



Cambridge Water



South Staffs Water



South Staffordshire Water PLC

Annual report and financial statements

For the year ended 31 March 2023

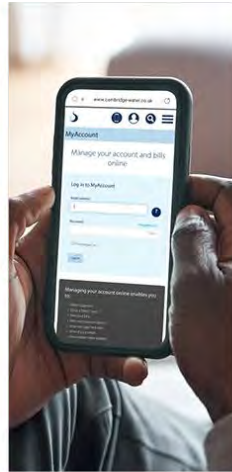
Contents



The year at a glance	2	Risk review	32
About South Staffordshire Water	3	Long-term viability statement	44
Our role	4	Board statement on long-term viability	50
Our vision, purpose and values	5	Section 172(1) statement	51
Where your money goes	6	Board, Directors and Executive team	57
Welcome from our Chair and Managing Director	7	Directors' report	62
Dealing with a criminal cyber-attack	10	Corporate governance report	67
Financial performance	11	Remuneration report	80
Operational performance	15	Board effectiveness	85
Our people	27	Directors' responsibilities statement	86
Engaging with our customers	29	Financial statements	88
Looking to PR24 and beyond	31	Independent Auditor's report	118

The year at a glance

Invested in a **next generation customer billing system**, to further improve our service to customers



Nearly **56,000** customers helped through our financial support packages



Invested in upgrading our water treatment plants and delivered on time



Met leakage targets –
16.7% reduction in our Cambridge region and **9.4% reduction** in our South Staffs region



90% of visible network leaks fixed within 4 days

More than 10% of our household customers registered on our **Priority Service Register** to receive additional help



Awarded £270,000 from Ofwat's Innovation Fund for a diversity-led water efficiency project

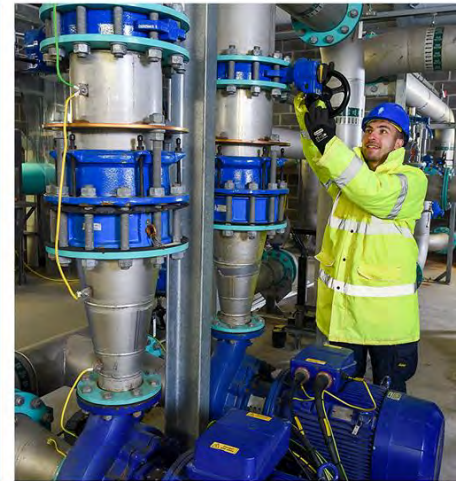
About South Staffordshire Water

**We operate
South Staffs Water
and Cambridge
Water**

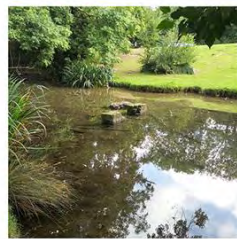


**We are part of the South
Staffordshire Plc group of
companies**

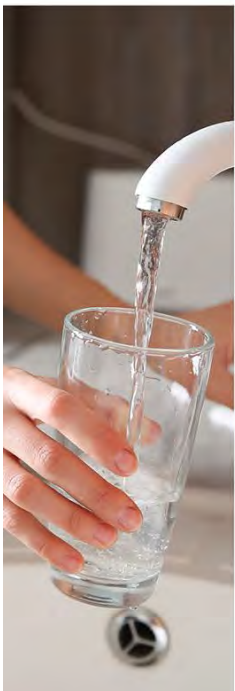
**We are a water only
company, and do not
take away and treat
waste water**



**We are regulated
by Ofwat, the
Environment Agency
and the Drinking
Water Inspectorate**



**We provide clean water to more
than 1.7 million people and
42,500 businesses every day**



**We have been a
successful, privately-
run business for
170 years. We have
never been in public
ownership**



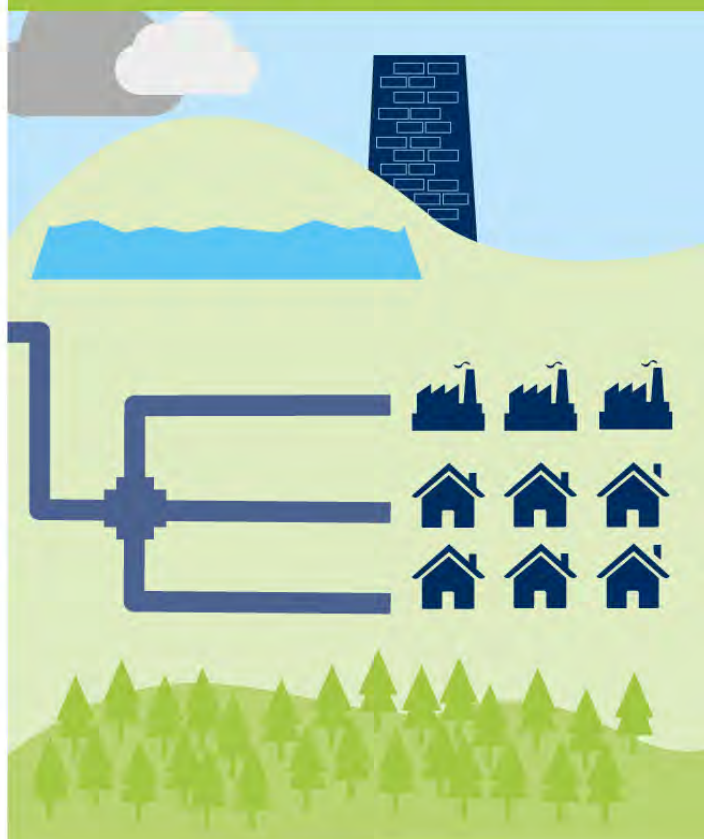
Our role

What we do

Collect and treat water



Store and distribute water



43 borehole sites

2 surface water
reservoirs

41 water
treatment works

69 service reservoirs
and water towers

113 booster
pumping stations
8,702km of pipes

712,710 residential
connections

42,331 business
connections

Information consistent with 2022/23 APR.

Our vision, purpose and values

Our vision

To deliver clean, affordable water every day



Our mission

To make sure:

- all our customers have access to high-quality and affordable drinking water every day; and
- we always empower our people to provide an excellent and trusted service.

Our purpose

Over the past 170 years, we have provided high-quality water supplies to customers in our Cambridge and South Staffs regions. So that we can keep providing this essential public service, we:

- put customers' needs at the heart of all our decision making;
- actively work in partnership with local communities;
- act as the guardians of our assets, building resilience with regular investment;
- work hard to protect and enhance the natural environment; and
- run an efficient business, in everyone's interests.

This is how we are **securing the water future – for our customers, our communities, the environment and our people.**



Our values

Our mission and purpose are underpinned by our values.

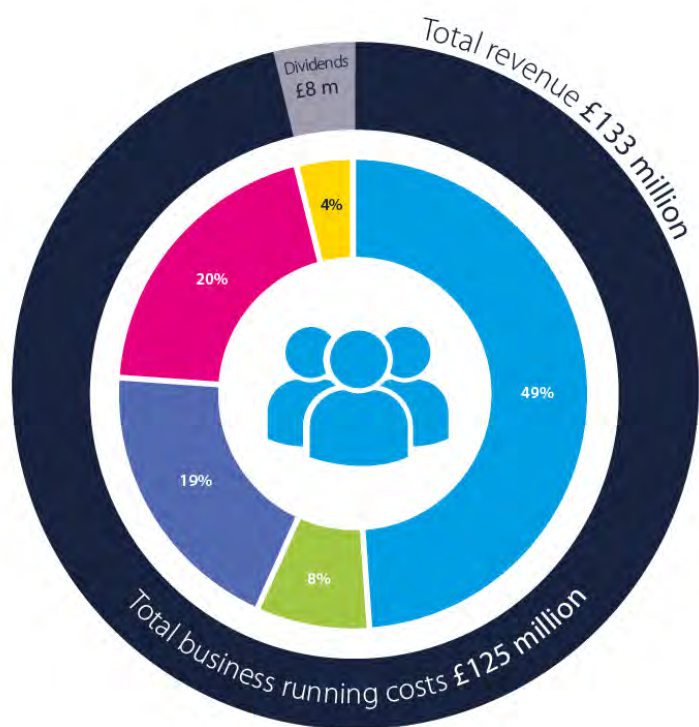
- Equality, diversity and inclusion
- Excellence in service
- Responsibility
- Trust and respect

These values are reflected in our people's objectives and the work they do.



Where your money goes

How we use the money we get from customers' bills



- Water production, treatment, pumping, network repairs and operations
- Customer services, meter reading, billing and payment collection
- Annual costs of capital investment
- Financing costs and tax
- Dividends

Welcome from our Chair and Managing Director



The end of each financial year always presents us with the perfect opportunity to reflect on our performance as the provider of an essential public service to customers across our Cambridge and South Staffs regions. It enables us to celebrate the areas where we have done well, and to put plans in place to improve those areas where our performance has fallen short of what we – and our customers and other stakeholders – expect.

It's fair to say that it's not been a typical year; in many respects it's been extremely challenging. The uncertainty created by war in Europe, for example, and the surge in energy prices have contributed to a cost of living crisis that has impacted on many people's ability to pay their bills. At the same time, the water sector in England and Wales has been in the public spotlight like never before. We've seen a catalogue of negative media stories about pollution, executive pay and dividends, and growing calls for water companies to be nationalised, while the prolonged drought in the spring and summer has called into question the security of future water supplies.

This means it's crucial for us to clearly demonstrate that we always act in a way that is responsible and in the best interests of all our customers. In this way, we can continue to build their trust and deliver the high-quality services that are important to them – and that they are willing to pay for.

And yet, despite the external challenges we've faced during the year, we've also experienced a number of successes and we've continued to perform well against many of our key regulatory targets. The provision of excellent water quality – always a top priority for our customers – is one such example. We've had another outstanding year for water quality contacts – delivering a 15% reduction in the number of contacts about the colour, taste and smell of the water we've supplied to customers, equating to a total reduction of 42% since 2020/21.

We've also performed strongly on supply interruptions during the year. This is all the more impressive given the very cold winter we experienced, combined with a high burst rate, and is testament to the commitment of our people to ensure water is always available every time our customers turn on their taps.

And we've continued to perform very well in terms of the number of customers we help. We've exceeded our targets for

the number of customers receiving some form of financial support from us, with nearly 56,000 currently being helped, and also for the number of customers on our Priority Services Register, which now stands at more than 10% of our total household customer base.

We're hopeful that the launch of our new Aptumo billing software in February will help us to proactively identify more customers who may be struggling to pay their water bills. This is so that we can continue to target help in the most efficient and responsive way. Early feedback suggests that the new system is already providing us with the capability to take our customer service to the next level. This includes the addition of more self-service elements, the option to choose when Direct Debit payments are taken and the ability for meter readings to be submitted at a time that is most convenient for customers. This is vital if we're going to deliver a more responsive, 'right first time' experience for all our customers.

We've also continued to deliver against our ambitious investment programme for the current five-year period. Construction work for the new Bourn reservoir in our Cambridge region is now complete and the upgraded treatment processes at the Seedy Mill water treatment works in our South Staffs region have been delivered in line with the target agreed with the Drinking Water Inspectorate.

But there are some areas where we need to go further to improve our performance. We're still seeing high water demand across both our Cambridge and South Staffs regions, which is negatively impacting our target for individual water use – what we call 'per capita consumption'. We're actively looking at ways to encourage customers to use less water and value it as a precious and finite resource and we're focusing on getting this measure back on track in the remaining two years of the current five-year planning period. But we recognise that we also have an important part to play. The combination of a prolonged drought and a cold winter has led to an increase in the number of bursts on our network.

And yet, despite this, we've met our leakage target for year in both our Cambridge and South Staffs regions. Leakage is another key priority for our customers, so it's essential that we continue to drive improvements and meet our targets. It's encouraging, therefore, that we also achieved our target of repairing 90% of visible leaks within four days. This gives us a strong foundation on which to build for the year ahead.

Underpinning all this is the impact the energy crisis has had on our business. We've had to navigate increases in the cost of fuels and the essential chemicals needed to treat water, which has seen us exceed our budget for the year. This has resulted in us mitigating costs elsewhere across the business, while making sure we continue to deliver for our customers.

However, by far the biggest challenge we've faced during the year has been the impact of a criminal cyber-attack on our parent company, South Staffordshire PLC, in July. As soon as we became aware of the incident, we brought in specialist expertise and took steps to understand what had happened. Our forensic investigation found that some employee and customer data had been impacted, and we put in place a package of support to help those who had been affected. More information on the incident and our response to it can be found in the strategic report.

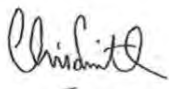
It's important to stress that at no point were the water supplies we provide to customers affected by this incident, and our control room and operational teams carried on working. Since the incident, we've been working with leading IT security experts to reduce the risk of a similar incident occurring. They made some recommendations on additional IT security enhancements, and we've already implemented some of these. But we're continuing to be vigilant as we know attacks like these are becoming ever more sophisticated and commonplace.

Looking ahead, we'll continue to deliver the outcomes our customers have said are important to them and where they want to hold us to account. This includes completing the work to construct one of the world's largest ceramic membrane filtration plants at the Hampton Loade water treatment works in our South Staffs region. This is a critically important project for us, which will deliver enhanced water quality to the 700,000 customers supplied by the works. We're currently on track to deliver this project in line with our target.

And because we're a business that plans for the long term, we're already looking ahead to the next five-year planning period from 2025 to 2030 – known as AMP8 – and beyond, setting out our delivery strategy to 2050. We're currently developing our plans in consultation with customers and stakeholders, ahead of submission to the regulator Ofwat in October this year. We want to build on the ambition of our current plan to ensure we can secure the water future for our customers, our communities, and the environment we all rely on and enjoy.

Of course, none of this would be possible without our people. They have played a critical role in helping us meet the challenges we've faced over the past year. Their resilience and hard work are to be commended, as is their commitment to always striving to deliver their best for all our customers, day in, day out. Thank you all for a job well done!

Finally, just after the end of the reporting year, Phil Newland, CEO of South Staffordshire PLC, decided to resign from the business. Phil served as Managing Director of South Staffordshire Water during his time with the Group. We would like to thank him for his hard work and commitment to the business and wish him well for his future endeavours.



Lord Chris Smith
Chair



Andy Willcott
Managing Director



Strategic report

Dealing with a criminal cyber-attack

In July 2022 our parent company, South Staffordshire Plc, experienced a criminal cyber-attack. The incident did not affect our ability to supply safe drinking water. This is because of the robust systems, processes and controls we have in place to maintain the supply and quality of the water we provide to customers, as well as the quick work of our teams to respond to this incident.

As soon as we became aware of the issue, we engaged our established Incident Response processes. Our urgent priority was to ensure the supply and quality of water, which was quickly confirmed and monitored throughout our response. We immediately engaged leading forensic experts to investigate the issues, with a particular focus on any impact on our customer and HR data.

We notified the Department for Environment, Food and Rural Affairs (Defra), the Drinking Water Inspectorate (DWI), the economic regulator Ofwat and the National Crime Agency. We also informed the Information Commissioner's Office (ICO) in line with our regulatory obligations. We are subject to ongoing investigations by the ICO and the DWI.

Our investigation confirmed the theft by criminals of data relating to current employees, some former employees and some customers who pay by Direct Debit. We notified impacted data subjects in accordance with the UK General Data Protection Regulation (UK GDPR) and as soon as we became aware that these groups were impacted, we ran a full programme of support for customers. This included:

- initiating a dedicated helpline;
- creating a dedicated page on our website, including a detailed FAQ;
- using our social media channels to share information and answer queries;
- paying for access to 12 months of credit and fraud protection monitoring for our people and customers who had been affected; and
- holding several cyber-clinics in MPs' constituencies across our Cambridge and South Staffs regions so customers could speak to us face to face.

Following the incident, we engaged leading IT security experts to work with us to reduce the risk of any further access. They made some recommendations on additional IT security enhancements, and we have already implemented some of these. We have also further strengthened our communications and operational processes, based on lessons learned, which we consider is an important part of any incident response.

Financial performance

Our business relies on strong financial resilience; it has been challenging to maintain this, during a year which has not been typical in many ways. The major challenge we have faced during the year has been the impact of a criminal cyber-attack on our parent company, South Staffordshire Plc, in July.

In addition, the geopolitical climate and the subsequent surge in energy and chemical prices has not only contributed to the cost of living crisis that has affected many people's ability to pay their bills but has also significantly impacted our business.

Alongside this, the prolonged drought and a cold winter has led to an increase in the number of bursts on our network. This has resulted in us mitigating costs elsewhere across the business, while making sure we continue to deliver for our customers. Despite this, we have continued to perform well against many of our regulatory targets.

With high inflation impacting all areas of society, we will drive forward with securing cost efficiencies while continuing to provide support through our social tariff packages for customers who are struggling to pay their water bills.

We use several financial key performance indicators (KPIs), which include, but are not limited to, the following.

	2023	2022 Restated
Turnover £m ⁷	146.4	139.4
Operating costs £m ⁷	130.9	114.4
EBITDA £m ¹	47.0	54.6
Operating profit (before exceptional items) £m ²	27.1	32.5
Net debt reported for borrowing covenants £m ³	305.8	230.9
Gearing ⁴	59.3%	51.4%
Regulatory capital value £m (RCV) ⁵	515.9	449.6
Return on regulated equity (RORE) ⁶	(2.89)%	0.09%

Notes:

1. EBITDA reconciliation is shown below.

	2023	2022 Restated
Operating profit £m	27.1	32.5
Exceptional	(3.5)	
Depreciation : intangible assets £m	0.4	
Depreciation : non-infrastructure assets £m	22.1	21.7
Depreciation : infrastructure assets £m	4.3	3.8
Capital contributions £m	(3.4)	(3.4)
EBITDA £m	47.0	54.6

2. Operating profit is stated before exceptional items. For further details see note 7 in the financial statements.

3. Net debt reported for borrowing covenants £m (see pages 13 and 95).

4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 94 for details).

5. Regulatory capital value (RCV) is an Ofwat measure used to assess a company's market value plus the value of accumulated capital investment assumed at each price review (see page 95).

6. Return on regulated equity (RORE) is a measure Ofwat uses to assess the impact of regulation and price controls on water companies' performance and returns (see page 13).

7. Turnover and operating costs for March 2022 have been restated. The prior period restatement note on page 116 gives further detail around the restatement.

Turnover

Turnover in the year has increased predominantly by both regulated tariffs and inflation, and we are still noting some increased household metered revenue. We have continued to be impacted by customers' post-COVID-19 pandemic working patterns. Non-household turnover has returned to pre-pandemic levels as more businesses have stabilised.

In July 2022 we processed a one-off void adjustment where 4,904 properties were confirmed to be unoccupied and so were moved to void status, resulting in a £3.9m reduction to household turnover and £1.0m reduction in bad debt charge. These were identified to be vacant properties for a period of time and therefore the majority of the adjustment impacted household turnover in prior years. As a result, we have made a prior year adjustment for this amount as set out in note 30 in the financial statements.

Meter reading activity resumed during the reporting year, and readings have supported the trends for both household and non-household water consumption. Since the cyber-attack one of our systems which automates the meter reading process has been unavailable. This has meant that all meter readings in our Cambridge region are having to be completed manually and on paper. This has impacted the efficiency of the meter reading process and has increased the number of instances where it has not been possible to take a reading, so higher volumes of bills have been estimated.

Non-appointed revenues have remained consistent. Commissions are earned on the collection of amounts billed for other water companies for the sewerage services they provide to customers and through an agreement to offer insurance policies to identified customer groups.

Additional information on the movement in our turnover by category is set out on page 96.

Operating profit

Our sites continued to keep health and safety at the forefront and remained safe, with measures still in place to protect our workforce and supply chain partners (see the risk review on pages 32 to 43).

We have continued to observe sustained water demand across both our Cambridge and South Staffs regions. This is compounded by unprecedented price rises resulting in continued upward pressure on production costs, such as power and chemicals. Despite demand remaining consistent with last year, it is still approximately 5% higher than pre-COVID-19 levels.

Operating costs have increased by around £21m, with £6m being net production costs, including power and chemicals; followed by £2m for tackling the high level of bursts during the cold winter. In addition, net labour costs have increased and include a 5% annual pay award. We also have £3.5m of costs relating to the cyber-attack. And we have a £6m increase in gross infrastructure renewals costs.

We took the decision to upgrade our billing and collections system, moving from Rapid to Aptumo – a billing, debt and customer management platform, and Software-as-a-Service (SaaS) product – to support a 'right first time' customer experience. This platform will enable us to deliver our commitments to our customers in a more efficient way while optimising our reporting to better improve our performance. We went live in February 2023, after a seven-month delay because of the cyber-attack.

Bad debt charges have remained largely consistent with prior year and represented around 3% of household revenue (2022: 3%).

Our financial support initiatives for those struggling to pay their bills have continued to be available, such as our Assure social tariff, which offers bill discounts for eligible customers. We continued to ensure our customers in vulnerable circumstances know we were there for them with targeted communications and support through our Priority Services Register (PSR).

Although we have not seen a significant reduction in our cash collection performance during the year, we will closely monitor our position while keeping our future customer support offerings under review, given the inflationary pressures of the current cost of living crisis.

We have continued with our infrastructure renewals expenditure in line with plans for 2020 to 2025 (AMP7).

Capital investment

We have made steady progress in delivering our ambitious capital programme to ensure our assets remain in good condition. This is so that we can continue to provide high-quality, reliable water supplies to our customers. As always during the periods of higher demand throughout the year, the need to protect the resilience of supply to our customers has been key.

Following our successful cost adjustment claim as part of the 2019 price review process (PR19) and subsequent bid to Ofwat for additional funding under the UK Government's green recovery initiative, we began the upgrade programme at our two largest water treatment works in our South Staffs region – Hampton Loade and Seedy Mill.

We have had to closely monitor the supply chain throughout the upgrade programmes, mainly around advanced procurement decisions. The upgraded treatment processes at Seedy Mill have been delivered in line with the target agreed with the Drinking Water Inspectorate and largely in line with budget. The upgrade programme at Hampton Loade is continuing to progress well. In addition, construction work for the new Bourn reservoir in our Cambridge region is now complete and has been delivered in line with the target agreed with the Drinking Water Inspectorate.

Overall gross capital expenditure for the year was £88.1m (2022: £54.2m). Overall net capital expenditure, net of contributions was £72.8m (2022: £45.5m).

Treasury, net debt and borrowing covenants

The main purpose of our financial instruments, including derivatives, is to finance our operations and limit risk from fluctuations in external indices outside our control. This includes entering floating to fixed interest rate swaps, where this is considered appropriate. During the reporting year and the previous year, our policy has been not to carry out any trading in financial instruments. Our policy in relation to cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest, and long- and short-term borrowings.

Our funding position continues to be secure, and we are carefully monitoring our liquidity and working capital. To support the long-term financing needs of the business, we borrowed £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa').

There is a Group structure in place to ring-fence regulated liquidity from other parent group non-regulated activities.

The long-term financing strategy takes in to account the long-term projected investment plans and forecasts liquidity requirements beyond the current planning period, with the access to financing markets not expected to be a limiting factor in financing the business.

Our balance sheet on 31 March 2023 showed net cash of £23.5m (2022: £50.1m), other short-term additions of £20m (2022: nil) and we had drawn facilities amounting to £30m (2022: £30m). Our budgeted capital investment programme and other cash flow needs are covered by cash or committed facilities through to July 2024. Further going concern details can be found in the Directors' report on page 73.

Our net debt includes index-linked debt, bank and private placement loans and debenture stock less cash. For covenant reporting purposes, our net debt was £305.8m at 31 March 2023 (2022: £231.0m) and represented a ratio of 59.3% (2022: 51.4% restated) of our regulatory capital value (RCV). Our index-linked debt is accounted for as a finance cost by accruing interest with reference to the actual Retail Price Index (RPI) in any given period. The reconciliation between covenant net debt and book net debt is shown in the notes to the financial statements, along with a full analysis of our borrowings. Standard & Poor's (S&P) continues to rate the company as BBB+ with Moody's rating us at Baa2; both are within investment grade.

The return on regulated equity (RORE) is a key performance indicator for our business and reflects the combined performance on total expenditure (totex), customer outcome delivery incentives (ODIs) and financing against the base return allowed in our PR19 final determination from Ofwat.

RORE for the reporting year under actual returns and notional equity was -2.89%. This is 7.10% lower than that allowed in our final determination of 4.21%. The main drivers for the underperformance are: higher returns from a lower tax charge (+6.37%); lower returns from a higher actual cost of debt (-

6.21%); underperformance on totex (-4.76%); and predominantly increased energy and chemical costs. In addition, we have incurred £3.5m of expenditure on the Fens reservoir strategic water resource scheme, which will be reconciled at PR24. We also incurred cyber-related costs.

A detailed reconciliation on RORE is shown on page 89 of the annual performance report published alongside these financial statements.

Dividend payment

The business usually makes two dividend payments: one interim and one final.

Our dividend policy aims to ensure we distribute dividends that reflect the equity value created by the business, subject to:

- meeting the range of outputs promised to customers and required by regulators;
- credit quality metrics that are consistent with a Baa1 credit rating; and
- there being sufficient liquidity to meet investment and operational needs for the foreseeable future.

Ahead of the business making the decision on both the interim and final dividend payments, the Board considered carefully the financial position and performance of the business. Although we continued to perform well against many of our regulatory targets during the reporting year, the significant interruption and focus of the cyber-attack meant we decided not to pay an interim dividend. The Board approved the final payment totalling £9.2m (2022: £10.7m), with due consideration to the cyber-attack position at the time. For further details on dividends, please refer to our annual performance report published alongside these financial statements.

The dividend comprised:

- £7.7m from the appointed business (2022: £7.6m);
- £1.5m from the non-appointed business (2022: £1.6m); and
- £0m from intra-group interest to be paid back to the company (2022: £1.5m). This is from an intercompany loan repaid during the year as part of a wider group restructure.

This represents approximately 4.3% of regulated equity (2022: 4.4%). No further dividends are proposed.

There is more information on our dividend policy on page 45 of the annual performance report.

Approach to taxation

We take the legal and social responsibilities for meeting our tax obligations seriously. We have no operations outside the United Kingdom (UK). As a result, the following information has specific reference to UK taxation only.

We are also committed to complying with tax laws in a responsible manner. This means balancing our obligations to the UK Government and the public with our duty to manage our affairs efficiently so that we can deliver cost-effective services to customers, while generating an economic return to investors.

We make timely and accurate tax returns that reflect our fiscal obligations to the UK Government. In particular, we:

- do not engage in aggressive tax planning;
- do not engage in artificial tax arrangements;
- seek to maintain a transparent and collaborative relationship with HM Revenue & Customs (HMRC), principally through our Customer Compliance Manager; and
- seek independent professional tax advice on material matters, where the application of tax law is complex or uncertain.

We make use of applicable tax incentives provided by the UK Government within the terms outlined above. These may include, for example, preferential rates of capital allowances, and certain designated capital assets that add efficiency to our operations. Such incentives have been put in place to encourage appropriate business investment. For our regulated water supply business these incentives have the effect of reducing customers' water bills.

As well as corporation tax, we contribute to the UK Exchequer by means of several other taxes and levies. This includes, but is not limited to:

- employment taxes, National Insurance and the Apprenticeship Levy;
- carbon taxes and other energy-related taxes and levies;
- fuel duty and other vehicle-related taxes;
- business rates; and
- regulatory charges and licences, such as water abstraction charges.

We are committed to paying the right amount of tax at the right time. Alongside corporation tax on profits, we pay a range of other taxes and charges required by Government agencies. These taxes total approximately £4.6m (2022 restated: 30.5m). The increase in the UK corporation tax rate from 19% to 25% with effect from the 1 April 2023 has increased the deferred tax expense to the profit and loss account.

The table below shows a split of the main taxes. In addition, we also pay Environmental Agency charges (which are not included in the table).

Our approach to risk management applies to tax as it does to other business areas, with key issues escalated to the Board. All material tax matters are discussed with our Finance team and significant issues are escalated the Board. The Group Risk, Control and Assurance function also reviews significant risk areas where appropriate.

We have identified economic uncertainty as a risk area (within financial risk). This includes risk in relation to the possibility of unexpected tax law and policy changes by the UK Government. We carefully monitor published tax legislation, guidance and policy documents to ensure we can assess the compliance requirements and the economic implications for us. We also engage with HMRC, where our tax position is likely to be materially affected by policy changes.





The corporation tax has decreased from last year to £1.8 million (2022: £1.1m), based on the impact of the benefit of capital allowances super-deduction (30%). UK tax rules specify the rate of tax relief available on capital expenditure. Typically, this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts. In the current and previous years, this was enhanced by the super deduction for certain capital expenditure, which gave a 100% tax deduction in the year of spend plus an additional allowance of 30%.

The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our adjusted effective current tax rate and corporation tax payments in the year. Accounting standards require that we make a provision for the tax that we would pay in future periods, if the depreciation charge arising on expenditure for which tax relief has already been received is not offset by further tax allowances in those periods. However, the nature of our business, including a significant rolling capital programme and the long lives of our assets, means we do not expect these timing differences to reverse for the foreseeable future, and they may never do so. This is a significant component of our deferred tax position.



	31 March 2023 (£'000)	31 March 2022 restated (£'000)
Corporation tax	(1,767)	(1,098)
Deferred tax	(4,233)	19,270
Business rates	5,320	5,384
Employers NI	1,961	1,740
Environmental tax	2,052	4,282
Fuel duty	1,283	880
	4,616	30,458

Operational performance

Performance against our targets

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 target	2022/23 performance	Target met
 Core outcomes	Delivering services that are value for money	% of satisfied customers	74	71	81	75	✗
	Making sure customers have a high level of trust in us	Score out of 10	8.16	7.85	8.20	7.68	✗
 Our customers	Great customer service to our household customers	C-MeX score	81.89	83.38	Upper quartile	79.87	✗
	Great customer service to our business market suppliers (retailers)	R-MeX score	76	87.3	93.3	82.2	✗
	Great service to developers	D-MeX score	83.59	84.4	Upper quartile	87.57	✗
 Our community	Financial support for household customers struggling to pay their bills	No. of customers helped	49,279	58,611	36,000	55,993	✓
	Extra Care support for customers who need assistance	% on PSR receiving extra care support	5.0	5.1	5.0	4.7	✗
	Education programme, working with schools about the need to use water wisely	No. of pupils engaged	297	2,284	6,000	3,672	✗
	Ensuring customers who need assistance are registered with us	% registered on Priority Services Register	5.8	8.7	7.1	10.6	✗*
 Our service	Delivering upgraded water treatment works	% completion	8	18	55.1	63.2	✓
	Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score (water quality measure) ¹	1.09	0.90	0	1.39	✗
	Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	0.98	0.76	1.08	0.65	✓
	Maintaining a reliable supply – supply interruptions	Average interruptions in minutes and seconds	04:33	03:15	05:45	04:29	✓
	Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	0	0	✓
	Reducing the number of water production failures	Unplanned outage as a % of total production capacity	0.57	0.90	2.34	1.47	✓
	Finding and fixing visible leaks more quickly	% of visible leaks repaired within set no. of days	90% within six days	90% within five days	90% within four days	90% within four days	✓
	Reducing the number of burst mains	No. of bursts per 1,000 km of mains	130.0	109.6	126.0	150.8	✗

* The Priority Services Register performance commitment is comprised of three components: reach, attempted contact, and actual contact. In 2022/23 we have met the target for reach, shown on this page, but we have not met the targets for actual or attempted contact.

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 target	2022/23 performance	Target met
Our environment 	Reducing leakage levels – South Staffs region	% reduction from baseline	3.0	5.8	7.8	9.4	✓
	Reducing leakage levels – Cambridge region	% reduction from baseline	5.1	13.5	8.0	16.7	✓
	Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	-5.9	-10.3	0.7	-14.9	✗
	Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	-3.2	-3.5	3.7	-5.6	✗
	Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	-0.07	0	0	0.19	✗
	Protecting wildlife, plants, habitats and catchments	Hectares of land managed	245.8	542	451	783	✓
	Supporting water-efficient house building	Volume of water saved (megalitres)	2.2	15.5	7.7	16.6	✓
	Reducing our carbon emissions	Kilograms per connected property	27.0	30.1	66.0	28.5	✓
	Delivering Water Industry National Environment Programme requirements	Milestones	Not met	Not met	Met	Met	✓
Our business 	Making sure all our people love their jobs	Net Promoter Score (NPS)/ Achieving Investors in People (IIP)	IIP achieved. NPS not achieved.	IIP achieved. NPS not achieved.	IIP achieved & 10pts increase in NPS from baseline	IIP achieved. NPS not achieved.	✗
	Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	29	69	100	69	✗
	Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.23	3.44	2.79	2.52	✓
	Making sure our property records are up to date	% validated	100	100	100	100	✓

Delivering for our customers



Our customer promise

We will offer a great customer experience and get feedback to help us keep improving



Ensuring excellent customer service, which is certainly lacking in today's society. Personal telephone contact and efficient and effective service – household customer, South Staffs region

How we performed during 2022/23

We are committed to delivering a great experience for all our customers. We use our comprehensive engagement and insight programme to gain feedback that helps us to keep improving.

The main regulatory measure of customer experience and satisfaction that we deliver against is C-MeX, which drives us to always deliver excellent service for all our household customers. C-MeX comprises the results of a survey with customers who recently contacted us about the service they received from us; and one with randomly selected members of the public about their experience of us as their water company. In both cases, customers are asked how satisfied they are with the service we provide and how likely they would be to recommend us to their friends and families.

We are disappointed to have slipped back from our strong position last year, having missed our upper quartile target with an overall C-MeX score of 79.87. Based on the findings of the surveys, we believe a key driver of the dip in performance could be the impact of the cyber-attack on customers' confidence in us. We are committed to driving improvements in the service we

deliver to customers and will strive to get our performance back to a sector-leading position in the year ahead.

The regulatory measure for our developer services customers is D-MeX. Our developer services customers include large and small property developers, self-lay providers, and new appointments and variations (NAVs) – that is, companies appointed to provide water only or water and sewerage services to customers in a specific geographic location within another water company's supply area. D-MeX comprises a survey of developer services customers that have recently completed a transaction with us and a measure of our performance against a set of service metrics developed by Water UK, our representative trade body.

We are continuing to make steady progress against this performance commitment. We have continued to build meaningful relationships with our developer services customers and ended the year in an above average position. We are continuing to see year-on-year improvement in this performance commitment and are striving to achieve upper quartile by the end of the current planning period in 2024/25.

We have a third customer service performance commitment, which measures business retailers' satisfaction in us as a wholesaler operating in the non-household water retail market. This bespoke commitment, which we call R-MeX, uses a combination of operating and market performance standards, and our own retailer satisfaction survey.

We have continued to focus on building close relationships with our business retailer customers and ended the year in 11th place in the sector overall, with an average score of 7.4 out of 10 in the market operator MOSL's output report published at the end of March. This is the highest score we have received since we launched our R-MeX measure in 2020 and it demonstrates our commitment to building effective retailer relationships.

In addition, when assessed against MOSL's service delivery measures, we scored above the market average for the:

- level of communications during incidents;
- quality of data management and improvement;
- level of engagement and support; and
- effectiveness of our financial policies.

We are rightly proud of the efforts of the retail market team to sustainably improve our performance. We also have an action plan in place to ensure improvements in service delivery are made consistently over the remaining two years of the current

planning period. We will continue to work closely with retailers and MOSL before the next wave of R-MeX scores are released in August.

Underpinning our customer experience measures are our commitments to ensure we deliver services that are value for money and that our customers have a high level of trust in us as the provider of an essential public service. We use the combined results of two surveys to derive our value for money and trust scores. Half the results come from an independent annual survey of just over 800 household customers; the other half come from the consumer watchdog CCW's Water Matters survey of 300 household customers. Both surveys include a representative sample of customers from across our Cambridge or South Staffs regions.

Unfortunately, we have continued to see a decline in both our value for money and trust scores over the past year. We think this is due, in part, to a combination of external influences – the current cost of living crisis and the negative reporting of the water sector in the media, for example. But it is important that we listen to and address our customers' concerns. We will continue to use our monthly priorities and promises trackers to monitor changes in customer sentiment and act to get these measures back on track by the end of the current planning period in 2024/25.

Case study – delivering a responsive customer experience

We know how important it is to always deliver the best possible experience for our customers – one that is responsive and where we get things right first time, all the time. To help us achieve this, during the year we carried out a project to test and install new customer billing system called Aptumo, an SaaS Cloud-based Salesforce product. We chose Aptumo because it enables us to make the step change from our inflexible legacy billing system and support optimum customer service delivery.

Aptumo is a next-generation, highly configurable billing and customer information system. It is designed specifically for water companies and has been developed to tackle the challenges companies like ours face every day. It is also secure and enables us to deliver efficiencies by automating and simplifying manual processes. And it enables multi-channel and self-service options – we know from our research that this is important to some of our customers. Initially, it will deliver functionality around core billing processes and will link to our digital customer applications. But there are options that we could scale up to in the future, including customer segmentation and full customer relationship management (CRM).

