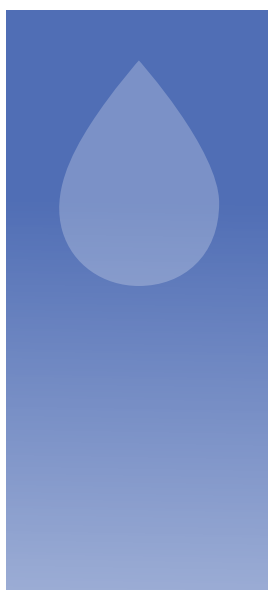
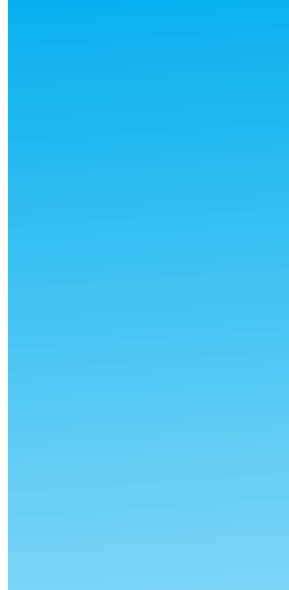




Cambridge Water



South Staffs Water



South Staffordshire Water PLC

Annual report and financial statements

For the year ended 31 March 2024

Contents

About this document

This document sets out South Staffordshire Water PLC's annual report and financial statements for the year ended 31 March 2024.

You can click on any of the chapter headings in the contents to go straight to that chapter.

There are also other clickable links throughout the document, which will give you more information. These are underlined and highlighted in blue to make them easy to find in the text.

If you want to learn more about the work we do every day to deliver for our customers and the environment, there are a number of ways you can engage with us.



Registered Office:

Green Lane
Walsall
West Midlands
WS2 7PD

Registered in England and Wales,
number 02662742.

Welcome from the Chair and Managing Director	2
BUSINESS OVERVIEW	
About South Staffordshire Water	4
Our vision, purpose and values	5
Our business model	6
The year at a glance	8
STRATEGIC REPORT	
Managing Director's review	11
Our strategy	18
Financial performance	21
Operational performance	26
Our people	46
Engaging our customers and stakeholders	51
Section 172(1) statement	54
Climate-related financial disclosures	61
Managing risk and uncertainty	70
Ensuring our long-term viability	76
Board statement on long-term viability	81
GOVERNANCE	
Chair's introduction	83
Governance framework	85
Board of Directors	86
Executive team	90
Board effectiveness and evaluation	94
Directors' report	95
Corporate governance report	100
Remuneration report	114
Directors' responsibilities statement	120
FINANCIAL STATEMENTS	
Profit and loss account – for the 12 months ended 31 March 2024	122
Balance sheet – as at 31 March 2024	123
Statement of comprehensive income – for the 12 months ended 31 March 2024	124
Statement of changes in equity – as at 31 March 2024	125
Cash flow statement – as at 31 March 2024	127
Notes to the cash flow statement	128
Notes to the financial statements	130
Independent Auditor's report	154

Welcome from the Chair and Managing Director



Welcome to this review of South Staffordshire Water's performance for the financial year ended 31 March 2024. This review covers the fourth year of the current five-year planning period to 2025.

It highlights some of the initiatives we've carried out during the year. And it looks ahead to the next planning period, which covers the five years from 2025 to 2030.

The 12 months covered by this review have been as busy as ever for us. As a business, we've focused much of our attention on delivering our latest business plan proposals as part of the regulator Ofwat's PR24 price review process. At the same time, we've continued to work hard to deliver for our customers, our local communities and the environment we all rely on and enjoy. And while we've experienced many successes during the year, some of which we outline in this review, we know there is still much we want to achieve.

Our performance during the reporting year is set within the context of the ongoing war in Ukraine and the impact this has had on the economy in terms of rising energy costs and high inflation. The knock-on effect of these macro conditions has been a cost-of-living crisis that has affected the ability of some customers to pay their bills.

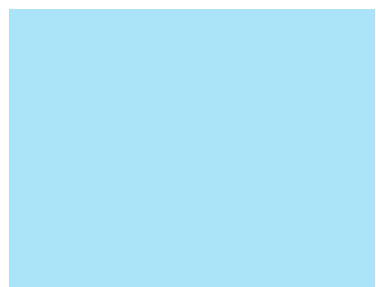
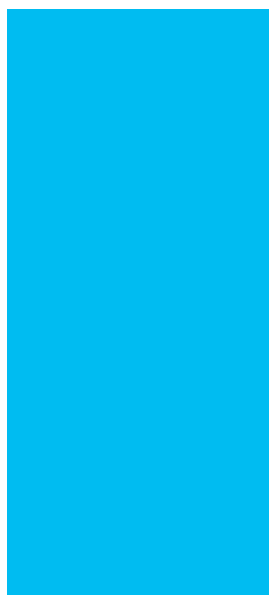
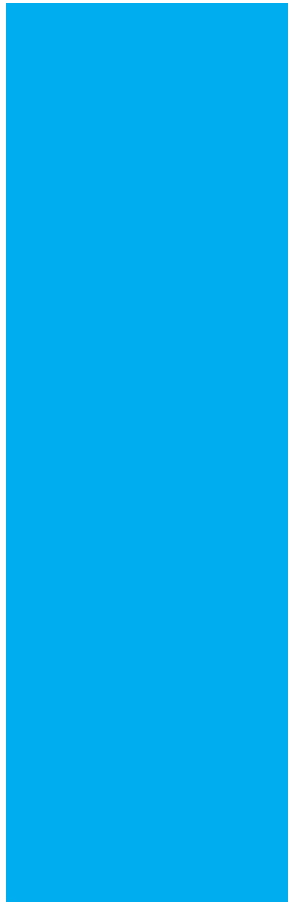
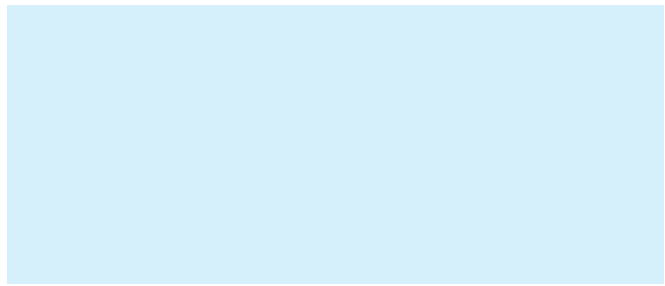
Alongside this, water companies in England and Wales have been the focus of much public criticism, resulting in increased levels of scrutiny by regulators and parliamentarians in particular. And while this attention has focused mainly on the water and sewerage companies, as a water only company, we know we mustn't be complacent.

One of the ways we build and maintain our customers' trust and confidence in the services we provide is by being open and transparent about our performance. In this document, we do precisely that, discussing both those areas where we have performed well – and those areas where we need to do more in the year ahead.

We hope you enjoy reading about some of the work we've been doing recently. And about the things we're planning to do going forward to secure the water future for you, your families, your communities and the environment.

Lord Chris Smith
Chair

Andy Willcott
Managing Director



Business overview

About South Staffordshire Water

We operate
Cambridge Water
and South Staffs
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 have been a successful,
privately-run business for
170 years. We have never
been in public ownership



We provide clean
water to more
than 1.7 million
people and
42,000 businesses
every day



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.

