forest will inform a forestry management plan. In the meantime, an access track and winter maintenance works have been completed.
- Delivery plans have progressed for the Aquatic Mitigation Works and a proposal for detailed design has been submitted by Atkins.

A target had been set with local stakeholders to save 80 trees from being felled, going over and above our planning permission commitments. With support from volunteers and contractors, over 250 saplings were saved, a further 200 small saplings and bushes were translocated and 200 saplings were grown from acorns gathered on the site.

Figure 9 ***Local volunteers helped the sapling rescue project to exceed targets***

11 Governance

11.1 Portsmouth Water Governance

Our 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 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:

- Approval was given in June 2023 to bring forward archaeological investigations from 2024 to 2023 to mitigate the risk of archaeological finds which would result in compensation events for delay to construction.
- In July 2023, approval was given to enter into a HWTWR Alignment Works Agreement with SWS.
- Approval was given in September 2023 for the appointment of PhoenixCS to provide ongoing Quantity Surveyor support.
- Approval was given in September 2023 to change the scope of Future Water, which is expected to deliver savings of approximately £700k. Further design development is required, including analysis of the impact of the HWTWR change in scope before a formal quote is provided.
- In February 2024, the Steering Committee agreed the form of a Board Letter of Support to the SWS RAPID Gate 3 submission.
- In March 2024, the Steering Committee approved proposed changes to the PR19 definition of scope for the project, to include the HWTWR Alignment Works.
- Oversight of the financing for the project.

HAVANT THICKET WINTER STORAGE RESERVOIR

11.2 Monitoring and reporting

Monthly project update reports have been issued to SWS and Ofwat at JPAG and to our Board. 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

11.3 Southern Water Governance

During the year to 31 March 2024, we have extensively engaged with SWS colleagues on the project assurance, strategic alignment and the cost adjustment mechanism.

Under the BSA we 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 the 'big build' phase

Over the course of the year to 31 March 2024, we have continued to develop the project management team for the 'big build' phase for the project.

Key activities include:

- Growth of the team, applying a blended resource strategy – combining our employees with specialist advice from Agilia, AtkinsRealis and PhoenixCS.
- Establishing a team to focus on the development of the HWTWR Alignment Works as a change project, encompassing engineering, commercial and regulatory aspects.

Further changes will be made to the organisation over the next year, as the HWTWR Alignment Works secure planning permission, final determination of regulatory allowance and the changes are incorporated as 'business as usual'.

13 Conclusion and Next Steps

The last year has seen progression of detailed design, discharge planning permissions and secure the site access ready for the main construction works to start on site.

This has been completed in parallel with agreement from SWS and Ofwat to progress a change in scope that will provide the flexibility and capacity to accommodate water from the SWS Hampshire Water Transfer and Water Recycling Project. We are also changing the design of our embankment to address risk of ground movement after discovering cracks in the clay during further ground investigations. We will have to carry out more extensive ground conditioning and plan reduce the slope of the embankment. While this change in scope will delay completion of the project by at least two years and possibly three years, making the change at this stage will result in significantly lower cost, carbon impact and disruption to the local community when compared with the impact of making these changes at a later date.

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.’

Portsmouth Water

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