Because of the critical nature associated with installing a new billing system, we made use of an established programme environment, with ten individual work streams drawing on resources and expertise from across the business. These work streams covered a range of activities and processes, including governance, design and build, system integration, reporting, testing, data migration and change management. As part of the process of switching over to the new system we had to close our original RapidXtra billing system and move all our customer data to Aptumo. We then had to reconcile the data before making the system available to users across the business. Before the switch-over took place, we provided full training on the software for our people.

Aptumo went live in February. We had planned a four-week period into the programme timetable to enable us to identify any potential defects and resolve any actions. At the end of this four-week period we transitioned to business as usual, which included carrying out any additional stabilising activities. We are now well placed to deliver an even more responsive service for our customers in the months and years ahead and will continue to evolve our customer offerings.

Delivering for our community



Our community promise

We will offer our customers the right level of support for their individual needs and help everyone learn how to use water wisely



Supporting customers with their water bills is the most important area to focus on.... Therefore, they should make customers aware of the help that is available – household customer, Cambridge region

How we performed during 2022/23

As one of the smaller companies in the England and Wales water sector, we are rightly proud of our local knowledge and heritage, the partnerships we have formed and the work we have done to embed ourselves at the heart of the communities we serve. We demonstrate our commitment to our communities in several ways, including through the help and support we provide to customers who may be struggling to pay their water bills or who may find themselves in circumstances that could make them vulnerable. In addition, our education outreach programme aims to educate the next generation of water champions, encouraging them – and their families – to be more water efficient.

We offer several financial support packages to help customers who are struggling to pay their water bills. We also offer a range of different options to give customers more control over how and when they pay their bills. The aim is to encourage regular payment habits, which also helps to reduce the risk of customers falling behind with their payments and getting into debt.

- Our **Assure social tariff** is available to customers whose household income is less than £19,050 a year. Eligible customers receive a 60% discount on their bills in the first year and a 40% discount in the second.
- We also offer an **Assure Assist tariff** for customers who have no income coming into the home and who have applied for Universal Credit. In the first year, eligible customers receive a 100% discount for eight weeks, followed by a 60% discount for 44 weeks. The discount in the second year is 40%.
- The **WaterSure tariff** is for customers who are on a water meter and receive income-related benefits, and who need to use a lot of water – for example, because of medical reasons. Customers on WaterSure pay for the water they use, up to a fixed maximum, which will be no higher than the average household water bill.
- **Payment breaks** are available for customers who may need a short break from paying their water bills – for example, because of a significant temporary change in financial circumstances. We currently allow payment breaks of up to three months.

- We launched a **new 'text to pay' service** during the year, whereby we text eligible customers, prompting them to make a payment.

We also offer a wide range of payment options, designed to meet the needs of all our customers. These include using MyAccount, internet or phone banking, Direct Debit or Standing Orders, and debit and credit card payments.

We are still supporting many customers with our financial support schemes. We have exceeded our target for the number of customers helped during the year – with nearly 56,000 receiving some form of financial support from us, compared with our target of 36,000. Unfortunately, the cyber-attack meant we were unable to contact and check in with as many customers as we would have liked, which meant we failed that part of our performance commitment. We will continue to raise the profile of our support schemes and target our affordability messages at traditionally hard-to-reach customers and communities.

Another way we help customers is with our Priority Services Register (PSR). This is a free service for customers who may need extra help because of, for example, age, medical reasons, or because they have learning or physical disabilities. This is another area where we have performed well during the reporting year. We now have 10.6% of our household customer base registered on our PSR, again exceeding our target for the year of 7.1%. In addition, we have continued to offer our Extra

Care package, and now have 4.7% of customers on our PSR benefiting from this additional support. This is a slight dip against our target of 5%.

Key to our community engagement is our education outreach programme. We have an ambitious target to engage with 6,000 young people a year with our workshops for schools across our Cambridge and South Staffs regions. We also offer a range of learning and teaching resources, and online activity packs and quizzes.

Having previously confined our programme to primary age children, during the reporting year we expanded into secondary schools. We now offer a range of activities for children aged between 4 and 14, and we are currently developing a programme for older students. This means students in Key Stages 4 and 5 will soon also benefit from our programme, which will complement their GCSE and A level studies.

Over the six months to March 2023, we engaged with 3,672 young people. This means we missed our target for the year, but resource issues during the first six months of the 2022/23 financial year meant we were unable to run our full programme of workshops and activities, and we had to rely on our online offering instead. We are confident that we will meet our target in the year ahead and will continue to inspire young people about saving water, while also delivering high-quality learning to support teachers.

Case study – making a positive impact in our communities

We continue to operate our successful and award-winning community hub in Wednesbury in our South Staffs region. As well as providing face-to-face advice to customers on the financial and other support we offer or on the benefits of having a water meter, the hub is a recognised [Place of Welcome](#), providing a warm, safe space for local people in the community.

It is also home to a local Arts and Crafts Group, which meets every Monday, and which welcomes anyone who wishes to learn a new skill. The Group contributes to other activities at the hub – for example, members have knitted blankets for baby boxes and for local animal rescue centres and have made hats and scarves for the Turkey and Syria Earthquake appeal following the devastating earthquake in February this year.

Our community engagement is very much characterised by a 'one stop shop' approach to networking. This means that as well as helping customers with their billing queries or providing extra care for those who need it, we can also use our extensive partnerships to seek out other forms of support and assistance. For example, we have partnered with The Fuel Bank Foundation to offer customers with prepayment energy meters a Fuel Bank voucher up to the value of £49, which can be redeemed at PayPoint or Payzone outlets. This partnership has enabled us to find those harder to reach customers who may not have come forward for help with their water bills, but who desperately need the additional support that the voucher provides.

During the year, our community team was also involved in the engagement that followed the cyber-attack. With the support of colleagues from across the business, the team held several 'cyber clinics' across our Cambridge and South Staffs regions, giving customers advice and reassurance about the incident. It also provided specific one-to-one support to local visual impaired groups, including recording some content for their 'talking news', and providing clear information and advice about the cyber-attack and how to access the support we made available to customers whose data had been impacted.

This engagement provided us with valuable insight about how customers might react in the event of a major non-operational incident. It also helped us to simplify our customer communications. We have offered to share our learnings with other companies in the water sector, should they also be subject to a cyber-attack that impacts customers' data.

Another benefit of our community engagement work is that it gives us clarity on how our stakeholders want to receive information. With that in mind, we have created a new suite of literature, which has been designed in-house. This includes a factsheet to help customers understand their water bill and information for customers who are moving into a property. At the time of writing, we were in the process of sharing this with social housing providers, estate agents and letting agents across our Cambridge and South Staffs regions.

We will continue to build on our successful community engagement programme in the year ahead, establishing more meaningful and long-lasting partnerships and relationships with other organisations.

Delivering a reliable service



Our service promise

We will provide clean, high quality and reliable water supplies now and in the future



Water is instrumental to a family's state of mind and everyday lives. It's taken for granted, but that's because it's a great service – household customer, South Staffs region

How we performed during 2022/23

Delivering a reliable service is something our customers always expect us to do. Each year, we carry out a rolling programme of maintenance and investment to ensure the long-term health and resilience of our network of pipes, pumping stations and treatment works across our Cambridge and South Staffs regions. This report covers the third year of our ambitious £600 million investment programme, which will see us deliver several significant improvements across our network by the end of the current planning period.

One area where we have tended to perform well is water quality. The main regulatory measure for this is the Compliance Risk Index (CRI) score. This is a performance measure that assesses our compliance with the very stringent water quality standards set by the Drinking Water Inspectorate. The CRI is designed to illustrate the risk from treated water compliance failures; it includes elements relating to the:

- significance of the parameter failing the standards in the water quality regulations;

- cause of the failure, the manner of investigation of the failure, and any mitigation put in place; and
- location of the failure within the supply system, taking into account the proportion of customers affected.

We are disappointed to have missed our CRI target for the year, with a score of 1.39 (against a target of zero). This is because of compliance failures at some of our water treatment works. We are confident that the investment we are making in our water treatment processes over the five years from 2020 to 2025 will enable us to get this target back on track.

We know from our research that the quality of the water we supply to our customers in terms of taste, smell and colour is consistently a top priority for them and an area where they think it is important to hold us to account. So, we were pleased to have performed very well in this area, receiving only 0.65 contacts per thousand of population about the acceptability of the water we supply, compared with our target for the year of 1.08 – a 15% reduction. This equates to a 45% reduction since 2019/20 and reflects the levels of investment we have made in this area and the commitment of our people to ensure we always supply water of the highest quality to our customers.

It has been something of a mixed year for asset health. We again performed strongly on unplanned supply interruptions, outperforming our target for average interruptions of 5 minutes and 45 seconds by more than a minute. This is even more impressive when set in the context of the cold winter we experienced, which impacted our mains burst rate and resulted in us failing our target for the year with 150.8 bursts per thousand kilometres of main.

Still, our performance overall demonstrates that we are continuing to manage the resilience of our network well. This is helped by our ongoing mains renewal programme, which saw us carry out 21.2 km of mains repairs and renewals during the year. In addition, we achieved our target of finding and fixing 90% of visible leaks within four days. This is another key priority for our customers, so it is important for us to continue driving improvements in this area in the year ahead.

Case study – future proofing our assets

We completed two major construction projects during the year that will help to ensure we continue to provide high-quality and resilient water supplies to our customers now and over the long term.

In December, and after 15 months of construction, we completed the work to build two new storage reservoirs at the existing site at Bourn in our Cambridge region and brought them into supply. The reservoirs have a combined capacity of 8 million litres and bring the total capacity of the site to more than 12 million litres. This is enough water to supply the 14,000 properties that currently receive water from Bourn, and to accommodate planned development in the area, which is likely to result in another 8,000 new connections to our network by the end of the current planning period in 2024/25.

Key to the success of this project was the extensive engagement we held with stakeholders. This was because we knew getting planning consent on such a constricted site was not going to be without its challenges. So, we liaised with stakeholders at all levels – from strategic planning teams to the parish council – taking part in numerous meetings and site visits throughout the design and construction phases. This included liaising with neighbouring landowners to secure a temporary land lease to enable us to manage the flow of construction materials and people to and from the site more effectively.

The new reservoirs have a design life of 80 years and have been constructed with resilience to a growing population and climate change in mind.

In March this year, we completed the work to introduce a second filtration stage at Seedy Mill, the second largest water treatment works in our South Staffs region. This will ensure our customers continue to receive the high-quality and reliable water supplies they expect and pay for. The works have a capacity to treat 125 million litres of water a day – enough to fill 40 Olympic-sized swimming pools – and supply clean water to around 200,000 people. This makes it one of the most critically important assets on our network. It is also one of the two flagship projects of the current five-year planning period, with the £23 million investment secured through a special claim – known as a cost adjustment claim – to the regulator Ofwat that recognised the critical nature of the work to our customers and our business.

Work began at the site in July 2020, with a target date for completion of 31 March this year. This date had been agreed with the Drinking Water Inspectorate, the water quality regulator, so it was important for us to ensure the project was delivered on schedule. The work was nearly derailed by the impact of the COVID-19 pandemic and the loss of our initial construction partner, which went into administration in October 2021. A new construction partner was appointed, and work started again at the site in December 2021. The new filtration plant was brought into commission in line with the agreed schedule and customers should now be seeing the benefits of enhanced water quality.

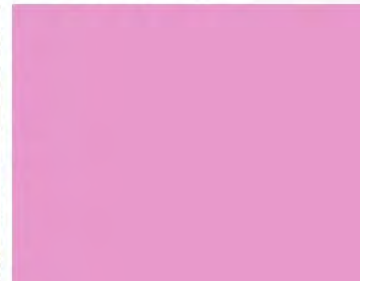
One of the things that both projects demonstrate is that we are well-equipped and able to implement these ambitious, large-scale infrastructure projects without impacting the quality of the services we provide to our customers.

Delivering for the environment



Our environment promise

We will protect the environment, reduce leakage, and support the building of water efficient homes



Water is such a precious commodity and so it's important to maximise it, rather to waste it through leaks – household customer, South Staffs region

How we performed during 2022/23

The first half of the reporting year was characterised by a prolonged period of hot, dry weather, with drought being declared across large parts of the country. Against this backdrop, we continued to engage with our customers about the need to use water wisely. We also provided regular updates about our water resources position, particularly in our Cambridge region, which is in one of the driest parts of the country.

One of the direct consequences of the prolonged dry spell and the cold winter that followed it was an increase in the number of bursts on our network of mains, as outlined in 'Delivering a reliable service' above. This is because very dry and very cold weather leads to ground movement, which in turn can cause pipes to crack and fracture. And yet, despite this, we met our leakage targets for the year in both our Cambridge and South Staffs regions, with reductions from our baseline of 16.7% and 9.4%, respectively.

Because we know that tackling leakage is as much of a priority for our customers as it is for us, we want to make sure that our data is as robust as possible. So, for our South Staffs region we have created a new household water night use model and

monitor, which gives us a more accurate picture of water use. One of the reasons for this is that the new model uses 15 assurance metrics instead of 8. We have also added an improved seasonality factor, which enables us to take daily weather changes into account. This means we can target leakage more effectively as it is easier for us to see spikes in water use in different areas. It also enables us to review all our leakage data back to 2017/18, making it more robust overall. Our technical auditors, Jacobs, have assured our new approach and consider it to be a better model for assessing and reporting our leakage levels.

But a new leakage model is only part of the solution. We have also invested heavily in resources, taking the leakage team in our South Staffs region, for example, from 26 field- and 4 office-based people to 39 field- and 5 office-based people, with another leakage analyst due to join the business in the 2023/24 financial year. We have also increased the number of people who are responsible for fixing leaks, which is reflected in our success in meeting our target of finding and fixing 90% of leaks in four days. This puts us in a very good position for the remaining two years of the current five-year planning period and we will continue to drive improvements in this area.

Another consequence of the hot weather during the reporting year is that we failed our target for the volume of water we take ('abstract') from the environment, breaching two abstraction licences in our Cambridge region. We have carried out a full review to identify and implement lessons learned and corrective actions to ensure there is no future recurrence of this issue. In addition, demand for water across our Cambridge and South Staffs regions has remained very high – at 136 litres per person per day (l/p/d) and 143 l/p/d, respectively. Like other water companies in the sector, high levels of individual water use – what we call 'per capita consumption', or PCC – is something that has changed very little since the start of the COVID-19 pandemic in 2020. So, it is important for us to understand this shift between our customers and the water they use.

To that end, we appointed demand management specialist Skewb to carry out a review of our PCC performance and evaluate the impact of the COVID-19 pandemic on household water use in our Cambridge and South Staffs regions. We have worked with Skewb to develop a delivery plan for 2023/25, with a focus on metering, water efficiency measures and working with developers to build more water efficient homes. In this last area, we remain ahead of the cumulative targets we committed to in our business plan for 2025 to 2030 – that is, by offering discounted developer bills for homes with fittings that limit consumption to 100 l/p/d. We are continuing to discuss with our developer customers how we can continue to drive greater efficiency with this scheme. Underpinning this will be a programme of customer communications and campaigns and community outreach work to help customers use water wisely and value it as a precious and finite resource.

Key to making sure we always deliver for customers and the environment is the need to plan for the long term. At least every five years, we produce water resources management plans for our Cambridge and South Staffs regions, which we consult on and are required to submit to the Secretary of State for Environment, Food and Rural Affairs for approval. Our water resources management plans set out how we intend achieve secure water supplies for our customers and enhance and protect the environment over a 25-year time frame.

We published our latest water resources management plans for consultation in November (South Staffs region) and February (Cambridge region). Our focus for both plans is on making sure there is enough water in the environment to meet the demand for that water, with a focus on reducing leakage and demand, and on installing smart meters for all customers, wherever possible. Key to our plans is our commitment to:

- deliver a 50% reduction in leakage by 2050;
- reduce individual water use to 110 l/p/d by 2050;
- roll out universal smart metering between 2025 and 2035; and
- deliver a 9% reduction in non-household water use.

For our Cambridge region, where the water resources challenges are greater, we are also exploring several supply-side options.

This includes the work we are doing in partnership with Anglian Water to build a new reservoir in the Cambridgeshire Fens that, once constructed and brought into commission, will deliver a reliable water supply of 43.5 million of litres a day (Ml/d) into our Cambridge region. During the year, we launched an extensive programme of engagement with customers and other stakeholders about the site for the reservoir and initial design ideas. This engagement will continue in the year ahead – we will report on our progress in next year's annual report and financial statements.

Given that we are already seeing the likely impacts of global warming and a changing climate, it is critical for us to reduce our operational carbon emissions. We have a target to reduce our target emissions to 61 kg per connected property by 2024/25. One of ways we have contributed to meeting this target during the year was with the arrival of our first electric vehicles (EVs). During the reporting year, we received delivery of our first electric vans, with more to be delivered during this summer. Once these electric vans have been received, around 38% of our light vehicle fleet will be electric (11% of our total fleet).

Case study – SPRING-ing forward with biodiversity benefits

One of the ways we engage with farmers and landowners is through our successful catchment management programme. A catchment is an area where water is collected by the natural landscape. Agriculture, forestry, industry, waste management and water abstraction can all have an impact on the catchment – and on the quality of the water within it.

In a catchment, rainfall not used by crops, trees or plants either finds its way into underground aquifers (groundwater) or eventually flows as run-off into streams, rivers or lakes (surface water). We are active participants in local catchment partnerships and work with several farmers and landowners to deliver environmental improvements.

We have a dedicated catchment management programme that covers our Cambridge and South Staffs regions. SPRING is an environmental protection scheme that supports farmers and landowners in high-priority catchment areas who are willing to explore catchment-friendly land management approaches. As part of the scheme, we make grants of up to £15,000 a year available to eligible farms to carry out work designed to reduce the volume of agricultural run-off and diffuse pollution entering the water courses from where we abstract our water supplies.

One such farm is in the Blithe catchment in our South Staffs region. It is a 100-hectare farm with both dairy and beef herds. The farmer has been a recipient of our SPRING scheme since 2017. The first projects carried out included creating a covered silage pit to help reduce effluent run-off, which can be very damaging if it gets into water courses. Since then, a covered yard area has been installed to reduce the risk of pollution caused by rainwater mixing with animal faeces in the yard.

More recently, we helped the farm to become more water efficient. This included funding the installation of a 30,000-litre rainwater harvesting system with associated guttering and an ultraviolet (UV) filter to allow the farmer to remain compliant with his assurance

schemes and use the water for drinking troughs and washing out. During the reporting year, we helped the farmer to double the capacity of his rainwater harvesting system. He is now seeing several benefits because of his partnership with us. These include:

- benefits for the environment, with a reduced risk of diffuse and point source agricultural pollution entering the water courses;
- benefits for the farmer in the form of lower water bills and a cleaner yard, with less water going into a slurry lagoon, enabling the farmer to remain compliant with slurry regulations; and
- benefits for the livestock – 30,000 litres of water are enough to keep 70 cows going for 10 days. Cows prefer drinking rainwater to tap water; capturing this water for them to drink is also helping the farmer to deliver higher milk yields.

We will continue to work with farmers and landowners across our Cambridge and South Staffs regions, encouraging more sustainable farming practices and best practice catchment management approaches.

Delivering for our business



Our business promise

We will run an efficient business with happy employees, where our suppliers are treated fairly



Sustainable infrastructure is important: ie, zero carbon operations, the most efficient water use possible, investment in regenerative water provision and water treatment processes – household customer, Cambridge region

How we performed during 2022/23

We are committed to running an efficient business where people are happy in their jobs, where our customers pay their fair share, and where we treat our suppliers fairly and in line with the Prompt Payment Code.

To ensure we always deliver for our people, we have a specific performance commitment for employee engagement. During the reporting year, we continued to use different channels and activities to communicate with and engage our people,

including volunteering days, Yammer, WhatsApp, and our News Splash e-newsletter.

We also participated in a Group-wide employee engagement survey, using the Gallup methodology. This focuses on 12 questions that measure employee needs in the areas of growth, teamwork, individual contribution and basic needs. Assessment of these needs gives us a Net Promoter Score (NPS), highlighting the likelihood of our people recommending us to others as a good place to work. Any NPS score above zero is good and we

have a target to achieve an NPS of +10 by the end of the current planning period.

We are disappointed that we have not yet reached this target, and that we still have quite a bit of work to do to ensure our people feel fully engaged. But there is much for us to be proud of. Our most recent Investors in People (IIP) review, for example, highlighted several areas where we are performing well, including:

- having a shared pride in delivering excellent service;
- providing good access to learning development to build capacity and resilience;
- providing flexibility and support for people's wellbeing; and
- keeping people informed.

Of course, there are also some areas where we want to improve, including:

- developing our approach to reward and recognition to ensure our people are motivated to achieve high performance;
- providing our people with a more structured approach to talent management; and
- improving communication between departments and teams across the business.

We will focus more of our engagement on these areas in the year ahead and will report on our progress in next year's annual report and financial statements.

There are some other business-related performance commitments where we still have some work to do if we are to meet our targets in the remaining two years of the current planning period. These include:

- making sure we pay all businesses with turnover less than £6 million within 30 days, in line with the Prompt Payment Code; and
- reducing our levels of bad debt as a percentage of revenue.

Case study – optimising our investment needs

As a long-term business, we understand the importance of planning any investment carefully to ensure we manage our risks effectively and deliver infrastructure projects efficiently and in a way that represents best value for our customers. To help us make informed decisions about the investments we need to make – and when we need to make them – we have implemented a new optimisation tool called Copperleaf. This enables us to:

- model risk associated with the availability of information about our assets, and how this can change over time;
- identify which investments to defer in the event of funding or resource constraints; and
- make informed decisions that maximise value while proactively managing risk.

As well as providing a comprehensive assessment of all our asset risks, Copperleaf makes it easier for us to understand the long-term exposure of those risks on our critical assets. It also considers wider business inputs, to ensure our asset management plan helps to deliver our wider strategic goals. And it enables us to make informed trade-offs between capital and maintenance costs, and to create a plan that balances total expenditure and minimises overall cost. This is essential if we are to plan effectively for the long term – a key component of Ofwat's PR24 price review process.

Copperleaf employs a valuation framework to define the benefits of investments. This framework uses the 'six capitals' model (social, human, manufactured, financial, natural, and intellectual capital) to support decision-making. It can be developed over time to become more bespoke to our specific requirements, providing us with more flexibility and adaptability.

In implementing this optimisation tool, we have several key business objectives that we want to deliver against, including:

- enabling us to achieve best performance in the water sector over the next planning period (2025 to 2030);
- enabling us to create consistent valuations and centralised management of the capital allocation and asset management functions of our business;
- enabling improved communication between our operations and asset management teams to help the business understand which investments have been taken forward and approved for implementation;
- eliminating the gap between our regulatory performance commitment targets and our everyday portfolio management; and
- enabling investment decisions to be tracked and updated, meaning our decision-making is more agile.

Our people



Gender, equality, and diversity

As a company with more than 250 employees, we are legally required to publish a gender pay gap report each year. Our report for 2022/23 is based on the snapshot date of 5 April 2022. At the time, we directly employed 439 people across the following business functions in our Cambridge and South Staffs regions.

- Wholesale service.
- Retail and customer service.
- Finance, regulation, and business support.
- Water quality and compliance.
- Tankering.
- Human resources, and health and safety.

Overall, our gender workforce split is 77% male (2022: 76%) and 23% female (2022: 24%); 68% of our people are employed within the wholesale function, including in the areas of water production and our field-based operations.

In terms of the difference between the hourly pay and bonuses of our male and female employees, the key points to note are as follows.

- The **mean difference between the hourly pay** of our male and female employees is 8% (2022: 2%), while the median difference is 15% (2022: 6%).
- The **mean and median difference in bonus pay** (shown as male employees earning more than female employees) is 38% and 0%, respectively. This accounts for a management bonus and productivity-based bonus schemes.

- The **proportions of male and female employees receiving a bonus** during the reporting year was 11% and 18%, respectively.

Our business – and the England and Wales water sector as a whole – is primarily engineering based, with high numbers of employees working in technical, field-based or manual roles that have traditionally been male dominated. While we have seen improvements in our gender pay gap in recent years, we know there is more to do – and that this will take time. We are committed to doing everything we can to reduce the gender pay gap and took the following steps during the reporting year.

- We continued to **re-shape the way in which we attract new talent** and how we present ourselves as a business that is embedded in the communities we serve. This includes using gender-neutral language in our job adverts, focusing instead on skills, ability and opportunities for development as a way of attracting more female applicants.
- We **worked proactively with schools, colleges, and universities**, attending careers fairs and sharing information about the opportunities we have available. We also offer work experience and apprenticeships.
- We **continued to encourage a flexible working approach**. Since the COVID-19 pandemic, we have created an environment where home working for part of the week has become the new normal for our office-based people. There is no doubt that strengthening our approach to flexible working is enabling us to recruit and retain the right people to drive our work programmes in the future.

When it comes to diversity, we are mindful that the water sector is not yet representative of the UK workforce for sex and gender; black, Asian and minority ethnic communities; disability and the

under-24s. To address this, we have committed to work collaboratively with others within and outside the sector to drive change.

For example, we work with Energy and Utilities Skills and are a signatory of its Inclusion Commitment. We are also playing our part to ensure the work force in the energy and utilities sectors are more inclusive and diverse, to help us attract and retain talent, drive innovation and ensure our business reflects the communities we serve. We are also a signatory of the Social Mobility Pledge, a global coalition of businesses and universities that encourages organisations to be a force for good by putting social mobility at the heart of their purpose. And we have an equality, diversity, and inclusion policy in place.

In addition, we have designed our application processes to ensure we select applicants fairly and equitably. We make every reasonable effort to provide people with disabilities with equal opportunities for employment, training, and promotion, making reasonable adjustments where appropriate. And we have designed our training programmes to support equal opportunities – taking steps to eliminate stereotyping, prejudice or any other form of discrimination from all our internal training courses.

Engaging our people

We participated in a Group-wide engagement survey during the reporting year to measure levels of employee engagement across the business. Overall, the survey responses outlined the need to focus on the following three priorities.

- Communication.
- Career conversations.
- Organisational values.

We made some progress on each of these areas during the year. We will repeat the survey in the 2023/24 financial year to assess our progress and realign our priorities based on the feedback from our people. We will report on the outcomes from this survey in next year's annual report and financial statements.

Supporting our people

A key priority for us is the health and wellbeing of our people – this is something we take very seriously. From a health and safety perspective, we provide regular training and awareness-raising campaigns across all our sites. Our aim with these activities is always to minimise the risk of harm. Our accident rate

has continued to improve over the reporting year, with five minor accidents (2022: eight) and one reportable RIDDOR incident (2022: one). This incident involved a lost time injury of fewer than seven days following a fall at work.

We have continued to implement new health and safety initiatives across the business. For example, we introduced a new HSMS reporting system during the year called EcoOnline. This is an intuitive software platform that brings together reporting across several environmental, health and safety metrics, including in the areas of chemical safety and incident reporting. We will carry on raising awareness among our people and supply chain partners of the importance of health and safety within the workplace, and to remind them of the need to be mindful of the ways they can mitigate any risk associated with their roles.

We also provide a range of support and social activities throughout the year to ensure we keep our people engaged and contribute to their wellbeing. For example, we launched an awareness-raising campaign called 'A day in the life of...' to highlight the work of people across the business, with a particular focus on our field-based teams. This gave us the opportunity to spotlight different roles. We also used Wellbeing Week at the end of July to organise a range of different activities and events for our people. These included:

- free health checks at our Fulbourn Road and Green Lane offices, run by the British Heart Foundation;
- lunchtime walks;
- 'at your desk' massage sessions;
- bake sales, to bring people together and raise money for good causes; and
- 'free fruit Friday', with fresh fruit made available at all our sites.

We will continue to promote positive wellbeing and mental health support for all our people in the year ahead.

Another way we engage our people is through specific 'celebration' events held throughout the year. To commemorate the late Queen's Platinum Jubilee in June, for example, we joined with people from other Group companies for games, activities, and a fish and chip lunch. We also held a desk decorating competition, sharing the most creative entries through our internal communications channels. In addition, for Black History Month in October we celebrated with Caribbean food and showcased our black colleagues on some of our social media channels. And in March, we celebrated International Women's Day, highlighting the work of women across the business, the range of roles they occupy and how they contribute to making sure water always flows to customers' taps.

Engaging with our customers

Understanding our customers' views and priorities is critical if we are going to always deliver the responsive service and resilient supplies they expect and pay for. We have a comprehensive engagement and insight programme that enables us to track customer sentiment, and to adapt our investment and work programmes to reflect changing priorities over time.

During the reporting year we continued to put a specific focus on engaging with our household and non-household business customers. This is to ensure their preferences are reflected in our plans for 2025 to 2030 and beyond to 2050. Through this programme we have engaged with thousands of household and business customers across several important and targeted areas. This is so we can be sure their views sit at the heart of all our plans. We have used a wide variety of techniques to engage with our customers, including the following.

- We continued to **engage with our customers through our priorities research**. We have used focus groups and surveys to assess shifts in their priorities over time and to understand what might be driving these changes.
- We also ran a **multi-stage qualitative and quantitative willingness to pay (WTP) study**. The aim of this was to generate customer valuations to use in cost-benefit analysis, so that we can be sure our customers' preferences are reflected in our investment optimisation tool. We improved our approach in this area compared with our WTP exercise for Ofwat's PR19 price review process by setting up a Delphi panel. This panel comprised four expert stakeholders who challenged the WTP valuations from our study alongside others from a range of other studies, including from Ofwat. The feedback enabled us to develop a series of sensitivity tests of the valuations to use in our optimisation tool. It has also enabled us to reflect on any improvements we can make to our valuations research for the PR29 price review process.
- We developed a **robust triangulation framework**, covering WTP technical triangulation and thematic reviews. This included making use of business as usual (BAU) insights to help shape our plans – customer satisfaction surveys, social media, customer complaints and contacts, and the H2Online communities in our Cambridge and South Staffs regions, for example. An academic expert has peer reviewed the technical framework throughout to help ensure it aligns with best practice.
- We engaged through **reconvened focus groups, online activities, and a quantitative survey** to gather input from customers about how they would want to sequence the time of a range of investments that will help to shape our long-term delivery strategy.

- And we engaged through **focus groups and surveys to understand customers' views on the impact of funding our cost of debt** through the bills they pay.

Key to our overall research programme has been the work we have carried out to inform the development of our Cambridge and South Staffs water resources management plans. We started work on this in 2020 and have used a range of engagement approaches. This has allowed us to hear voices from diverse backgrounds who have unique perspectives on how they want us to approach how we look after our water supplies in the future.

An important part of our journey has been on having more ongoing, two-way conversations with customers and other stakeholders around the long-term plans for our water resources. We have continued this work during the reporting year, including carrying out the following.

- We continued to **engage on a weekly basis with customers who are members of the H2Online communities** in our Cambridge and South Staffs regions. During the year, members have engaged on more than 40 topics related to their water service, which has driven a wide range of tactical improvements in website content and design, and communication campaigns, through to informing strategic decisions around metering and billing. The views of H2Online members have also informed the content and format of our reports, including our long-term vision statement, which we published in November, and the customer-facing water resource management plans for our Cambridge and South Staffs regions. This is to ensure they are easy to understand and reflect our customers' views. We celebrated H2Online's third anniversary in November.
- We continued to **engage with our Water Resources Advisory Panel** in both regions. Each panel comprised a mix of household and business customers, and included those who need extra support to access our services. The panel gave customers the opportunity to explain their views on a range of topics, including challenging our draft water resources management plans before we submitted them for approval by the Secretary of State for Environment, Food and Rural Affairs.

- Through our membership of the Water Resources East and Water Resources West regional water planning groups, we continue to **work collaboratively with our neighbouring water companies** (Anglian Water and Severn Trent Water) across both regions to ensure a consistent, resilient approach. This continues to play an important part in selecting the schemes and initiatives for our business plan for 2025 to 2030 and allows us to share knowledge and resources to the ultimate benefit of our customers.
- We continued to work with one of our research partners to **develop a well-rounded view of the differing preferences of our customers and other stakeholders**, and the reasons for these.
- The feedback from our customers and other stakeholders has enabled us to identify five 'golden threads' (see below). These are the foundations of the decisions made in our plans. We are now seeking to set up an approach to track how these golden threads shift over time and the factors that might drive any changes.

We will continue to engage with our customers and other stakeholders in the year ahead as we look to finalise our plans for 2025 to 2050. This includes holding two 'Your water, your say' sessions to enable these audiences to challenge our plans. We will report on these sessions in more detail in next year's annual report and financial statements.



The need for **customer information and engagement** so customers can understand why proposed changes are needed to the way water resources and the environment is managed

Call for collective responsibility – customers want everyone (water companies, household customers, businesses and farmers, developers, policy makers and regulators) to do their bit to maintain a reliable water supply for the future

Concern for the environment and a desire to take action sooner rather than later

A general call to make sure that the **most vulnerable customers are protected**

Increases in the **cost of living**

Looking to PR24 and beyond

Every five years, Ofwat – the economic regulator for the water sector in England and Wales – sets the price, service, and investment package that customers receive from their water companies. This includes setting controls on the prices we can charge our customers, which are reflected in the bills they pay. We are already planning for the next regulatory price review – PR24 – which will cover the five years from 2025 to 2030.

Following the publication of the final PR24 methodology in December, we have engaged in several Ofwat-led workshops. We have also responded to a number of consultations covering key aspects of the PR24 price review process. And we have received positive feedback from Ofwat on the approach we have taken to the development of our long-term delivery strategy, which we presented to the regulator in February.

During the reporting year, we embedded a new system called Copperleaf to help us optimise the best value solutions to inform our investment plan for PR24 (see case study on page 22). We have also made a significant step forward in our asset management maturity assessment and have gained a greater understanding and transparency of investment through the ArcGIS visualisation tool. This allows us to visualise our plans for PR24 through an interactive map to support delivery over the five years from 2025 to 2030 (AMP8).

In November we published '[Looking to the future](#)', our vision to 2050. This sets out our long-term ambitions and outcomes, aligning with customer and stakeholder expectations and priorities. Our vision forms the first part of our long-term delivery strategy, which we will submit to Ofwat alongside our five-year business plan in October this year.

Over the summer we carried out a recruitment exercise for our new independent customer challenge group, which we call our Stakeholder Challenge Panel. Chaired by Matthew Cole, members of the panel include a range of stakeholders, including from Cambridge University, Wolverhampton University, the Cam Valley Forum, Cadent Gas, and the consumer watchdog CCW. The panel is providing us with useful challenge and feedback as we shape our plans, as well as insight through the Chair from other independent challenge groups across the sector.

Our customer research and insight programme (see page 29) has continued to go from strength to strength during the year. We have continued to use expert agencies to support several research projects to support the development of our business plan and long-term delivery strategy. This includes, for example, launching a new Citizens' Jury to explore our net zero potential and the Young Innovators' Panel, which engages future customers. We will report on these in more detail in next year's annual report and financial statements.

We continue to strive to innovate and collaborate with others within and outside the water sector. We are part of the [Spring Innovation](#) centre of excellence, which aims to accelerate innovation across the sector. Through this organisation, we have found opportunities to learn and collaborate with the sector and beyond.

We have also led a successful bid as part of Ofwat's Water Breakthrough Challenge funding competition for a project that focuses on water efficiency in faith and diverse communities. Our proposal seeks to establish a deeper understanding on how water is used and valued in different faiths and cultures, and to develop a comprehensive water efficiency engagement and support framework that other water companies can adopt in the future. The project brings together a range of experts, academic and faith groups, including the award-winning Cambridge Mosque. We hope to develop and introduce new and bespoke water saving interventions and behaviour change campaigns linked to faith and culture. We will report on the progress of this project in more detail in next year's annual report and financial statements.

Risk review

We recognise that risks exist in all businesses. Our approach to risk reflects our status as a regulated and licensed water company providing an essential public service. We accept that not all risks can be mitigated entirely; our aim is to ensure that risk management activities reduce the overall estimated impact of risks to a level that is acceptable and that does not impact on our long-term viability.

The Board is responsible for setting our strategic objectives. It also determines our risk appetite. The principal risks are identified, prioritised, and documented, allowing the Board to ensure an effective internal control framework is in place. This comprises six-monthly reviews and additional deep dives when further assurance is required. Emerging risks are captured and fed through to the risk register as appropriate.

The Audit and Risk Committee reviews the effectiveness of our risk management and internal control framework – again through six-monthly reviews of the principal risks.