- Professional
- Trusted
- Impactful
- Community focused

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



Our business model

Collect water

We collect water from 2 surface water reservoirs and 43 borehole sites across our Cambridge and South Staffs regions

Treat water

We treat the water we collect at 41 water treatment works

Test water

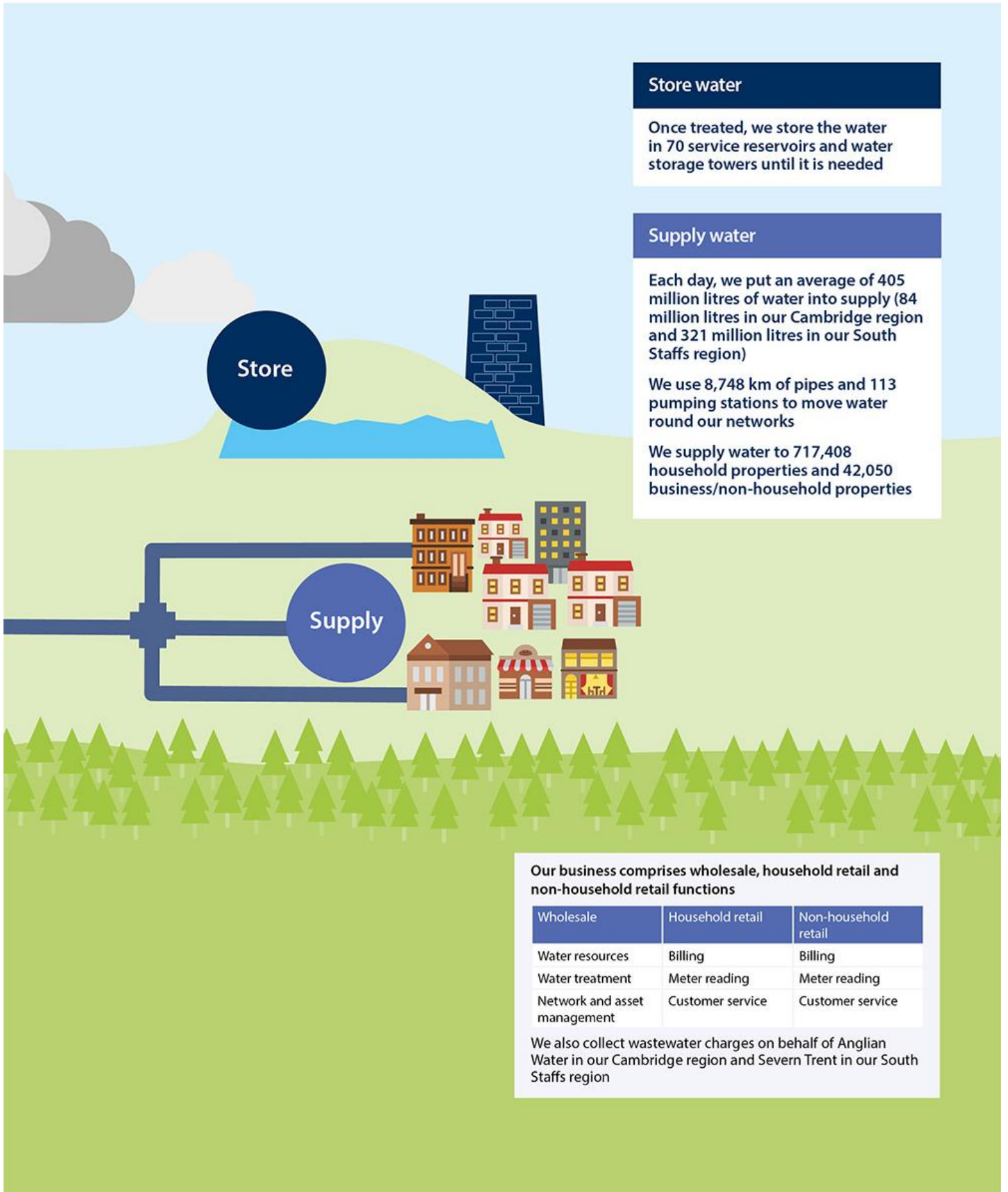
Each year, we carry out tests on more than 15,500 compliance samples.

This is to ensure the water we supply to our customers is always of the highest quality

Every day, our people work hard to deliver outcomes for our customers, our communities, our service, the environment and our business, in accordance with our vision, purpose and values.

Collect

Treat



Store water

Once treated, we store the water in 70 service reservoirs and water storage towers until it is needed

Supply water

Each day, we put an average of 405 million litres of water into supply (84 million litres in our Cambridge region and 321 million litres in our South Staffs region)

We use 8,748 km of pipes and 113 pumping stations to move water round our networks

We supply water to 717,408 household properties and 42,050 business/non-household properties

Our business comprises wholesale, household retail and non-household retail functions

Wholesale	Household retail	Non-household retail
Water resources	Billing	Billing
Water treatment	Meter reading	Meter reading
Network and asset management	Customer service	Customer service

We also collect wastewater charges on behalf of Anglian Water in our Cambridge region and Severn Trent in our South Staffs region

The year at a glance

Produced an ambitious
£819 million
investment plan
for 2025/30



Provided financial
support serves to
61,752
customers



Launched new
family-friendly
policies to create
a more inclusive
work place

Delivered 100% of our
regulatory environmental
obligations

Launched our
'Can for the Cam'
campaign to
reduce seasonal
high water
demand in our
Cambridge region



90%

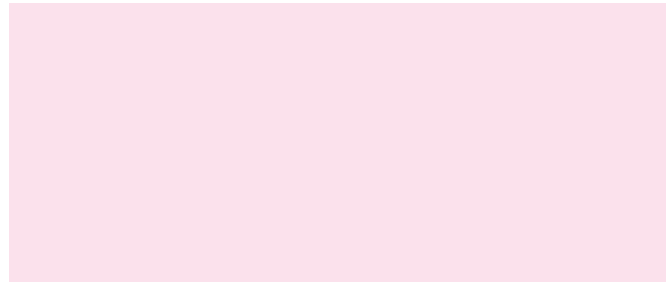
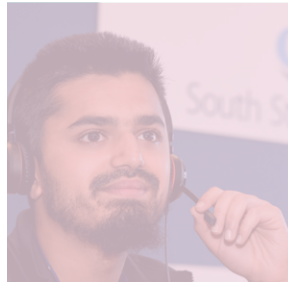
of visible network
leaks fixed within
4 days

More than 11%
of our household customers
registered on our
Priority Service Register
to receive additional help



Engaged
6,324
young people
through our
education outreach
programme





Strategic report

Managing Director's review



It's fair to say the 12 months covered by this review have been very challenging for companies in the England and Wales water sector. There have been a slew of negative stories in the press and on social media, along with close scrutiny of water companies' performance by regulators and politicians.

At the same time, questions have been asked about the legitimacy of the sector, company ownership, shareholder dividends, Executive pay and financial resilience.

All this is set against the backdrop of rising water bills and complaints about some companies' poor performance – particularly in relation to sewage discharges, leakage levels and supply interruptions.

Coupled with this are the prevailing macro conditions. The ongoing war in Ukraine and high energy and commodity prices are continuing to put pressure on the economy. While the cost-of-living crisis is leading to more and more people struggling to pay their bills.

And yet, our people have continued to work hard to deliver against our ambitious plans for 2020 to 2025 – what we call 'AMP7' – making sure we always

provide the services our customers have told us they expect and pay for.

In this review, I share some of the highlights and successes of the reporting year. I also flag up some of the areas where we know we've still got work to do if we're going to meet our targets and deliver our plans.

Securing the water future

A critical programme for us during the reporting year has been the culmination of our work to develop our [business plan for 2025 to 2030](#) ('AMP8') as part of the regulator Ofwat's PR24 price review process.

Without a doubt, this programme has touched every part of the business, with teams across our wholesale and retail functions all contributing to the development of our plan, taking part in

discussions and workshops, and attending 'lunch and learn' engagement sessions.

The Board and our investors have also been actively involved, challenging our proposals at every stage of development and helping to drive our thinking and ambition. They made a number of key decisions about our business plan submission during the year, including:

- our proposed base expenditure and enhancement investment requirements;
- our retail plan and the cost efficiencies we expect to deliver;
- our commitment to continue delivering ambitious leakage reductions across our Cambridge and South Staffs regions; and
- our plans to move towards universal metering across both regions over the ten years to 2035.

Trialling a new tariff to help struggling customers

Following changes to our licence by Ofwat, we decided to trial an innovative tariff as a way of making bills more affordable and to encourage customers to use water wisely.

During the reporting year, we started developing our new tariff. It is designed for customers who are not eligible for our Assure social tariff, but who are still struggling to pay their water bills.

Our new tariff is based on affordability. Customers taking part in the tariff trial will be offered the 60% Assure social tariff discount for efficient water use up to a certain level (75 litres per person per day), with the standard tariff applying for any discretionary water use above that level.