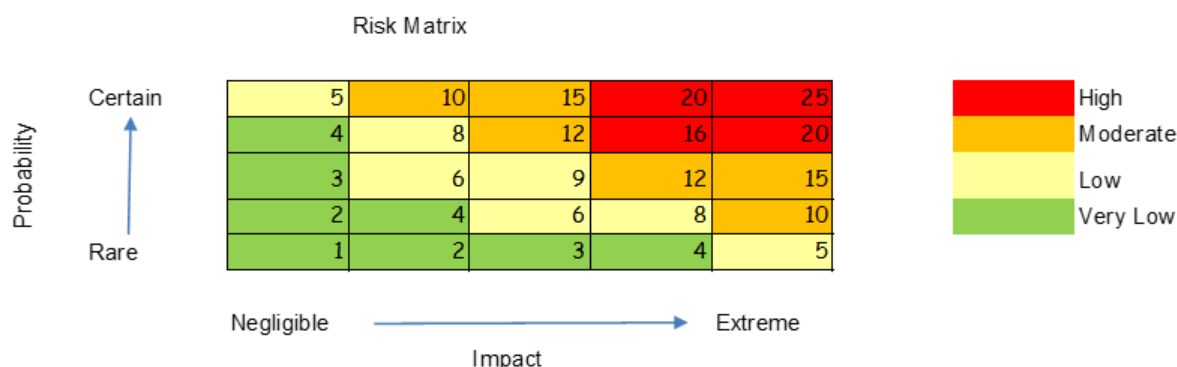
The Group Risk, Control and Assurance function provides an independent review of the internal control framework. It performs independent assurance, reporting into the Audit and Risk Committee and the Executive team with the audit plan and the outcomes.

Our approach to managing risk

The business risk methodology we use is like that used in previous evaluations. The Executive team considers the risks and the proposed actions designed to reduce them to an acceptable level. The aims of this risk management process are to:

- ensure the Executive team is **identifying and prioritising all key business risks** – that is, those that will or could influence our ability to achieve our strategic and operational objectives, or our legal and regulatory obligations;
- implement **appropriate procedures and controls** as required to mitigate these risks to an acceptable level; and
- enable senior managers to **highlight, document, prioritise and execute as appropriate any outstanding actions** in relation to developing or implementing these controls to ensure they meet their objectives.

We assess each identified risk against two factors: the impact on the business and the probability or likelihood of the risk occurring. We determine the overall rating of each risk by taking the product of the impact and probability scores (impact x probability). This compound score enables us to place greater focus on the most important risks. More management time is given to implementing control over these risks, rather than focusing on those that are more easily controlled. The overall risk scoring, probability scoring and impact scoring we use is illustrated below.



Probability score			
5	Certain	>50%	Almost certainly will happen
4	Probable	20%-50%	Will probably happen
3	Possible	1%-20%	Might happen
2	Unlikely	0.1%-1%	Do not expect it to happen but possible
1	Rare	<0.1%	Will probably never happen

Impact score					
	1	2	3	4	5
Reputational	No loss of trust – local online media/ stakeholder criticism	Local media/ stakeholder criticism	One-off regional or national media/ stakeholder criticism	Sustained regional media/stakeholder criticism	Long-term reputational damage – sustained regional media/stakeholder criticism
Financial	Less than £0.05m operating expenditure (opex) Less than £0.25m capital expenditure (capex) in year	£0.05m – £0.125m opex £0.25m – £0.5m capex in year	£0.125m – £0.25m opex £0.5m – £1m capex in year	£0.25m – £1m opex £1-3m capex in year	>£1m opex >£3m capex in year
Water quality	No water quality impact	Sample result recorded at above 50% of PCV (within treatment plant capabilities) – no aesthetic impacts for customers	Sample results above PCV (excluding faecal coliforms or cryptosporidium) – localised complaints about taste, odour or discoloration	Positive detection of faecal coliforms, cryptosporidium (where no UV) or repeated PCV failures	Widespread health risk or potential for illness in the community
Environmental	Negligible/ imperceptible impact on the environment	Category 4: Non-compliance at a regulated site that cannot foreseeably have any impact on the environment. Or other event causing comparable environmental impact	Category 3: Non-compliance at a regulated site that could foreseeably result in pollution classified as CICS ¹ category 3. Or other event causing comparable environmental impact	Category 2: Non-compliance at a regulated site that could foreseeably result in pollution classified as CICS category 2. Or other event causing comparable environmental impact	Category 1: Non-compliance at a regulated site that could foreseeably result in pollution classified as CICS category 1. Or other event causing comparable environmental impact
Health and safety	Accident target intact	Target not achieved – reputational impact on internal management standards	RIDDOR incidents above target – fines/prosecution and HSE intervention	Loss of limbs – serious prosecution and HSE inspections	Loss of life – >£1m fines and potential for Executive Director imprisonment
Resilience (security of supply)	No customer impact	Localised loss of supplies to customers (and below DWI event reporting threshold) for less than 24hrs	Localised loss of supplies above DWI reporting threshold or for more than 24hrs	Widespread loss of supplies; issue of precautionary advice and/or alternative water supplies to customers required	Widespread loss of supplies to >250,000 customers for more than 24 hours; widespread issue of precautionary advice and/or alternative water supplies required
Compliance regulations	Resubmission of information not compliant with guidance	Third party referral to Ofwat for determination – eg, developers	Informal action by Ofwat to address non-compliance	Legal action – eg, competition law	Formal Ofwat enforcement action

Impact score					
Customers	No customer impact	Small numbers of customers affected and no adverse impact on contact or complaints (fewer than 500 customers impacted)	C-MeX impact in year, complaint performance deteriorates slightly, periods of increase in customer contacts (2,000+ customers impacted)	Large volumes of customers impacted, C-MeX not recovered in year, significant deterioration in complaints and prolonged high volume of customer contacts (in region, 100,000+ customers impacted)	Large volumes of customers impacted, C-MeX not recovered in year, significant deterioration in complaints and prolonged high volume of customer contacts (both regions, 200,000+ customers impacted)
Technology systems and security – information technology (IT)	Access failures to solutions – major system loss for <4hours	Significant IT failure impacting business operations >24hrs, but <48 hours	Data not recoverable – system or business data loss, etc Minor data breach – non-personal or sensitive data loss Major system loss for >48hours	Data lost outside controlled environment – GDPR, PCI DSS, NIS impact Loss of personal data/highly sensitive information Multiple systems loss >48hours	Fully compromised IT or OT systems – complete loss of confidentiality, integrity, and availability of all systems
Technology systems and security – operational technology (OT)	No loss or compromise of OT systems (telemetry/SCADA)	Minor loss or compromise of OT systems (telemetry/SCADA) not affecting customers	Loss or compromise of multiple OT systems (telemetry/SCADA) not affecting customers, but requiring significant additional manual intervention	Wide-scale loss or compromise of OT systems (telemetry/SCADA) affecting supply of water to up to 50,000 customers, but requiring significant additional manual intervention	Wide scale loss or compromise of OT systems (telemetry/SCADA) affecting supply of water to 200,000+ customers

Note:

1. CICS = Common Incident Classification Scheme. The CICS is a two-tier system: the first tier measures our physical response and impact on Environment Agency business in dealing with an incident. The second tier describes the actual impact the incident has on the environment (people, property, and the natural environment).

Key risk drivers and overview for 2022/23

It has been a tough year for the water sector, with widespread negative coverage in the media and online about sewage discharges and climate change-driven drought events. This has led to the perception that all water companies are letting down their customers and the environment. And even though, as a water only company, we are not responsible for what happens to waste water, customers are not always able to make the distinction, which means we must rebut any negative criticism of this activity.

The key risk drivers for the business have remained consistent with the view presented at our October Audit and Risk Committee meeting. Although markets have stabilised since the last review, the macroeconomic conditions have continued, as has the war in Ukraine. In addition, we have experienced energy and chemical prices at an all-time high, with fuel prices following suit.

Inflation is also the highest it has been for many years, which has increased our base costs and inflation-linked debt. And salaries and wages have struggled to stay in line with cost increases, which means there has been a huge squeeze on many in society –

with lower-income households hit particularly hard. We are looking to address the disparity between wage increases and inflation in our annual pay review.

The labour market remains tight – with a combination of plentiful vacancies and a scarce work force. At the same time, the combination of industrial action, high inflation and rising interest rates is exacerbating problems in the labour market.



Another area of risk for us during the reporting year was the prolonged period of hot, dry weather during the summer. This was exacerbated by higher burst levels across our Cambridge and South Staffs regions and higher levels of demand. In addition, the prolonged outage of several key borehole sites in our Cambridge region led to us breaching two abstraction licences to ensure we could maintain supplies to customers.



Climate change poses a significant challenge to our supply/demand balance over the longer term. The cold winter and significant freeze-thaw events led to the extensive damage and subsequent recovery of our network. We have accelerated our recovery activity, primarily through increasing our work to find and fix more leaks in a drive to meet our ambitious leakage reduction targets by the end of the current reporting period. Climate change impacts have now superseded COVID-19 as a key risk area for the business.




In July our parent company, South Staffordshire Plc, was the target of a criminal cyber-attack. We had previously noted this threat as one of our key risks, given the heightened risk to infrastructure companies. Our most important priority was – and continues to be – to maintain safe public water supplies. The cyber-attack did not affect our ability to do this, and we continued to supply our customers throughout this incident.



But our corporate IT network experienced significant disruption, which has negatively impacted our people. Since the incident, we



have been working with leading cyber security experts to reduce the risks. They made some recommendations on additional IT security, and we have already implemented some of these. Below we set out our key risks, as identified using the process described above. We detail what each risk means for us, the actions we are taking to mitigate its impacts and any change in the risk during the reporting year.



What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
<p>Resilient supply of good quality water</p>	<p>We are legally required to ensure the supply of clean, wholesome water and to ensure there is always enough water available to supply our customers. Failure to provide a resilient supply of clean, safe drinking water, which is assured using a risk-based drinking water safety plan (DWSP) approach, may:</p> <ul style="list-style-type: none"> • impact public health; • incur regulatory penalties or enforcement action; and • impact the confidence of customers and other stakeholders in us. 	<p>We have carried out significant work to mitigate the water quality and safety risks. This includes upgrading the treatment processes at the Hampton Loade and Seedy Mill water treatment works in our South Staffs region.</p> <p>We also have several controls in place to reduce the probability of having insufficient water resources. This includes:</p> <ul style="list-style-type: none"> • the long-term water resources management plans (WRMPs) we produce for our Cambridge and South Staffs regions; and • having drought plans consistent with our WRMPs; and • our business plan for the current planning period (2020/25). <p>In addition, we are collaborating with other water companies and key stakeholders through Water Resources East (WRE) and Water Resources West (WRW) to produce long-term regional water resources plans.</p>	<p>In the year ahead, we will continue to make further improvements to our DWSP to ensure risks are more adequately identified, assessed, and appropriately mitigated.</p> <p>We will also implement a more effective governance process to ensure we meet the necessary quality system requirements.</p>	
<p>Water resources</p>	<p>There is a risk that the demand for water may exceed the volume we have available for supply – eg, during a severe drought. The impact of running out of water is high because of how it could affect public health, and the long-term financial and reputational damage that could arise as a result.</p> <p>Incidences of prolonged hot, dry weather like those experienced in 2018 and 2022, can challenge our supply/demand balance over the longer term. Underlying drivers, such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk.</p> <p>There is also a residual risk that our selected options – eg, large-scale leakage reductions, per capita consumption (PCC) reductions and more household metering – will not deliver the water savings expected during the current planning period.</p>	<p>We have several controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include our:</p> <ul style="list-style-type: none"> • WRMPs; • regional water resources plans; and • environmental programme. <p>We have also updated our drought plans. And we have focused particular attention in our Cambridge region through our work with WRE to identify medium- and long-term solutions for additional water resources – including, among other things, the Fens reservoir in collaboration with Anglian Water.</p> <p>In addition, we track our leakage and PCC metrics, while our ongoing asset maintenance programme is designed to minimise the risks of short-term supply interruptions.</p>	<p>In 2022/23 we breached two abstraction licenses in our Cambridge region to maintain water supplies to customers. We worked to minimise the impact of this breach and are continuing to take action.</p> <p>To mitigate this risk in the future, we will continue to work with the Environment Agency and actively engage with other stakeholders through WRE and WRW. We will also continue to invest in our infrastructure to help reduce demand and leakage. And we will continue to explore the development of new, sustainable water sources.</p>	



What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
<p>Health and safety</p>	<p>Our health and safety risks include things that affect the wellbeing of our people, our suppliers and contractors, and members of the public. They also include non-compliance prosecutions, and the reputational damage that could result from failing to meet our own health and safety standards.</p> <p>These risks could result in incidents leading to a loss of life, and they could impact on families and our people. They could also result in damaging press coverage, Board involvement and the risk of imprisonment for members of the Executive team. A Health and Safety Executive (HSE) inquiry could impact resources and morale.</p>	<p>Keeping our people safe is a core responsibility for us. Being safe at work is a basic human right, and workplace conditions directly influence our people, their families and their communities. We have several health and safety mitigations and controls in place, including:</p> <ul style="list-style-type: none"> • driving a culture that puts critical risk management at the heart of everything we do; • introducing a severity matrix to allow us to re-classify where we focus our efforts and resources; • focusing on ‘high potential’ risks – eg, around confined space management; • carrying out Executive team and senior management workplace audits, with targets agreed for all management levels; and • carrying out health and safety training, and face-to-face induction training. 	<p>Looking ahead, we will roll out a new safeguarding policy and associated training to support our people who meet customers as part of their day-to-day roles. We think this will make it easier for us to identify some of our most vulnerable customers and escalate their cases as appropriate.</p> <p>We have also launched a new health and safety initiative based on human and organisational performance (HOP). This takes a holistic view of how we better manage human adaptability, but through a robust systems framework.</p>	
<p>Failure to meet regulatory performance commitments</p>	<p>There is a risk that we could underperform against the commitments agreed by Ofwat in our PR19 final determination – particularly those that have financial incentives attached. Ofwat has set deliberately challenging targets to ensure we deliver a step change in performance in the areas of:</p> <ul style="list-style-type: none"> • leakage; • bursts; • supply interruptions; and • water quality compliance. <p>There are several revenue, reputational and regulatory impacts associated with this risk. These include:</p> <ul style="list-style-type: none"> • in-period revenue impacts on financially incentivised performance commitments (PCs); • reputational impacts from failing to meet PCs that customers see as important; • external factors impacting on performance, resulting in missed targets even where investment and actions have been implemented; and • impact on customer perceptions in future research where competitive data is used. 	<p>We have implemented several actions to help us achieve our PC targets, including improving our reporting and assurance processes, and having greater exposure of our performance at an Executive and Board level on a regular basis.</p> <p>As we have 19 PCs that have financial incentives attached, revenue risk is likely to be a mixture of some underperformance penalties and some outperformance rewards each year. We are also mitigating the risk of a net underperformance penalty by making sure we maximise the reward opportunities for other measures.</p> <p>PCC has been particularly impacted by the long-term effects of the COVID-19 pandemic. Ofwat has confirmed that performance will be reconciled at PR24, and that the size of the adjustment will depend on the actions we have taken to offset the impact. We have already provided Ofwat with information about our activity to reduce PCC.</p>	<p>In the year ahead, we are launching a campaign to encourage customers to use less water, to help reduce our PCC. We have also commissioned some work to re-base our PCC target after taking account of the impact of the COVID-19 pandemic. In addition, we think the actions we are taking at the level of individual PCs will help to lower our penalty risk as far as possible within the constraints of management actions, investment options and the external volatility that exists.</p>	



What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
<p>Asset reliability and resilience</p>	<p>We operate a significant number of assets across our Cambridge and South Staffs regions that are critical to the continued provision of clean, safe, and reliable water supplies to our customers. We use a structured risk management process to assess the relative risks to these assets and prioritise needs for investment where necessary.</p> <p>Failure of a critical asset could impact our ability to maintain supplies to customers. It could also result in material impacts to several key business metrics, including customer service and water quality. And it could impact our reputational and financial metrics.</p>	<p>We recognise the need to continually improve our assets. Our long-term plans are set in the wider context of managing and maintaining our assets and supply capabilities. Our current business plan supports optimum investment strategies to mitigate risk. This includes:</p> <ul style="list-style-type: none"> making significant investment in our Hampton Loade and Seedy Mill water treatment works; carrying out proactive maintenance programmes; and reducing network failure through targeted mains rehabilitation. <p>It would be impossible to fully mitigate this risk across the whole of our asset base in an affordable way. So, we target investment at those assets that pose the greatest risk to service, regulatory compliance and the environment.</p>	<p>Our asset management function is aligned to proactive intervention based on the continuous monitoring of performance. Looking ahead, we will continue to justify investment according to the inherent risk within the business, ensuring resources and finances are prioritised effectively.</p>	
<p>Achieving our AMP7 leakage reduction targets</p>	<p>There is a risk that we do not achieve the leakage targets for our Cambridge and South Staffs regions. Leakage reduction is a key customer priority; it is also important for the environment. We have a commitment within our WRMPs to reduce leakage and mitigate the environmental impact of our abstraction.</p>	<p>To keep our leakage targets on track in our Cambridge and South Staffs regions, we have identified the total expenditure (totex) required to bring our leakage levels down. This includes:</p> <ul style="list-style-type: none"> employing additional leakage technicians to find and fix leaks; deploying additional repair and maintenance teams to fix more leaks; deploying additional resource to target leaks on customers' premises; and making data and control improvements across our network. 	<p>Weather will always be a risk in terms of achieving our leakage targets. Looking ahead, we have a detailed plan in place and the totex for delivery has been approved in our budget for 2023/24.</p>	
<p>Impact of our activities on the environment</p>	<p>There is a risk that our activities could cause harm to the environment – eg, because of pollution failures or our failure to comply with permits and licences.</p> <p>This risk also covers the real and perceived reputational impact of our operations on habitats such as chalk streams and rivers.</p> <p>This area has been subject to much greater media attention over the past year, mainly driven by the water and sewerage companies' use of storm overflows and the sewage discharges associated with this.</p>	<p>Our environment obligations are summarised in our Water Industry Strategic Environmental Regulations (WISER) submission. Specific activities to mitigate this risk include:</p> <ul style="list-style-type: none"> having an established incident management process in place; using the abstraction incentive mechanism (AIM) to help maintain sustainable abstraction practices; the work carried out by our established catchment management team; 	<p>Looking ahead, we have submitted our Water Industry National Environment Programme (WINEP) for the next planning period (2025 to 2030) to the Environment Agency. This will build on our existing commitments, as well as deliver substantial improvements to the chalk streams in our Cambridge region.</p>	

What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
	<p>This risk also relates to non-compliance with environmental regulations and/or legislation. This could involve pollution incidents or failure to comply with permits and licences. MCERTs conditions are included on some South Staffs discharge permits and yearly audits take place to ensure compliance.</p>	<ul style="list-style-type: none"> the water strategy, operational technology and production teams working together to maintain MCERTs compliance for selected discharge permits; monitoring compliance with our abstraction licences; working with other WRE members to identify alternative water sources and minimise the detrimental impact of abstraction on the chalk streams in our Cambridge region; carrying out benchmarking to improve our clean water pollution response and monitoring; and reviewing all discharges and compliances and putting in place a plan to ensure delivery in this area. 		
<p>Non-compliance with regulatory obligations</p>	<p>The risk is that we fail to comply with our statutory and regulatory obligations as a licensed water company. Failure to comply with these obligations could result in action by Ofwat or other statutory bodies, depending on the severity of the breach. Examples of a breach and the actions that could be taken include:</p> <ul style="list-style-type: none"> our annual data returns not complying with Ofwat's guidelines, leading to us having to re-publish the information; failure to operate a level playing field for retailers and developer services customers, in breach of competition rules; and not complying with our licence conditions, leading to regulatory enforcement action and fines of up to 10% of our turnover. 	<p>Each year, we consider our obligations under the terms of our licence, and that we understand and comply with them. We do this in several ways, including assessing the impact of any licence or legislative changes made during the year and making sure we adopt any new obligations.</p> <p>We also review and publish any document as required under the provisions of our licence, making use of appropriate internal and external assurance processes. And we require Board sign off all significant obligations, such as our customer charges and annual performance report.</p>	<p>We will continue to deliver our regulatory obligations and keep up to date with changes to the regulatory framework.</p>	
<p>Supply – economic impacts</p>	<p>There is a significant risk of loss of critical supply or disruption to the delivery of things like:</p> <ul style="list-style-type: none"> chemicals, which are required to treat the water we supply to the required standards; critical component spares, which may prevent us operating critical equipment, such as pumps for water distribution; stock consumable items, such as pipes and fittings, which would impact planned and unplanned repair work; and 	<p>We work closely with the Department for Environment, Food and Rural Affairs (Defra), Water UK, associated sub-groups and the supply chain to provide a sector-wide view if critical supplies are disrupted.</p> <p>We also have business continuity plans in place and continue to monitor supplier deliveries and stock levels carefully. We continue to report through sector working groups to identify issues early – eg, in relation to the delivery of chemicals. And we make sure our project teams work closely with the supply chain to make sure orders of key materials are placed in sufficient time.</p>	<p>Looking ahead, we will continue to focus our attention on reducing the impact on our customers of any potential loss of water supplies.</p>	

What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
	<ul style="list-style-type: none"> fuels, which may impact all parts of our business, including the ability of our people to travel to and from their places of work. 			
<p>Technology, systems and security</p>	<p>There is a risk of failure of critical information technology (IT) or operational technology (OT) infrastructure, which could result in material disruption to operations, reputational damage and regulatory sanctions.</p> <p>There continues to be a risk of cyber-attacks by criminal gangs, nation states and hacktivists who seek to exploit weaknesses in defences. The risk of cyber-attacks on critical infrastructure and services is heightened following the war in Ukraine.</p> <p>We are subject to complex regulatory regimes, which apply different frameworks and standards to our IT and OT infrastructure – specifically, the UK GDPR, the UK Data Protection Act 2018 and the National Information Security Regulations 2018, respectively.</p> <p>If we do not meet these complex legal standards to protect personal data and our operational technology, we could breach regulation and incur fines, other sanctions and reputational damage. We could also receive compensation claims from affected individuals.</p> <p>In the event of our data centre at Green Lane going offline, we would be unable to access many of our core systems, including email and network data shares.</p>	<p>We are mitigating these risks in several ways, including the following.</p> <ul style="list-style-type: none"> The Group has a cyber strategy that drives investment and operational planning. Oversight of critical systems and suppliers to ensure the Group understands the data it holds and is secure and regulations are adhered to. Threat intelligence is used to analyse cyber risks to the Group. A cyber risk management framework that reviews the risk across the business and rolling out increased cyber-awareness training across the business, overseen by the Audit and Risk Committee, which gives assurance to the Board. Applying robust change control processes to ensure changes to live systems are rejected until the risk to confidentiality, availability and integrity of data is reduced to an acceptable level. We regularly monitor and update our plans to replace and upgrade our operating systems and databases as required. 	<p>In a process of continuous improvement, we are implementing further changes to email and internet security alongside other steps to further improve the resilience of our network.</p> <p>We are implementing further training and guidance about internal policies covering cyber security and GDPR awareness and compliance.</p>	
<p>Financing our business</p>	<p>There is a risk that we are unable to fund our business sufficiently. We have significant ongoing funding requirements for our operational costs, capital programme and long-term debt.</p> <p>We must maintain key financial ratios to comply with covenants with our debt providers and the relative credit rating agencies. Our licence requires us to maintain an investment grade credit rating. Failure to do this could result in cash lock-up, restricting our ability to pay dividends or default.</p> <p>We have seen a combination of additional cost pressures during the year, particularly in the energy and chemicals markets. We have experienced inflationary pressures, which, alongside the operating cost increases, has added to our index-linked Bond debt</p>	<p>We have continued to monitor compliance with our financial covenants and credit rating. We have also carried out regular reviews of our funding requirements. We have renewed our £30 million revolving credit facility and secured additional debt through private placement loans – currently £60 million – with Pricoa. And we engage regularly with the credit rating agencies to understand their interpretation of our position and that of the water sector.</p> <p>To mitigate our financial risk further, we have:</p> <ul style="list-style-type: none"> fully fixed our power costs for budgeted distribution input for 2023/24; employed hedging strategies; carried out regular market monitoring; 	<p>We have a long-term financing strategy in place that considers projected future investment plans and forecasts liquidity requirements beyond the current planning period. Access to markets is not expected to be a limiting factor in financing the business.</p> <p>In addition, we are looking to produce a robust, financeable business plan for the next planning period (2025 to 2030). And we are considering the levers needed to improve our financial metrics. This could be further mitigated through strengthening of the regulatory ring-fence.</p>	

What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
	<p>valuation. It has also added significant pressure to our financial covenants.</p>	<ul style="list-style-type: none"> overhauled the regular monthly management reporting to include relevant covenant metrics; and put a structure in place at a Group level to ring-fence regulated liquidity from the non-regulated activities. 		
<p>Customer affordability</p>	<p>Over the past year, the cost of living crisis has placed an additional pressure on our customers' ability to pay their water bills. Although non-payment of water bills will not lead to disconnection as it does in the energy sector, it can result in the debt being passed on to a debt collection agency. This, in turn, will lead to increases in the costs other customers have to pay.</p> <p>There is an operating risk for us resulting from increased levels of customer bad debt and the costs associated with collecting this debt. This could result in a decline in performance.</p>	<p>We are progressing our plans in line with the consumer watchdog CCW's affordability review. We have also considered how we can improve our support schemes and make access to support much easier.</p> <p>We already have several support tariffs in place, which we actively promote to customers who might be struggling to pay their bills. In addition, we have a customer debt pay-off matching scheme and follow standard and advanced recovery processes in line with our policies. We also monitor activity and debt performance, enabling us to make quick and informed decisions.</p> <p>We have integrated a new billing and collections system called Aptumo, which will deliver reliable and accurate bills that have been designed to suit customers. Aptumo gives us access to customised data that will enable us to take customer segmentation and personalised customer service to a new level.</p> <p>We also hold monthly Debt Steering Group meetings to monitor debt performance and agree strategy. These reviews are not currently identifying any significant increases in the budgeted debt position.</p>	<p>The current macroeconomic environment is likely to continue having a negative impact on the economy in the year ahead. In addition, new research suggests that real wages compared with prices are not expected to return to 2021/22 levels until the end of 2027.</p> <p>So, the probability of us needing to fund suitable support mechanisms for customers remains high and the ongoing monitoring of customer affordability is key to this.</p> <p>We are progressing the use of a debt best practice framework to deliver a series of changes that focus on:</p> <ul style="list-style-type: none"> debt prevention; data use and sharing; standard collection; and advanced collection activity. 	
<p>Customer service</p>	<p>Customer expectations about the service we deliver is increasing, with more demand for multi-channel and 24/7 approaches. Also, the key regulatory measure of customer experience – C-MeX – can be impacted by single events, resulting in in-year penalties and reputational harm.</p> <p>For example, the criminal cyber-attack experienced by our parent company has had a significant impact on the service we provided during quarter 2 of the 2022/23 financial year. In addition, the implementation of Aptumo has required planned pauses to customer service – all of which were communicated to customers to minimise any potential impact.</p>	<p>We have carried out several retail focused engagement activities during the year, including around the:</p> <ul style="list-style-type: none"> process for requesting a water meter; layout of our bills; and different customer journeys. <p>This insight has helped us shape our customer experience strategy to strengthen our digital channels and improve key customer journeys.</p> <p>We hold monthly Customer Experience Steering Group meetings, and we use a series of KPIs to measure performance. We also have customer improvement plans in place.</p>	<p>Looking ahead, we are planning to deliver a retail change programme and a clearly defined digital change plan, which includes:</p> <ul style="list-style-type: none"> making changes to our mobile app and MyAccount; reducing the number of repeat customer contacts; and making improvements to customer journeys, particularly for home moves. <p>In addition, we expect the level of demand for our support tariffs will continue to increase. So, we will</p>	

What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
		<p>We monitor customer satisfaction daily. This enables us to make changes quickly in line with the requirement delivered through the respective working and steering groups.</p>	<p>explore how the support package we offer will positively affect our overall debt performance.</p>	
<p>Failure or increased cost of capital projects/ exposure to contract failures</p>	<p>There is a risk that we will be unable to successfully deliver our capital programmes. This is because of experiencing additional costs and delays that could impact the condition or performance of our assets and affect the service we provide to our customers. Our current investment programme – our largest ever – combined with inflationary pressures for materials, consumables, and sub-contracts during the year, has exacerbated this risk.</p> <p>Although we have an established track record of delivering overall costs within our regulatory allowances, we have experienced a slow start to delivery during the current planning period. This has been impacted by the COVID-19 pandemic and resource challenges. These risks are being realised as we have seen commodity prices, such as steel, increasing way beyond previously seen trends.</p>	<p>To mitigate this risk, we have created a specific Asset Management & Investment Delivery Director role within our business, with a focus on aligning our asset management and investment delivery functions. The aim is to provide clarity about our priorities and ensure enabling works are completed to allow delivery to start in line with our investment programme.</p> <p>We have also put additional resource and cost controls in place to escalate activity associated with the upgrade programme at our Hampton Loade and Seedy Mill water treatment works. We continue to work with advisors and the supply chain to mitigate delays and cost pressures associated with this activity.</p> <p>We hold monthly Steering Group meetings that oversee our investment activity.</p>	<p>We are investing heavily to improve business performance, now and in the future. This includes making sure the right resource is available in our business and supply chain.</p> <p>We are also implementing several best practice initiatives across the business. We are building these into our programme and project management processes to ensure we deliver the appropriate quality in line with our budgets and deadlines.</p>	
<p>Higher attrition and a difficult job market</p>	<p>Although attrition rates are now reducing, the demands of the job market remain challenging. We advertise opportunities within our business regularly, but sometimes must go out to market more than once for the same roles because of a poor response or the poor quality of candidates.</p> <p>Flexibility requests, skills shortages and a real demand for higher pay continue to pose additional risks for us.</p>	<p>We have informally adopted the South Staffordshire Plc Group Hybrid Working Policy to allow more flexibility between home and office working, where applicable, and more choice over office location.</p> <p>In addition, we benchmark pay and advertise all roles internally. And we have addressed pockets of upward pay pressure – particularly for our HGV drivers and project managers. We have introduced small retention bonuses and reviewed contract prices to mitigate this risk. We have also started succession planning again for top-level roles.</p> <p>But we acknowledge there is more for us to do in terms of engagement and reward – as well as responding to employee survey outcomes – to improve engagement across the business</p>	<p>We are hopeful that the current year's negotiated pay increase and company performance bonus will create more stability and encourage more loyalty. We are also looking at extending our succession planning programme to cover other senior and business critical roles.</p>	

What is the risk?	What does the risk mean for us?	How are we mitigating this risk?	What are we doing to manage the risk in the year ahead?	Risk profile
<p>PR24 delivery</p>	<p>In October this year, we will submit our five-year business plan to the regulator Ofwat. The plan will set out in detail our goals for 2025 to 2030 and the funding we will need to deliver them. Ofwat will assess our plan alongside those of the other water companies; it will publish its final decisions in December 2024.</p> <p>There is a risk that we will not meet the demands of the process and fail to submit a robust, well-evidenced and compelling business plan that stands up to Ofwat's scrutiny. The impact of submitting a sub-standard plan would be both financial and reputational. A weak plan would mean Ofwat is unlikely to give us the funding we need. It could also damage customers' and other stakeholders' trust in our business, which could take longer than five years to rebuild.</p>	<p>We are aware of the extensive work required to complete the five-yearly price review process. The complexity and scope are a challenge for all water companies, but particularly for the smaller water only companies that have fewer resources available.</p> <p>So, we started planning our submission early, having already put a governance structure in place and communicated with key business planning areas. In addition, we have engaged additional resource, along with support from external consultants when required to ensure our plan meets Ofwat's expectations.</p>	<p>We will continue to review risks and other issues associated with the delivery of our plan as we finalise our submission to Ofwat. We will also raise any significant areas of concern with senior stakeholders.</p>	
<p>Stakeholder engagement</p>	<p>We have identified a risk around the failure to identify and engage with the right stakeholders in the right way and at the right time that could result in short- and long-term reputational damage or harm.</p> <p>A failure to identify and engage with the right stakeholders could also lead to more regulatory oversight – eg, in the form of additional reporting. And it could damage our customers' trust in us as the provider of an essential public service.</p> <p>This risk has been particularly prevalent for our Cambridge region, with the combined pressure of water resources because of population growth and new developments, and on the environmental impact of our abstraction on the aquifer that feeds the chalk streams in the region.</p> <p>But it has also increased in focus in our South Staffs region following the cyber-attack on our parent company, particularly with our local MPs.</p>	<p>Since 2019 we have had a dedicated resource within the business devoted to stakeholder liaison and engagement. We have carried out significant work since then to identify our key stakeholder groups and build relationships with them. We have also carried out stakeholder mapping and analysis, and have built meaningful relationships with key stakeholders, which includes but is not limited to:</p> <ul style="list-style-type: none"> engaging regularly with MPs and local councillors across our Cambridge and South Staffs regions on issues of importance to them and their constituents – eg, affordability, support for vulnerable customers, water resources and water efficiency, and planned mains replacement work; attending sector-specific working groups and other networking events, and meeting regularly with local interest groups; sharing intelligence from stakeholder groups with colleagues across the business; proactively raising issues of concern with stakeholders; and working closely with the Communications team to share positive messages about our work and the role we play in our communities. 	<p>We will continue to build effective relationships and share messages about our work. We will also develop our mechanisms for recording and responding to the insight we receive from our different stakeholder groups.</p>	

Long-term viability statement

We have carried out an assessment of our long-term financial viability. We have performed Monte Carlo modelling on base plans for the ten-year period to 2033 by selecting a plausible range of scenarios. We have considered for the downside scenario that has a 10% chance of occurring and what mitigations we could take to ensure we maintain an investment grade credit rating.

Monte Carlo stress testing

We have stress-tested our financial projections for the ten-year period from 2023 to 2033 by performing Monte Carlo modelling against several plausible scenarios that could realistically impact our business. We have considered the key risks facing the business and the impact they could have on customers and other stakeholders. These are set out on pages 32 to 43 and consider financial, operational and regulatory risks.

For the downside scenario that has a 10% chance of occurring we have considered the actions we would take to mitigate the impact and maintain our target credit rating.

Our current credit rating with Moody's is Baa2 and is within investment grade. Consistent with the Board's objective of a strong investment grade, we are targeting an improvement to Baa1. We believe this would provide further headroom to enable the company to be financially resilient. Moody's current guidance ranges for regulatory capital value (RCV) gearing and adjusted interest cover ratio (AICR) relating to smaller water companies are set out in the table below.

Moody's credit rating	RCV gearing	AICR
Baa1	65% – 72%	1.7x – 2.0x
Baa2	72% – 80%	1.5x – 1.7x

Moody's also takes specific sector factors into account – for example, more headroom because of the strong regulatory framework. Any breach of these ratios would also need to be "persistent" to trigger a downgrade. But in our assessment, an AICR of >1.7 is considered the standard to achieve the target credit rating, while maintaining covenant net debt to RCV below 72%.

To maintain our credit rating with S&P of BBB+, we require a minimum FFO/net debt of 9% for the appointed business. This is consistent with the target ratio of other water companies with the same target credit rating.

We will submit our business plan for 2025 to 2030 in October, and we have used our latest thinking to determine the base position from 2025. We have followed Ofwat's final methodology guidance, except for the company-specific adjustment to the cost of embedded debt. Based on evidence provided by a third party, we estimate the uplift at 55bps, which is above Ofwat's early view of 30bps.

These assumptions have not been finalised in our plans and are therefore subject to change.

Below we set out the specific scenarios we have modelled.

Scenario	Size of the impact	Explanation
Base expenditure (botex) over/underspend	+/-5% of allowed botex (AMP8)	We could overspend our AMP8 plans because of the cost of delivering schemes being more expensive than planned or further investment required to meet our service targets. We could also underspend our botex through new innovative solutions or cost efficiencies.
Enhancement capital expenditure (capex) over/underspend	5% underspend/15% overspend (AMP8)	Ofwat could disallow some of our enhancement expenditure. There is a risk that these schemes will still need to be delivered and that it will not be possible to offset these additional costs with efficiencies. There is also a risk that new emerging risks could require additional investment to maintain service.
Early investment in conditioning and storage plant as a result of unexpected increase in household demand	£40m of spend brought forward from AMP9 plans (AMP8)	We are currently working with Anglian Water on a new strategic resource in the Cambridgeshire Fens as part of the Regulators' Alliance for Progression of Infrastructure Development (RAPID) process. It is expected that the work will be carried out from AMP9. But there is risk that during AMP8, demand in our Cambridge region increases unexpectedly – for example, because of the level of housing growth. As a result, it may be necessary to build storage and conditioning plant to transfer water from an alternative source until the Fens reservoir is constructed.
Cash collection rates	+/-20% change in bad debt charge (2023/24 to 2029/30)	Collection of outstanding debt could lower because of the impact of the current cost of living crisis on the economy. It is also possible that new collection processes or systems could help to improve collections performance.
Inflation	Average CPIH: 2023/24: +5% 2024/25: +5% 2025/26 to 2029/30: +2%/-2%	Although inflation is predicted to fall over the coming months, there is a risk that, with a tight labour market, higher wage claims and ongoing uncertainty in world events, inflation may remain stubbornly high. So, we have run a scenario where inflation is 5% higher than planned in 2023/24 and 5% higher in 2024/25, followed by a persistently elevated level of 2% above the long-term historical rate. Within this scenario we have assumed that costs increase 2.5% for the remainder of the current period and then 1% for AMP8. This recognises that some of our costs are less affected by inflation, such as hedged energy costs (modelled below) and other fixed contracts currently in place. Equally, inflation could be lower if the UK economy enters recession and that there is a risk that it is not seen in relation to specific industry costs. Our scenario assumes that inflation remains at 2% below the long-term rate. We have assumed that none of lower inflation feeds into lower industry-specific costs, leading to a real terms overspend in totex.
CPIH/RPI wedge	CPIH/RPI wedge of 3% through the remainder of AMP7 and AMP8	Historically, RPI has been around 1% higher than the Consumer Price Index, including household costs (CPIH). However, over the past year the wedge between the two indices has increased to between 3% and 4%. This has a specific impact on us as a significant proportion of our debt is RPI-index linked. RCV is currently indexed with a blended rate of CPIH and RPI, and Ofwat has indicated its preference to move to full CPIH indexation from 2025. If the CPIH/RPI wedge continues to be higher than historic levels, this will put pressure on our key ratios – in particular, FFO/net debt and gearing. We have assumed a downside scenario where the CPIH/RPI wedge remains at 3% for the remainder of AMP7 and AMP8.
Energy costs	+20% increase in wholesale electricity prices above AMP8 assumptions	Energy costs increased significantly in 2022. Although they are predicted to fall, there is a risk that either: <ul style="list-style-type: none"> Ofwat's AMP8 funding does not reflect current prices as the cost modelling used is backward looking over ten years, so will only reflect recent rises in the most recent year's data; or any reduction in energy costs does not materialise or reverses. Energy represents a significant proportion of our operating costs and we have run a scenario where energy costs are 20% higher than our AMP8 projections.
Cost of capital	No company-specific uplift to the cost of debt – 55bps	Our current PR24 plans assume a company-specific uplift of 55bps to the cost of debt, recognising the specific challenge for smaller companies. This is above Ofwat's early view in its final methodology, so there is a risk that a similar uplift is disallowed at PR24.
Interest rates	+/-2% increase in the cost of new debt	Much of our debt is fixed and we have financing in place to deliver our investment programme for the remainder of AMP7. However, there will be a need to raise new finance in AMP8 and AMP9, and there is a risk that interest rates on this new debt could be higher or lower than that allowed in our final determination.

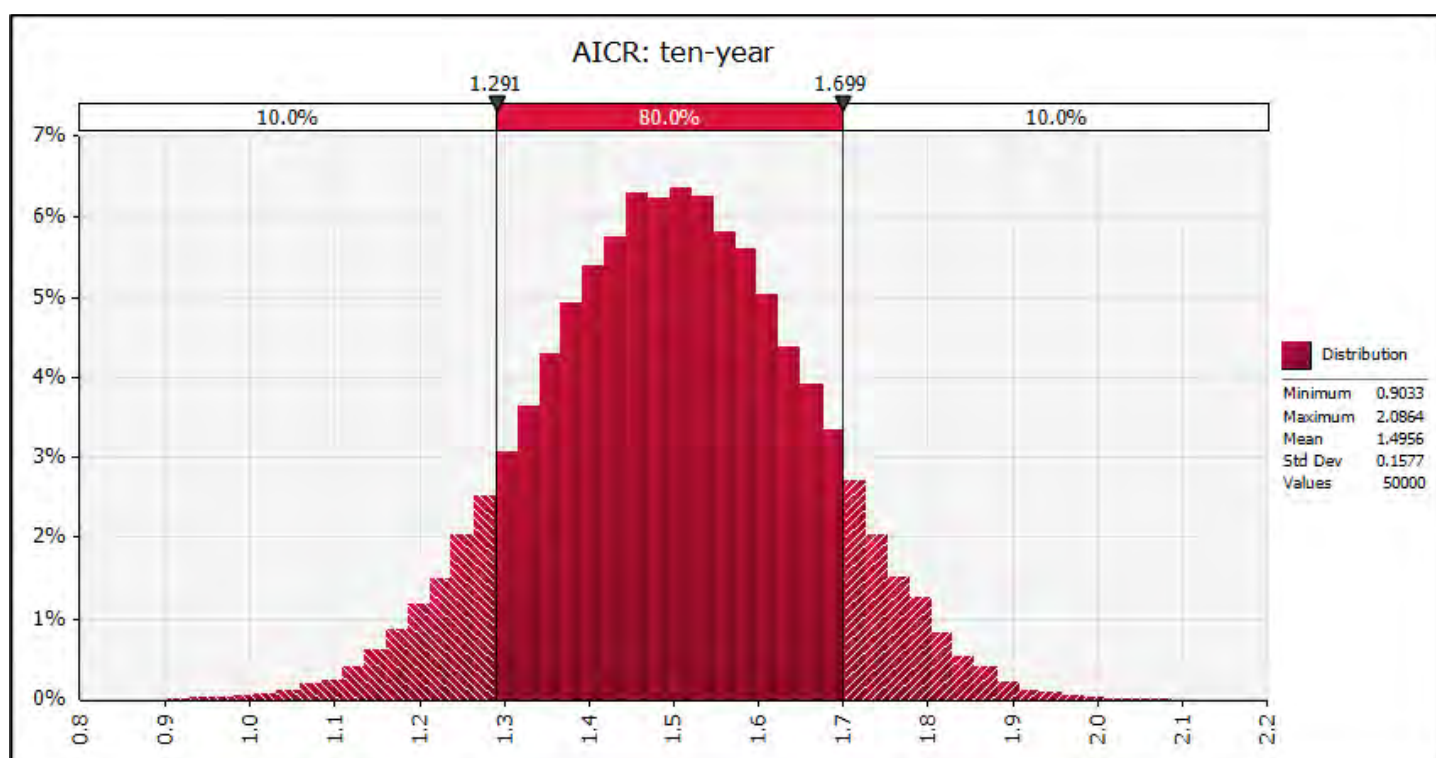
Scenario	Size of the impact	Explanation
Outcome delivery incentives (ODIs)	AMP8: +£2m/-£12m	<p>Our final determination has stretching performance commitments.</p> <p>In the downside scenario, there is a risk that we fail to achieve our targets, resulting in a penalty being incurred. Our PCC performance has been significantly impacted by the COVID-19 pandemic and Ofwat has deferred its assessment until PR24. Based on the extrapolation of current performance, we could potentially incur a £14m penalty on PCC if no adjustment is made by Ofwat for the pandemic. So, we have assumed there is a 10% chance that the PCC penalty at PR24 is £10m. In addition, two of our performance commitments – CRI and leakage – also carry risk of underperformance. So, we have also included £2m of penalties in the remaining two years of the current planning period.</p> <p>We will continue to target outperformance and have assumed that in the upside scenario we achieve £2m of rewards for the two years from 2023 to 2025.</p>

Monte Carlo outputs

To understand the range of possible impacts on our financial resilience, we have carried out Monte Carlo simulation. This is a modelling approach which predicts the probability of different events happening by performing random sampling thousands of times to construct a probability distribution. This shows the

likelihood of each outcome occurring. We have carried out this modelling on AICR, FFO/net debt and gearing as these impact on our ability to maintain an investment grade credit rating. We have done this by considering the Impact based on a 10% chance of the outcome occurring.

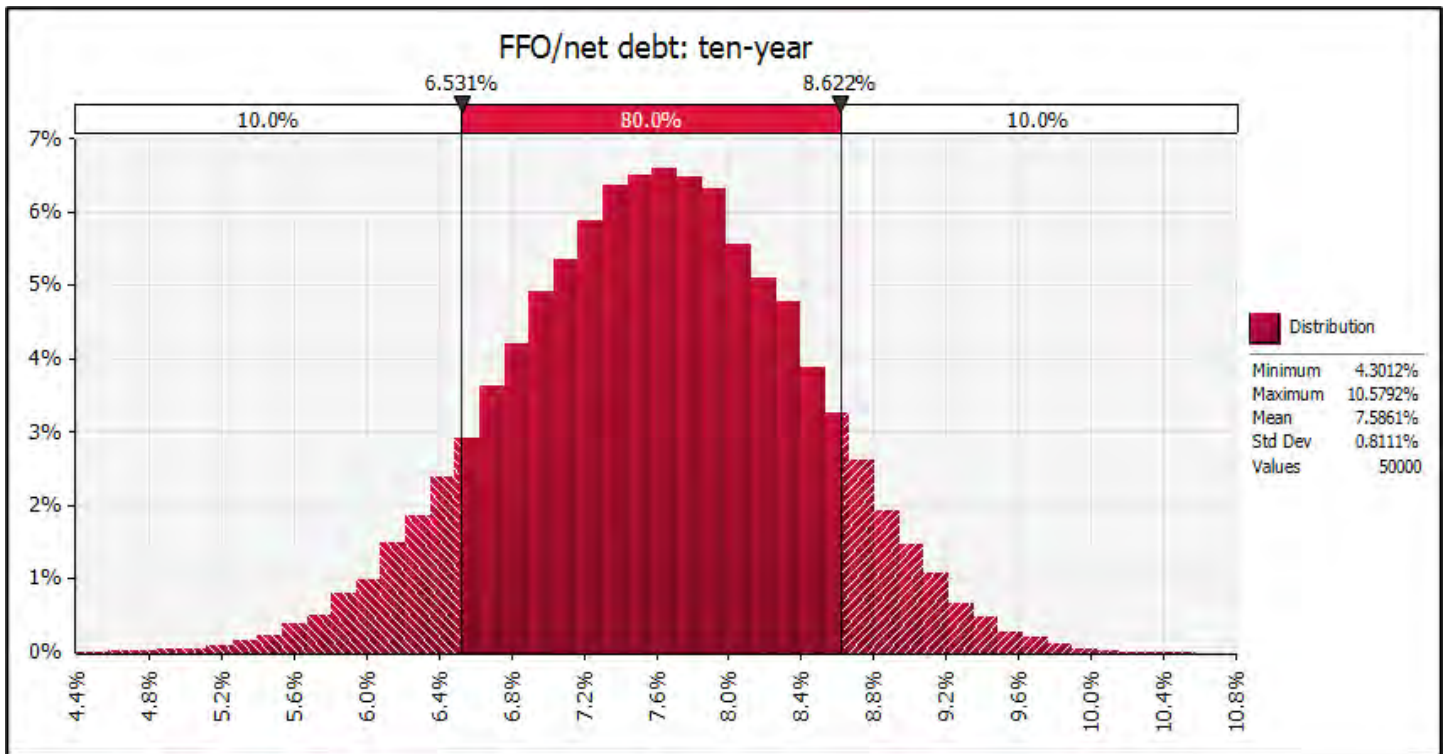
Below are the modelling outputs for the ten-year period to 2033.



Our base AICR is 1.5. Although this is still investment grade, it is below the level of our target rating and is being impacted by the wedge between RPI and CPIH. The modelling output shows a 10% chance that this is as high as 1.7 and a 10% chance that it is

as low as 1.3. At this level, we would be below the level required to maintain our target credit rating, although still within investment grade.

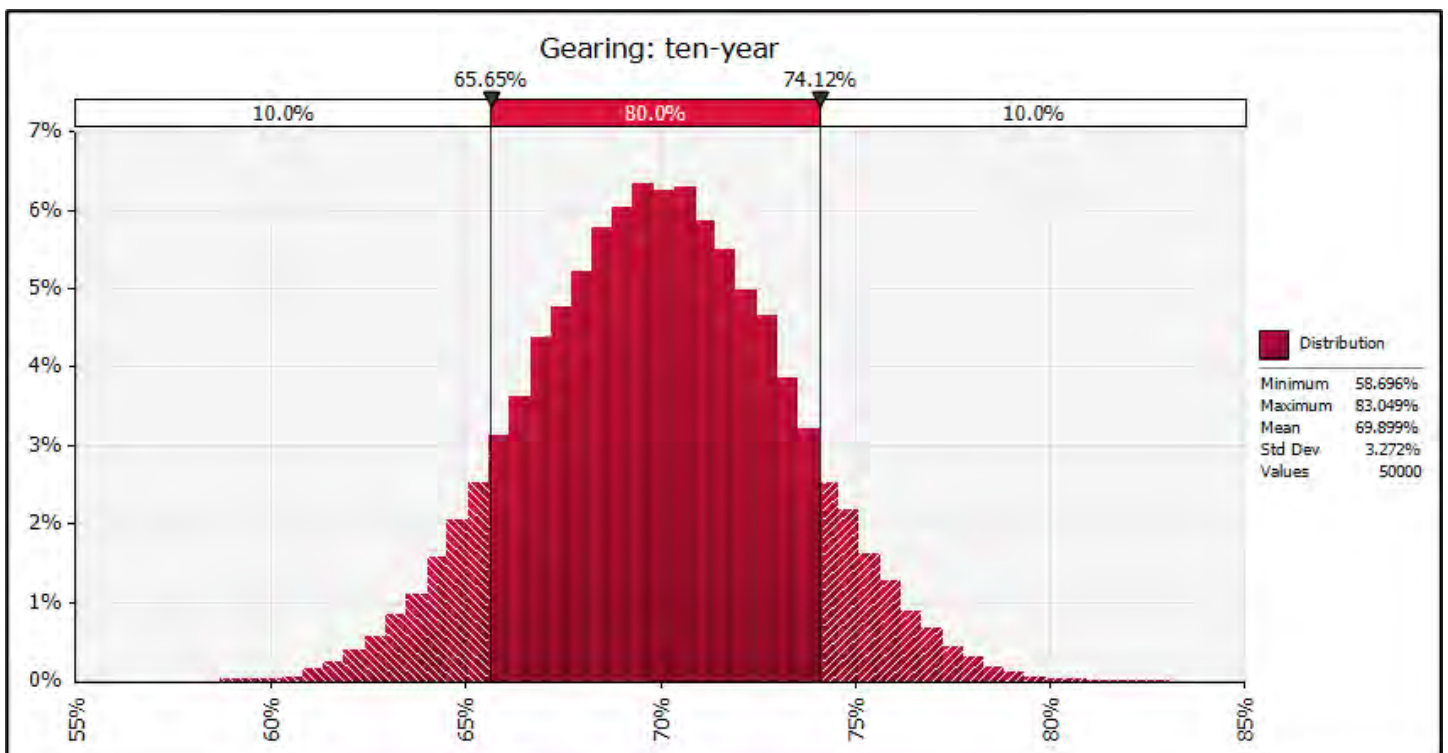
FFO/net debt



Our base FFO/net debt is 7.6%. Although this is still investment grade, it is below the level of our target rating and is being impacted by both the CPIH/RPI wedge and the RCV run-off rate as set out in Ofwat's final methodology for PR24.

The resulting modelling output shows a 10% chance that this metric is as high as 8.6% and a 10% chance that it is as low as 6.5%, which would put significant pressure on our ability to maintain an investment grade credit rating and access the debt markets.

Gearing



The gearing figures are based on our covenant debt, which credit rating agencies use in their assessment. Where the gearing on a book debt basis is above the threshold for Ofwat's gearing outperformance sharing mechanism, we have included the adjustment in the modelling. Our base gearing is 70% and the modelling output shows that there is a 10% chance this is as low as 66% and a 10% chance that it is as high as 74%, which is above that required to maintain our target credit rating, although it would still be within investment grade.

Several of the scenarios we have considered are, to some extent, under management control. But it is Ofwat that determines decisions around the cost of capital (both the water sector level and a company-specific adjustment), the price review treatment of RPH-linked embedded debt (as the allowances fully transition to CPIH) and PCC. If we just look at those risks alone and they

crystallised in AMP8, the impact would be to lower AICR to around 1.3 and FFO/net debt to around 6%. This would put significant pressure on our ability to maintain an investment grade credit rating and access the debt markets. Although we could consider using further equity injections, AICR is relatively insensitive to such mitigations.

Mitigations considered

We have considered the actions senior management could take to ensure we maintain our target credit rating at the 10% chance of occurrence where AICR is 1.3 and FFO/net debt is 6.5%. We consider that one or a combination of them would restore the financial metrics to an acceptable range.

Mitigation	Explanation
Risk management	We have a risk management process in place to ensure we understand the key risks facing our business. We assess each identified risk against the impact it has on our business and the likelihood of the risk occurring. We determine the overall rating of each risk by multiplying the impact and likelihood scores. This enables us to focus on the most important risks and ensure that appropriate controls are put in place to minimise them. However, we recognise that it does not eliminate all risks and that some events can develop quickly – eg, extreme weather events.
Total expenditure (totex) outperformance	To ensure we maintain our credit rating, we could target a level of totex outperformance – eg, by using new or innovative solutions, or by changing the way we work. Alternatively, we could reprioritise our overall programme to ensure we could offset these costs while still delivering for customers in the medium term.
Lower dividends/capital injection	We could restrict dividend payments further to save cash and maintain investment grade credit metrics. We have already received £40m of additional equity over the past two years with the early repayment of two intercompany loans. This has helped to strengthen our financial resilience.
Regulatory mechanisms	<p>There are several regulatory mechanisms in place for water companies that protect them from significant shocks. These include:</p> <ul style="list-style-type: none"> • totex sharing allowances that share the out- or underperformance of costs between customers and investors; • a revenue true-up mechanism for wholesale over- or under-recovery; • the impact of indexation of the cost of new debt mechanism introduced in the current price control period (2020 to 2025); and • uncertainty mechanisms. <p>In its PR24 final methodology, Ofwat set an expectation that the RCV run-off rate should be no higher than 4.5%. In the current period, our rate is 6.2%, the second highest in the sector. This reflects the mix of assets in which we invest, and their associated asset lives. Recognising that our FFO/net debt metric is particularly impacted by the level of run-off rate, we could propose a higher rate based on our 'natural' rate.</p> <p>As part of the price review process, companies can appeal Ofwat's decisions to the Competition and Markets Authority (CMA).</p>
Non-regulated business	<p>The metrics set out above relate to the regulated part of our business, operating as a completely ring-fenced entity from any non-regulated activity.</p> <p>Rating agencies determine their ratings based on the whole company, including the non-regulated parts of the business. This gives us an additional buffer on the key metrics as including the non-regulated business adds around 0.2 to the AICR metric. So, in extreme circumstances, this could act as short-term protection.</p>

Where we would be below the targeted credit metric, we have set out the most appropriate mitigations we could use.

Scenario	Risk management	Totex out-performance	Lower dividend	Regulatory mechanism
Inflation	✓			✓
RPI/CPIH wedge	✓			✓
Botex and enhancement capex	✓	✓		✓
Early investment to address increased customer demand	✓	✓		✓
Cost of capital			✓	✓
Cash collections		✓	✓	✓
Interest rates	✓		✓	✓
ODIs	✓		✓	
Energy costs	✓	✓	✓	✓

Overall, we consider the mitigations outlined above would enable us to maintain our investment grade credit rating while still delivering on our commitments to customers.

Assurance

We have followed a two-stage process to assuring our long-term viability statement. First, senior management carried out a review of all the calculations of the stress testing outputs to ensure the change from the base position is consistent with what would be expected from the particular scenario. Our technical auditor Jacobs then carried out external assurance to ensure our statement is consistent with these calculations and that it covers Ofwat's requirements.

Board statement on long-term viability

Based on the financial projections, the stress tests performed and the mitigations available, the Board declares that, in its opinion, the company is viable for the ten years to 2033.

The ten-year period has been selected because:

- the two years from April 2023 are covered by the company's latest Board-approved budget. Further details on severe but plausible outcomes can be found in the going concern section on page 73;
- specific stress testing has been performed for the five years to March 2030, based on the company's early PR24 business plan assumptions; and
- the Board has confidence that the regulatory system, under which the company is licensed, will ensure that it will remain financeable in future periods provided the business operates efficiently and Ofwat continues to make proportionate decisions regarding the weighted average cost of capital (WACC), the indexation of embedded debt, PCC, and other key factors at PR24. If all these scenarios crystallise, there would be significant pressure on the ability to maintain an investment grade credit rating and access debt markets.

The Directors also declare that the company has carried out appropriate stress testing of its proposed performance over the next ten years using Monte Carlo modelling, and that the results of these tests show the business to be financially resilient once the range of mitigations are taken into account and proposed financing arrangements are met.

In July 2022 South Staffordshire Plc (Group), the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems, including personal data of a proportion of South Staffordshire Water's employees and customers.

The quantum and value of civil claims we may receive, and the costs and liabilities that may be incurred addressing those claims involves significant judgement and uncertainty. It is not possible to reliably estimate a provision based on currently available

information. This assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

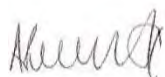
Details of the tests carried out are described on pages 44 to 49 above.

- These tests are considered to cover **plausible and reasonable scenarios for key variables** relevant to the company.
- Appropriate **multiple scenarios have been considered** through Monte Carlo modelling.
- The stress testing **considers the need for and availability of new funding** and is based on the realistic assumption that the company continues to have its existing access to capital markets to fund its required investment programme and provide sufficient liquidity.
- The stress testing **considers the implications on key metrics** utilised by rating agencies.

The Directors also declare they have received appropriate assurance that the testing carried out is both appropriate and accurately performed.

- Testing has been **performed internally by expert staff** within the company.
- Senior management have **verified the calculations used in this testing**.
- Jacobs has also verified the **basis and logic for the scenarios tested**.
- This assurance is **in line with the company's assurance framework**.

This strategic report was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.



Andy Willicott
Managing Director
20 July 2023

Section 172(1) statement

The Board, in line with its duties under section 172(1) of the Companies Act 2006, acts in a way it considers would be most likely to promote the company's success for the benefit of its employees, customers and other stakeholders.

In doing this, the Board has regard to – among other things – the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

As a result of the open and transparent dialogue with different stakeholder groups, the Board has developed a clear understanding of their needs and monitors the impact their input has had on the company's strategic decision-making. The Board has also considered the potential impact of its decisions on relevant stakeholders, realising that the interests of one group of stakeholders may not always be aligned with the interests of other groups.

The Board's approach to stakeholder engagement and decision-making

The Board is responsible for making decisions that are informed by the section 172(1) factors outlined above. The minutes from Board meetings record the decisions made and the agreed actions that need to be taken in the context of these factors.

In terms of stakeholder engagement, the Board's role is to:

- **identify, and keep under review, who the key stakeholders are and why they are important.** This includes customers, employees, suppliers and regulators;
- **determine which stakeholders it needs to engage with directly,** including harnessing the expertise that is needed to help deliver successful business outcomes;
- **ensure decision-making processes consider the interests of key stakeholders,** recognising that these interests may change over time and that trade-offs may be required to balance the interests of different groups of stakeholders;
- **help to utilise the most effective mechanisms** for engaging with stakeholders; and
- **provide feedback to those stakeholders with whom it has engaged directly,** which should be tailored appropriately.

Key decisions taken by the Board during the year

During the reporting year, we have proactively sought stakeholders' views to enable the Board to make decisions in several business-critical areas, including the following.

- Submissions to RAPID in relation to the **Fens reservoir project** that we are undertaking jointly with Anglian Water.
- Approval of the Environment Agency's proposals for **abstraction licence caps** in our Cambridge and South Staffs regions.
- The purchase of **30 electric vehicles** for our light vehicle fleet.
- The impact of **last summer's drought** on water supplies, particularly in our Cambridge region.
- Approval of our bid for the **Defra accelerated spend** process.

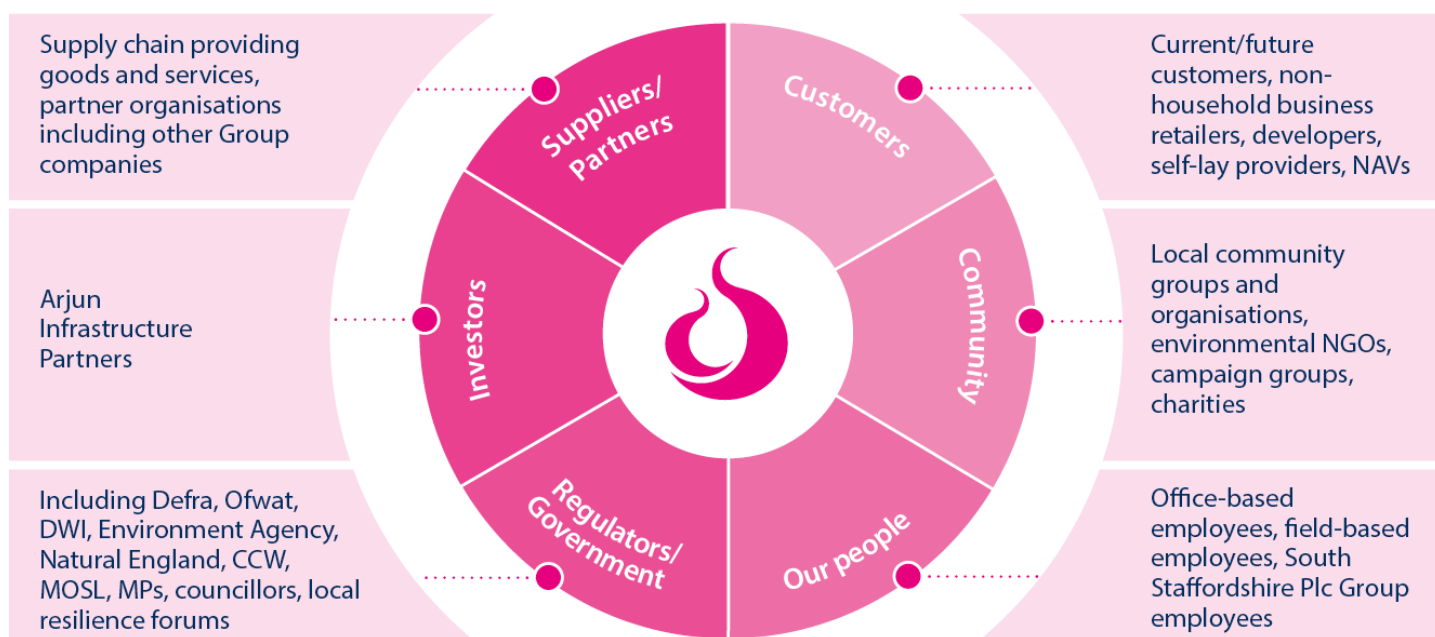
Other Board decisions during the year have focused on, among other things:

- pay negotiations;
- the PR24 price review process;
- the outcomes of the employee engagement survey;
- levels of financial support for customers in response to the cost of living crisis;
- customer charges for 2023/24;
- approving the budget for 2023/24;
- approving the interim accounts for publication; and
- the AMP8 WINEP assurance statement.

Following the **cyber-attack on our parent company** in July, the Board devoted a considerable amount of time and attention to support the business. This included holding many additional meetings over a period of several months and working closely with the Executive team on the development of an appropriate support package for our customers and our people who had been impacted by the incident.

Other examples of how we and the Board have taken account of the section 172(1) factors outlined above can be found elsewhere in the strategic report.

Our main stakeholder groups



How we have engaged with our stakeholders during the reporting year

Customers

This stakeholder group comprises:

- current and future household and non-household customers;
- retailers;
- developers;
- self-lay providers; and
- new appointments and variations (NAVs).

We share information with the Board each month on performance against our respective measures of customer, developer, and retailer experience (C-MeX, D-MeX and R-MeX). We also share other key metrics on customer satisfaction and the number of written complaints, among other things.

Why engagement is important

As the provider of an essential public service, customers are at the heart of all our decision-making. So, it is essential that they trust us to always provide the high-quality and reliable services they expect and pay for. To help build and maintain that trust, we share information with them about our performance. We also use our comprehensive engagement programme to gather meaningful insight about the things that are important to them.

How we have engaged

During the reporting year, our focus has been on engaging with our household and business customers to ensure their preferences are reflected in our plans for 2025 to 2030 and

beyond. We have used a wide range of qualitative and quantitative techniques and approaches to engage with our customers, including through:

- our ongoing priorities tracker;
- research for our Cambridge and South Staffs water resources management plans;
- qualitative and quantitative willingness to pay research to inform our long-term business planning;
- the development of a robust triangulation framework; and
- focus groups and quantitative surveys to help inform our business plan for 2025 to 2030 and our long-term delivery strategy.

More detail about these activities can be found on pages 17 to 20.

We have also hosted six forums for developers, self-lay providers and NAVs during the year covering a range of topics, including:

- developer charges;
- D-MeX activities;
- self-lay adoption codes;
- water efficiency initiatives;
- market growth; and
- regulatory changes for the five years from 2025 to 2030.

We have gained useful feedback and insight from these forums, which we have taken forward to improve the services we provide to our developer services customers.

In the non-household retail market space, we used our universal communications strategy to engage and support retailers. In addition, we held regular meetings with MOSL and CCW. And we also held quarterly review meetings with retailers, covering

performance metrics, engagement plans and R-MeX performance.

Within this engagement, we offered a service we call 'wholesaler on wheels', whereby members of our Retail team visited retailers (or we invited the retailer to visit us) for high-level meetings where we have learned more about each other.

And we offered 'A day in the life of...' sessions to all our retail stakeholders as a way of sharing knowledge and information, and to showcase the work we do in the field.

How the Board has engaged

For its part, the Board has shaped and challenged deep dives into several customer-facing activities. These include challenging us on:

- the plans to improve our D-MeX scores and our ongoing engagement with our developer services customers;
- the work carried out with demand management experts Skewb on our PCC; and
- our customer charges, particularly in light of the current cost of living crisis.

This challenge has helped us to develop robust plans for the coming year.

Community

The focus of this stakeholder group is civil society. It comprises, among others:

- community groups and organisations;
- charities;
- environmental non-governmental organisations (NGOs); and
- campaign groups.

We share information with the Board each month on the key performance metrics associated with our community activities. This includes the number of customers on our Assure social tariff, the number of customers on our Priority Services Register and the number of young people engaged through our education outreach programme.

Why engagement is important

We are committed to being embedded in the communities we serve. In recent years, we have established meaningful relationships with more than 400 community groups and other organisations, including environmental NGOs. As well as raising our profile in the communities we serve, this engagement also helps to build trust among our stakeholders.

How we have engaged

Our focus during the year has been on continuing to build on our network of community relationships and partnerships with organisations like The Fuel Bank Foundation and Citizens' Advice to help support some of our traditionally hard-to-reach

customers in structurally disadvantaged areas across our Cambridge and South Staffs regions.

In addition, we have continued to operate our mobile 'water on wheels' initiative in our Cambridge region and our successful, award-winning community hub in our South Staffs region. Both enable face-to-face engagement with customers who, for whatever reason, prefer that approach to digital self-service.

Key to our community engagement is the 'one stop shop' approach we have taken to networking. This enables us to point customers who may be in vulnerable circumstances to a range of other sources of help and support.

Most of our engagement with environmental NGOs during the year has been through the water resources management planning process, particularly in our Cambridge region. This includes hosting webinars and Q&A sessions with representatives from:

- the Cam Valley Forum;
- Hobsons Conduit Trust;
- Friends of Cherry Hinton Brook;
- the Federation of Cambridge Residents' Associations (FeCRA);
- and Green Party councillors across the region.

We have also engaged with the Environment Agency, National Resources Wales, Natural England, and other local environment groups while developing our Water Industry National Environment Programme (WINEP) for 2025 to 2030.

And we have received feedback on our Cambridge and South Staffs water resources management plans from the National Trust and Historic England. We have committed to continue engaging with both organisations in the year ahead.

How the Board has engaged

Board members have observed some of our PR24 customer engagement sessions during the year. They also invited Matthew Cole, Chair of the independent Stakeholder Challenge Panel to a meeting of the Board's PR24 sub-committee to discuss our plans and engagement activities.

Our people

This stakeholder group comprises:

- our office- and field-based employees; and
- the employees of other South Staffordshire Plc Group companies.

Why engagement is important

Our success as a business depends on the people we employ. Effective engagement with all our people is essential if we are to deliver our ambitious plans for resilient and affordable water services now and in the future.

How we have engaged

We have used a wide range of tools and approaches to engage with our people during the year, including:

- regular senior leadership forums;
- twice-yearly Executive team updates across key sites in both our Cambridge and South Staffs regions;
- regular directorate and team meetings and away days;
- News Splash, a monthly e-newsletter, featuring content from across the business;
- a regular blog from Andy Willicott, our Managing Director;
- WhatsApp groups for field-based teams;
- Talent Pipeline, which showcases new employees and people who have moved within the business;
- Yammer, to share information about activities, teams and groups across the business;
- 'Wellbeing Wednesdays', with tips and advice to support the mental health of all our people; and
- 'lunch and learn' sessions as part of the PR24 price review process.

We also relaunched our People Forum during the year, which provides support and representation for all our people. As well as participating in pay negotiations with unions and the Executive team, the People Forum also reviews company-wide people-related policies and organises social events throughout the year.

How the Board has engaged

We shared the results of the Group-wide employee engagement survey with Board members and worked through the challenges to improve completion rates and scores. The Board meets regularly with the Executive team and some of our Independent Non-executive Directors attended Executive roadshows that were held during the year. They also joined colleagues from our Environment team on walk overs at some of the chalk streams in our Cambridge region to understand more about the work we are doing to protect these rare habitats.

Regulators/Government

Our regulatory stakeholders include:

- Defra;
- Ofwat;
- the Environment Agency;
- the Drinking Water Inspectorate (DWI);
- Natural England;
- the non-household retail market operator (MOSL);
- The UK Health Security Agency (formerly Public Health England); and
- the consumer watchdog (CCW).

Government stakeholders include, among others:

- local and national elected officials;
- highways authorities;
- emergency services;
- the NHS;

- local resilience forums; and
- local enterprise groups.
- Information Commissioner's Office.

We share information with the Board each month on key touchpoints with our regulatory and government stakeholders. This includes announcements on matters of policy that relate to the functioning of the England and Wales water sector.

Why engagement is important

This is a critical group of stakeholders for us, as failure to comply with our legal or regulatory obligations could result in financial penalties or other enforcement action, resulting in reputational harm and the loss of our customers' trust in us. Failure to engage with government at a local and national level could also cause lasting damage to our reputation.

How we have engaged

Engagement with our regulators during the reporting year was primarily through regulatory submissions, meetings and membership of relevant groups and organisations, including:

- Water UK's Regulatory and Strategy Committee, which is attended by Strategy and Regulation Directors from across the sector, and which discusses future regulation policy;
- Ofwat's regulatory working groups (such as the cost assessment working group) to help shape future decisions;
- regional water resources planning groups (WRE and WRW); and
- other regulatory and environmental technical and advisory groups.

We have continued with our business as usual engagement with local and national elected officials during the year. Alongside this, we also carried out an intensive programme of engagement with MPs across our Cambridge and South Staffs regions following the cyber-attack on our parent company in July. This included holding meetings with several MPs across both regions and preparing briefings ahead of an Adjournment Debate in the House of Commons.

And, as part of the PR24 price review process, we set up a Stakeholder Challenge Panel. This is an independent and impartial panel of stakeholders and experts. As its name suggests, its role is to challenge the outcomes we will develop to reflect customers' and stakeholders' views and priorities as part of our business planning.

How the Board has engaged

The Board has reviewed and challenged all our regulatory submissions during the year, including the:

- draft water resources management plans for our Cambridge and South Staffs regions, and the associated annual reviews; and
- annual report and financial statements and annual performance report.

The Board has also challenged our response to Ofwat's draft PR24 methodology and other consultations as part of the price review process. And it has provided invaluable support to the business following the cyber-attack on our parent company.

Investors

Why engagement is important

Our investors want to be assured that we run our business effectively, and that we engage proactively with them on strategic decisions. Failure to engage effectively with this group of stakeholders would impact our ability to deliver an effective business strategy.

How we have engaged

Direct engagement with the investors during the year was primarily through Board meetings. We also engaged with our investors regularly on key issues affecting the business, including:

- financial performance;
- key business risks; and
- our compliance with environmental, social and governance (ESG) metrics and indicators.

How the Board has engaged

Board engagement during the year has focused on the development and delivery of our business plan for the five years from 2025 to 2030. Engagement with the investors has primarily been through the Board PR24 sub-committee.

Suppliers/partners

Why engagement is important

Our supply chain partners are essential in helping us deliver our day-to-day operations and capital investment programmes, while also helping us to support new and efficient ways of working, where appropriate. Failure to engage effectively with

this group of stakeholders could affect our ability to provide high-quality and reliable water supplies to our customers.

How we have engaged

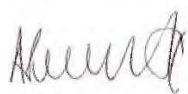
Engagement with our supply chain and other partners during the year has focused on the following areas.