The trial will be open to customers with water meters across both our Cambridge and South Staffs regions.

During the autumn, we worked with our independent research partners Qa Research to engage customers and understand their views of this innovative new tariff.

We also considered eligibility, the tariff mechanism and communications in detail. Our focus has been on identifying barriers and to help us understand potential areas of concern for customers.

We have set up a working group to co-ordinate the workstreams needed to support the development of the tariff trial. We will report on the progress of the trial in more detail in next year's annual report and financial statements.

For the first time, Ofwat asked us and the other water companies to set their five-year business plans within the context of a 25-year [long-term delivery strategy](#). The aim was to enable us to outline the long-term outcomes we plan to deliver, and how we'll deliver them in a range of plausible futures.

As the provider of clean water supplies across our Cambridge and South Staffs regions over the past 170 years, we've always taken a long-term view of business planning. It's in our DNA.

So, as well as providing reassurance to our customers and other stakeholders, we think this approach also provides security to our investors, who are committed to taking a long-term view of their investment in our business.

Our plans for AMP8 are about securing the water future for our customers, our communities and the environment. This means delivering the services our customers expect and are willing to pay for. It also means leaving the environment in a better state for future generations.

Subject to Ofwat's approval, over the five years to 2030 we'll invest and spend around £819 million on services that exceed customers' expectations and infrastructure that is resilient to a changing climate and a growing population. At the same time, we'll continue to enhance and protect the environment we all rely on and enjoy.

Key among our business plan commitments are the following.

- We'll invest £150 million to **maintain our assets** for the long term. We'll also invest £84 million on mains rehabilitation and other schemes. And we'll invest £140 million to enhance our assets under a number of programmes that focus on delivering high-quality water and resilience over the long term.
- We'll **reduce leakage** by at least 20% in our Cambridge region and 15% in our South Staffs region. This is on top of the ambitious leakage targets we've set – and are delivering against – during the current five-year planning period.

- We'll **develop alternative water sources** in our Cambridge region, with a transfer of water from Anglian Water's Grafham reservoir. We're also working in partnership with Anglian Water to build a [new reservoir in the Cambridgeshire Fens](#), which will supply water to customers in our Cambridge region from the late 2030s.

- We'll continue to **keep the bills our customers pay affordable**, and provide financial and other support packages to around 60,000 customers a year. We're also going to trial an innovative new tariff (see sidebar, left) and build on the support we already provide to customers through our Priority Services Register.

- We'll continue to be **visible and accessible in our communities**, with an aspiration to reach 35,000 pupils across our Cambridge and South Staffs regions with our education outreach programme. We'll also increase our community presence, including creating pop-up hubs that will operate across our South Staffs region.

- We'll continue to play our part to deliver our **net zero carbon ambitions**. We'll invest in renewable energy sources at our key sites and adopt energy efficiency measures across our business. And we'll continue to run a safe, efficient and sustainable business, where our people are empowered to always deliver their best for customers and the environment.

Looking to the future, our long-term delivery strategy balances the need for us to continue to develop plans that deliver the best services for customers and the environment while meeting the dual challenges of climate change and population growth.

It also describes the ambitious vision we have for our business, which aims to demonstrate our value to our customers and our communities, to the environment and to wider society.

At the heart of our long-term delivery strategy are our priorities to 2050. These are to:

- eradicate water poverty;
- protect and enhance the natural environment;
- adapt to a changing climate;
- meet the needs of a growing population; and
- remain financeable over the long term.

I think we've produced a strong, well-evidenced, well-supported and deliverable business plan, set within a sustainable long-term context. We submitted our plan and long-term strategy to Ofwat in October for detailed analysis and scrutiny alongside the other water companies' submissions.

We're expecting Ofwat's draft decisions on our plan in July, which falls just outside the reporting period. We'll then make representations back to Ofwat before the regulator makes its final decisions in December. I'll report on the outcomes of this process in next year's annual report and financial statements.

Delivering long-term water resources

I'm acutely aware of the impact our activities can have on the environment. So, it's hugely important that we do everything we can to mitigate these impacts. So, we work hard to take care of the environment to secure a constant supply of high-quality drinking water for customers now and in the future.

Key to this are the long-term water resources management plans we produce for our [Cambridge](#) and [South Staffs](#) regions. These set out how we'll provide high-quality, secure and reliable water supplies in an affordable and sustainable way over a 25-year time frame. We're required to develop and implement new water resources management plans at least every five years.

During the reporting year, we've been working closely with other stakeholders to develop our plans for the 25 years from 2025 to 2050. Our two operating areas

are geographically very diverse and the focus of each water resources management plan reflects these differences.

In our Cambridge region, for example, our plan focuses on securing water resources for the long term. A critical feature of this, as I've already mentioned, is the Fens reservoir that we're delivering in partnership with Anglian Water.

“As the provider of clean water supplies across our Cambridge and South Staffs regions over the past 170 years, we've always taken a long-term view of business planning. It's in our DNA”

We jointly launched the first public consultation on this ambitious scheme in October 2022 and have used the feedback from this to actively shape our thinking. A second consultation launched in May 2024 and I'll report on the outcome of this in next year's annual report and financial statements.

For our South Staffs region, our focus is on managing the demand for water, and we think that our universal metering programme and the work we're doing to encourage customers to use water wisely will help us to achieve our ambitions.

Performance against our AMP7 targets

Delivering high-quality and resilient water supplies at an affordable price is central to our purpose. At the start of the current five-year planning period, we set ourselves a number of challenging and ambitious targets. This is to help us make sure we always deliver the services our customers expect and pay for.

We've had something of a mixed year in terms of our performance against these targets. We've performed very well in some areas, delivering excellent results.

But there are other areas where we know we've still got work to do. For these targets, we've put plans in place to ensure we do everything we can to meet our customers' – and our own – expectations.

One area where we've performed exceptionally well is with the number of customers we're helping through our financial assistance and other support schemes.

These have been hugely successful and we've significantly exceeded our targets in each year of the current five-year planning period to date. The reporting year is no exception, with us providing financial support services to 61,752 customers, against our target of 38,000.

We've also performed well for our target for the number of household customers registered on our Priority Services Register. This is a free service we provide for customers with additional needs or those who might find themselves in circumstances that could make them vulnerable.

I'm pleased to report that we're performing well ahead of our regulatory target, with 11.7% of our household customer base registered with us for additional support.

And I'm delighted that we've exceeded our target for the number of young people we engage with our interactive education outreach programme. I think it's really important for us to educate the next generation of water champions – and our future customers.

This target was greatly impacted by the COVID-19 pandemic during the first two years of the current planning period. So, I'm delighted that we've got back on track, reaching 6,310 young people with our programme across the Cambridge and South Staffs regions and beating our target of 6,000. I look forward to seeing our continued progress with this target in the year ahead.

As I mentioned earlier, delivering a reliable service is a key outcome for us and an area of high priority for our customers. We've made significant investment in our assets and our people during the current five-

year planning period, and this is definitely paying off for us.

As an example, we're currently among one of the best performers in the sector for how we manage supply interruptions, and always work very hard to keep any disruptions to our customers to an absolute minimum. I'm immensely proud of the leadership we've demonstrated in relation to this.

Of course, delivering near sector-leading supply interruptions performance is linked very closely to our performance in finding and fixing visible leaks on our network quickly.

This is another area where our people have again delivered exemplary performance, enabling us to achieve our ambitious target of fixing 90% of visible leaks in four days. Again, we'll be looking to continue delivering against our stretching target in this area during the year ahead.

But there are some targets where our performance has fallen short of our expectations. Key among these is our compliance with stringent drinking water quality regulations.

Our vision is to deliver clean, affordable drinking water every day, so it's disappointing to report that we've failed this important target – mainly because of a small number of significant compliance failures at Hampton Loade, our largest water treatment works.

I'm confident that the upgrade programme at the works will help us to ensure that our water treatment processes remain highly effective in the future. I discuss the upgrade programme in more detail below.

Another area where we need to deliver improvements in performance is C-MeX – the principal regulatory measure of household customer experience. I'm disappointed with our performance in this business-critical area during the reporting year, especially as we achieved our upper quartile target earlier in the current five-year planning period.

I'm mindful of the need for us to improve our performance in the coming year. We've put an improvement plan in place to help us and have strengthened our Customer Service team, bringing in new resource and expertise to help us drive improvements in our performance. I'll share news of our progress in next year's annual report and financial statements.

“I'm pleased to report that the upgrade programme at our Hampton Loade water treatment works has continued to progress well. We're on track to complete the work in line with our target date of 31 March 2025”

We also have more to do if we're to meet our ambitious target of reducing leakage in our Cambridge and South Staffs regions by 15% over the five years to 2025. While we ended the reporting year ahead of target for leakage in our Cambridge region, we're slightly behind where we'd like to be in our South Staffs region. We'll continue to focus our efforts on improving our performance in this area in the year ahead.

And we still have some way to go to recover our position in relation to how much water each of our customers uses every day. We've found it challenging to get this measure – what we call 'per capita consumption' or PCC – back on track following the COVID-19 pandemic. We're working hard in this area, and are confident that initiatives like our 'Can for the Cam' campaign, which I discuss in more detail below, will help us to deliver improved performance in the final year of the current planning period.

Hampton Loade upgrade

One of our key commitments for the current planning period is the delivery of upgraded water treatment processes at the two largest works in our South Staffs region – Hampton Loade and Seedy Mill.

We've already met our target to deliver the upgrade programme at Seedy Mill, which I reported on in last year's annual report and financial statements. We're continuing to progress with the project to install an innovative ceramic membrane filtration system at Hampton Loade.

I've reported previously about the additional green recovery funding we were awarded by Ofwat in 2021 to install these new filters, which, as well as delivering enhanced water quality for our customers, should also help us to reduce our carbon emissions and give us greater operational flexibility and resilience at the treatment works. Once complete, it will be the largest deployment of this technology by volume globally and the first retrofit of its kind in an existing water treatment works.

In November 2023, I hosted Ofwat's Chair, Iain Coucher, and gave him a tour of the project site. I shared with Iain the challenges of integrating new water treatment solutions into pre-existing infrastructure. We also discussed how much more sustainable and environmentally friendly the new treatment processes will be.

I'm pleased to report that the upgrade programme has continued to progress well during the year. Our civil engineering partners have completed the principal construction work and the new filtration units have been installed. Our focus now is on testing the system fully before bringing the new plant into commission.

I'm also pleased to report that we're still on track to complete the project by 31 March 2025, in line with the target agreed with the Drinking Water Inspectorate and Ofwat.

Using innovation to drive water efficiency

I'm always impressed by the way we constantly strive to understand all our customers so that we can tailor our services to meet their specific needs. This is particularly true for our traditionally seldom heard and hard-to-reach communities.

In May 2023, we were awarded £270,000 from Ofwat's [Innovation Fund](#) for a diversity-led water efficiency project. The aim of this project is to support customers of different faiths and cultures to reduce their water use.

This ground-breaking project involves us working with faith groups, experts and a range of local organisations supported by academic research, key data insights and demographic data. The aim is to give us a deeper understanding of how water is used and valued in different faiths and cultures.

This will enable us to develop a more inclusive and comprehensive water efficiency framework and tailored water saving interventions to support diverse faith communities and seldom heard customers who may be in vulnerable circumstances.

We think the project will deliver a number of key objectives for us, including water savings of about 200,000 litres, and a greater uptake of our priority services. We also think it'll enable us to test bespoke water-saving practices and campaigns linked to faith and culture that can be shared with other water companies. And we think it'll help us to establish new channels of communication and stakeholder relationships with our seldom heard communities.

A key achievement for the project was the [academic research](#) carried out by Cambridge University's Faculty of Divinity. This gave the project team valuable insight into understanding how practices from the scriptures feature in people's individual practices.

And although it falls just outside the reporting year, we also contributed to a two-day academic conference at the University in April 2024, as part of its interfaith programme. Board member Professor Ian Barker attended the conference, which gave us another opportunity to consider the links between academia and the water sector. I hope we'll continue to explore more opportunities for engagement like this in the year ahead.

In March 2024, we launched the first campaign for the project in partnership with Cambridge Central Mosque. This focused on the Islamic practice of Wudu, the ritual washing performed in preparation for prayer and worship. Caroline Cooper, our Strategy and Regulation Director, attended the launch event on my behalf and spent time with other colleagues talking with members of the community about the campaign.

“We've made significant investment in our assets and our people during the current five-year planning period, and this is definitely paying off for us”

We're planning other campaigns for our South Staffs region in the year ahead. I'll report on these in next year's annual report and financial statements.

Protecting the environment

As I mentioned earlier, it's fair to say that water companies' environmental performance has received a lot of negative attention over the past year or so.

As a business that recognises the responsibility we have to protect the environment for future generations, I'm pleased with how we've responded to this. We've increased our focus on monitoring, tracking and improving our environmental performance and protection, delivering a strong baseline position during the year. This includes:

- increasing the size of our Water Strategy and Environment team;
- training our field-based people in how to spot and report pollution risks, and self-reporting events to the Environment Agency;
- completing our environmental risk assessments and creating action plans to address any issues;
- working with 106 farmers across our Cambridge and South staffs regions through our successful SPRING

catchment management programme; and

- achieving 100% compliance with our regulatory environmental obligations through the Water Industry National Environment Programme (WINEP).

I'll continue to provide updates on this critical area of our performance in future annual reports.

Changing customers' water use behaviours

As the Managing Director of a water company with an operating area located in one of the driest parts of the country, I'm acutely aware of the need to encourage all our customers to use water wisely. Key to this is our strategy to deliver reductions in household water use through sustained behavioural change activities.

During the summer months, for example, we typically supply an extra 20 million litres of water a day to customers in our Cambridge region. This means we sometimes have to pipe extra water in from elsewhere or take more from underground sources, which can impact the rare chalk stream habitats that are a feature of the region.

To help address this, in July 2023, we launched a new initiative with our 'Can for the Cam' campaign, targeted specifically at reducing seasonal high water demand. We chose Cambridge for the campaign because data from the Office for National Statistics (ONS) suggests that it has a higher proportion of gardens than the national average.

The campaign made effective use of various communication channels, including social media, print and online promotion, podcasts and events. A key objective was to help customers to understand the link between their water use and the impact this has on the local environment. So, our people worked with local environmental organisations to promote water saving hints and tips.

We had a target to save 500,000 litres of water each day as a result of the campaign. Our calculations showed that we nearly

The new South Staffordshire Plc values

Impactful: together, we create a positive impact through our proactive, agile and adaptable approach. We pride ourselves on our ability to be bold, innovative and industry leading in all that we do. Through this we have a lasting legacy for our people, clients, customers and the environment.

Community focused: our community matters; our people, clients, customers and our wider networks. Embracing the power of a strong and diverse community, we grow together through collaboration and being helpful, caring and approachable. As one Group, we create partnerships and make a difference.

Trusted: we are trustworthy. Our clients, customers and wider networks can rely on us. We deliver a responsive, dependable and consistent service which we recognise is critical for the sectors we serve. We are ethical, honest, straightforward and are always accountable.

Professional: we are a team of professionals. As knowledgeable experts, we deliver quality, safe and efficient services. We operate with high standards in everything we do. We invest in and develop our people to be the best they can be.



doubled this target, with customers using 940,000 litres of water less each day than they would have done without our campaign. This is a fantastic result.

We're keen to carry forward this success into the year ahead. We're working with behavioural change specialists from Cambridge University to help shape a follow-up campaign. We're looking to build on our strong start and make sure we continue to deliver sustained water savings.

Although it falls just outside the current reporting year, I'm delighted to report that in June 2024, we learned that the campaign received a 'Highly Commended' in the Behavioural Change Campaign of the Year category at the UK Green Business Awards. It's also been nominated for Water Efficiency Project of the Year at the national Water Industry Awards – the water sector's 'Oscars'. I'll share more updates with you in next year's annual report and financial statements.

Creating a set of uniting values

I recognise that being part of a larger Group gives us plenty of opportunities to work collaboratively with other South Staffordshire Plc businesses and learn from them.