- The rolling contract with Echo Managed Services, an arm's length South Staffordshire Plc Group company which manages our customer contact centre. During the year, we identified the contract as a potential supply chain risk. So, our Procurement team has worked collaboratively with Echo, Group Legal Services, and other stakeholders from across the business to agree a new set of terms. These have been agreed in principle, along with the specification, pricing matrix and contract schedules.
- Contract performance management, with reference to a supplier providing building maintenance services to the business. Following a review of the services provided and the supplier's failure to deliver to an agreed action plan, our Procurement team removed it from our approved supply chain list.
- Support for the Energy team to approach the open market through Achilles, facilitating a Utilities Contracts Regulations (UCR) compliant sourcing event to award a contract to a supplier to install and manage the infrastructure for our electric vehicle fleet. The UCR event took 12 months to complete.

How the Board has engaged

Board engagement during the year has focused on the delivery of our long-term plans for the Hampton Loade and Seedy Mill water treatment works in our South Staffs region. Board members have visited both sites during the year to review progress and to meet with our supply partners.

This section 172(1) statement was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.



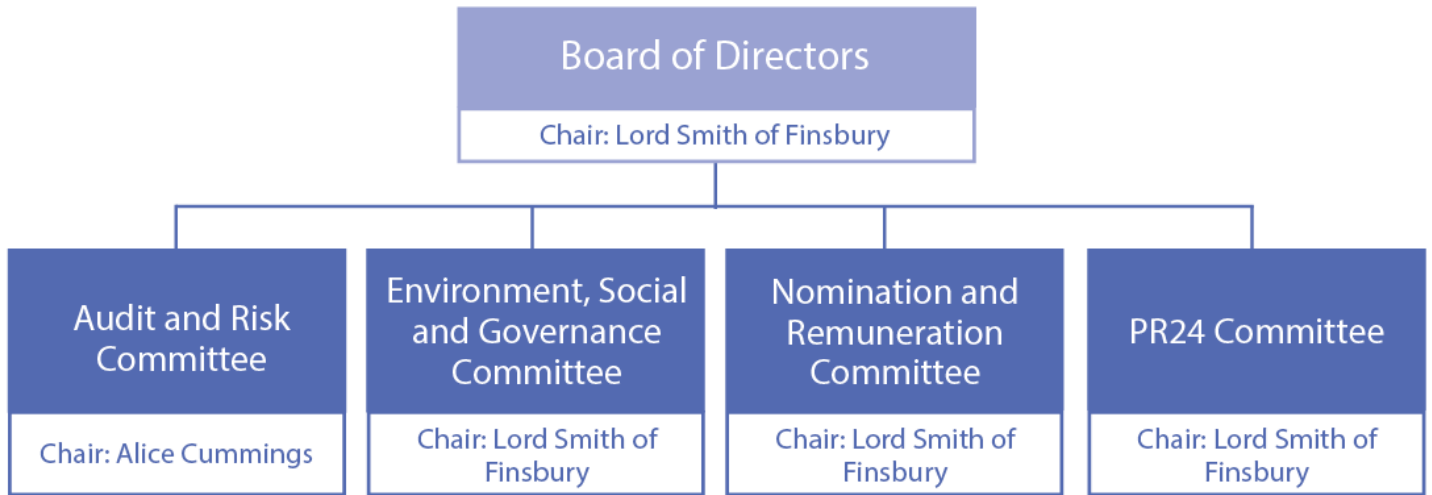
Andy Willicott
Managing Director
20 July 2023



Governance

Board, Directors and Executive team

Board structure



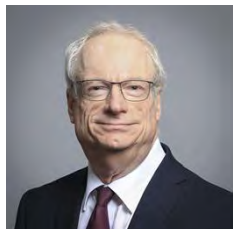
Details of the terms of reference of all the committees, their membership and activities during the year are reported on pages 74 to 78.

Board of Directors



The Board comprises the independent Chair; the Managing Director; the Group Chief Executive; and five Non-Executive Directors. Three of the Non-Executive Directors are considered to be independent, in addition to the independent Chair. The largest single group of Directors on the Board during the year was that of Independent Non-executive Directors, including the Chair.

The Rt Hon Lord Chris Smith of Finsbury Independent Non-executive Chair



Chair, Environmental, Social and Governance Committee
Chair, Nomination and Remuneration Committee
Chair, PR24 Committee

Lord Smith was appointed as an Independent Non-executive Director in October 2018. He is a Life Peer in the House of Lords. Lord Smith has extensive senior leadership experience in both the political world and the public sector, having previously held the posts of Chair of the Environment Agency and Founding Chair of the UK Water Partnership. He is also a Cambridge Water customer.

External appointments: Since 2015, Lord Smith has been Master of Pembroke College, Cambridge, and is responsible for the strategy and planning for the college. He is also Chair of the Intellectual Property Regulation Board, Chair of the Art Fund, President of the Wordsworth Trust and a Non-executive Director of Phonographic Performance Ltd.

Andy Willicott Managing Director



Andy was appointed Managing Director in May 2020, having previously served as Transformation Director at Bristol Water. Andy's previous roles include Executive Director at Pennon Group and Chief Operating Officer at Sydney Water, with responsibility for all aspects of frontline water and wastewater treatment, network operations and customer delivery.

External appointments: Andy serves as a Board member for Water Resources East.

Phil Newland Group Chief Executive, South Staffordshire Plc (resigned 28 April 2023)



Phil was appointed Group Chief Executive of South Staffordshire Plc in April 2020, having previously served as Managing Director of South Staffordshire Water PLC from April 2014. Phil resigned his position as Group Chief Executive on 28 April 2023.

Catherine May Senior Independent Non-executive Director



Appointed as an Independent Non-executive Director in October 2018, Catherine has more than ten years' experience as a Non-executive Director and Senior Independent Director, and has served on finance, remunerations and nominations committees as a member and Chair. Previously, she served on the Executive Committees of RELX plc, Centrica plc and SAB Miller plc.

External appointments: Catherine is an Independent Non-executive Director and Remunerations and Nominations Committee Chair of the Pensions and Life Savings Association (PLSA), Chair of the English National Opera Trust and Non-executive Director of the Shoreham Port Board. She is also founder and principal of Catherine May & Associates – an advisory practice providing leadership coaching and reputation management services.

Alice Cummings Independent Non-executive Director



Chair, Audit and Risk Committee

Appointed as an Independent Non-executive Director in May 2020, Alice has extensive commercial, financial and governance experience in regulated service industries. She was previously Group CFO at the InHealth Group and Group CFO at the AEA Group. Alice's earlier career was with South West Water plc and Price Waterhouse. She has a BEng degree in Chemical Engineering from Imperial College, London, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: Alice is a Non-executive Director at Idox Plc, where she serves as Chair of the Audit Committee and as a member of the Remuneration Committee and the Nomination Committee. She is a Non-executive Director, Vice Chair, and Chair of Audit and Risk Committee at Cottsway Housing Association.

Professor Ian Barker Independent Non-executive Director



Appointed as an Independent Non-executive Director in April 2022, Ian is a Chartered Environmentalist and an Honorary Fellow of the Society for the Environment, a fellow of the Institute of

Water, Expert Adviser to the Organisation for Economic Co-operation and Development (OECD), and an honorary professor at the University of Exeter. Ian has spent his career in the UK water and environmental sectors, and brings extensive experience in water regulation, planning and management. At the Environment Agency, he was responsible for water planning and management for England as Wales, as well as fisheries, biodiversity and land management. He was appointed by the parliamentary Environmental Audit Committee to advise its recent Inquiry into Water Quality in Rivers.

External appointments: Ian is a Non-Executive Director of the Institute of Water, and Vice-President Environment. He is a Non-executive Director of the Society for the Environment, and of the Water Industry Forum. He was Managing Director of Water Policy International Ltd until 21 February 2023.

Keith Harris Non-executive Director and Arjun Infrastructure Partners Representative



Appointed as an Independent Non-executive Director in April 2015, Keith became a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018, following the sale of the Group and the

company. Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water. At Wessex Water he held various senior executive and Board positions, including CFO and deputy CEO. He brings strong financial and regulatory experience to the Board.

External appointments: Keith is an Independent Non-executive Director at Ervia, the parent company of Irish Water, Gas Networks Ireland and Aurora Telecom, serving as the Chair

of the Audit and Risk, and Finance and Investment Committees. He is an Industry Partner with Arjun Infrastructure Partners and an Associate at OXERA.

Peter Antolik Non-executive Director and Arjun Infrastructure Partners Representative



Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018. He is a Partner of Arjun Infrastructure Partners, and his background covers regulated

companies, transport regulation, and the management of infrastructure funds and investments. Peter joined Arjun Infrastructure Partners from the Office of Rail and Road where he led the Highways Directorate. He was previously an Executive Director at JP Morgan Asset Management, and Strategy and Regulation Director at Thames Water.

Key:

	Audit and Risk Committee
	Environmental, Social and Governance Committee
	Nomination and Remuneration Committee
	PR24 Committee

The following was a member of the Board during the reporting year, but resigned before the year end

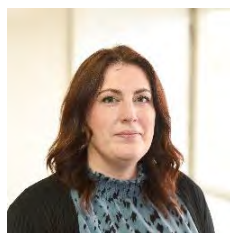
Ken Kagaya Non-executive Director and Mitsubishi Corporation Representative (resigned 8 August 2022)

Ken was appointed as a Non-executive Director and Mitsubishi Corporation Representative in April 2022. He resigned from the Board on 8 August 2022.

Executive team



Abbie Poulton Finance Director



Abbie joined South Staffordshire Water in 2019 and was appointed to the Executive team in February 2022, having previously been Financial Controller. She is a Chartered and Certified Accountant who qualified with Pricewaterhousecoopers LLP in 2004.

Abbie joined Severn Trent in 2010, progressing through several roles in both Group Finance and the Financial Service Centre.

Caroline Cooper Strategy and Regulation Director



Caroline was appointed to the Executive team in 2020. She was previously responsible for our successful PR19 submission, developing a business plan which delivers for our customers and the environment. This saw South Staffordshire Water secure more than £660 million of funding for the five years

from 2020 to 2025. Caroline has spent all her career in the water sector, previously working for Severn Trent Water until she

joined South Staffordshire Water in 2003 as an asset management analyst. She has progressed through several roles within the business, and has extensive knowledge of asset management, business planning and strategy development.

Andrew Lobley Operations Director



Andrew was appointed to the Executive team in 2021. He has spent his whole career in the water sector, having previously worked for Dŵr Cymru Welsh Water and Cambridge Water in water quality, asset management and operations roles. In 2009 Andrew achieved a PhD in Civil Engineering,

focusing on water quality risk management. He joined South Staffordshire Water in 2014, and before being appointed to his current role held the positions of Director of Operations, and Head of Water Quality and Compliance at South Staffs Water.

Tom Fewster
Asset Management & Investment Delivery
Director



Tom was appointed to the Executive team in 2022 and is responsible for delivering our ambitious asset management projects, including capital works and new investment. He also oversees our commitment to support the water sector's road to net zero operational carbon emissions. Tom has

significant experience of managing major capital projects and programmes in the water sector, as well as in the renewable energy and environmental sectors. He has previously been responsible for capital programmes at United Utilities and the Environment Agency, as well as managing the development of renewable energy generation assets for RES Group.

The following were members of the Executive team during the reporting year, but resigned before the year end

Marcella Nash
Director of Human Resources (resigned February 2022)

Marcella was appointed to the Executive team in 2014, having previously worked within South Staffordshire PLC as Head of

Human Resources for Echo Managed Services Limited. She was previously a senior HR manager at Severn Trent Group and Severn Trent Water.

Dan Rhodes
Interim Customer Delivery Director (16 December 2022)

Dan was appointed to the Executive team on an interim basis in 2022 and was responsible for delivering an excellent service for household and retailer customers, as well as change programmes and innovation. He was previously Head of Customer Service at Morrison Water Services. Dan also held roles at Severn Trent Water and Morrison Utility Services.

Rebecca Smith
Customer Delivery Director (resigned 3 May 2023)

Rebecca joined South Staffordshire Water in 2022 as Customer Delivery Director. She previously served as Head of Customer Optimisation at ESNEK, and Director of Service and Culture at Igloo Energy.

Directors' report

The Directors are pleased to present their annual report and financial statements for the year ended 31 March 2023. The Directors confirm they consider the annual report and financial statements to be fairly presented, balanced and understandable. It provides investors and other stakeholders with the necessary information to assess South Staffordshire Water's performance for the year ended 31 March 2023, its business model and its strategy.

Directors

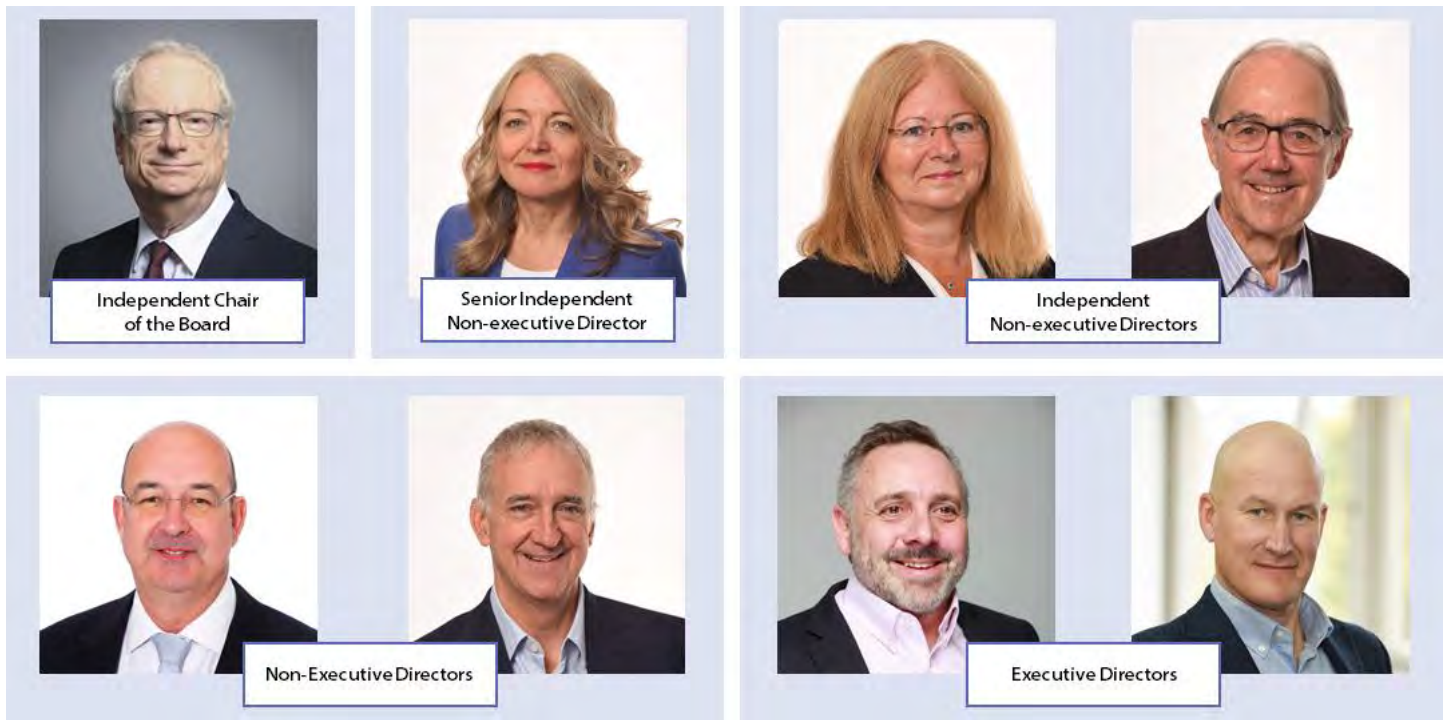
The Directors who held office during the year and subsequently, along with the number of Board meetings attended by each Director, while holding office during the year, are as follows.

Director	Director type	Date appointed	Date resigned	Meetings attended ¹
The Rt Hon Lord Smith of Finsbury	Independent Non-executive Director and Chair from 27/03/2020	25/10/2018		24/24
Phil Newland	Group Chief Executive – South Staffordshire Plc	29/04/2020	28/04/2023	23/24
Andy Willicott	Managing Director	11/05/2020		24/24
Catherine May	Senior Independent Non-executive Director	25/10/2018		24/24
Alice Cummings	Independent Non-executive Director	14/05/2020		24/24
Professor Ian Barker	Independent Non-executive Director	12/04/2022		24/24
Keith Harris	Non-executive Director	30/04/2015		24/24
Peter Antolik	Non-executive Director	25/10/2018		23/24
Ken Kagaya ²	Non-executive Director	12/04/2022	08/08/2022	9/9

Notes:

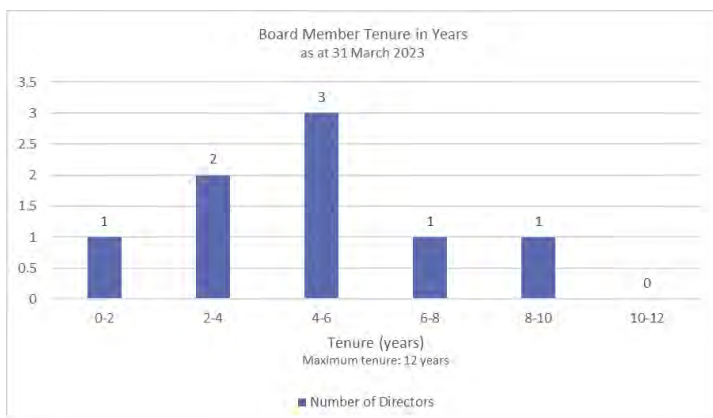
1. During the reporting year, there were 10 planned Board meetings, 1 additional Board meeting and 13 meetings of the Board via teleconferencing facilities for cyber-attack related matters.
2. Ken Kagaya attended all meetings until his resignation on 8 August 2022.

Board composition at a glance (as at 31 March 2023)



No Director had any material interest in any contract of significance with the company. The largest single group of Directors on the Board are Independent Non-executive Directors, including the Independent Chair.

Gender balance and tenure of Board members



Financial results

The company's financial results are shown in the financial statements on pages 88 to 117.

Dividends of £9.2m were paid during the year (2022: £10.7m), including non-appointed dividends of £1.5m (2022: £1.6m). A breakdown of the dividend payment for the year along with a comparison with the prior period is contained in the financial performance section on pages 11 to 14.

Details of future developments can be found in the strategic report.

Payment of creditors and commercial arrangements

The company's policy is to pay suppliers in line with the terms of payment agreed with each of them, when contracting for their products or services. Trade creditors at 31 March 2023 represent 27 days (2022: 40 days) of purchases. The company is not reliant on any single commercial arrangement.

No political donations were made during the financial year (2022: nil).

Fostering effective relationships

During the reporting year, the Board has been actively involved in the governance of key procurement decisions. This includes, for example, the awarding of the contract to Omega Red to install EV infrastructure at our key sites. The Board also reviews all contracts of more than £0.5 million, which means members have sight and discussion about the approval of suppliers. And it receives regular updates on the long-term plans for the company's Hampton Loade and Seedy Mill water treatment works, and the supplier relationships that are essential for successful delivery. In terms of customer relationships, the Board is actively involved in the company's comprehensive engagement programme. For more information, see the customer engagement section on page 29 and the section 172(1) statement on page 51.

Corporate social responsibility

The company regards the implementation of responsible social and ethical standards and the health, safety, wellbeing and fair treatment of its people, including disabled persons, and those who become disabled while in the company's employment, as fundamental to it. Compliance with relevant environmental laws is also integral.

The company places considerable value on the engagement of its people and has continued to keep them informed about matters affecting them as employees and on the various factors affecting its performance. This is achieved through formal and informal meetings, internal communications channels and a regular e-newsletter. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests through the reconvened People Forum.

The company considers its corporate social responsibility through the lens of environmental, social and governance (ESG) compliance. Increasingly, customers and investors are using ESG performance as a measure of a company's public value, sustainability and ethical impact. The company has a Board ESG sub-committee and has started reporting against key ESG criteria. During the reporting year, the Committee explored a range of topics, including the:

- Environment Act 2021 targets and their relevance to the business;
- introduction of the Real Living Wage across the business; and
- need to address unconscious bias in the workplace in line with the company's equality, diversity and inclusion value.

The company and Group have a shared resource devoted to co-ordinating ESG activity and compliance reporting.

The company does not consider human rights issues to be a material risk for the business. This is because of existing regulatory requirements in the UK and the nature of the supply chain.

Further information on the company's corporate social responsibility activities is set out in the strategic report on page 10 to 55.

Energy use and carbon emissions

The UK water sector has committed to achieving net zero carbon emissions by 2030. This goal forms part of Water UK's Public Interest Commitment, which sets out five stretching social and environmental ambitions that each of the water companies is contributing towards.

The company is required to publish the following information about its carbon emissions.

Methodology

These figures have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP) as developed by the [World Resources Institute](#) and the [World Business Council for Sustainable Development](#). They have been collated and summarised using the UK Carbon Accounting Workbook (CAW), which is used as a standard process for carbon accounting within the water sector and audited by an external Ofwat appointed water auditor. Reporting boundaries are defined by financial control. The company has also used the UK Carbon Factors for Greenhouse Gas Emissions, published by the Department for Energy Security and Net Zero and the Department for Business, Energy and Industrial Strategy.

Scope 1 energy use and emissions

Scope 1 energy use and emissions are directly associated with the company's operations. They include the use of natural gas and fuel oils used in its on-site generator plant and fuel for transportation on direct company business, such as transport to and between sites.

The company's scope 1 energy use and carbon emissions for the reporting year are set out below.

Fuel	2022/2023		2021/2022	
	kWh	Tonnes CO ₂ e	kWh	Tonnes CO ₂ e
Natural gas	97,059,704	17,717	105,539,614	19,147
Diesel BS EN 590 (transport diesel)	6,453,752	1,564	5,904,148	1,398
Gasoil (Class A2 – red diesel)	556,428	146	1,504,145	411
White diesel (operations/generators)	1,279,515	327	No record	No record
Kerosene (heating)	316,730	83	298,028	74
Hydrogenated vegetable oil (HVO)	405,659	34	202,393	4
Petrol (transport)	311,007	80	227,869	52
Total	106,382,795	19,951	113,676,197	21,086

Scope 2 energy use and emissions

Scope 2 energy emissions are those associated with the company's direct consumption of grid electricity for pumping and water treatment in addition to relatively small amounts for the operation of its buildings.

The company now reports its emissions resulting from grid electricity consumption using location-based emissions factors (UK grid emissions factors), which does not consider the procurement of low and zero carbon electrical energy tariffs. Since 2020 the company has procured 100% of its grid electricity from zero carbon sources. For consistency with previous annual reports, it has also included the market-based reporting in the table below.

Electricity	2022/23		2021/22	
	kWh	Tonnes CO ₂ e	kWh	Tonnes CO ₂ e
Location-based emissions	104,869,246	22,135	97,676,198	22,759
Market-based emissions	104,869,246	0	97,676,198	0

Total emissions

Scope 1 and 2 emissions are those directly associated with the company's business operations. They are summarised below,

using both location-based and market-based factors for electricity (taking into consideration its certified clean renewable energy sources).

	Location-based electricity factor			Market-based electricity factor		
	2022/23	2021/22	2020/21	2022/23	2021/22	2020/21
Emissions (tonnes CO ₂ e)	43,348	43,845	43,450	23,068	21,086	19,256
Emissions (kg CO ₂ e per MI of treated water)	255	265	263	132	128	117

The company has seen a significant decrease in gas consumption following an extended major overhaul of its gas engine during the reporting year; this also meant an overall increase in electricity imported from the grid. In addition, following the reform of red diesel and other rebated fuel entitlement in April 2022, red diesel is no longer used in the company's operations, except for limited 'permitted' agricultural purposes. So, the company now reports this separately from other diesels. Finally, a return to more office-based working following the COVID-19 pandemic and cold weather in October and November, has meant an increase in kerosene for heating.

energy consumption reduction. But it has also delivered low energy lighting refurbishment and a building management system (BMS) upgrade at the Green Lane head office in Walsall. In addition, the company has launched rainwater harvesting feasibility studies at three sites, with the aim of driving more efficiency in water and energy use across the business.

Efficiency measures

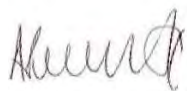
- **EneEfficiency.** The company's pump efficiency programme (PEP) continues to be the main driver for

- **Leakage reduction.** The company's focus during the reporting year was on reducing leakage detection times, by improving the prioritisation and resolution of leakage. Key activities carried out included using satellite surveys and in-situ acoustic loggers to identify leaks more quickly. The company also used its smart networks activity to increase monitoring. See page 23 for more detail about the company's leakage reduction activity.

- **Fossil fuels – transport.** The company's small van electrification journey continued during the reporting year, with three electric vans operational across both the Cambridge and South Staffs regions, in the Facilities Management, Water Quality and Community Engagement teams.
- **Fossil fuels – operations.** The company carried out studies during the reporting year to prioritise the conversion of standby generators to biofuels. This follows the successful conversion to hydrogenated vegetable oil (HVO) the Hampton Loade water treatment works.
- **Renewable strategy.** The company carried out whole estate feasibility studies during the reporting year to provide capacity, timescales and investment analysis to accelerate its renewable energy generation and decarbonisation journey. It is also updating its net zero roadmap based on the findings of these studies. The revised roadmap will be used to inform the company's long-term investment planning to 2050.
- **Communication, engagement and behaviour change.** The company continued to improve its targeted communications to give greater focus to internal and external engagement around net zero and energy efficiency. This includes publishing website content about progress and future plans, and sharing information across the business on ways to save energy at work and at home.

Corporate governance

The corporate governance report is set out on pages 67 to 73. The Group structure is shown in the chart on page 69.



Andy Willicott
Managing Director
20 July 2023

Registered Office: Green Lane, Walsall, West Midlands, WS2 7PD. Registered in England and Wales, number 02662742.

Risk management

The company's practices in respect of risk management are set out on pages 32 to 43 of the strategic report.

Going concern

The company's statement on going concern and the basis for the going concern assumption are set out on page 73.

Research and development

The company does not have any research and development activities.

Financial risk and financial instruments

Details of financial risks faced by the company and the related mitigating factors are included on page 40 and in note 27 to the financial statements.

Independent auditor

In accordance with the provisions of section 418 of the Companies Act 2006, the Directors confirm that, as far as they are aware, there is no relevant audit information of which the company's auditor is unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the company's auditor is aware of that information. Ernst & Young will be reappointed at the Annual General Meeting for 2023/24.

This Directors' report was approved by the Board on 30 June 2023 and signed on its behalf.

Corporate governance report

The Board has always placed good governance at the core of the business. Board members are aware of their obligations to ensure effective leadership and appropriate governance arrangements are in place.

Although the company is not publicly listed, the Board recognises that, because of public interest in how the company performs, and the regulated environment in which it operates, it should act as if it were. This includes following, where appropriate and applicable, the Corporate Governance Code as published by the Financial Reporting Council in 2018 on a 'comply or explain' basis. The Board also recognises Ofwat's principles of Board leadership, transparency and governance, published in 2019. A summary on how the company follows these principles is set out below.

The company also chooses to apply the Walker Guidelines on a 'comply or explain' basis. These guidelines aim to enhance transparency and disclosure in companies' annual report and accounts. Although the guidelines are aimed at private equity firms, the Board recognises their value to stakeholders and seeks to comply where possible. The company monitors corporate governance best practice and the appropriateness of developments to it. Any changes to the company's governance arrangements are implemented within agreed timescales.

Details of how the company preserves value over the long term, its business model and how it delivers this, and its strategy are set out in the strategic report on pages 10 to 55.

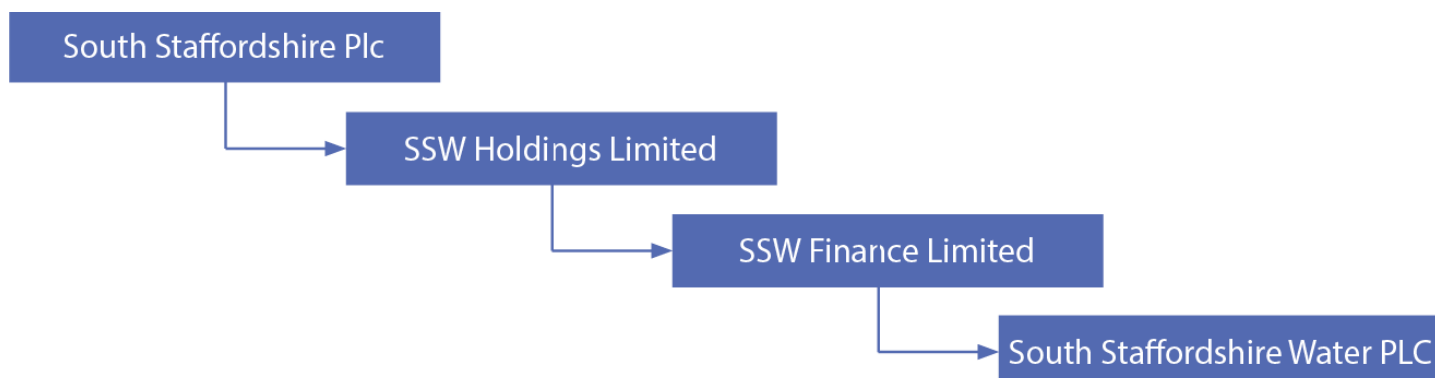
Compliance with the 2018 Corporate Governance Code

The company is committed to delivering effective corporate governance and believes that good corporate governance is essential to give customers confidence in its performance and to deliver its strategy. To this end, the company chooses to follow the 2018 Corporate Governance Code on a 'comply or explain' basis. A summary of the ways in which the company can demonstrate its compliance with the 2018 Corporate Governance Code is set out below. The Board carries out a detailed review of the company's compliance on an annual basis.

Corporate Governance Code requirement	How the company demonstrates compliance
Board leadership and company purpose	<ul style="list-style-type: none"> Company vision, mission statement and purpose (page 5). Section 172(1) statement (page 51). Corporate social responsibility/environmental, social and governance (ESG) compliance (page 64). Company direction and performance statement (see annual performance report, page 32).
Division of responsibilities	<ul style="list-style-type: none"> Functions of the Board (page 70). Board Committees (pages 74 to 78). Directors' responsibilities statement (page 86). Statement of Directors' responsibilities for regulatory information (see annual performance report, page 34).
Composition, succession and evaluation	<ul style="list-style-type: none"> Board structure (page 57). Board effectiveness (page 85).
Audit, risk and internal control	<ul style="list-style-type: none"> Risk review and analysis of key risks for the business (pages 32 to 43). Long-term viability statement (page 44). Board statement on long-term viability (page 50). Risk and compliance statement (see annual performance report, page 40). Statement on the accuracy and completeness of data and information (see annual performance report, page 43).
Remuneration	<ul style="list-style-type: none"> Remuneration report (page 80).

Group structure

South Staffordshire Water PLC's immediate parent company is SSW Finance Limited. South Staffordshire Plc is South Staffordshire Water's ultimate parent company within the Group structure.



South Staffordshire Plc ensures, through its comprehensive knowledge of its subsidiaries and the water sector, that it understands the duties and obligations of a regulated company. This includes Condition P of South Staffordshire Water's licence and, although some Directors of South Staffordshire Water sit on the Boards of South Staffordshire Plc, SSW Finance Limited and SSW Holdings Limited, South Staffordshire Water acts, with the support of the Group, as if it were a separate listed company.

South Staffordshire Plc provides management, professional and administrative support services to South Staffordshire Water and its other subsidiaries at cost. There was no direct interaction during the year between South Staffordshire Water and the ultimate controlling party, Arjun Infrastructure Partners Limited.

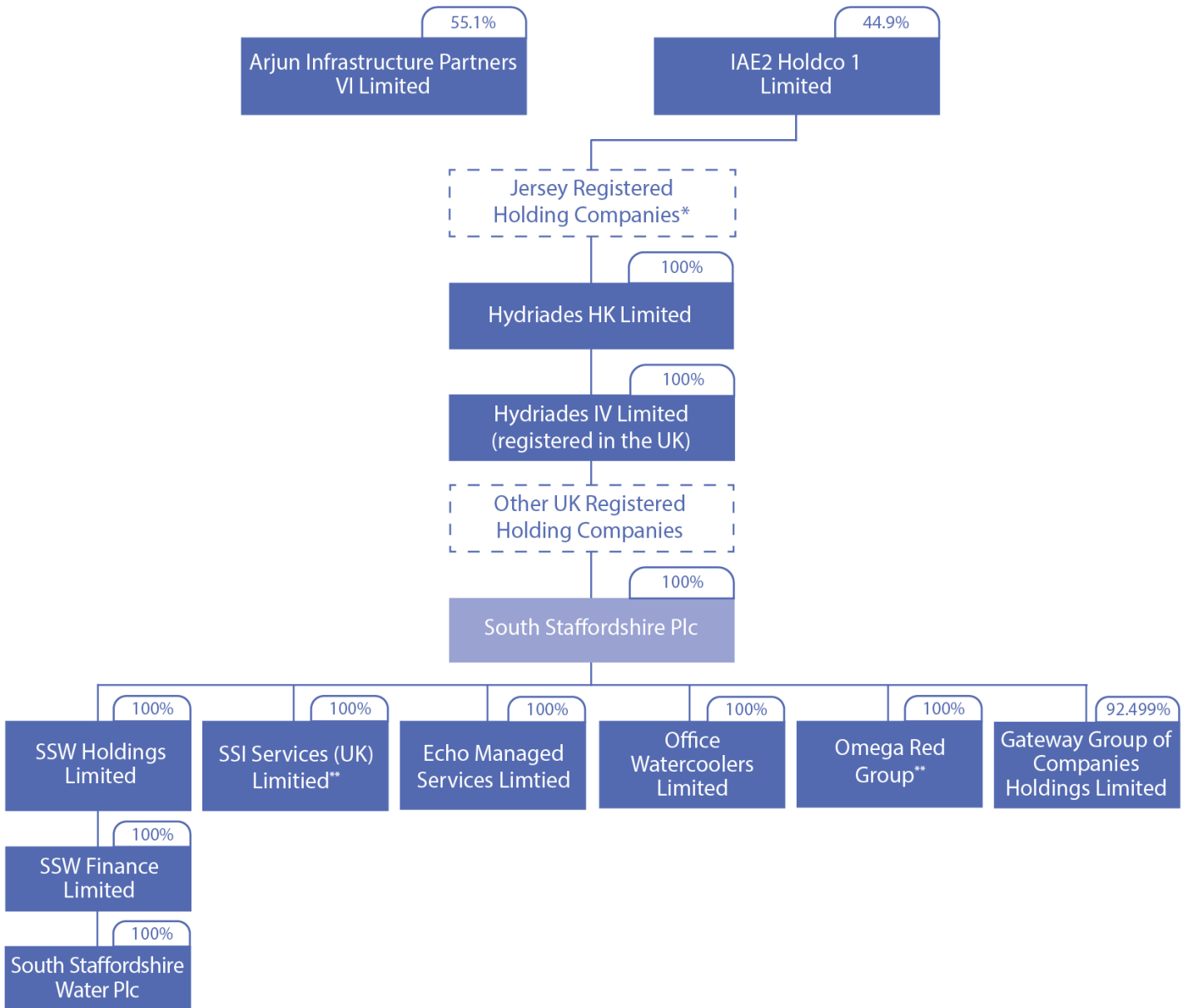
Details of the company's borrowings are provided in the accompanying reported financial statements and the financial

performance section of the strategic report. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own annual report and accounts. Details of the Group structure are set out below.

Who are our investors?

In July 2022, Mitsubishi Group sold its 44.9% share to IAE2 Holdco 1 Limited.

100% of the Group is owned by pension funds and other institutional investors, which are advised and managed by Arjun Infrastructure Partners Limited. Arjun is a UK-based independent infrastructure investment advisory business. Arjun Infrastructure Partners VI Limited acquired a majority controlling interest in the Group from KKR in July 2019 and IAE2 Holdco 1 Limited acquired the remaining interest from the Mitsubishi Corporation in 2022.



* Jersey registered holding companies are UK resident for tax purposes.

** Omega Red Group is managed within the SSI Services division.

% represents economic equity interest held.

Relations with investors and the immediate holding companies

During the reporting year there were two UK registered intermediate holding companies above South Staffordshire Water and several UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydiades IV Limited. There are intermediate holding companies above Hydiades IV Limited, which are registered in Jersey, but which are resident in the UK for tax purposes, and one intermediate holding company, which is registered in Hong Kong. There are several UK registered entities above the

companies registered in Jersey and the ultimate controlling party is Arjun Infrastructure Partners Limited, a company registered in the UK.

One of the UK-registered holding companies had a loan payable to South Staffordshire Water which bore interest that was paid in full each year. At January 2022 the outstanding intercompany loan for £25m was repaid, reducing external debt requirements and the £0.6m interest due was settled. Any UK tax losses surrendered to South Staffordshire Water from other companies in the structure are paid for at their net tax value.