So, I was delighted to take part alongside other water company and Group colleagues in one of a series of workshops held during the winter to find out what working for South Staffordshire Plc meant to us and what it stood for. One of the main outcomes of these workshops was a set of four new values, which were launched across the Group in March (see sidebar, left).

During the coming year, we'll embed these values into our work and into our people's objectives, with the aim of making them fundamental to everything we do.

Creating a more inclusive working environment

The water sector in England and Wales has traditionally been male dominated. In

recent years, we've worked hard to address this, creating a more inclusive working environment for all our people.

I'm pleased with the positive steps we've taken in this area during the reporting year. Among the initiatives we've delivered with other Group companies are more family-friendly policies, including in the areas of:

- adoption and surrogacy leave;
- bereavement;
- parental leave and shared parental leave;
- flexible working; and
- homeworking.

We've also taken a new approach to our annual [gender pay gap report](#). As a company with more than 250 employees we're required to publish gender pay gap data each year in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

For the first time, we've produced a fully designed document, which features the profiles of several women from across the business. It also includes information about some of the initiatives we'll be introducing in the year ahead. I look forward to sharing more information with you about these initiatives. And also about the other work we're doing to make South Staffordshire Water a truly inclusive place to work.

Cyber-attack update

As I've reported previously, in July 2022 our parent company, South Staffordshire Plc, experienced a criminal cyber-attack. Although this didn't affect our ability to supply safe drinking water to all our customers, it did result in the theft of data relating to current employees, some former employees and some customers who pay by Direct Debit.

We've continued to build on the lessons we learned following the attack during the reporting year, and have strengthened our incident response processes and enhanced relevant training for all our people.

As I'm sure everyone can appreciate, investigations into incidents like this can

take a long time to complete. I'm hopeful that we'll be able to bring this issue to a close in the coming months. I'll report on the final outcome in next year's annual report and financial statements.

Looking ahead to AMP8

I think the coming year is going to present us with a number of challenges and opportunities as we prepare for the next five-year planning period. For example, the outcome of the 2024 General Election with a new Government could present us with challenges in the form of additional regulatory requirements. But it could also give us the opportunity to engage with different stakeholder groups, sharing our plans and successes with new audiences.

Another key challenge for us will be to make sure we get the best outcome from Ofwat's PR24 price review process for all our stakeholders, including our customers and our people. As I said earlier, I'm confident in the strength and the

ambition of the five-year plan we submitted to Ofwat in the autumn, and I'll report on how we're progressing with our work to implement this plan in next year's annual report and financial statements.

And although we've seen significant rainfall across both the Cambridge and South Staffs regions over the winter and spring, we'll continue to encourage all our customers to use water wisely. Building on the success of the Can for the Cam campaign is just one of the ways we'll be doing this. There's also a lot of work we'll be carrying out with Anglian Water to consult on the new reservoir in the Cambridgeshire Fens and to bring our plans to transfer water from the Grafham reservoir to fruition.

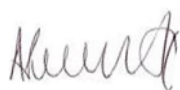
I think there'll also be an opportunity for us to play a leadership role in building back trust in the water sector as a whole. This includes putting plans in place to improve the experience customers have with us. It also includes addressing some of the

misconceptions that some stakeholder groups have about us, our business and the water sector.

Of course, none of this would be possible without our people. In what has been a really turbulent and unsettling year for the water companies, I continue to be impressed by the passion they have for their work and their ongoing commitment to a job well done.

Whether it's our field-based teams dealing with a burst on a busy main road, the people in our contact centre handling calls from customers on a daily basis, the people at our production sites making sure that water always gets to customers' taps, or the people in our offices helping the business to run smoothly, I know that everyone across the business is living our values in an impactful, community-focused, trusted and professional way.

I'd personally like to thank each and every one of them for everything we've achieved as a business during the year.



Andy Willicott
Managing Director

Our strategy



Ours is a long-term business. Planning for the long term is part of our DNA – we were founded in 1853 in the interests of public welfare to supply clean water to both the University of Cambridge and the industrial Black Country. We have continued to supply customers across our Cambridge and South Staffs regions since then, evolving our business strategy as appropriate to ensure we always deliver the services they expect – at a price they are willing to pay.

Our long-term strategy

At the heart of our strategy are the following key priorities. These are to ensure we demonstrate our value to customers and society, now and in the future.

- **Ending water poverty.** This means keeping bills affordable, using data-driven approaches to identify customers who may be struggling to pay their water bills. It also means offering the right levels of help and support to all customers who need it.
- **Protecting and enhancing the environment.** This means taking less water from the environment, including the rare chalk stream habitats in our Cambridge region. It also means working with farmers and landowners to improve water quality. And it means creating or enhancing habitats that support a wide range of plants and wildlife.
- **Adapting to a changing climate.** This means encouraging sustainable practices within our business and supply chain. It includes using renewable energy and making sure our networks of treatment works, pipes and pumping stations can withstand extreme weather events.
- **Meeting the needs of a growing population.** This means developing new water sources, such as the Fens reservoir in our Cambridge region. It also means making the most of our existing water sources and working with developers to encourage more water efficiency, such as water recycling in every home.
- **Remaining financeable over the long term.** This means taking more advantage of green or sustainable financing initiatives, while always

meeting our legal, regulatory and financial obligations.

- **Taking account of the changing expectations of customers and regulators over time.** This could mean placing more emphasis on one of these priorities over another to reflect a change in circumstances, for example. Key to this remains the need for us to understand our customers' priorities, and to be fully embedded at the heart of the communities we serve.

underground aquifers, reservoirs and rivers.

- **Running a sustainable business and placing a greater focus on environmental responsibility.** This includes, for example, generating energy from our own sites.
- **Delivering an efficient customer service.** This includes providing accurate bills that are easy to understand. It also includes making sure the right support is available to customers who may need extra help.
- **Always delivering water at the right pressure,** now and in the future.
- **Making the best use of our water resources to address the impact of climate change.** This includes reducing leakage, investing in new technologies and working with other water companies to share supplies.

- **Playing our part to help our communities thrive.** This includes working in partnership with community organisations to improve the local environment. It also includes funding more support schemes to help us make sure water bills do not push people into poverty.
- **Empowering people through effective engagement to make the best of the water we take from the environment.** This includes educating young people about the value of water and delivering a universal metering programme to give our customers more control over the water they use.

Our customers' priorities

Underpinning our long-term strategy are the things our customers and stakeholders have told us are important to them. These include the following priorities.

- **Providing high-quality water and regular information about the health of the sources from where we take our water.** This includes

Setting the context for our long-term strategy

Our long-term strategy is set within the context of the following ambition statements. These have been co-created by our people and our Board.

	<h3>Our service</h3> <p>We will use cutting edge technology and ensure the infrastructure is in place so that customers always receive resilient, high-quality water supplies.</p>
	<h3>Our environment</h3> <p>We will lead in protecting and enhancing the environment – working with partners to ensure sustainable water supplies and flourishing local habitats.</p>
	<h3>Our customers</h3> <p>We will innovate to exceed customers' expectations of our service, end water poverty and make sure help is always available.</p>
	<h3>Our communities</h3> <p>We will use partnerships and education to lift our communities, creating space and opportunities to help people work and thrive.</p>
	<h3>Our business</h3> <p>We will lead in adapting to climate change and will run a safe, efficient and sustainable business, with a highly-skilled workforce.</p>

Assumptions underpinning our strategy

In developing our strategy, we have made a number of assumptions. This is because of the inherent uncertainty associated with long-term planning. Recognising this uncertainty, we have used data-driven tools and models to assess some elements of our strategy. But we have also had to make judgements in a number of areas where there is insufficient data. Underpinning these judgements are the activities we need to carry out to appropriately account for the uncertainty and to enable us to understand our future investment requirements. Key among these assumptions are the following.

- **Our people.** It is critical for us to make sure our people have the skills needed to deliver our long-term ambitions. We remain committed to running an efficient business where our people are empowered to make decisions and where they possess the skills necessary to realise our

- long-term goals. All our people play a crucial role in bringing our strategy to life. Their dedication and hard work are integral to securing a sustainable water future for our customers and for society as a whole.