Arjun Infrastructure Partners Limited and AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure Partners Limited) have signed Condition P undertakings in accordance with South Staffordshire Water's Instrument of Appointment. The companies giving the Condition P undertakings agree to:

- i) provide the company with all information needed to comply with its obligations; and to procure that their subsidiaries will;
 - a) refrain from taking any action which might cause the company to breach any of its obligations; and
 - b) ensure that the Board of the company contains no less than three Independent Non-executive Directors, or such higher number to ensure that the Independent Non-executive Directors are the largest single group on the Board, who are persons of standing with relevant experience.

There is a regular dialogue between the Board and investors to ensure their objectives and priorities are carefully considered. This dialogue is achieved through Board meetings, with investors having representation on the Board of Directors, and through other less formal communication. Investors also have representation on the four Board sub-committees.

The Board of Directors

The Board of Directors are collectively responsible for the company's long-term success. They may be appointed by the company by Ordinary Resolution or by the Board, as set out in the company's Articles of Association (the 'Articles'); a Director appointed by the Board will hold office until the next Annual General Meeting (AGM). At each AGM, one-third of the Directors will retire by rotation and will submit themselves for re-election at least once every three years. Catherine May, Peter Antolik and Andy Willcott resigned and were re-elected on 21 July 2022. As Professor Ian Barker and Ken Kagaya were appointed during the reporting year, they were required to resign and submit themselves for re-election at the meeting on 21 July 2022.

All Directors are aware of the procedure to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary, who is also responsible for monitoring corporate governance matters.

Insurance and indemnities

The company and its subsidiaries maintain Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the company's Articles, and to the extent permitted by law, the company indemnifies each of its Directors and other Officers against certain liabilities that may be incurred because of their positions with the company. The indemnity was in force throughout the tenure of each Director during the last financial year and is currently in force.

Board membership

A full list of Board members can be found on pages 58 to 59. Peter Antolik is a Director of all the UK and Hong Kong holding companies above South Staffordshire Plc in the Group structure as at 31 March 2023.

Professor Ian Barker was appointed as an Independent Non-executive Director on 12 April 2022.

The Board approved a second three year-term of office for Alice Cummings as of 14 May 2023.

Phil Newland resigned as Group Chief Executive Officer as at 28 April 2023.

Functions of the Board

The Board's primary focus is to develop, implement and fulfil the strategy to deliver the service and performance to meet the needs of the following key stakeholders.

- Customers.
- The environment.
- The business.
- Employees.
- Investors.
- Other stakeholders.

In accordance with Section 172(1) of the Companies Act 2006, the Board acts in a way that it considers, in good faith, would be most likely to promote the success of the company for the benefit of its members. The Board should be able to make well-informed, high-quality and sustainable decisions and which are consistent with its statutory and regulatory duties.

The Board sets standards of conduct to promote the company's success, provide leadership and review the company's internal controls and governance structure. It approves major financial and investment decisions above senior management thresholds and evaluates the company's performance by monitoring reports received directly from the Executive team and senior management. The Non-executive Directors, led by the Independent Chair, are responsible for overseeing this work and scrutinising management performance. They constructively challenge and help develop proposals on strategy.

In conjunction with the Audit and Risk Committee, the Board is also responsible for the company's systems of internal control, and for evaluating and managing significant risks. On joining the Board, Directors receive an induction appropriate to their needs and responsibilities. This may include, but is not limited to:

- information on the regulatory framework within which the company operates;
- operational activities;
- financing structure;
- strategic and financial plans; and
- the wider Group structure.

The Board and Executive team carry out site visits to maintain familiarity with the company's operations and to refresh their skills and knowledge.

The Board is supported by the Executive team and by other senior managers, who are responsible for assisting it in developing and achieving the company's strategy, and in reviewing its financial and operational performance. Along with the Board, the Executive team is responsible for monitoring policies, procedures and other matters that are not reserved for the Board. There are procedures providing a framework of authorisation levels for key decision-making. Details of the Executive team's skills and experience can be found in their biographies on pages 58 to 59.

The Senior Independent Director, Catherine May, carried out an assessment of the Independent Chair in June 2022. The Chair was assessed on five key measures and feedback was provided through questionnaires and face-to-face meetings with the Senior Independent Director. The overall rating was overwhelmingly positive, highlighting the Chair's key strengths of encouraging inclusivity, managing complex debates and understanding of the water sector. The evaluation highlighted some areas of focus for the Board to consider in the coming year. A process to enhance board effectiveness reviews will be undertaken and improvements will be made in the coming year. More information on the effectiveness of the Board can be found on page 85.

The Board and its sub-committees consider potential conflicts at the outset of every meeting. When reviewing conflict authorisations, the Chair considers any other appointments a Director has in place. Directors should not undertake any new external appointments without first receiving formal approval from the Chair and confirming that any new appointments undertaken do not exceed their overboarding limit.

Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on the Chartered Governance Institute (CGI) best practice guidance. The terms include, but are not limited to, the following.

- **Approval** of the annual report and financial statements.
- **Ensuring observance of all matters** required by the company's Instrument of Appointment.
- **Approval** of the Directors' assurance statements to Ofwat, including but not limited to:
 - the annual performance report;
 - the annual statement of business viability;
 - the setting of water tariffs; and
 - other regulatory assurance as required.
- **Material submissions** to Ofwat, the Competition and Markets Authority (CMA) and similar regulators, agencies or bodies.
- **Reviewing and approving** capital and operating budgets.

- **Reviewing and approving** the company's strategy and performance.
- **Reviewing and approving** any significant changes to the company's capital structure and borrowings.
- **Reviewing and approving** financial reports.
- **Contracts that are material**, either strategically or by reason of size, according to specified limits.
- **Appointment and removal** of any Director.
- **Appointment and removal** of the Company Secretary.
- **Prosecution, defence, or settlement of litigation above £1 million**, or being otherwise material.
- **Material changes** to the company's pension arrangements.
- Ensuring **maintenance of a sound system of internal control** and risk management.
- **Considering the balance of interests** between investors, employees, customers, and the community.
- **Powers** to delegate authority.

The Directors maintain a flexible approach to Board matters, with the delegation of power to an appropriate Committee where necessary, with precise terms of reference, being used for specific routine purposes. Both the terms of reference and composition of the Committees are reviewed regularly to ensure their ongoing effectiveness.

While South Staffordshire Water acts as though it were a separate public listed company, a limited number of matters in respect of this company also need the approval of the Board of South Staffordshire Plc. These include the following.

- **Material submissions to Ofwat**, particularly in respect of price reviews and major structural reform.
- **Contracts that are material** either strategically or by reason of size, according to specified limits.
- The **appointment and removal of any Director**, in its role as shareholder.
- **Prosecution, defence or settlement of litigation above £1 million** or being otherwise material.
- **Material changes to pension arrangements**, where operated on a Group basis.

Board meetings

The Board holds regular scheduled meetings throughout the year. During the year ended 31 March 2023, there were 10

planned Board meetings, 1 additional Board meeting and 13 meetings of the Board via teleconferencing facilities for cyber-attack related activities. These were held over a period of several months to help support the business through this very challenging period.

All Directors are provided with sufficient information in a timely manner before a Board meeting to allow appropriate preparation to ensure they can properly discharge their duties. The attendance by individual Directors at scheduled meetings of the Board during the year, is shown in the table in the Directors' report on page 62.

Organisational structure

A defined organisational structure exists for the company, with clear lines of responsibility, accountability, and appropriate division of duties. The Board sets the overall strategy for the business. It has delegated the necessary authority to the Executive team and business departments to deliver that strategy. This is communicated to employees through published policies and procedures, and regular management and employee briefings.

The company's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Executive team, a Director or by the Board collectively.

Risk management

The company's approach to risk reflects its status as a regulated and licensed water undertaker providing an essential public service. It balances the need to effectively manage exposure to risk, while aiming to deliver high standards of operational and financial performance. A strong risk management and control framework is in place to understand and manage identified risks.

The Board and the Audit and Risk Committee discuss and review the effectiveness of the company's risk management and internal control systems on a regular basis. The company's Executive team is required to monitor risk and its management, with any significant changes in business risk and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit and Risk Committee.

Further details of risk management and key risks are set out on pages 32 to 43 of the strategic report.

Employee engagement

The company uses a range of communication channels and activities to engage with its people. During the reporting year the company relaunched the programme of Executive updates, giving people from across its key sites the opportunity to engage directly with members of the Executive team. Change is also being driven through the Senior Leadership Forum, which has met twice during the year. In addition, the company participated in a planned Group-wide engagement survey. The

feedback from this survey is helping the company to shape actions, particularly around:

- improving levels of engagement across the business;
- improving communications in the field; and
- creating support groups and promoting positive wellbeing.

Further details are set out on page 25 of the strategic report, with reference to the section 172(1) statement on page 51.

Diversity and inclusion

The company has an equal opportunities policy in place, which is reviewed regularly. Several steps have also been taken to improve the internal and external diversity profile of the business through:

- internal communication campaigns (awareness raising);
- job adverts; and
- social media.

As well as working with colleagues in other Group companies, to develop a Group-wide diversity and inclusion policy, the company plans to introduce a diversity and inclusion working group. This includes improving data collection across the business and developing action plans as appropriate.

Regulatory reporting

The company makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate, and that is supported by suitable systems and procedures. The Board, including the Independent Non-executive Directors, are involved in the approval process for key regulatory information. This process supports the:

- governance in place;
- review of information by Jacobs, the company's independent technical auditor;
- audit work; and
- certain agreed-upon procedures in respect of the extraction of specific information performed by Deloitte LLP, the external independent auditor (Ernst & Young, with effect from 13 January 2023).

Where identified as necessary by the company's assurance framework, the Group Risk, Control and Assurance function will review processes and data to provide appropriate assurance. The company places great emphasis on regulatory reporting to ensure it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat, other regulators and stakeholders. It is important to the company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business and make appropriate decisions with reference to this data.

The company's regulatory accounts are set out in the annual performance report on pages 56 to 102.

Going concern and basis for assumption

The Directors consider that it is appropriate to prepare the financial statements on a going concern basis. This view is based on a review of the company's budget for the year ending 31 March 2024 and longer-term financial forecasts to 31 March 2025. The going concern period is therefore to 31 March 2025, which aligns with the end of the current price review period.

In addition, the Directors are required to certify to Ofwat under Condition I of the company's Instrument of Appointment that sufficient financial resources are available for at least the next 12 months.

The company's business activities, its business model and strategy, together with the factors likely to affect its future development, are set out in the strategic report on pages 15 to 31. The company's financial position, its liquidity position and available borrowing facilities are set out in the balance sheet on page 96 and in note 1 to the financial statements, which includes:

- its objectives for managing its financial risks;
- details of its financial instruments and hedging activities; and
- its exposure to interest, credit and liquidity risk.

The company has a large number of household customers, none of whom make up a significant proportion of turnover.

Amounts due from non-household retailers are secured by appropriate collateral arrangements.

The going concern assertion is also based on the following.

- The final determination for the five years from 2020 to 2025 which provides a high degree of confidence over the company's revenue in the period to 31 March 2025.
- The company's ability to index the 2024/25 customer bills to annual CPIH inflation.
- The company's budget and plan, which set out a detailed forecast of costs, including a high degree of confidence over power costs given the fixed price agreements in place covering the period to 31 March 2025.
- The degree of confidence about the approved capital expenditure and infrastructure renewal programme costs with delivery through established contractor frameworks.

- The company monitors and carefully manages its liquidity. Cash flow forecasts are regularly updated and sensitivities run for different scenarios, including but not limited to more recently changes in energy and chemicals prices and inflation.
- The company is confident it has sufficient access to bank, private placement and capital markets to raise the level of incremental debt facilities assumed in the business plan and to provide liquidity for reasonably plausible downside scenarios. Indeed, the company has a strong indication from an existing lender that it is willing to make additional funding available under a documented private shelf facility of up to £40m. The company is well advanced in discussions with this lender to firm up the private shelf arrangement to enable pricing and drawdown dates to be agreed.

We have performed a base case cash forecast, taking into account the factors discussed above and a range of stressed case scenarios, which includes downsides for energy costs, inflation, a deterioration in cash collections and potential costs associated with the cyber-attack that was identified in July 2022. In what the Directors consider to be a severe but plausible set of downside scenarios the company has sufficient financial headroom for the going concern period, after allowing for mitigating actions such as deferring expenditure and dividends and complies with all covenants. The severe but plausible downside scenario assumes no incremental debt facilities.

A key assumption in the forecast and severe, but plausible downside scenarios is the quantum and timing of legal and regulatory costs arising from the cyber-attack. In note 23 to the financial statements the Directors set out that the potential costs cannot, at present, be reliably estimated. However, the Directors have used various scenarios in their forecasts and downsides. Such costs could be significantly greater than assumed in the downside scenarios. In this scenario the Directors believe that the legal process would take a significant amount of time and extend well beyond the going concern period. The Directors would then seek to raise additional funds in the required timeframe. The Directors are confident of their ability to raise sufficient additional funds in the timeframe required given the company's relative low levels of leverage compared to other sector participants, the strength of relationships with existing lenders, the company's current credit rating and the track record of raising additional debt in recent years.

Therefore, the Directors consider that the company has sufficient financial resources to meet its obligations over the going concern period and conclude that preparing the accounts on a going concern basis remains appropriate.

Audit and Risk Committee

Membership for the year ended 31 March 2023

Director	Role	Meeting attendances
Alice Cummings	Member and Chair	3/3
Catherine May	Member	3/3
Keith Harris	Member	3/3
Professor Ian Barker	Member	3/3
Ken Kagaya	Member (resigned 8/8/2022)	–

A review of the terms of reference for the Audit and Risk Committee was completed in January 2023, including membership of the Committee. Alice Cummings was appointed to the Committee on 14 May 2020 and was made Chair in September 2020. The Board approved a second three-year term of office for Alice Cummings as of 14 May 2023.

Audit and Risk Committee meetings are regularly attended by:

- Ernst & Young LLP, the company's external independent auditor;
- the Finance Director;
- the Company Secretary;
- the Director of Regulation;
- the Group Chief Financial Officer; and
- the Group Head of Risk, Control and Assurance.

Roles and responsibilities

The Audit and Risk Committee focuses on the company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical and regulatory requirements, and on aspects of financial reporting. This includes:

- assessing the integrity of financial statements;
- considering changes to accounting policies;
- reviewing financial reporting procedures and risk management processes; and
- monitoring systems.

Key terms of reference

- **Reviewing, monitoring and assessing the company's performance against its regulatory compliance framework** and to provide assurance to the Board that the company is complying with the requirements of its regulators.
- **Reviewing and appraising the work of the external auditor** by meeting with the auditor, reviewing the results of its work, discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the

nature of non-audit services provided, and reviewing the auditor's own assessment of its independence.

- **Monitoring, reviewing and challenging, when necessary, the integrity of the company's financial statements**, including its annual report and financial statements, interim accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain.
- **Reviewing and challenging, when necessary, key regulatory submissions and publications**, including the annual performance report, annual report and financial statements, and associated statements and disclosures.
- **Challenging the company's processes for identifying, evaluating and managing significant risks**, and reviewing the evaluation of all primary business risks during the year.
- Working with Group, **reviewing the effectiveness of the company's internal audit arrangements, internal controls, and risk management policies and practices**. This includes making sure reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities.
- **Reporting to the Board** on how the Committee has discharged its responsibilities.
- Recommending to the Board **the appointment, reappointment and, if necessary, the removal of the external auditor**, working with the Group Audit Committee as the external auditor is appointed by South Staffordshire Plc.
- **Monitoring the auditor's independence, performance and effectiveness**, and approving the nature and scope of external audits.
- Standing item at each meeting to **review legal and regulatory issues**.

- Standing item at each meeting to **review the probity dashboard**, including, but not limited to, whistleblowing, modern slavery, anti-fraud and anti-bribery issues.
- Following each Audit and Risk Committee meeting, the Chair of the Committee **presents a summary of the Committee discussions** to the next Board meeting.

Audit and Risk Committee activities

In the year ended 31 March 2023, the Committee focused on the key business risks as set out on pages 32 to 44 of the strategic report. It also focused on the areas of significant judgement and estimate as identified by the external auditor.

Primarily, these are:

- revenue recognition;
- capitalisation of fixed assets; and
- recoverability of receivables, including the impact of the COVID-19 pandemic.

Individual business departments are responsible for identifying, quantifying, reporting and controlling risks relevant to their activities. Risk reports are produced and reviewed by the Audit and Risk Committee twice a year. The risk associated with business planning reflects the risks associated with delivering the company's business plan commitments. Resilience to the COVID-19 pandemic, our financial resilience and customer engagement risks have all reduced through mitigating controls being in place. The following risks have all increased under the current climate.

- Macroeconomic conditions.
- The cost of living crisis.
- Climate change.
- Resource attrition.
- State-sponsored cyber-attacks.

Following the cyber-attack on our parent company in July, the Board devoted a considerable amount of time and attention to support the business. This included holding many additional meetings over a period of several months and working closely with the Executive team on the development of an appropriate support package for our customers and our people who had been impacted by the incident.

During the reporting year emphasis was placed on the primary business risks with senior management presenting deep dives. Looking to the year ahead, the key focus of risk mitigation will be on:

- affordability and the cost of living crisis;
- cyber security;
- supply chain disruptions;
- state-sponsored cyber-attacks; and
- higher attrition and a challenging job market.

In reviewing the significant financial reporting risks surrounding revenue recognition, recoverability of receivables and capitalisation of fixed assets, the Committee worked with senior

management to ensure that these risks were mitigated and that the company's practices were in line with applicable accounting regulations and satisfied the requirements of the external auditors.

Alongside this, the Committee reviews and challenges:

- papers and feedback from senior management;
- external auditors' reports;
- reports from the Group Risk, Control and Assurance function; and
- the company's risk register.

It also discusses areas of judgement and estimation, making comment and recommendations, where appropriate, and seeks further management clarification, where required.

Financial reporting and forecasting

The Board, supported by the Audit and Risk Committee, recognises the need to present a fair, balanced, understandable and clearly defined assessment of the company's operational and financial performance and position, including its future prospects. This is provided by a review of the company's operations and performance as set out in the strategic report.

Business plans, annual profit and loss budgets, cash flow budgets and forecasts, longer-term financial forecasts and investment proposals for the company are formally prepared, reviewed and approved by the Board, supported by the Audit and Risk Committee. Actual financial results and cash flows, including a comparison with budgets and forecasts, are reported regularly to the Board with variances being identified and used to initiate any action deemed appropriate.

Details of the company's actual and forecast future compliance with its borrowing covenants are also prepared on a regular basis, and forecasts of its level of undrawn and available borrowing facilities for liquidity purposes are also prepared and reported to the Board.

Internal control

The Board, supported by the Audit and Risk Committee, attaches considerable importance to the company's system of internal control and reviews its effectiveness. This includes ensuring reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities. The internal control system can provide only reasonable and not absolute assurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The company has an established internal control framework that is continually reviewed and updated, taking into account the nature of its operations.

The Audit and Risk Committee is actively involved in challenging the company's processes for identifying, evaluating, mitigating and managing significant risks.

A detailed review of the current assessment of these can be found on pages 32 to 43 of the strategic report.

Internal audit

The company benefits from independent reviews of performance by an internal Risk, Control and Assurance function operated by South Staffordshire Plc. This service is dedicated to ensuring internal control activities remain a priority within the Group. It also provides valuable support to the company in maintaining good systems of internal control, providing assurance over the quality of information (depending on the assurance framework categorisation) and helps ensure appropriate corporate governance.

An internal audit plan is presented to the Audit and Risk Committee each year; this is subject to challenge and approval. In addition, the Committee reviews the Internal Controls Manual and delegated authority levels annually.

The plan combines the need for regulatory and financial reporting assurance, risk management and control evaluation with the provision of independent resource to enhance the company's operations. The Audit and Risk Committee monitors progress against the plan through the reporting of findings and recommendations at each meeting.

At least once a year, the Audit and Risk Committee will meet with the Group Head of Risk, Control and Assurance without Executives present. This in-camera forum provides an opportunity for candid and confidential discussions on matters that might not have been specifically addressed during the formal cycle of meetings.

The internal audit arrangements in operation are appropriate to the company's size and complexity.

The Board will continue to review this assessment through the Audit and Risk Committee.

External independent auditor

The Board, supported by the Audit and Risk Committee, reviews the external independent auditor's performance each year considering its effectiveness, independence and fees, including the level of non-audit services and related non-audit fees. In evaluating the external auditor, the Audit and Risk Committee assesses the calibre of the audit firm, the audit scope and plan (which is agreed in advance with the Audit and Risk Committee through discussions with the Chair) and the level and nature of audit communications, including the reporting to the Audit and Risk Committee of any significant issues.

At least once a year, the Audit and Risk Committee will meet with the External Auditor without Executives present. This in-camera forum provides an opportunity for candid and confidential discussions on matters that might not have been specifically addressed during the formal cycle of meetings.

The responsibilities of the external independent auditor in the area of financial reporting are set out in its report relating to each year's financial statements.

In 2020/21 we carried out a full tender process to ensure the quality and effectiveness of the external auditor was in line with market best practice and delivered value for money. Following an evaluation of the submitted bids by key finance leaders in the organisation and presentations from the two highest rated firms to a panel that included the Chair of the Audit and Risk Committee, where quality measures scored a higher proportion of the overall score than pure cost measures, Ernst & Young LLP was selected as the company's new external auditor. Ernst & Young LLP has taken up its appointment for the 2022/23 audit. The external auditor, Deloitte LLP, had been our auditor since 2003, with a change in the audit partner taking place every five years. 2021/22 was Deloitte's last year as auditor, having completed its five-year term.

Environmental, Social and Governance Committee

Membership for the year ended 31 March 2023

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	2/2
Catherine May	Member	2/2
Peter Antolik	Member	2/2
Professor Ian Barker (appointed 20/06/2022)	Member	2/2

Roles and responsibilities

The Committee's role is to advise and assist the Board in managing matters relating to the company's environmental, social and governance policies, initiatives, performance and reporting.

Key terms of reference

- Making sure the company's **environmental, social and governance (ESG) strategy is reflective of its ambition**, direction of travel and day-to-day operations.

- Making sure all related **policies are reviewed and updated regularly and** remain in compliance with national and international regulations as required.
- **Holding to account the company's Executive Directors and managers** tasked with implementing the ESG strategy.
- **Monitoring the company's ESG performance** against previously agreed objectives.
- **Approving any projects** developed in response to the implementation of the company's ESG strategy.
- **Approving all ESG reporting**, including all information to be included in the company's annual performance report and any related codes of practice and policies.
- **Recommending any proposals the Committee deems appropriate to the Board**, within its remit and where it believes action or improvement is necessary.

Nomination and Remuneration Committee

Membership for the year ended 31 March 2023

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	2/2
Catherine May	Member	2/2
Keith Harris	Member	2/2
Alice Cummings (appointed 20/06/2022)	Member	1/1
Ken Kagaya (appointed 20/06/2022)	Member (resigned 08/08/23)	–

The Nomination and Remuneration Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair. Ken Kagaya resigned from the Board – and the Nomination and Remuneration Committee – on 8 August 2023. There have been no changes to the Committee's policies or outcomes during the reporting year. The company has continued to follow Ofwat's principles of Board leadership, transparency and governance. The Committee has overseen this, and has tracked the company's performance, in this area on behalf of the Board.

Roles and responsibilities

- The appointment of Board members, Executive Directors and Executive team members.
- Succession planning for Board and Executives.
- Setting the remuneration packages for the Board, Executive Directors and Executive team.

Key terms of reference

- **Reviewing the balance of skills, knowledge, experience, diversity** (including gender) and the level of non-executive and independent challenge.
- **Preparing an appropriate specification** for open Board positions.
- Making sure any appointment to the Board **carefully considers the balance of the Board's composition and existing skills**.
- Making sure successful candidates have **the necessary skills, experience, information and knowledge** to fulfil their duties.
- **Agreeing remuneration** that will ensure the Executive Directors and the Executive team are provided with appropriate incentives to achieve high standards of performance and reward them for their individual contributions to the company's success. Making sure the performance-related elements to remuneration for the company's Executive Directors relate to standards of performance for customers and wider society.
- **Determining remuneration packages and arrangements** with regard to any relevant legal requirements and associated guidance, and to obtain reliable, up-to-date information about remuneration in other companies.
- **Ensuring contractual terms on termination are fair** and that failure is not rewarded.
- **Overseeing any material changes** in employee benefits structures throughout the company.

During the reporting year emphasis was placed on the executive remuneration and non-executive remuneration.

PR24 Committee

Membership for the year ended 31 March 2023

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	6/6
Alice Cummings	Member	6/6
Professor Ian Barker (appointed 06/2022)	Member	6/6
Keith Harris	Member	6/6
Andy Willcott	Member	6/6

Note:

1. Professor Ian Barker has attended all Committee meetings since his appointment.

Roles and responsibilities

The role of the PR24 Board sub-committee is to advise, challenge and assist the Board in managing strategic matters relating to Ofwat's 2024 periodic review of price controls ('PR24'). For more information on PR24 and what this means for stakeholders, please see page 31 of the strategic report.

The total remuneration packages of Board Directors and the Executive team include basic salary, benefits, and annual and deferred bonuses, which are linked to business targets and personal performance-related objectives. The performance-related objectives are designed to encourage and reward continuing improvement and behaviours in the company's performance over the longer term.

Key terms of reference

The Committee's duties are as follows.

- **Provide oversight and scrutiny** of the development of PR24.
- **Review the effectiveness of the company's PR24 strategy** regularly and the governance in place to ensure the successful delivery of the company's PR24 activities.
- **Review the adequacy of the company's PR24 approaches** and underlying principles to ensure that it meets regulatory requirements and relevant guidelines.
- **Monitor key risks to the successful delivery of PR24** and their mitigation to ensure that the final business plan is well-evidenced, robust and is supported by customers and other stakeholders.
- **Provide a steer on strategic and directional issues** raised by the Steering Group/Programme Board.
- **Approve proposals for any changes to PR24 approaches** that could impact the strategic direction of the plan on behalf of the Board.

The strategic rationale for the Executive team's remuneration policies follows the regulated targets for performance, financial performance, and personal development and stretching objectives. This has been developed in part with the Group and with investors.

The Nomination and Remuneration Committee recognises that transparency around the relationship between pay policy and outperformance will help customers see how performance pay is earned in providing an essential service. Consistent with the FRC Guidance 2018 and the FRC Guidance on Board Effectiveness 2018 the Committee should establish a formal, rigorous and transparent procedure for developing policy on executive remuneration, determining Board, Executive Director and Executive team remuneration, together with appointments.

The Committee acknowledges the need to make a statement in relation to remuneration that is linked to standards of performance.

Board and Executive terms of engagement

Ken Kagaya (resigned 8 August 2022) was appointed to the Board as a representative of the Mitsubishi Corporation. His appointment had no fixed term and he did not receive any remuneration for this service from the company.

Executive Directors' remuneration policy

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors and Executive team members. The Nomination and Remuneration Committee has overall responsibility for determining Board Directors' remuneration packages and considering those of the Executive team.

The Rt Hon Lord Smith of Finsbury, Catherine May, Alice Cummings and Professor Ian Barker (appointed 12 April 2022) as Independent Non-executive Directors are appointed to the Board for fixed terms of three years. They can be reappointed for up to a further two periods of three years, after which the Board may extend the terms of their appointment subject to them retaining their independence in their roles. The Chair is required to stand down after a maximum of nine years' service. Alice

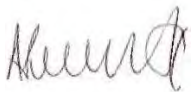
Cummings had her second three-year term approved by the Board as of 14 May 2023. In accordance with their appointment, the Independent Non-executive Directors are required to commit the appropriate time needed to sufficiently fulfil their duties within a regulated utility business.

The Managing Director and Executive team are employed on service contracts of no fixed term, with notice periods of either six or three months. They are entitled to:

- basic pay;
- private medical insurance;
- a company car or car allowance;

- fuel allowance; and
- payments made to a Group money purchase pension scheme.

As noted, the Nomination and Remuneration Committee recognises the need to attract and retain high-performing individuals. Base salary and allowances are set reflecting the market value of the role and with consideration of the respective Director's skills, experience and performance. The Committee believes it is important that, for Executive Directors and senior management, a proportion of the remuneration package should be performance related.



Andy Willicott
Managing Director
20 July 2023

Remuneration report

On behalf of the Board, I am pleased to provide the Directors' remuneration report for the year ended 31 March 2023. The report summarises the company's key objectives, remuneration policy, linkages between Directors' pay and the company's performance, in addition to the level of the Directors' emoluments for the year.

We aim to ensure that executive pay is aligned with South Staffordshire Water's business strategy and that remuneration reflects the company's performance against clear operational and financial measures, as well as individual performance objectives. We strive to ensure that we link executive pay to successful business performance, which is in turn linked to demonstrable customer benefits. We set out below how we have achieved this during what has been a very challenging year.

Composition of the Nomination and Remuneration Committee

We have reviewed the composition of the Nomination and Remuneration Committee and are satisfied that it remains appropriate for the five-year period to 2025. We confirm that it is independently chaired and most of its members are Independent Non-executive Directors.

Remuneration policy

Alignment with the business plan and customer expectations

Salaries are reviewed annually, and any changes are effective from 1 July each year. Each year, the Nomination and Remuneration Committee reviews the standards of performance to which bonuses are linked to ensure this consistency continues to be maintained. At the end of the financial year, the Committee, following consideration of the outturn against target, assesses to what extent the targets are met and determines bonus levels accordingly. In doing so, the Committee takes into account overall company performance and, in exceptional circumstances, may exercise its discretion and adjust the bonus to reflect any specific factors.

We agreed that in relation to performance-related pay, there should be an appropriate balance between financial metrics and those that more directly benefit customers. We proposed to continue our structure that apportions variable pay to customer service, outcome delivery incentive performance and financial performance (including totex and cost efficiency), respectively. We also recognise that from time to time, personal objectives may also be appropriate where they are of strategic importance to our business and our customers.

Rewards for the Managing Director and senior executives are based on a total reward package of basic salary and annual performance bonus; for certain executive members, there are long-term incentive schemes in addition to benefits sufficient to attract, motivate and retain individuals of the required calibre to lead the business. Our policy aims to be around median market practice, with performance incentives for achieving challenging operational, financial and personal targets to motivate a strong commitment to achieving the goals set, as well as to establish a close link between overall rewards, corporate performance and the benefits delivered to our customers.

Approach to stretch in variable pay

Our business plan is already stretching. In all respects, it pushes performance ahead of where we are currently. We confirmed that the Board's broader objective is for the level of performance being proposed to place us in the upper quartiles of performers in the sector. That said, we confirmed that we still consider it appropriate that maximum levels of executive variable pay should only be achieved in response to outperformance of our targets that could be described as 'exceptional'. In most cases, we would define exceptional as being outperformance against a regulatory/customer commitment. But in some cases, it may be the delivery of the commitment itself.

Short-term Incentive Plan (STIP)

STIP arrangements for the financial year end operate for executives, and senior managers and specialists. The incentive considers performance across customer focused commitments, financial performance and personal objectives. For certain executives, the STIP bonus is in addition to the Long-term Incentive Plan (LTIP), which we describe in more detail below. Actual bonus profiles are set at varying levels, ranging up to 75% of 10% of salary.

Long-term Incentive Plan (LTIP)

We introduced an LTIP during 2020. This incentive plan aligns the long-term interests of shareholders and the Executive team, retains and rewards executive management of certain calibres, as well as rewards for performance over the current planning period. Performance is assessed each year. Each cycle within the bonus plan effectively covers four performance years with four annual payments being awarded, of which half is paid as a STIP bonus, in year, and half is deferred or banked to LTIP. The LTIP

profiles are set at varying levels to be banked, set at ranging from up to 75% of 25% of salary.

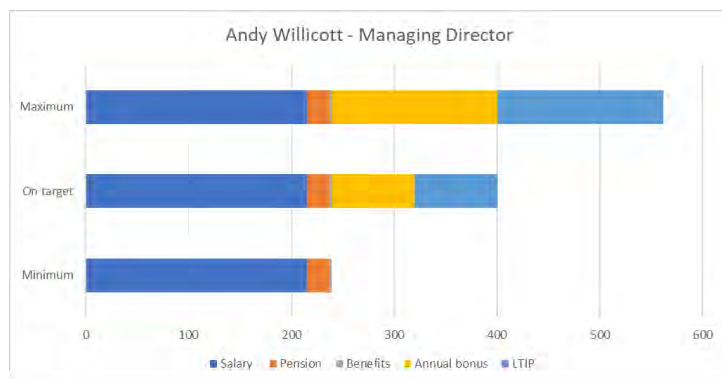
The personal performance targets set for Andy Willicott, and assessed for STIP and LTIP, are outlined below.

Performance target	Target	Performance	Outcome	Maximum bonus percentage	Achieved percentage	Bonus percentage	Bonus ³ Value £'000
Efficient delivery and costs control							
Net wholesale totex ¹	£134.7m	£149.5m	Not achieved ²	13.3%	40%	5.3%	£8.80
Net botex wholesale	£94.4m	£104.3m	Not achieved ²	13.3%	40%	5.3%	£8.80
Cash flow before interest and tax	£(30,7)m	£(36,8)m	Not achieved ²	13.3%	40%	5.3%	£8.80
Customer strategic objective							
ODI performance ³	Upper quartile (UQ) performance re common ODIs	12/14 broader ODI targets achieved	Mostly achieved	25%	87.6% proposed	21.9%	£36.13
Maintain an upper quartile C-MeX position	UQ as assessed by Ofwat in April 2023	UQ performance achieved in Q1/2, but Q3/4 were impacted by criminal cyber-attack data breach C-MeX position of 8 th achieved in year and ODI award achieved	Partially achieved	15%	46% proposed	6.9%	£11.38
Personal							
Deliver the FY2022/23 collections targeted revenue and maximise use of customer affordability offerings in support of the cost of living challenge	Achieve target	Cyber-attack significantly delayed billing and recovery processes for several months. Affordability measures delivered to targeted number of customers	Partially achieved	4%	65% proposed	2.6%	£4.29
Agree a headline PR24 strategy with the SSW Board by October 2022 following the publication of Ofwat's methodology	Board approval by October 2022	PR24 processes working well, with key milestones on track for October 2023 submission. Strong team put in place and Board sessions established	Achieved	4%	100% proposed	4.0%	£6.60
Deliver against the agreed high-level milestones for investment at Hampton Loade and Seedy Mill to programme milestones and budget	1.Achieve investment milestones 2.Achieve budget	Seedy Mill milestone achieved to time and budget. Hampton Loade remains on track for Dec 2024 commissioning ahead of the DWI deadline	Achieved	4%	100% proposed	4.0%	£6.60
Drive the company's ESG agenda supportive of its desire to improve demonstrable progress, governance and transparency in this area.	SSW Board to assess progress	More progress could have been realised in year. Team structural changes will allow a greater focus going forward	Partially achieved	3%	70% proposed	2.1%	£3.46
Deliver an improvement on the mean score for the SSW engagement survey	1. Share results with the team, identify priority areas and drive actions to address. 2. Ensure ownership and accountability is driven through the management team	Increased Exec team visibility at roadshows and working from key sites around both regions. People Forum re-established and attended by MD	Engagement survey score due end June	5%	70% proposed	3.5%	£5.77
Total bonus							£100.65

Notes:

1. Totex to be adjusted for acceleration and slippage to identify actual outperformance of allowances with agreed output delivery.
2. Significant and unexpected rises in power and chemical costs meant financial targets were not achieved, a reduced percentage allocation was awarded to recognise the work done to mitigate further increases in expenditure.
3. Operational performance against our targets can be found on pages 15 and 16.
4. The figures above show STIP and Andy Willicott will earn the equivalent value on LTIP, which has been accrued at this level.

In line with the remuneration reporting requirements, the chart below illustrates Andy Willicott’s remuneration package under three different performance scenarios: minimum; on target performance; and maximum for outperformance.



The chart has been based on the following assumptions.

- Minimum pay is fixed pay only (salary, benefits and pension).
- On target pay includes fixed pay, 50% of the maximum bonus and 50% vesting of the LTIP awards.
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards.

The awards under the LTIP are accrued; at the end of the fifth year, 80% of the accrued amount, at target level, could be paid provided that the employee is still employed or has left as a ‘Good Leaver’. Multiplier arrangements will apply at the end of the bonus plan cycle. The aggregate bonus bank will be varied based on the extent to which the South Staffordshire Plc Group has hit its cumulative distributions and profit after tax. Adjustments will be subject to the terms (plus or minus, and no lower than nil). Malus and clawback provisions also apply. All awards are subject to income tax.

As Group Chief Executive and an Executive Director of the intermediate parent company, South Staffordshire Plc, Phil Newland had, as part of his remuneration package, an element of his bonus specifically linked to the company’s performance. Further details on his remuneration are disclosed in the South Staffordshire Plc annual report.

Further details of the Directors’ remuneration are set out below.

Name	Board £'000															
	Basic salary		Bonus ¹		LTIP ²		Other benefits and pay ³		Fees		Total emoluments		Pension contributions ⁴		Total remuneration	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
The Rt Hon Lord Smith of Finsbury									60	60	60	60			60	60
Andy Willcott ⁵	215	202	101	120			2	9			318	331	22	20	340	351
Phil Newland ⁶																
Catherine May									37	37	37	37			37	37
Alice Cummings									38	38	38	38			38	38
Professor Ian Barker									37		37				37	
Keith Harris ⁷																
Peter Antolik ⁷																
Ken Kagaya ⁷																
Stephen Kay									3	34	3	34			3	34
Keita Saito ⁷																
Total	215	202	101	120			2	9	175	169	490	500		20	510	520
	Executive team £'000															
	Basic salary		Bonus ⁸		LTIP ⁹		Other benefits and pay ³		Fees		Total emoluments		Pension contributions ⁴		Total remuneration	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Total	519	522	138	67			159	44			816	633	38	33	854	666
Average	99	77	25	13			8	9			132	99	5	4	137	103

Notes:

1. For 2022/23 the bonus includes bonus approved and accrued.
2. LTIP is remunerated by the intermediate parent company, South Staffordshire Plc, and cross charged.
3. 'Other benefits and payments' combines company car benefit in kind, car cash and benefit allowances, fuel allowances, the taxable value of private medical insurance provision and relocation expenses.
4. Pension contributions are payments by the company in respect of money purchase pension schemes.
5. Basic Salary has been pro rata from employment commencing.
6. These Directors were remunerated either by the intermediate parent company, South Staffordshire Plc, or received no remuneration for their employment during the year.
7. These Directors were remunerated either by the intermediate parent company South Staffordshire Plc or received no remuneration for their services during the year.
8. Bonus figures include any deferred amounts paid in the year and approved figures in respect of the year ended 31 March 2023.

Bonus awards

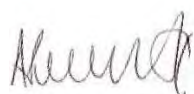
The Nomination and Remuneration Committee awarded the Managing Director of South Staffordshire Water a STIP bonus of £100,650, which was 61% of his maximum award. An equivalent amount has been added to his LTIP.

The Nomination and Remuneration Committee awarded the Executive team on average a STIP bonus of 20% (£19,996), which was 81% of their maximum award. A number of the Executive team are entitled to LTIP awards. The average award was 20% and this has been accrued to the LTIP bank.

An element of the bonus in the year for Phil Newland is specifically linked to the company's performance. For further details, please refer to the South Staffordshire Plc accounts.

Executive pay ratio

We have disclosed the Managing Director pay ratio, which shows how the Managing Director's single total figure for



Andy Willicott
Managing Director
20 July 2023

remuneration compares to the equivalent figures for South Staffordshire Water employees and takes account of the full-time equivalent basis for our employees. The Managing Director pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive-based pay earned by the Managing Director, compared with other employees. The figures show the relevant ratios, excluding LTIP (not due to be paid out for five years).

The company is committed to paying the foundation Living Wage to employees. Based on a 37-hour a week contract at £10.40 an hour (2022: £9.90) rate for outside London, this would give an annual salary of £20,009. All our people, with the exception of our apprentices, are paid at or higher than the foundation rate. In comparison with our Managing Director, the highest paid directly employed Board member, this gives a ratio of 11:1 against basic salary and 17:1 against total remuneration, both of which sit within the 20:1 ratio.

This remuneration report was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.

Board effectiveness

The Board is committed to reviewing its effectiveness periodically and to evaluating the performance of individual Directors. In addition, the company must also demonstrate through its annual reporting how it is meeting Ofwat's principles on Board leadership, transparency, and governance.

Changes have been made to improve governance and reporting over the reporting period. See page 67 for Board activity.

In addition, an appraisal process to assess the Independent Chair of the Board of Directors was conducted by the Senior Independent Non-Executive Director in 2022 on behalf of the Board.

Among the areas of focus in the year ahead are the following.

- The range of **skills and backgrounds represented on the Board**, and how these can be further diversified.
- The **opportunity for the Board to meet more employees** and different teams across the company.
- The challenge of **meeting our net zero ambitions**.
- **Cyber security**.

- The **sustainability** of water supplies.
- The importance of **full transparency** in any contracts between the company and parts of the wider Group.
- Making sure the company is **adequately prepared and resourced** with appropriate plans for the implementation of the PR24 price review.
- The degree of **ambition we have to be in the top quartile of water company performance** for both service to the company's customers and for cost effectiveness.

Further progress against delivering these actions will be reported in next year's annual report and financial statements. The Chair will continue to review any other measures of Board effectiveness as appropriate to ensure continued compliance with Ofwat's principles of Board leadership, transparency and governance.

Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, as set out on page 118, is made with a view to distinguishing for investors the respective responsibilities of the Directors and of the auditor in relation to the financial statements.

The Directors are required by company law, and under Condition I of the Instrument of Appointment by the Secretary of State for Environment, Food and Rural Affairs, as a water undertaker under the Water Industry Act 1991, to prepare an annual report and financial statements for each financial year, which give a true and fair view of the state of affairs of the company at the end of the financial year, and of the profit or loss for the financial year 2022/23.

Under company law, the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In preparing the financial statements, the Directors are required to:

- **select suitable accounting policies** and then apply them consistently;
- **make judgements and accounting estimates** that are reasonable and prudent;
- **state whether applicable UK accounting standards have been followed**, subject to any material departures disclosed and explained in the financial statements;
- **prepare the financial statements on a going concern basis**, unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary; and
- **keep proper accounting records**, which comply with Condition I.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's


transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors can confirm that to the best of their knowledge:

- the **financial statements**, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position, and profit and loss of the company;
- the **strategic review** includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the **annual report and financial statements**, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This Directors' responsibilities statement was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.



Andy Willicott
Managing Director
20 July 2023



Financial statements

Financial statements

Profit and loss account – for the 12 months ended 31 March 2023

		31 Mar 23	Restated 31 Mar 22
	Note	£'000	£'000
Turnover	2	146,402	139,419
Operating costs	3	(130,948)	(114,400)
Other operating income	6	11,693	7,485
Operating profit (before exceptional items)		27,147	32,504
Exceptional items	7	(3,500)	-
Operating profit (after exceptional items)		23,647	32,504
Finance costs (net)	8	(37,733)	(17,640)
(Loss)/profit before taxation		(14,086)	14,864
Tax on profit	9	6,000	(18,172)
(Loss) for financial year attributable to the equity shareholders of the Company		(8,086)	(3,308)
Earnings per share			
Basic	11	(380.8p)	(155.8p)
Diluted	11	(380.8p)	(155.8p)

Finance costs (net) includes interest income and interest expense. A further breakdown is shown within note 8, finance costs (net).

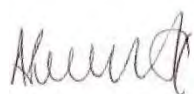
The results above are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

Balance sheet – as at 31 March 2023

	Note	31 Mar 23 £'000	Restated 31 Mar 22 £'000
Fixed Assets			
Intangible assets	12	4,838	4,367
Tangible assets	13	655,010	593,361
		659,848	597,728
Current Assets			
Stocks	16	3,870	3,072
Debtors - amounts recoverable within one year	17	66,110	33,519
Debtors - amounts recoverable in more than one year	17	4,049	2,654
Investments	18	2	2
Cash and cash equivalents	26	23,571	50,135
		97,602	89,382
Other creditors - amounts falling due within one year	19	(89,534)	(79,083)
Net current assets		8,068	10,299
Total assets less current liabilities		667,916	608,027
Borrowings - amounts falling due after more than one year	20	(361,063)	(292,672)
Other creditors - amounts falling due after more than one year	20	(10,054)	(10,322)
Accruals and deferred income - falling due after more than one year	15	(180,153)	(168,703)
Provisions for liabilities - falling due after more than one year	22	(61,203)	(64,977)
Net Assets		55,443	71,353
Capital and reserves			
Called up share capital	24	2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Revaluation reserve		30,163	30,587
Profit and loss account		20,661	37,523
Hedging reserve		(2,449)	(3,825)
Shareholders' Funds		55,443	71,353

The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Water (company number 02662742) were approved by the Board of Directors and authorised for issue on 20 July 2023.



Andy Willicott
Managing Director
20 July 2023

Statement of comprehensive income – for the 12 months ended 31 March 2023

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
(Loss) after taxation	(8,086)	(3,308)
Movement in hedging reserve (gross of deferred tax)	1,835	2,387
Deferred tax impact of movement in hedging reserve	(459)	(597)
Deferred tax rate move impact in year	-	449
Total comprehensive income	(6,710)	(1,069)

Statement of changes in equity – as at 31 March 2023

	Note	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2021		2,123	495	4,450	33,494	48,599	(6,064)	83,097
(Loss) for financial period		-	-	-	-	(2,791)	-	(2,791)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)		-	-	-	-	-	2,215	2,215
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	(554)	(554)
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	172	172
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(43)	(43)
Deferred tax rate move		-	-	-	-	-	449	449
Amounts transferred to profit and loss		-	-	-	(2,907)	2,907	-	-
Total comprehensive income/(loss)		2,123	495	4,450	30,587	48,715	(3,825)	82,545
Dividends	10	-	-	-	-	(10,675)	-	(10,675)
Balance at 31 March 2022		2,123	495	4,450	30,587	38,040	(3,825)	71,870

Statement of changes in equity – as at 31 March 2023 (continued)

Note	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2022 previously stated	2,123	495	4,450	30,587	38,040	(3,825)	71,870
Restatement					(517)		(517)
Balance at 1 April 2022 restated	2,123	495	4,450	30,587	37,523	(3,825)	71,353
(Loss) for financial period	-	-	-	-	(8,086)	-	(8,086)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	1,664	1,664
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(416)	(416)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	171	171
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(43)	(43)
Deferred tax rate move	-	-	-	-	-	-	-
Amounts transferred to profit and loss	-	-	-	(424)	424	-	-
Total comprehensive income/(loss)	2,123	495	4,450	30,163	29,861	(2,449)	64,643
Dividends	10	-	-	-	(9,200)	-	(9,200)
Balance at 31 March 2023	2,123	495	4,450	30,163	20,661	(2,449)	55,443

Called up share capital

The equity reserve represents the equity component of convertible debt instruments.

Share premium account

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

Capital redemption reserve

On 1 July 2000, the company redeemed 1,200,000 redeemable preference shares of £1 each at par. On 15 July 2002 the company repurchased 3,250,000 (nominal value £1 each) of its shares from South Staffordshire Water Holdings Limited.

Revaluation reserve

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36m, net of deferred tax, which is being depreciated on a straight-line basis over the estimated remaining economic life of 80 years.

Profit and loss account

The profit and loss reserve represents cumulative profits, net of dividends paid and other adjustments.

Hedging reserve

The company has entered into derivative financial instruments to hedge exposure to floating interest rates. Further information on the hedging policy is set out on page 99.

Cash flow statement – as at 31 March 2023

	Note	31 Mar 23		31 Mar 22	
		£'000	£'000	£'000	£'000
Cash inflow from operating activities			46,646		56,758
Corporation tax paid			-		600
Net cash inflow from operating activities	(a)		46,646		57,358
Cash flows from investing activities					
Purchase of intangible fixed assets		(916)		-	
Purchase of tangible fixed assets		(89,041)		(46,945)	
Proceeds from sale of tangible fixed assets		470		223	
Repayment of long-term balance with group undertaking		-		25,000	
Interest received		1,158		1,797	
Other short term investments		(20,000)		-	
Contributions and grants received		14,882		8,727	
Net cash outflow from investing activities			(93,447)		(11,198)
Cash flows from financing activities					
Interest paid		(10,527)		(9,614)	
Equity dividends paid		(9,200)		(10,675)	
Additions to Private placement loans (cash)		40,000		20,000	
Private placement loan issue costs paid		(35)		(42)	
Net cash outflow from financing activities			20,238		(331)
(Decrease)/Increase in cash	(b)		(26,564)		45,829
Cash and cash equivalents at the beginning of the year			50,135		4,306
Cash and cash equivalents at the end of the year			23,571		50,135

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid, £89,041,000, and additions reported in the fixed asset note 13 of £88,201,000 is due to an increase in year of creditors relating to capital purchases of £840,000.

Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	31 Mar 23		Restated 31 Mar 22	
	£'000	£'000	£'000	£'000
Total operating profit (after exceptional items)		23,647		30,274
Depreciation	26,781		25,475	
Amortisation of capital contributions	(3,432)		(3,356)	
Profit on disposal of tangible fixed assets	(283)		(149)	
		23,066		21,970
(Increase) in stocks	(798)		(94)	
(Increase) in debtors	(11,241)		(2,261)	
(Decrease) in creditors	11,972		6,869	
Cash inflow from operating activities		(67)		4,514
Corporation tax paid		-		600
Net cash inflow from operating activities		46,646		57,358

(b) Reconciliation in movement in net debt

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Increase/(Decrease) in cash	(26,564)	45,829
Bank term issue cost amortisation (non-cash)	(63)	(110)
Private placement loan (cash)	(40,000)	(20,000)
Private placement issue cost amortisation (cash)	35	42
Movement on index-linked debt (non-cash)	(28,364)	-
(Increase)/Decrease in net debt in period	(94,956)	15,809
Net debt brought forward	(242,535)	(258,344)
Net debt carried forward	(337,491)	(242,535)

Notes to the cash flow statement (continued)

	Balance at 31 Mar 2022	Cash Flow	Non-Cash Movements	Balance at 31 March 2023
	£'000	£'000	£'000	£'000
Cash and cash equivalents	50,135	(26,564)	-	23,571
	50,135	(26,564)	(0)	23,571
Irredeemable debenture stock	(1,652)	67	(67)	(1,652)
Bank loans (net of issue costs)	(29,909)	1,029	(1,092)	(29,972)
Private placement loans (net of issue costs)	(19,958)	(38,936)	(1,029)	(59,923)
Index-linked debt (net of issue costs and including premium)	(241,151)	8,264	(36,628)	(269,515)
Net debt	(242,535)	(56,140)	(38,816)	(337,491)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics such as the net debt/RCV as shown above and below.

	31 Mar 23	31 Mar 22
	£'000	£'000
Book net debt (as reported above)	(337,491)	(242,535)
Short term deposits	20,000	0
Exclude book premium on issue of index linked debt	12,060	12,803
Exclude unamortised issue costs	(1,617)	(1,418)
Exclude accrued interest	1,230	152
Net debt reported for borrowing covenants	(305,818)	(230,998)
Regulatory Capital Value	515,854	449,556
Covenant Net Debt/Regulatory Capital Value	59.3%	51.4%

Notes to the financial statements

1. Statement of accounting policies

South Staffordshire Water PLC is a private company limited by shares, concentrating on regulated water supply and complementary specialist services business. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its related parties, financial instruments and remuneration of key management personnel. South Staffordshire Water PLC. The company's registered address is Green Lane, Walsall, West Midlands, WS2 7PD.

These financial statements are prepared on a going concern basis, as set out on page 73, under the historical cost convention, as modified by the revaluation of land and buildings.

The preparation of financial statements in conformity with FRS 102 required the use of certain accounting estimates. It also required management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 100.

a) General information and basis of accounting

Although South Staffordshire Water is not publicly listed, its Board of Directors recognises that because of public interest in how the company performs and the regulated environment in which it operates, it should act as if it were. It is incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is Green Lane, Walsall, West Midlands, WS2 7PD. The nature of the company's operations and its principal activities are set out in the strategic report on pages 10 to 55. The financial statements include a prior period restatement in note 30.

b) Turnover

Turnover includes water revenue and commissions.

Turnover represents the fair value of consideration receivable, excluding value added tax, trade discounts and intercompany sales, in the ordinary course of business for goods and services provided. Turnover is not recognised until the service has been provided to the customer. Water revenue is recognised when the service is provided and includes an estimate of the amount of mains water unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Non-appointed turnover from non-appointed activities are as defined by the company's licence. They include the following.

- Aqua Direct spring water business.
- Commission income earned on amounts billed on behalf of other water companies for the sewerage services they provide to the company's customers. Commission is recognised when the bill is sent to the customer.

c) Other operating income

Other operating income includes:

- rental income in the profit and loss account is over the term of the lease;
- profit or loss from the disposal of assets; and
- capital contributions and infrastructure contributions amortised to the profit and loss account.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in other operating income in the period that they become receivable.

d) Finance costs (net)

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Interest expense is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

e) Intangible fixed assets and depreciation

Intangible assets acquired are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows.

Asset type	Category	Life
Software	Intangible Assets	3–7 years

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met.

- It is technically feasible to create and make the asset available for use or sale.
- There are adequate resources available to complete the development and to use or sell the asset.
- There is the intention and ability to use or sell the asset.
- It is probable that the asset created will generate future economic benefits.

- The development costs can be measured reliably. Research expenditure is expensed when it is incurred.

f) Tangible fixed assets and depreciation

Tangible fixed assets are held at cost less accumulated depreciation. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Tangible fixed assets comprise:

- Infrastructure assets (water mains, impounding and pumped raw water storage reservoirs and dams);
- operational structures (pumping stations, treatment stations, boreholes and service reservoirs);
- other assets; and
- assets under the course of construction or commissioning.

Infrastructure assets

Infrastructure assets comprise a network of systems, including two regional network assets that, as a whole, are intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of their components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks is treated as additions, which are capitalised at cost and are depreciated over their useful economic life of 100 years.

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36m, net of deferred tax, which is being depreciated on a straight-line basis over the estimated remaining economic life of 80 years.

Operational structures and other fixed assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. Assets under the course of construction are not depreciated during the construction or commissioning phase. On completion, all assets will be transferred into the appropriate asset category and will be depreciated per the stated accounting policy. The estimated useful lives of the assets are as follows.

Asset type	Category	Life
Boreholes	Specialised Operational Assets	100 years
Pumping stations, booster stations and treatment plant		50–80 years
Mains, mains diversions	Infrastructure Assets	100 years
Impounding reservoirs and land		50–80 years
Fixed plant	Non-specialised Operational Assets	20–30 years
Meters	Other Tangible Assets	15 years
Mobile plant	Other Tangible Assets	5 years
Office equipment	Other Tangible Assets	5–7 years
Motor vehicles	Other Tangible Assets	3–7 years
Electric Vehicles	Other Tangible Assets	3–7 years

Impairment of non-current assets

At each reporting date the company assesses whether there is any indication that an asset may be impaired. Where there are indicators of impairment, the company performs impairment tests which involve comparing the carrying amount of the assets to their recoverable amount. Recoverable amount is the higher of fair value less costs to sell ('FVLCS') and value in use ('VIU'). If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. FVLCS is defined as the amount obtainable from the sale of an asset (or CGU) in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

g) Grants and contributions

Capital contributions, received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets. The release of this deferred income is recognised as Other Operating Income under the caption "Grants and contributions".

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable. This income is recognised as Other Operating Income under the caption "Infrastructure renewals contributions".

h) Leased assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the company, are included within fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding.

i) Infrastructure renewals expenditure (IRE)

Infrastructure renewals expenditure (IRE), the annual expenditure required to maintain the operating capability of the network, is not capitalised within tangible fixed assets, but is expensed within operating costs for the year.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise.

j) SaaS agreements

The Company identifies software as a service (SaaS) and other cloud computing arrangements and assesses whether the arrangement transfers control of the underlying software to the Company. Where it does not, the contract is accounted for as a service contract over the contract term.

Where the Company does not control the underlying SaaS software, the accounting policy for implementation costs, is as follows.

- If the costs incurred give rise to a separately identifiable asset from which the group has the power to obtain economic benefits, the costs are capitalised as a separate software intangible and amortised straight line over their useful life.
- If the costs relate to enhancement expenditure impacting other existing software which is controlled by the Company (for example, costs incurred to integrate or make improvements to existing software as part of the implementation process, resulting in additional

functionality), the costs are capitalised as subsequent expenditure on the existing Company controlled system.

- Where the costs do not result in a separate identifiable intangible asset or the enhancement of existing controlled systems, the costs are expensed as the related implementation services are received. Such costs are included in the "Other operating costs" line in the P&L.

k) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditures expected to be required to settle obligations.

l) Contingent liabilities

The company is subject to litigation from time to time as a result of its activities. The company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events; and where it is probable that an outflow of resources will be required to settle the obligation; and the amount cannot be reliably estimated.

m) Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) method. Cost includes materials and an appropriate element of overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

n) Pensions

For the defined contribution schemes, the amount charged to the profit and loss account is the contributions payable in the year. Both sections of the defined benefit scheme (South Staffordshire and Cambridge) are closed to new entrants and have ceased future accruals.

In accordance with the agreed policy in the company and the Group, as the scheme is a multi-employer scheme with deferred members of the scheme also being employees of other Group companies, the company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis.

Therefore, in accordance with the stated policy the amount charged to the company's profit and loss account is equivalent to the deficit contributions payable in the year by the company with the profit and loss items, actuarial gains and losses and assets and liabilities relating to the scheme being accounted for in the accounts of South Staffordshire Plc, an intermediate holding company.

o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash deposits with an original maturity in excess of three months are classified as "other short-term investments."

p) Taxation

Current tax is based on taxable profits or losses for the year based on legislation enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation enacted or substantively enacted at the balance sheet date.

q) Financial instruments

Financial assets

Financial assets comprise cash and cash equivalents, trade debtors, loans receivable and derivative financial instruments.

Cash and cash equivalents, trade debtors and loans receivable are initially measured at the transaction price, adjusted for transaction costs and subsequently measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Derivative financial assets comprise interest rate swaps designated as hedging instruments in effective hedge relationships. See (n) below for further information.

Financial liabilities

Financial liabilities comprise trade and other creditors, borrowings and derivative financial instruments.

The company's trade and other creditors and borrowings are initially measured at transaction price adjusted for transaction costs and subsequently measured at amortised cost. For the company's index linked borrowings, the initial EIR is calculated based on expected cash flows at initial recognition. A revised EIR is calculated at the start of each period using the revised forecast cash flows (reflecting the updated inflation expectations) and this rate is applied prospectively until the next revision to the EIR. In each period, the company recognises interest expense (and increases the carrying amount of the loan) based on the prevailing EIR. Any premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument that is included in finance charges in the profit and loss account.

The company has floating rate bank loans and related interest rate swaps. These previously linked to LIBOR as a benchmark; however, they have since transitioned to using SONIA as part of

the process of IBOR reform with no material impacts on the financial statements.

Derivative financial liabilities comprise interest rate swaps designated as hedging instruments in effective hedge relationships. See (n) below for further information.

The company's policy is to pay suppliers in line with the terms of payment agreed with each of them, when contracting for their products or services. The company also follows the Prompt Payment Code.

r) Hedge accounting

The company has entered into derivative financial instruments to hedge exposure to floating interest rates. These derivative financial instruments are recorded on the balance sheet at fair value on inception and at each balance sheet date. Movements in fair value of derivative financial instruments are recorded in the profit and loss account except where the company has adopted hedge accounting.

At present, all derivatives held by the company have been designated certain as hedging instruments as in effective cash flow hedges. At inception of the hedge relationships, the company documents the relationships between the hedging instruments and the hedged items along with the company's risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are recognised in OCI in the cash flow hedge reserve deferred in equity in a hedging reserve net of deferred tax. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. Hedge accounting is discontinued when:

- the company de-designates the hedging relationships;
- the hedging instruments expire, are terminated or are sold; or
- they no longer qualify for hedge accounting.

Amounts recognised in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

s) Dividends

Dividends are recognised if they have been paid or if they have been approved by the company's Board and investors before the period end.

t) Exceptional items

In the opinion of the Directors, the company separately presents certain items on the face of the profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, are presented separately to allow an understanding of the company's financial performance and comparison to the prior year. They are not expected to be incurred on a recurring basis.

Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements.

These are based on historical experience, future forecasts and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed and amended where necessary on a regular basis. However, it is also recognised that the actual outcomes may still differ to the judgements, estimates and assumptions made.

Provided below are details of the principal accounting judgements, estimates and assumptions the Directors have made when applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The more significant judgements were as follows.

Tangible fixed assets – determining costs which are capital in nature

Opex v capex

Our business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the company has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised.

Recognition of contingent liability

In July 2022 South Staffordshire Plc (Group), the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers.

The quantum and value of civil claims we may receive, and the costs and liabilities that may be incurred addressing those claims involves significant judgement and uncertainty. It is not possible to reliably estimate a provision based on currently available information. This assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

The key accounting estimates were as follows.

Accrued income

Metered customers are billed for a fixed charge and a variable volume charge. An estimate of water consumption by metered customers since the date of the last water bill and an estimate of the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from the company's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2023 was £14,513,000 (2022: £13,558,000). A 1% movement in consumption equates to a £122,000 movement. Other accrued income totalled £5,608,000 (2022: £5,064,000).

Amortised cost of index-linked borrowings

In order to record the company's index-linked borrowings at amortised cost the actual inflation rate (Retail Price Index – or RPI) per annum is assessed. The net book value of index-linked borrowings as at 31 March 2023 was £269,516,000 (2022: £241,153,000). Further detail can be found on page 114.

Bad and doubtful debt provision

The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year end, requires judgement. This judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually calculated as a percentage of the total amount billed in each year. This information is used to estimate the level of debt outstanding at the end of the year, which is expected to be irrecoverable after following the processes of collection that the company adopts. This estimate represents the appointed year end bad and doubtful debt provision, which was £35,414,000 as at 31 March 2023 (2022: restated £32,372,000) impacted by voids. For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by approximately £1,100,000.

Tangible fixed assets – assessment of useful economic lives

There is a requirement to estimate the useful economic lives of the company's tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the company's forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of asset lives. The total net book value of tangible fixed

assets as at 31 March 2023 was £655,010,000 (2022: £593,361,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be approximately £1,500,000.

Climate change

The company continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the

company operates is continually changing, and the expected impact on the company from climate change is set out within the risk review on page 64). We have considered the impact of the climate change related risks to which the company is exposed in the preparation of these financial statements. The risks are long term in nature, and while they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgement.

2. Analysis of turnover

The Directors consider that the company operates substantially in the UK in one class of business. An analysis of turnover from UK operations is provided below.

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Appointed turnover		
Household - measured	51,360	50,062
Household - unmeasured	56,672	53,545
Non-household - measured	24,942	23,564
Non-household – unmeasured	1,041	998
Third party services	3,402	2,729
	<hr/> 137,417	<hr/> 130,898
Non-appointed turnover		
Aqua Direct spring water business	5,474	4,962
Other Non Appointed	451	444
Commissions	3,060	3,115
	<hr/> 8,985	<hr/> 8,521
	<hr/> 146,402	<hr/> 139,419

Appointed turnover is that earned under South Staffordshire Water's licence to supply water. Non-appointed turnover relates to activities that do not require a water supply licence.

Commissions are earned on the collection of amounts billed for other water companies for sewerage services they provide to customers and also earned under its agreement to identify to sell insurance policies.

Appointed turnover for March 2022 has been restated. The prior period restatement note on page 116 gives further detail around the restatement.

3. Operating costs

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Operating costs were as follows:		
Raw materials and consumables	8,449	7,196
Staff costs (see note 4)	20,631	20,563
Own work capitalised	(8,860)	(8,584)
Amortisation : intangible assets	446	-
Depreciation : non-infrastructure assets	22,047	21,670
Depreciation : infrastructure assets	4,288	3,805
Infrastructure renewals expenditure	18,864	12,845
Rates	5,320	5,384
Abstraction charges	3,623	3,132
Commissions	2,288	2,316
Provision for doubtful debts	3,672	3,613
Other operating costs	50,180	42,460
	130,948	114,400

Other operating costs includes power £15,911,000 (2022: £13,575,000), hired and contracted services £26,185,000 (2022: £21,049,000) and other operating costs £8,084,000 (2022: £7,836,000).

Commissions are paid for the collection of amounts billed for other water companies for sewerage services they provide to customers and earned under its agreement to identify to sell insurance policies.

Software as a Service ("SaaS") costs included within operating costs amounts to £1,737,000 (2022: £1,800,000).

Operating costs (continued)

Auditor remuneration is analysed as follows.

	31 Mar 23	31 Mar 22
	£'000	£'000
Audit of the Company's annual accounts	317	183
Total audit fees	317	183
Audit related assurance services	101	102
Total non audit fees	101	102
	418	285

There are £101,000 of non-audit services payable in the year (2022: £102,000). Non-audit services include agreed upon procedures work for the annual performance report sections 1 and 4.

4. Staff costs

	31 Mar 23	31 Mar 22
	£'000	£'000
Wages and salaries	17,865	18,021
Social security costs	1,961	1,740
Pension costs (see note 25)	805	802
	20,631	20,563

	31 Mar 23	31 Mar 22
	Number	Number
Monthly average number of direct employees	361	367
Monthly average number of administration and support functions employees	61	67
Monthly average number of employees	422	434

The monthly average number of employees by activity, including Directors on a service contract and are on a full-time equivalents' basis.

5. Directors' remuneration

	31 Mar 23	31 Mar 22
	£'000	£'000
Emoluments	592	619
Pensions	22	20
	614	639

The highest paid directly employed Director received emoluments of £440,000 (2022: £330,000) and received a contribution of £22,000 (2022: £20,000) paid by the company in respect of defined contribution pension schemes during the year.

During the year and the prior year, specific Directors received no emoluments as Directors of the company. These Directors were remunerated by the intermediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £335,000 (2022: £474,000). Contributions in respect of money

purchase pension schemes for these Directors was £22,000 (2022: £21,000).

No Directors (2022: nil) who held office at the end of the year were accruing benefits due in the year under a defined benefit pension scheme and two Directors (2022: two) were contributing members under a money purchase scheme.

The remuneration report on page 80 gives further detail around the remuneration of the Directors and Executive team.

6. Other operating income

		31 Mar 23	31 Mar 22
	Note	£'000	£'000
Profit on disposal of fixed assets		283	149
Rental income		121	462
Grants and Contributions	15	3,432	3,356
Infrastructure renewals contributions		7,857	3,518
		11,693	7,485

Significant rentals included in rental income include a land, tenancy with rent £30,000 per annum paid annually in advance; hence this is an annual tenancy running year to year.

Grants and contribution amounts received from developers for diversion activity is recognised when the service to divert the infrastructure has been completed.

Infrastructure renewals contributions are for mains diversionary works and are received from developers for diversion activity. They are recognised when the works have been completed.

7. Exceptional item

In July 2022 South Staffordshire Plc (Group), the parent company of South Staffordshire Water PLC (including the South

Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data

from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers.

The Group has been subject to regulatory investigation regarding the cyber-attack. While these investigations continue the outcome remains unknown, the company believe it is probable that further costs associated with the investigation will be incurred and a provision has been recorded within the financial statements of South Staffordshire Water PLC.

8. Finance costs (net)

	31 Mar 23	Restated 31
	£'000	Mar 22
		£'000
Interest payable and similar charges:		
Index-linked debt (cash)	8,675	7,981
Index-linked debt (non-cash)	28,364	9,952
Bank loan and other interest	206	965
Private Placement Interest	1,432	299
Debenture interest	43	68
	38,720	19,265
Interest receivable and similar income:		
Loans to parent undertakings	-	(1,476)
Bank loan and other interest	(1,158)	(321)
	(1,158)	(1,797)
Other finance charges:		
Amounts recycled from hedging reserve	171	172
	37,733	17,640

9. Tax on profit

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Current tax:		
UK corporation tax at 19% (2022: 19%)	(923)	(1,543)
Adjustments in respect of prior periods	(844)	445
Total current tax charge	(1,767)	(1,098)
Deferred tax:		
Origination and reversal of timing differences	(4,226)	4,748
Impact of changes in future tax rates	-	15,012
Adjustments in respect of prior periods	(7)	(490)
Total deferred tax charge	(4,233)	19,270
Total tax charge	(6,000)	18,172

Tax included in statement of comprehensive income

Deferred tax:		
Movement in hedging reserve	459	148
Total tax charge	459	148

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are reconciled below.

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Profit on ordinary activities before tax	(14,086)	14,864
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2022: 19%)	(2,676)	2,824
Expenses not deductible for tax purposes (net)	224	(759)
Benefit of capital allowances super-deduction 30% element	(1,683)	1,181
Difference in current tax and deferred tax rates	(1,014)	(41)
Effect of changes in deferred tax rate	-	15,012
Adjustments in respect of prior years	(851)	(45)
Total tax charge	(6,000)	18,172

Profit on ordinary activities multiplied by standard of tax for March 2022 has been restated. The prior period restatement note on page 116 gives further detail around the restatement. The £15,012,000 reconciling item for the effect of changes in the deferred tax rate in the prior year is the impact of the re-

measurement of the deferred tax liabilities to account for the increase in the UK corporation tax rate from 19% to 25%, effective from 1 April 2023. The rate increase was substantively enacted in the Finance Act 2021, on 24 May 2021.

10. Dividends paid

	31 Mar 23 £'000	31 Mar 22 £'000
Equity Interests		
Ordinary Dividends paid of 433.31p (2022: 502.78p) per share	9,200	10,675

In 2023, the dividend comprised:

- £7,663,000 from the appointed business (2022: £7,560,000);
- £1,537,000 from the non-appointed business (2022: £1,639,000); and
- £nil from intra-group interest to be paid back to the company (2022: £1,476,000).

Further details of the dividend paid in the year are provided on page 13 of the strategic report.

11. Earnings per share

	31 Mar 23 £'000	Restated 31 Mar 22 £'000
Profit on ordinary activities after taxation and profit for earnings per share	(8,086)	(3,308)

	31 Mar 23 Number of Shares	31 Mar 21 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	2,123,210	2,123,210

The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the year. The calculations of earnings per share are based on the above profits and number of shares.

12. Intangible fixed assets

	Software £'000
Cost	
At 1 April 2022	10,951
Additions	921
Disposals	(9)
As at 31 March 2023	11,863
Amortisation	
At 1 April 2022	6,584
Charge for the year	446
Disposals	(5)
As at 31 March 2023	7,025
Net Book Value	
Owned	4,838
As at 31 March 2023	4,838
Net Book Value	
Owned	4,367
At 31 March 2022	4,367

Intangible assets are mainly software and include customer billing system, works management system and financial reporting system.

Following a review of the company's historic practice of including software assets within tangible fixed assets, software assets held at 31 March 2022 have been reclassified to a separate Intangible asset note. This reclassification has no impact on the net assets result for the year or cash flows. The impact on the 31 March 2022 balance sheet has been to reclassify software with a net book value of £4,367,000 from tangible fixed assets to intangible fixed assets.

13. Tangible fixed assets

	Specialised Operational Assets £'000	Non Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Assets under the course of Construction £'000	Assets held for sale £'000	Total £'000
Cost							
At 1 April 2022	241,397	23,473	519,076	243,566	54,139	279	1,081,930
Capitalisation of completed assets	12,288	986	11,288	10,715	(35,277)	-	-
Additions	-	-	-	-	88,202	-	88,202
Disposals	-	-	-	(2,569)	-	-	(2,569)
As at 31 March 2023	253,685	24,459	530,364	251,712	107,064	279	1,167,563
Depreciation							
B/fwd	131,996	8,720	196,963	150,791	-	99	488,569
Charge for the year	8,728	387	4,288	12,933	-	4	26,340
Disposals	-	-	-	(2,356)	-	-	(2,356)
As at 31 March 2023	140,724	9,107	201,251	161,368	-	103	512,553
Net Book Value							
Owned	112,664	15,352	329,113	90,367	107,064	176	654,736
Leased	297	-	-	(23)	-	-	274
As at 31 March 2023	112,961	15,352	329,113	90,344	107,064	176	655,010
Net Book Value Restated							
Owned	109,098	14,753	322,113	92,748	54,139	180	593,031
Leased	303	-	-	27	-	-	330
At 31 March 2022	109,401	14,753	322,113	92,775	54,139	180	593,361

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £6,952,000 (2022: £7,045,000) less accumulated depreciation of £6,678,000 (2022: £6,715,000). Tangible fixed assets include freehold land of £2,337,000 (2022: £2,337,000), which is not subject to depreciation, which is included in other tangible assets. Finance lease liabilities had been fully paid in previous years and therefore there are no finance lease liabilities or cash flows in the year.

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £107,064,000 at 31 March 2023 (2022: £54,139,000). The significant increase relates to the major upgrade of our two largest treatment works.

Software assets were previously included within the tangible fixed asset note. These are now shown in the opening balance of the intangible assets note.

14. Commitments

Capital commitments outstanding at 31 March 2023 were £44,682,000 (2022: £74,160,000). Payments due not later than one year were £35,900,000 (2022: £43,689,000). The majority of this relates to the major upgrade of the company's two largest treatment works.

15. Capital contributions – accruals and deferred income

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2022	153,636	15,067	168,703
Capital contributions received	3,849	11,033	14,882
Amortised in year	(2,000)	(1,432)	(3,432)
Balance at 31 March 2023	155,485	24,668	180,153

Capital contributions are expected to be amortised over the life of the asset.