Partnership working. Looking ahead, we want to be a sustainable business that always delivers value for money for our customers – and long-term value for society and the environment. Key to this is working in partnership with our communities and stakeholders. This is to make sure we generate positive impacts for society and that we leave the environment in a better state for future generations.

- **Collaboration and open data.** Fostering a culture of collaboration within and outside our business is important if we are to achieve our long-term outcomes. We consider that collaboration across different teams and functions and a

commitment to open data will enable us to tap into additional cost efficiencies and opportunities for partnership working. This includes continuing to work with industry collaborative groups such as UKWIR, the principal research platform for the water sector.

- **Innovation.** We think innovation is key if we are to achieve our long-term ambitions and targets. This means testing and discovering new solutions to sourcing funds from innovation competitions and third party organisations. It also means fostering a strong culture of innovation within our day-to-day business-as-usual activities. This is essential if we are to continually deliver the improvements our customers expect and are willing to pay for.

There is more information about our long-term strategy and ambitions in [‘Looking to the future – long-term delivery strategy 2025 to 2050’](#).



Delivering our strategy in a purpose-led way

Our Water Environment and Strategy team is split across three areas in our Cambridge and South Staffs regions. Members of the team also have very different job roles.

So, in March the team came together to create a cohesive new purpose statement and to put the new South Staffordshire Plc values into perspective. The aim was to foster positive working relationships among disparate team members to enable them to play their part to deliver our long-term strategic ambitions, as illustrated above.

During the session the team worked together to develop a purpose statement, identifying the key words they wanted to include. Having considered a number of options, the team then agreed the final purpose statement, which will be underpinned by individuals’ objectives.

The next step is for the team to identify actions that will integrate this purpose into its business-as-usual activities. It will also consider how those activities can be shared with colleagues across the business, as well as with customers and other stakeholders.

Financial performance



The overall business risk environment remains challenging for us. We have continued to maintain strong financial resilience alongside prevailing macro conditions, including higher interest rates. Our people have continued to deliver our AMP7 plans and meet our ambitious targets.

The upgrade programme at our Hampton Loade water treatment works has progressed well during the year. The new filtration units have been installed and our focus now is on testing the system fully before bringing the new plant into commission. Our customers' household finances remain stretched by increasing living costs. We have continued to drive forward the number of customers we are helping through our financial assistance and other support schemes.

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. Our net finance costs rose as higher inflation in the period increased the cost of our index-linked debt. 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.

Alongside this, the prolonged drought in 2023 and a cold winter has led to an increase in the number of bursts on our networks. 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 most of our regulatory targets.

Our balance sheet remains strong. At 31 March 2024 our covenant net debt was £369.9 million (2023: £305.8 million) and our regulatory capital value (RCV) was £540.5 million (2023: £515.9 million). Our gearing stands at 68.4% (2023: 59.3%).

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

	2024	2023
Turnover £m	151.6	146.4
Operating costs £m	133.9	130.9
Adjusted EBITDA £m ¹	55.1	47.0
Operating profit before exceptional items £m ²	27.3	27.1
Net debt reported for borrowing covenants £m ³	369.9	305.8
Gearing ⁴	68.2%	59.3%
Regulatory capital value (RCV) £m ⁵	540.5	515.9
Return on regulated equity (RORE) ⁶	2.04%	1.19%

Notes:

1. EBITDA reconciliation is shown below.

	2024	2023
Operating profit before exceptional items £m	27.3	27.1
Exceptional	0.9	(3.5)
Depreciation : intangible assets £m	1.1	0.4
Depreciation : non-infrastructure assets £m	24.9	22.1
Depreciation : infrastructure assets £m	4.4	4.3
Capital contributions £m	(3.5)	(3.4)
EBITDA £m	55.1	47.0

2. Operating profit is stated before exceptional items.

3. Net debt reported for borrowing covenants in £m (see page 129).

4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 129 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 129).

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 24).

Turnover

Turnover in the year has increased by £5.2 million, being an increase of £9.7 million for both the annual CPIH uplift in tariffs and recovery under the RFI mechanism, a £0.6 million decrease in third party and £0.7 million decrease in activity at our Aqua Direct spring water business and other non-appointed activities. In our South Staffs region, we have continued to be impacted by customers' post-COVID-19 pandemic working patterns. Non-household turnover in both regions has returned to pre-pandemic levels as more businesses have stabilised.

During the year, we have updated the turnover presentation, we have removed amounts which have been billed to those customers on the basis that collectability is not probable where the customer has not paid their bills over multiple years;

there is a £3.5 million reduction in revenue compared with what would have been recognised, had no adjustment been made for amounts, where collectability is not probable.

Commissions have been consistently 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 138.

Operating profit

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 sustained pressure on production costs, such as power and chemicals. Operating profit has remained consistent at £27.3 million (2023: £27.1 million).

Operating costs have increased from £130.9 million to £133.9 million and include:

- £3.7 million of increased depreciation in line with our ambitious capital programme;
- £3.1 million increase in net production costs including power and chemicals
- £2.0 million for tackling both leakage and the high level of bursts during the winter months;
- £1.6 million increase and prior year catch-up of abstraction costs
- £1.0 million net labour costs have increased and include an 8% annual pay award (£1 million included in

operating costs), albeit offset by lower employee numbers; and

- £0.5 million increase and prior year catch-up of audit fees.

The is offset with the following.

- £3.2 million reduction in provision for doubtful debts compared with what would have been recognised had no adjustment been made for amounts where collectability is not probable. The opposite entry is the turnover.
- We have also seen a decrease of around £7.2 million in gross infrastructure renewals costs.

We have disclosed an exceptional profit on disposal for surplus land of £1.9 million and received profit on disposal for a small rental property of £0.3 million.

We have increased the specific provision relating to potential regulatory penalties and other payments associated with the 2022 data breach by £1m (2023: £3.5 million).

Aptumo, our billing, debt and customer management platform has embedded and is enabling us to communicate with our customers in a more tailored and efficient way, such as through email prompts.

We have continued to make our financial support initiatives, such as our Assure social tariff, available for those struggling to pay their bills. Assure offers bill discounts for eligible customers. We also 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).

Our bad debt provision assumptions have remained largely consistent with the prior year and our calculation represents around 4% of household revenue (2023: 3%). Although we have seen a 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 and changes in payment behaviour.

We have continued with our infrastructure renewals expenditure in line with our plans AMP7 plans to 2025.

Capital investment

We have made steady progress in delivering our ambitious capital programme to ensure our assets remain in good condition. This is so 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.

“We continue to provide support through our social tariff packages for more than 61,700 customers who are struggling to pay their water bills”

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 the 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 £73.7 million (2023: £88.1 million). Overall net capital expenditure, net of contributions, was £59.8 million (2023: £72.8 million).

Treasury, net debt and borrowing costs

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 strong, and we are carefully monitoring our liquidity and working capital. To support the long-term financing needs of the business, we borrowed a further £20 million 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.

Our financing strategy takes into 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 2024 showed cash and cash equivalents of £21.2 million (2023: £23.5 million) and we had drawn facilities amounting to £30 million (2022: £30 million). Our budgeted capital investment programme and other cash flow needs are covered by cash or committed facilities through to July 2025. Further going concern details can be found in the Directors’ report on page 95.

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 £369.9 million at 31 March 2024 (2023: £305.8 million) and represented a ratio of 68.4% (2023: 59.3%) 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 us at 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 2.04%. This is 2.2% lower than that allowed in our final determination of 4.24%. The main drivers for the underperformance are:

- higher returns from a lower tax charge (+3.88%);
- lower returns from a higher actual cost of debt (-2.40%);
- underperformance on totex and retail costs (-3.23%). This is partly driven by £9 million of additional expenditure on the Fens reservoir strategic water resource scheme, which will be reconciled at PR24; and
- underperformance on ODIs (-1.94%), which includes PCC. This is being assessed by Ofwat at PR24.

We set out a detailed reconciliation of RORE on page 91 of the annual performance report published alongside these financial statements.

Dividend payment

We usually make 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.

“Our funding position continues to be strong, and we are carefully monitoring our liquidity and working capital”

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 most of our regulatory targets during the reporting year, the business only paid an interim dividend. The Board approved the interim payment totalling £5.3 million (2023: £9.2 million), with due consideration to the cyber-attack position at the time.

The dividend comprised:

- £4.8 million from the appointed business (2023: £7.7 million); and
- £0.5 million from the non-appointed business (2023: £1.5 million).

This represents approximately 4.3% of regulated equity (2023: 4.3%). No further dividends are proposed.

There is more information on dividends, including on our dividend policy, on pages 49 to 54 of the annual performance report published alongside these financial statements.

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 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 £11.0 million (2023: £4.8 million).

As reported last year, the financial statements for the year ended 31 March 2022 were restated following a review of the accounting treatment adopted in relation to the valuation of the index-linked debt. This restatement related to a number of prior years. The resulting adjustment gave rise to an error disclosure to HMRC and an associated tax charge of £743,000. This liability has been paid to HMRC during the year. A penalty assessment of £63,300 was issued by HMRC in relation to this error in May 2024.

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 to the Board. The independent 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 credit has increased from last year to £1.5 million (2023: £6 million), based on the impact the adjustments in respect of prior years.

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.




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 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 2024 (£'000)	31 March 2023 (£'000)
Corporation tax – current tax	1	(1,767)
Corporation tax - deferred tax	(1,453)	(4,233)
Business rates	4,061	5,320
Employers NI	1,880	1,961
Environmental tax	5,896	2,052
Fuel duty	623	1,283
Total	11,008	4,838

Operational performance

Performance against our targets

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 target	2023/24 performance	Target met
Our customers 	Great customer service to our household customers	C-MeX score	81.89	83.38	79.87	Upper quartile	76.29	✗
	Great service to developers	D-MeX score	83.59	84.4	87.57	Upper quartile	88.48	✗
	Great customer service to our business market suppliers (retailers)	R-MeX score	76	87.3	82.2	93.3	85.1	✗
Our community 	Financial support for household customers struggling to pay their bills	No. of customers helped	49,279	58,611	55,993	38,000	61,752	✓
	Ensuring customers who need assistance are registered with us	% registered on Priority Services Register	5.8	8.7	10.6	7.5	11.6	✓
	Extra Care support for customers who need assistance	% on PSR receiving extra care support	5.0	5.1	4.7	5.0	5.1	✓
	Education programme, working with schools about the need to use water wisely	No. of pupils engaged	297	2,284	3,672	6,000	6,310	✓
Our service 	Delivering upgraded water treatment works	% completion	8	18	63.2	55.1	92.1	✓
	Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score (water quality measure)	1.09	0.90	1.39	0	10.90	✗
	Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	0.98	0.76	0.65	0.95	0.59	✓
	Maintaining a reliable supply – supply interruptions	Average interruptions in minutes and seconds	04:33	03:15	04:29	05:23	03:32	✓
	Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	0	0	0	✓
	Reducing the number of water production failures	Unplanned outage as a % of total production capacity	0.57	0.90	1.47	2.34	1.60	✓
	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	90% within four days	✓
	Reducing the number of burst mains	No. of bursts per 1,000 km of mains	130.0	109.6	150.8	124.2	113.3	✓

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 target	2023/24 performance	Target met
Our environment 	Reducing leakage levels – Cambridge region	% reduction from baseline	5.1	13.5	16.7	10.9	18.6	✓
	Reducing leakage levels – South Staffs region	% reduction from baseline	3.0	5.8	9.4	11.4	10.2	✗
	Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	-3.2	-3.5	-5.6	5.0	2.0	✗
	Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	-5.9	-10.3	-14.9	0.8	-11.2	✗
	Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	-0.07	0	0.19	0	-0.6	✓
	Delivering Water Industry National Environment Programme requirements	Milestones	Not met	Not met	Met	Met	Met	✓
	Protecting wildlife, plants, habitats and catchments	Hectares of land managed	245.8	542	783	592	840	✓
	Supporting water-efficient house building	Volume of water saved (megalitres)	2.2	15.5	16.6	15.3	29.1	✓
	Reducing our carbon emissions	Kilograms per connected property	35.5	46.7	40.5	64.0	47.4	✓
Our business 	Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	29	69	69	100	79	✗
	Making sure our property records are up to date	% validated	100	100	100	100	100	✓
	Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.23	3.44	2.52	2.76	3.04	✗
	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. NPS not achieved.	IIP achieved & 10pts increase in NPS from baseline	IIP achieved. NPS not achieved.	✗
Core outcomes 	Delivering services that are value for money	% of satisfied customers	74	71	75	83	63	✗
	Making sure customers have a high level of trust in us	Score out of 10	8.16	7.85	7.68	8.25	6.97	✗

Delivering for our customers



Our promise to our customers

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



Putting the customer first

Research from the UK's Institute of Customer Research (UKSCI) shows that engaged and knowledgeable employees deliver a better service to customers. As a business that delivers an essential public service, we already have a range of initiatives in place. These include tailored training sessions, and fast track programmes for apprentices and senior leaders.

In January, we launched a series of interactive workshops that brought together people from different teams across the business. The focus was on visualising how customers might experience a situation – such as the loss of supply as a result of a burst main – and what they would want to happen at each step to get it resolved.

The workshops are about empathy. They are also about making sure the company gives customers clear and timely communications in a way that suits them. Time is also spent thinking about the types of support customers might need – for example, if they cannot leave their homes because of a medical condition. Feedback from customers, which we collect through our engagement programme, informs the sessions.

The workshops enable our people to discuss the positives and barriers at each step of the customer journey. They also give our people the opportunity to agree action plans to further improve the service we deliver. We have already held three workshops, covering different situations. More will follow to engage a wider range of people from across the business.

We are currently using the insight we have gained from these sessions to create a visual for our incident planning room to help keep the conversation focused on our customers. This approach is part of a wider set of actions that are designed to better support our customers when things go wrong.

"It feels good that we're getting our water from a company that is doing well against others. Our business couldn't survive without water" – non-household customer, South Staffs region

Great customer service – household customers

Common or bespoke performance commitment: Common

Target met: **No**

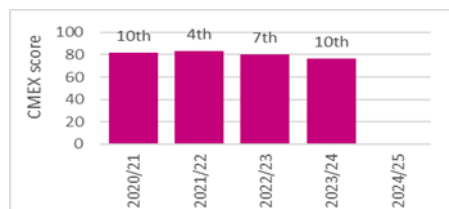
What we are measuring

Level of satisfaction among our household customers, as measured by C-MeX (the customer measure of experience).

Unit of measurement

C-MeX score and position in the sector relative to other water companies.

How we have performed



C-MeX is a relative measure and our performance is compared with that of other water companies in England and Wales. For this reason, we do not have a fixed numerical target. Instead, we aim to achieve an upper quartile (top four) ranking out of all the companies in the sector. The chart above shows the ranking we have achieved so far during the current five-year planning period.

We have fallen short of our expectations during the reporting year, finishing in 10th position overall. We are extremely disappointed with this performance, having done better in previous years. We are working hard to correct the issues that have caused this, which relate primarily to billing and phone service availability. This includes having an action plan in place to deliver improvements in our customer service.

Great customer service – developers

Common or bespoke performance commitment: Common

Target met: **No**

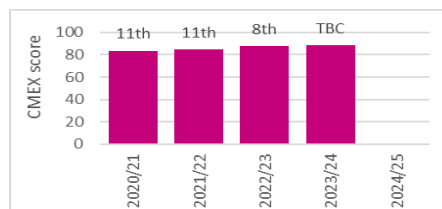
What we are measuring

Level of satisfaction among our developer services customers, as measured by D-MeX (the developer measure of experience).

Unit of measurement

D-MeX score and position in the sector relative to other water companies.

How we have performed



The developer services measure of experience – or D-MeX – comprises a range of service metrics related to the developer services environment.

Our aspiration is to achieve upper quartile in the water sector for D-MeX. This is equivalent to a top four position. We are working towards this, and are seeing year-on-year improvements in our D-MeX performance level.

During the reporting year, we made a number of improvements in the service we provide to our developer services customers. This includes trialling a text service and adding additional reporting to help us provide better prompts for our service connection customers. These improvements will help to set us up effectively to manage changes to the D-MeX measure being introduced during the next five-year planning period.