16. Stocks

	31 Mar 23 £'000	31 Mar 22 £'000
Raw materials and consumables	3,870	3,072

Stock is stated at lower of cost and net realisable value. There is no material difference between the balance sheet value of stocks and their replacement costs.

17. Debtors

	31 Mar 23 £'000	31 Mar 22 £'000
Amounts recoverable within one year:		
Trade debtors	18,168	8,062
Other debtors	1,691	201
Amounts due from other group undertakings	1,560	1,534
Amounts due from parent undertakings	3,541	4,599
Prepayments	1,029	501
Accrued income	20,121	18,622
Other short term investments	20,000	-
	66,110	33,519
Amounts recoverable in more than one year:		
Other amounts due from parent undertakings	2,441	2,654
Derivative financial debtors	1,608	-
	4,049	2,654
	70,159	36,173

Amounts due from parent undertakings of £3,541,000 (2022: £4,599,000) are trade balances receivable on demand. Amounts due from other group undertakings, group subsidiaries are balances receivable on demand.

Other amounts due from parent undertakings amount to £2,441,000 (2022: £2,654,000) are trade balances receivable in more than one year.

Amounts due from parent undertakings includes an amount for corporation tax receivable of £2,815,000 (2022: £1,681,000), which is due from parent undertakings.

Other short-term investments comprise of bank deposits with an original maturity in excess of three months but not greater than one year.

Trade debtors are stated net of provisions.

Detail of provision against bad debt are shown in note 27 on page 112.

18. Investments

	31 Mar 23	31 Mar 22
	£'000	£'000
Investments	2	2

The balance represents the cost of investment of £1,596 related to 798 'A' ordinary shares and 8% of unsecured loan stock of WRc PLC, a research-based group providing consultancy in the water, waste and environmental sectors, incorporated in England and Wales.

19. Creditors – amount falling due within one year

	31 Mar 23	31 Mar 22
	£'000	£'000
Payments on account	30,948	26,372
Trade creditors	37,935	34,478
Other creditors	10,345	9,031
Amounts owed to other group undertakings	8,874	6,997
Corporation tax payable	743	1,378
Other taxation and social security	689	827
Total creditors amounts falling due within one year	89,534	79,083

Amounts owed to other group undertakings, which are fellow group subsidiaries, £8,874,000 (2022: £6,997,000) are trade balances payable on demand.

20. Creditors – amount falling due after more than one year

	31 Mar 23	31 Mar 22
	£'000	£'000
Irredeemable debenture stock (unsecured) (note 21)	1,633	1,633
Perpetual debenture stock (unsecured)	19	19
Bank loans (unsecured and net of issue costs):		
payable between two and five years	29,972	29,909
Private Placement loans (unsecured and net of issue costs):		
more than five years	59,923	19,958
Retail Price Index-linked debt (unsecured)	269,516	241,153
Borrowings	361,063	292,672
Payments on account	2,962	2,966
Other creditors	7,092	7,299
Derivative financial liabilities (note 27)	-	57
Creditors	10,054	10,322
Total creditors amounts falling due after more than one year	371,117	302,994

The gross bank loans (unsecured) of £30,000,000 (2022: £30,000,000) included in amounts falling due after more than one year is used for covenant reporting purposes but, in accordance with FRS 102, is stated above net of unamortised issue costs. These consist of one facility of £30,000,000, of which £30,000,000 was drawn (2022: £30,000,000).

Derivative financial liabilities represent the market value (obtained from a third party) of floating to fixed rate interest rate swaps designated as cash flow hedges. Detail of derivative financial liabilities are shown in note 27 on page 112. The effective portion of the gain or loss on the hedging instrument is recognised in

the statement of other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Private placement loans £60,000,000 (2022: £20,000,000) included in amounts falling due after more than five years, net of fees.

The book value index-linked debt of £269,515,000 (2022: £241,151,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £257,739,000 (2022:

£229,614,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 26 on page 111.

21. Irredeemable debenture stock

	31 Mar 23	31 Mar 22
	£'000	£'000
3.5%	476	476
4.0%	627	627
5.0%	500	500
	<hr/>	<hr/>
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	<hr/>	<hr/>
	1,633	1,633

22. Provisions for liabilities – falling due after more than one year

	Deferred Taxation £'000	
At 1 April 2022	64,977	
Charged to profit and loss account	(4,233)	
Credit to other comprehensive income	459	
At 31 March 2023	61,203	

	31 Mar 23	Restated 31 Mar 22
	£'000	£'000
Analysis of deferred tax	£'000	£'000
Accelerated Capital Allowances	77,799	67,588
Deferred tax arising in relation to retirement benefit obligations	-	-
Tax losses available	(15,414)	(730)
Timing differences in respect of hedging reserves	(816)	(1,275)
Timing differences in respect of finance charges	(218)	(225)
Other timing differences	(148)	(381)
Provision for deferred tax	61,203	64,977

Deferred tax assets and liabilities have been offset. The company's expectation is that there would be a net reduction in the deferred tax liability of £453,000 in the next 12 months.

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to taxes levied by the same taxation authority.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £2,733,000 (2022: £2,733,000).

23. Contingent liability

In July 2022 South Staffordshire Plc (Group), the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers.

The quantum and value of civil claims we may receive, and the costs and liabilities that may be incurred addressing those claims involves significant judgement and uncertainty. It is not possible to reliably estimate a provision based on currently available information. This assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

24. Share capital

	31 Mar 23 £'000	31 Mar 22 £'000
Authorised:		
8,800,000 Ordinary shares of £1 each	8,800	8,800
Allotted, called-up and fully-paid:		
2,123,210 Ordinary shares of £1 each	2,123	2,123

There is a single class of ordinary shares.

25. Pension retirement benefits

The Group operates a number of funded pension schemes, of which some employees of the company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net pension cost of the scheme is recognised in the financial statements of the sponsoring employer, South Staffordshire Plc. It participates in the Water Companies Pension Scheme, by way of separate sections (the South Staffordshire section and the Cambridge section), which provides benefits based on pensionable pay.

The schemes were closed to all future benefit accrual with effect from 1 April 2015 and as such, only funding deficit contributions are now being paid into the schemes by the company. During the year ended 31 March 2023 the funding into the schemes was made indirectly through the intermediate parent company.

The assets and liabilities of the South Staffordshire section of the scheme are accounted for in the accounts of the intermediate parent undertaking, South Staffordshire Plc. The assets and liabilities for the Cambridge section of the scheme are accounted for within Cambridge Water PLC.

In addition, the company participates in a defined contribution Money Purchase Pension Scheme. The assets of all schemes are held separate from those of the company and are invested by fund managers.

The contributions to the defined contribution scheme is charged against profits as incurred with the amount for the year ended 31 March 2022 being £805,000 (2022: £802,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS 102. The latest valuation of South Staffordshire section of the scheme as at 31 March 2023, prepared for the purposes of the consolidated financial statements of the parent company South Staffordshire Plc under FRS 102 rather than on the actuarial basis used for funding purposes, shows a surplus before deferred tax of £946,000 (2022: surplus of £42,531,000). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme that were accounted for in the intermediate parent company at the balance sheet date were as follows.

	Mar 2023 Valuation £'000	Mar 2022 Valuation £'000	Mar 2021 Valuation £'000
Growth assets including equities and diversified growth funds	-	47,824	15,297
High yield bonds/gilts and liability driven investments	-	80,021	203,026
Buy and maintain credit	-	80,112	-
Buy-in policy	123,784	-	-
Liquidity funds	7,579	3,313	-
Emerging markets multi-asset funds	-	-	-
Net current assets/(liabilities)	(5,826)	-	-
Cash	1,148	1,204	552
Market value of assets	126,685	212,474	218,875
Present value of scheme liabilities	(125,739)	(169,943)	(183,587)
Surplus in the scheme before deferred tax	946	42,531	35,288
Related deferred tax liability	(237)	(10,633)	(6,705)
Surplus after deferred tax	709	31,898	28,583

26. Cash and cash equivalents

	31 Mar 23	31 Mar 22
	£'000	£'000
Cash at bank and in hand	3,571	50,135
Short term investments	20,000	-
Cash and cash equivalents	23,571	50,135

27. Financial assets and financial liabilities

The analysis of the company's financial assets and liabilities includes:

- cash;
- loans receivable;
- borrowings;
- trade creditors; and
- trade debtors.

Borrowings represent:

- bank loans;
- private placement loan notes;
- index-linked borrowings; and
- irredeemable and perpetual debenture stock.

The main purpose of these financial instruments is to finance the company's operations. It is, and has been throughout the year

under review, the company's policy that no trading in financial instruments shall be carried out. The company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both long- and short-term debt while not exposing it to significant risk of market movements (see below). The company is not exposed to any material foreign exchange risk.

Bank loans bear interest that is linked to SONIA plus a bank margin, which is applied to the drawn down element of each loan, some of which are hedged through interest rate swaps.

Fair values have been obtained from the relevant banks and are quoted at the relevant market price for the interest rate swap.

Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2023 was as follows.

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Restated Retail Price Index- Linked debt £'000
31 March 2023	91,547	-	269,516
31 March 2022	51,519	-	241,153

Floating rate loans that are hedged by the floating to fixed interest rate swaps are shown above as fixed rate. The company's cash balances earn interest at floating rates linked to SONIA or the Bank of England base rate. The company's trade debtors and trade creditors are not subject to interest unless

considered to be overdue. For all financial assets and liabilities, the book values and fair values are not materially different, except for the RPI-linked loan and the RPI-linked bond shown in the table below.

31 Mar 23

31 Mar 22

	£'000	£'000
Retail Price Index-Linked Loan		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	199,540	177,624
Book Value	210,458	188,871
Retail Price Index-Linked Bond		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	58,200	51,990
Book Value	59,057	52,283

Fixed-rate borrowings

	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
31 March 2023	2.9	10.3
31 March 2022	3.1	6.6
	31 Mar 23	31 Mar 22
	£'000	£'000
Expiring in one year or less	-	30,000
In more than one year, but not more than two years	-	-
In more than two years, but not more than five years	30,000	-
In more than five years, but not more than twenty years	60,000	20,000
In more than twenty years	-	-
	90,000	50,000

In addition to the above, at 31 March 2023 the company had cash and cash equivalents balances of £23,571,000 (2022: £50,135,000), increasing liquidity headroom to £23,571,000 (2022: £50,135,000) and other short-term investments of £20,000,000 (2022: £nil).

The company is confident it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and financial statements.

Financial risks

The company's activities result in it being subject to a limited number of financial risks, principally credit risk as the company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The company has formal principles for overall risk management, as well as specific policies to manage individual risks.

a) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates, including those linked to SONIA and the RPI that expose the company's earnings and cash flows to changes in SONIA and RPI.

Risks of increases in SONIA are managed by limiting the value and proportion of the company's borrowings that are linked to this variable and by entering into floating to fixed rate swap contracts. Risks associated with increases in RPI are effectively hedged against the revenues and the RCV of the regulated water business, both of which are also linked to RPI.

b) Credit risk

As is market practice, the company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amount's receivable from these customers.

Full details of the way this risk is managed are provided below. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

c) Liquidity risk

Liquidity risk represents the risk of the company having insufficient liquid resources to meet its obligations as they fall due. The company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and

availability of adequate banking facilities, including sufficient headroom. A maturity analysis of the company's borrowings has been provided below.

At 31 March 2023 the company had cash and cash equivalent balances of £23,571,000 (2022; £50,135,000).

The company is confident it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities when necessary.

Interest rate swaps

The Group has entered into interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. The interest rate swaps have been accounted for as cash flow hedges with movements in the fair value of these swaps being recognised in the hedging reserve. Details of interest rate swaps are summarised below.

	Interest rate fixed		Nominal principal amount		Fair value	
	31 Mar 23 %	31 Mar 22 %	31 Mar 23 £'000	31 Mar 22 £'000	31 Mar 23 £'000	31 Mar 22 £'000
Period to maturity						
5-10 years	2.14	2.14	30,000	30,000	(1,608)	56

Negative figures represent debtors and positive figures represent creditors.

Maturity of financial assets and liabilities

	31 Mar 23 £'000	31 Mar 22 £'000
Borrowings		
In one year or less or on demand	-	-
In more than one year, but not more than two years	-	30,000
In more than two years, but not more than five years	30,000	-
In more than five years	60,000	20,000
In more than twenty years	259,391	231,266
	<u>349,391</u>	<u>281,266</u>
Other Financial Liabilities		
In one year or less or on demand	88,101	77,615
In more than one year, but not more than two years	879	1,846
In more than two years, but not more than five years	3,002	4,343
In more than five years, but not more than twenty years	6,174	3,395
In more than twenty years	-	-
	<u>98,156</u>	<u>87,199</u>
	<u>447,547</u>	<u>368,465</u>

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £257,739,000 (2022: £229,614,000) included in the table above are stated at the principal amount indexed by RPI to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in 2045 is £368,355,000 (2022: £358,265,000) and at redemption in 2051 is £118,051,000 (2021: £118,379,000).

- £30,000,000 RCF NatWest has an interest rate of 1.20% plus SONIA and matures in March 2026.
- £20,000,000 Pricoa Private placement has an interest rate of 2.57% and matures in September 2036

- £40,000,000 Pricoa Private placement has an interest rate of 2.75% and matures in September 2037
- £111,400,000 Artesian Index-Linked Loan has an interest rate of 3.76% and matures in September 2045.
- £35,000,000 Quoted Index-Linked Bond has an interest rate of 1.84% and matures in June 2051.
- £1,700,000 Irredeemable Debentures has various interest rates.

Debtors recoverable in more than one year

Debtors recoverable in more than one year of £4,049,000 (2022: £2,654,000). £2,441,000 relates to the historical agreements put

in place with a holding company in the Group structure to offset the impact on South Staffordshire Water of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. In addition, non-current debtors includes £1,608,000 in relation to the company's interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal.

Trade debtors

Provisions are made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to March 2023 in respect of such provisions was £3,672,000 (2022: £2,583,000). Total trade debtors as at 31 March 2023 were £17,323,000 (2022: £8,062,000). The total

amount of the provision included in the above, as at 31 March 2023, was £35,414,000 (2022 restated: £32,372,000).

In accordance with the market conditions prescribed by MOSL, the wholesale market operator, we hold collateral where required and in line with market rules from retailers that purchase water from the company. This collateral is held in the form of:

- parent company guarantees;
- bank guarantees;
- letter of credits;
- credit insurance; and
- cash collateral balances totalling £162,152 at year end (2022: £189,309).

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value.

An ageing analysis of trade debtors that are invoiced but not impaired is provided below.

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2023	12,534	2,260	1,613	126	399	344	17,276
2022	6,082	1,197	122	144	(95)	185	7,635

Non-Regulated	<1 month £'000	1-2 months £'000	>2 months £'000	>3 months £'000	Total £'000
2023	771	29	1	1	802
2022	648	90	8	-	746

Non-regulated debtors are provided to the value of £4,000 (2022: £10,000) and were all more than two months past due. An ageing analysis of appointed debtors that are considered to be impaired is provided below.

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2023	3,347	4,315	4,102	4,250	4,343	15,057	35,414
2022 Restated	4,438	4,402	3,951	4,623	3,699	11,259	32,372

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 17 approximates to their fair value.

28. Related party transactions

Historical agreements were put in place with a holding company in the Group structure to offset the impact on South Staffordshire Water of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2023 was £2,804,000 (2022: £3,018,000). In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact.

During the year, the company provided wholesale water services to the retailer Pennon Water Services Limited (PWSL), and its subsidiary SSWB, a joint venture with South Staffordshire Plc, with a turnover of £17,726,000 (2022: £17,771,000). In relation to these transactions £17,000 was outstanding at the year-end (2022: £17,000). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2023 an amount of £2,000 was payable to PWSL for cash collected during the year that has not been paid over (2022: £284,000).

29. Ultimate controlling party

The immediate parent company is SSW Finance Ltd, which is registered in England and Wales.

South Staffordshire Plc, which is registered in England and Wales, is an intermediate parent undertaking and is the smallest group preparing consolidated accounts that include South Staffordshire Water. During the year the ultimate parent company in the United Kingdom was Hydrades IV Limited, registered in England and Wales, which is the largest group preparing consolidated accounts that include South Staffordshire Water PLC. Copies of the consolidated accounts for South Staffordshire Plc and Hydrades IV Limited can be obtained from the Company's registered office, Green Lane, Walsall, West Midlands, WS2 7PD.

The ultimate controlling party is AIP Holdings Limited, a Company registered in England and Wales, which controls and manages and is the General Partner of a UK registered investment entity that acquired a majority equity interest of a holding company of the Group.

30. Prior period restatement

During the year, the company performed a one-off review of its household customer base and identified 20,000 predominantly

unmeasured properties where the last recorded contact was more than two years ago. It was noted that the lack of contact may imply the incorrect occupant being billed or there are no occupants at the property, or the property was empty and should be categorised as "void". The Credit Reference Agency review confirmed, of the 20,000 initial population, a total of 4,904 properties were subsequently confirmed to be unoccupied so moved to void status, resulting in a cumulative £3.9m reduction to household turnover and £1.0m reduction in bad debt charge, which also resulted in a tax impact of £0.7m

As these properties had not previously been identified as void, in prior years bills had been issued and revenue continued to be recognised. As the properties are now known to have been vacant, this revenue should not have been recognised and a prior year adjustment has been calculated. Making this adjustment also had an effect in reducing the bad debt provision.

The effect of this on the profit and loss account is as follows.

	Previously Reported	Restated	Restatement
	£'000	£'000	£'000
Turnover	140,108	139,419	(689)
Operating costs	(114,400)	(114,400)	-
Other operating income	7,485	7,485	-
Operating profit	33,193	32,504	(689)
Finance costs (net)	8	(17,640)	-
(Loss)/profit before taxation	15,553	14,864	(689)
Tax on profit	(18,344)	(18,172)	172
(Loss) for financial year attributable to the equity shareholders of the Company	(2,791)	(3,308)	(517)
Earnings per share			
Basic	11	(131.5p)	(155.8p)
Diluted	11	(131.5p)	(155.8p)

The effect of this on the balance sheet is as follows:

	Previously Reported	Restated	Restatement
	£'000	£'000	£'000
Debtors - amounts recoverable within one year	36,438	33,519	(2,919)
Net current assets	13,218	10,299	(2,919)
Total assets less current liabilities	610,946	608,027	(2,919)
Provisions for liabilities - falling due after more than one year	(65,707)	(64,977)	730
Net Assets	73,542	71,353	(2,189)
		-	
Capital and reserves		-	
Profit and loss account	39,712	37,523	(2,189)
Shareholders' Funds	73,542	71,353	(2,189)

The effect of this on the cash flow statement is as follows.

	Previously Reported	Restated
	£'000	£'000
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Total operating profit	33,193	30,274
Depreciation	25,475	25,475
Amortisation of capital contributions	(3,356)	(3,356)
Profit on disposal of tangible fixed assets	(149)	(149)
Contributions and grants received	8,727	8,727
	30,697	21,970
Decrease/(Increase) in stocks	(94)	(94)
(Increase)/Decrease in debtors	(5,180)	(2,261)
Decrease/(Increase) in creditors	6,869	6,869
Cash inflow from operating activities	1,595	4,514
Corporation tax paid	600	600
Net cash inflow from operating activities	66,085	57,358

Independent Auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORSHIRE WATER PLC

Opinion

We have audited the financial statements of Staffordshire Water Plc (or "the Company") for the year ended 31 March 2023 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement and the related notes 1 to 30 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- ▶ We confirmed our understanding of the Board's going concern assessment process and engaged with management to ensure key factors were considered in their assessment. Management have performed their going concern assessment to 31 March 2025, being the end of the AMP 7 cycle.
- ▶ We obtained the Board's going concern assessment, including cash flow forecasts, liquidity requirements and forecast covenant calculations and tested these for arithmetical accuracy. The Board prepared "base case" and "downside case" cash flow forecast models and forecast covenant calculations.
- ▶ We engaged our specialists to assess the ability of the Company to raise additional finance and to assess the status of the ongoing discussions with existing lenders.
- ▶ We discussed and challenged the potential legal and regulatory costs associated with the cyber-attack, including the quantum and timing thereof, and the associated legal processes available to management with management's external specialists. We also critically evaluated whether the legal process outlined by management's external specialist was within the control of management.

- ▶ We considered the appropriateness of methods used to calculate the cash flow forecast models and forecast covenant calculations and determined, through inspection of the methodology and testing of the calculations, whether the methods used were appropriate to make an assessment for the Company. We also confirmed the arithmetical accuracy of management's scenarios. Where applicable, we corroborated data used in the scenarios to appropriate third party support.
- ▶ The Company has an agreed business plan with Ofwat for the five-year price period from 1 April 2020 to 31 March 2025, setting out the basis of allowed tariff changes. We have compared the key assumptions in the company forecasts to the agreed business plan for consistency.
- ▶ We have tested key assumptions in the Board's scenarios including revenue growth, operating cost inflation including chemical and energy costs, capex and IRE programme spend and future cash outflows related to claims associated with the cyber-attack by comparing to the work performed as part of our audit.
- ▶ We have validated the maturity dates and covenant requirements of the Company's facilities assumed in the models to facility agreements.
- ▶ We obtained the Board's forecast covenant calculations for facilities assumed in the models. We tested inputs into the covenant forecast calculations back to the base case and downside scenarios to identify whether there were any forecast covenant breaches in the GC review period.
- ▶ We performed sensitivity analysis on the downside scenarios assuming a severe but plausible level of payment of regulatory penalties and civil claims related to the cyber-attack and no additional financing during the going concern period. This assessment included consideration of mitigating factors within the control of the Company which include the ability to reduce dividend payments, defer expenditure and follow a legal process that would take a significant amount of time and extend payment of civil claims well beyond the going concern period.
- ▶ We read the Company's going concern disclosures included in the Annual Report in order to evaluate whether the disclosures were appropriate and in conformity with the applicable reporting standards.

Our key observations

A key assumption in the forecast and severe, but plausible downside scenarios is the quantum and timing of legal and regulatory costs arising from the cyber-attack. The Directors believe that, should such costs be significantly greater than those assumed in the downside scenario, the legal process would take a significant amount of time and extend well beyond the going concern period. The Directors are confident this would allow the Company to raise sufficient additional funds for the reasons noted in Note 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern over a period to 31 March 2025.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">• Appropriateness of the Company's response to the cyber-attack including the direct impact to the financial statements, the presentation of related exceptional items and the valuation / completeness of related provisions / contingent liabilities and associated disclosures• Manual journals to revenue and revenue recognition of unbilled accrued measured income• Valuation of bad and doubtful debt provisions for trade debtors and accrued income
Materiality	<ul style="list-style-type: none">• Overall materiality of £1.5m which represents 3% of normalised EBITDA.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

Stakeholders are increasingly interested in how climate change will impact South Staffordshire Water Plc. The Company has determined that the most significant future impacts from climate change on its operations will be on the supply of water resources. These are explained on page 38 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements.

The Company has explained in the key accounting estimates section of the statement of accounting policies how they have reflected the impact of climate change in their financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still

developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of FRS 102.

Our audit effort in considering the impact of climate change on the financial statements was focused on ensuring the effects of material climate risks disclosed on pages 38 and Note 1: key accounting estimates have been appropriately reflected in long-term fixed asset values and useful economic lives, and associated disclosures where values are determined through modelling future cash flows. Our procedures did not identify any material impact on our key audit matters for the year ended 31 March 2023. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk 1 – Appropriateness of the Company's response to the cyber-attack including the direct impact to the financial statements, the presentation of related exceptional items and the valuation / completeness of related provisions / contingent liabilities and associated disclosures
Description of risk
<p>As described in notes 7 and 23, South Staffordshire Plc (or "the Group"), an indirect parent company of South Staffordshire Water Plc, was the victim of a cyber-attack in the year which involved the theft of data from the Group's IT systems including personal data of a proportion of the Company's employees, customers and former employees.</p> <p>As a result of this incident we have identified the following risks of material misstatement to the financial statements:</p> <ul style="list-style-type: none"> a) The risk that the Group's financial systems have been accessed and that their integrity was compromised with the consequent possibility of material misstatement of financial information in the financial statements. b) The risk of inappropriate presentation of cyber-attack related exceptional items in the financial statements and the possibility of materially misstating underlying operating profit; and c) The risk of inappropriate conclusions, estimates and disclosure related to provisions and contingent liabilities from possible regulatory penalties and civil claims. <p>Exceptional items related to costs associated with the cyber-attack are £3.5m (2022: £nil).</p> <p>Refer to the Accounting policies (pages 97 and 98); and notes 7 and 23 of the financial statements.</p>
Our response to the risk

Our response to the risk

We engaged IT, legal and forensic specialists to assist us with our audit response. This included enquiries of management responsible for the coordination and response to the incident and with management's external specialists who were engaged to help support the business. As part of these enquiries we have understood the processes and procedures which were put in place by management as part of the response to the breach, subsequent containment, and remediation action.

With the assistance of our IT and forensic specialists we assessed the scope, methodology and overall approach of management's investigation into the cyber-attack. We obtained the results of management's investigation, including the conclusions reached and understood the basis for those conclusions. We discussed the findings with management and the Audit Committee, as well as management's specialists and legal representatives, and we consider the conclusions to be appropriate based on the results of the investigation and evidence obtained.

We have corroborated that there is no evidence to indicate that the integrity of IT systems relevant to the audit of the financial statements were compromised to the extent financial information in the financial statements is materially misstated.

We have obtained management's analysis of costs directly incurred in relation to the cyber-attack which have been disclosed as exceptional items. We consider the presentation of these costs as exceptional to be appropriate by virtue of their size and nature to allow an understanding of the Company's financial performance and comparison to the prior year. We selected a sample of costs and agreed these back to invoices, cash payments and statements of work where applicable to understand the nature of the cost incurred to ensure this related directly to the cyber-attack and was appropriately disclosed.

We analysed other legal and professional costs incurred in the year and selected a sample of these costs to agree back to supporting documentation such as invoice to ensure these did not relate to the cyber-attack and gain assurance over the completeness of exceptional items.

We have also assessed the Board's conclusions over the likely outcome of regulatory investigations, including that by the Information Commissioner's Office and the Drinking Water Inspectorate, and from civil claims received and may be received from customers, employees and former employees affected by the incident.

In order to assess the Board's conclusions over these matters we have obtained and read advice received by the Company from their external legal advisors. We met and directly discussed legal advice and legal conclusions with management's external legal advisors for both ongoing regulatory investigations and civil claims and our own internal legal and GDPR specialists. We requested, received and read letters directly from the management's external legal advisors that evaluated the current status of the ongoing regulatory investigations and civil claims.

Key observations communicated to the Audit Committee

We have concluded that there is no indication that the integrity of the financial statements has been compromised for the year ended 31 March 2023 as a result of the cyber-attack.

We consider costs presented as exceptional items (note 7) to be appropriate and complete.

With respect to potential regulatory penalties / fines we consider the level of provision recognised by management to fall within an acceptable range of possible outcomes. We have noted a classification and disclosure misstatement with respect to regulatory penalties / fines but both have been accepted on the grounds of materiality.

Key observations communicated to the Audit Committee
<p>With respect to potential civil claims we have considered management's assessment of disclosure as a contingent liability to be appropriate given the significant uncertainties including the quantum and value of civil claims that may be received and accepted, and the total costs and liabilities incurred addressing those claims, such that it is not currently feasible for a liability to be reliably measured. Appropriate disclosures in respect of contingent liabilities have been made in the notes to the financial statements.</p> <p>We draw attention to note 23 of the financial statements, which describes managements judgements with respect to the contingent liability.</p>

Risk 2 – Manual journals to revenue and revenue recognition of unbilled accrued measured income
<p>Description of risk</p> <p>There is a risk that management may override controls to intentionally misstate revenue transactions, and consequently operating profit, through:</p> <ul style="list-style-type: none"> a) Inappropriate manual journal entries to revenue; and b) Inappropriate calculations and manual journals to unbilled accrued measured income. <p>There are no significant judgements involved in the recognition of unmeasured revenue and this is not included in our audit risk.</p> <p>Unbilled accrued measured income requires an estimation of the amount of unbilled charges at the balance sheet date. This is calculated using a combination of system generated information based on estimated water consumption using the latest meter date read, previous volume consumptions for properties within the same geographical locations, and management adjustments for seasonality, operational data trends and leakage assumptions.</p> <p>Unbilled accrued measured income is therefore inherently judgemental, directly impacts reported revenue and operating profit and is susceptible to error and/or management bias.</p> <p>Management may also post erroneous or fraudulent journal entries to revenue as part of the unbilled accrued measured income process or record other journals to revenue in order to manipulate the results of the business.</p> <p>Revenue for the year was £146.4m (2022: £136.2m) and operating profit before exceptional items was £27.1m (£30.3m). Unbilled accrued measured income was £20.1m (2022: £18.6m) at the balance sheet date.</p> <p>Refer to the Accounting policies (page 95); and notes 2 and 17 of the financial statements.</p>

Our response to the risk
<p>We identified, documented and confirmed our understanding of the Company's revenue recognition policies including the process for the supply of measured services, meter reading and related billing and performed a walkthrough to assess the design and operating effectiveness of key controls over the revenue process but did not rely on these key controls.</p> <p>We performed testing to validate a sample of revenue transactions extracted from the sales invoicing system to revenue recorded and reconciled in the general ledger.</p> <p>We tested manual journal entries posted to revenue accounts, applying parameters designed to identify entries that were not in accordance with our expectations. This included analysing and selecting for testing journals which appeared unusual in nature due to size, preparer or being</p>

Our response to the risk
<p>manually posted as there is greater opportunity to record fictitious entries than with automated journals and therefore outside the normal course of business.</p> <p>We also introduced unpredictability into our manual journal testing. We corroborated such journals to source documentation to check whether the entries supported the revenue recognised and that the entries were valid.</p> <p>We evaluated the historical accuracy of management's unbilled accrued measured income estimates by comparing bills raised in the year to the prior year accrued income balance.</p> <p>We tested the integrity and completeness of source data from which management estimate water consumption by verifying a sample of data to types of meter, previous meter readings, billing periods, tariff values and property locations to underlying customer bills and previous meter reads.</p> <p>We challenged the appropriateness of manual adjustments to the calculation made by management for seasonality, operational data trends and leakage assumptions. We validated these to supporting information including internal and external data as well as considering the existence of contradictory evidence sources.</p> <p>We recalculated our own expected unbilled accrued measured income balance at the period end and compared this to management's own estimate.</p>

Key observations communicated to the Audit Committee
<p>We did not identify evidence of management override through inappropriate journal entries recorded to revenue or unbilled accrued measured income in the period.</p>

Risk 3 – Valuation of bad and doubtful debt provisions for trade debtors and accrued income
Description of risk
<p>The Company records a bad and doubtful debt provision to trade debtors and accrued income using a combination of system generated information on historic debt recovery rates and management's judgement of the likely future recovery rates.</p> <p>There is a risk that management may override controls to intentionally misstate the bad debt provision and related expense, and consequently operating profit. The assumptions and data, used by management in calculating the bad and doubtful debt provisions, may not be appropriate and the valuation of the provision against trade debtors and accrued income, and consequently operating profit, may be misstated.</p> <p>Historic cash collection rates of aged debtor balances from system generated reports are used to calculate a target cash collection rate. Target cash collection rates are then applied to the trade debtors based on their respective ageing and accrued income to calculate the bad and doubtful debt provision. Target collection rates are also subject to adjustments for void properties where the Company is not aware of the current occupier. The process for calculating the bad and doubtful debt provision is inherently judgemental and is susceptible to error and/or management bias or override.</p> <p>The bad and doubtful debt provision at the balance sheet date was £35.8m (2022: £33.3m). The bad and doubtful debt expense for the period was £3.7m (2022: £2.6m).</p> <p>Refer to the Accounting policies (page 99); and notes 3, 17 and 26 of the financial statements.</p>

Our response to the risk
<p>We identified, documented and confirmed our understanding of the Company's bad and doubtful debt policies and performed a walkthrough to assess the design and operating effectiveness of key controls over the process.</p>

Our response to the risk
<p>We evaluated the historical accuracy of management's cash collection rates to actual cash collections.</p> <p>We performed testing to validate the accuracy of data used in management's bad and doubtful debt model, namely agreeing a sample of invoices and cash receipts from cash collection rate data and the ageing of trade debtors at the balance sheet date.</p> <p>We recalculated the estimated bad and doubtful debt provision to gain assurance over the arithmetical accuracy of management's calculation.</p> <p>We calculated our own stress tests on management's provision by applying varying percentages to the cash collection rates to assess the sensitivity to the bad and doubtful debt provision estimate. We developed our own independent view of cash collection rates with reference to OFWAT and other regulatory press and industry analysis, and where possible considered the likely impact of the current cost of living crisis and economic conditions. This was then applied against the trade debtors and accrued income balances, based on their respective ageing, to calculate our own expected bad and doubtful debt provision which we compared to management's own estimate.</p> <p>We challenged managements accounting conclusions with respect to revenue recognition and bad debt provisions on properties historically identified as voids. This has resulted in a prior year restatement as described in note 30.</p> <p>We assessed the appropriateness and completeness of disclosures, including the prior year restatement, provided in the financial statements with respect of the bad and doubtful debt provision.</p>

Key observations communicated to the Audit Committee
<p>We did not identify evidence of management override through inappropriate bad and doubtful debt provisions on trade debtors and accrued income at the balance sheet date.</p> <p>We communicated our findings with respect to historic revenue recognition and bad debt provisions on properties historically identified as voids. This resulted in a prior year restatement as noted above.</p>

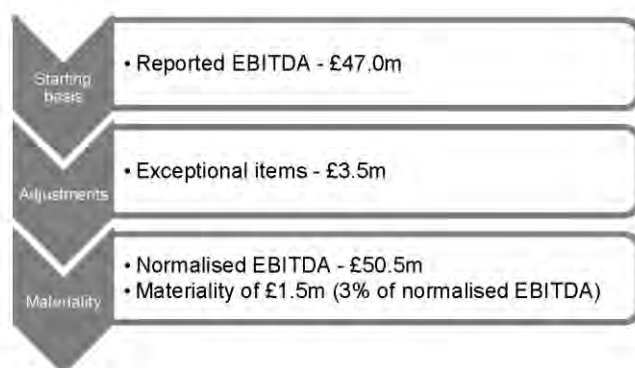
Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £1.5 million (2022: £2.7 million), which is 3% of "normalised EBITDA" (2022: 5% of reported EBITDA). We believe this provides us with a normalised trend in the Company's trading performance to set materiality.



Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2022: 70%) of planning materiality, namely £0.8m (2022: £1.9m). We have set performance materiality at this percentage due to this being our first year as auditors.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.08m (2022: £0.14m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained with the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Voluntary reporting matters

The Company voluntarily prepares a Report of the Directors on remuneration in accordance with the basis of preparation set out in the Directors' Remuneration Report. The Directors have requested that we audit the part of the Report of the Directors on remuneration specified by the Companies Act 2006 to be audited as if the Company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the basis of preparation set out in the Directors' Remuneration Report.

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting set out on page 73;
- Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 44;
- Directors' statement on whether they have a reasonable expectation that the Company will be able to continue in operation and meets its liabilities set out on page 73;
- Directors' statement on fair, balanced and understandable set out on page 62;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 32;

- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 32; and;
- The section describing the work of the audit committee set out on page 74.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 85, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (FRS 102, Companies Act 2006, the UK Corporate Governance Code), regulatory landscape (Ofwat, Drinking Water Inspectorate, the Environmental Agency) and relevant UK tax compliance regulations.

In addition, we concluded that there are certain laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to GDPR, health and safety, employee, environmental and bribery and corruption practices.

- We understood how South Staffordshire Water Plc is complying with those frameworks by making enquiries of Board members and management, those responsible for legal and compliance procedures, the Company Secretary and internal audit. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and

attendance at meetings of the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We also considered management remuneration and covenant compliance requirements which may create an incentive for management to manipulate results.

We assessed the scope and results of the investigation carried out by management in response to the cyber-attack to ensure accounting conclusions and disclosures are appropriate and are consistent with the results of the investigation. We engaged own internal IT, legal and GDPR specialists in these assessments and further discussion of our approach to the cyber-attack is set out in the KAM above.

We considered the possibility of fraud through management override, and, in response, we incorporated data analytics across manual journal entries into our audit approach. Where unusual results or anomalies were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included testing transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from material fraud or error. For more details, please refer to our Key Audit Matters section above.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, inspecting legal correspondence and correspondence with regulators, reading key management meeting minutes and reviewing the volume and nature of complaints by the whistleblowing hotline during the year.
- We attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The Company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 13 January 2023 to audit the financial statements for the year ending 31 March 2023 and subsequent financial periods. We were appointed as auditors by the Directors who signed an engagement letter on 28 October 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst + Young LLP

Paul Wallek (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 July 2023

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