Great customer service – business market retailers

Common or bespoke performance commitment: Bespoke

Target met: **No**

What we are measuring

Our performance as a wholesaler operating in the business market, incorporating the existing market and operational performance standards, and a satisfaction measure.

Unit of measurement

Composite R-MeX score.

How we have performed



We introduced our bespoke R-MeX measure in 2020 and set ourselves a challenging target of achieving 100% in both the operational performance standards (OPS) and market performance standards (MPS) components. We also set ourselves the ambition of achieving 80% in our business retailer surveys.

While we have got close to achieving our targets in the first four years of the current planning period, we have not met them overall. During the reporting year, much of the underperformance is because of process changes for metering within the market, and an increased number of meter exchange requests.

Delivering for our community



Our promise to our community

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



Using an innovative approach to deliver water savings in our seldom heard communities

We always strive to understand all our customers so that we can tailor our services to meet their specific needs. This is particularly true for our traditionally seldom heard or hard-to-reach communities. In May 2023, we were awarded £270,000 from Ofwat's [Innovation Fund](#) for a diversity-led water efficiency project. The aim of the project is to better understand how water is used and valued in different faiths and cultures within the communities we serve.

To deliver the project, we are working with faith groups, experts and a range of different organisations. Supporting this work is academic research led by Cambridge University's Faculty of Divinity. This is giving us insight into the relationship between water and faith, the practical uses of water, and some of the barriers and opportunities to engaging with diverse communities.

The research will enable us to develop more effective water efficiency measures, behaviour change campaigns and bespoke water saving products. This will help us to support customers of different faiths and cultures to reduce their water use. We think it will also help to build trust within our communities.

We think the project will deliver a number of objectives, including water savings of about 200,000 litres. It will also enable us to develop a more inclusive water efficiency framework and toolkit linked to faith and culture that can be adapted and scaled up across the England and Wales water sector. And we think it will help us to establish new communication channels and stakeholder relationships with our seldom heard communities.

In March 2024, we launched our first campaign for the project in partnership with Cambridge Central Mosque. This focused on the opportunity to save water during the Islamic practice of Wudu (ablution), the ritual washing performed in preparation for prayer and worship. We are planning other campaigns for our South Staffs region, and will report on these in next year's annual report and financial statements.

"Sometimes people struggle to make ends meet, or maybe they're on benefits or off work sick. Support or discounts can help a lot" – household customer, South Staffs region

Financial support for household customers

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

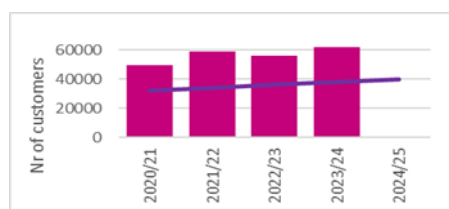
What we are measuring

The number of household customers we are helping with their water bills, using financial assistance schemes such as our Assure social tariff, our Charitable Trust, payment plans and other types of help.

Unit of measurement

Number of customers helped.

How we have performed



We are committed to delivering a wide package of support for customers who find themselves in a position of vulnerability. We have a number of financial and non-financial schemes available to help customers who need additional assistance.

These have been hugely successful, with a far greater number of customers taking up these support options than expected. We have significantly exceeded our target (shown as a purple line) in each of the years of the current planning period to date. This is something we are really proud of, and going forward we will continue to ensure support is always available to all those customers who need it.

Household customers registered on our Priority Services Register

Common or bespoke performance commitment: Common

Target met: **Yes**

What we are measuring

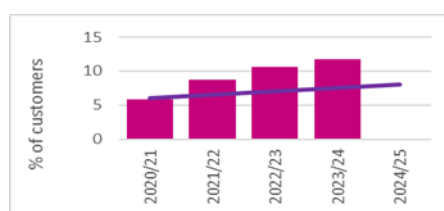
The number of household customers registered on our Priority Services Register (PSR), with the proportion validated every two years.

This performance commitment comprises three elements: reach, attempted contact and actual contact.

Unit of measurement

Percentage of customers registered.

How we have performed



Our Priority Services Register (PSR) is a valuable service for customers who have additional health or financial needs and vulnerabilities.

We are pleased to report that we have hugely grown our PSR over the past few years and are now ahead of our regulatory target (shown as a purple line).

In addition, we are expected to validate the customers on the PSR with regular checks. We are also pleased to report that we have met our target for both attempted and actual contact during the reporting year.

'Extra care' support for household customers

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

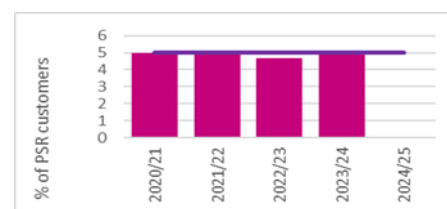
What we are measuring

Proportion of household customers registered on our PSR who we help with our 'extra care' additional support options.

Unit of measurement

Percentage of PSR customers receiving 'extra care' support.

How we have performed



Our extra care programme is a targeted package of additional support options aimed at the most vulnerable of customers on our PSR. At the start of the current five-year period, we set ourselves a target of 5% of customers on our PSR expected to receive additional assistance through the extra care support package.

Again, we are pleased to report that we have met this target during the reporting year (shown as a purple line), following a slight dip in the number of customers receiving the extra care package in the previous year.

We are continuing to make sure we have a wide-ranging package of support options available for those customers who need it.

Education outreach

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

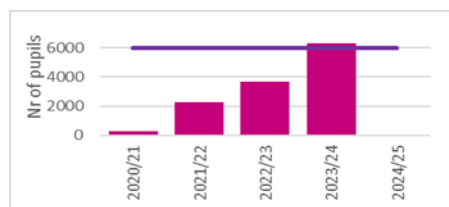
What we are measuring

The number of young people we reach with our education services, working with schools to educate future generations about the need to use water wisely.

Unit of measurement

Number of pupils engaged.

How we have performed



Future generations of customers are important to us, and we want to play our part to support their education about where water comes from and how it can be used wisely. We run an extensive education outreach programme for children of all ages, working with schools across our Cambridge and South Staffs regions to deliver this content.

Earlier in the current five-year planning period our ability to deliver our education outreach programme was impacted by COVID-19 restrictions in place at various times. Our programme is designed to be interactive and the restrictions meant we were unable to visit schools to deliver this effectively.

But since then, we are delighted with the progress we have made. During the reporting year, we exceeded our target (shown as a purple line). We have also received excellent feedback from schools on our programme and content, which really helps to support the learning of young people.

Delivering a reliable service



Our service promise

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



Taking an integrated approach to water quality

Making sure we always deliver water of the highest quality is critical for our business. It is also consistently one of the most important priorities for our customers. We are legally required to have drinking water safety plans in place.

The aim of these plans is to prevent water contamination 'from source to tap'. They are the most effective way of making sure the water we supply is safe to drink, and that it meets the necessary health-based standards and regulatory requirements.

During the reporting year, the team with responsibility for our drinking water safety plans has been championing an effective integrated working approach with colleagues from across the business. This includes holding regular risk management discussions with other business functions, such as our catchment management, treatment, compliance, production, networks, and asset management teams.

At each of these discussions, the teams carry out detailed reviews of our water treatment and storage assets, using five years' worth of monitoring information, to capture emerging risks. These are reported to the Drinking Water Inspectorate under Regulation 28 of the Water Supply (Water Quality) Regulations 2016 (as amended).

The drinking water safety team has also been reviewing some of the water treatment works in our Cambridge region. We have seen an increase in nitrate levels at these works because of the prolonged periods of heavy rainfall experienced during the reporting year.

In particular, in collaboration with other colleagues from across the business, the team has carried out detailed reviews of our ion exchange plants and our water blending practices. The aim is to identify potential improvements to our processes, which can then be fast-tracked as necessary.

"I've only had to call them out once in the last ten years. They came out immediately and sorted out the problem the same day. What better service than that could you ask for?" – household customer, Cambridge region

Delivering upgraded water treatment works

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

What we are measuring

The delivery of upgraded treatment processes at the Hampton Loade and Seedy Mill water treatment works in our South Staffs region in line with the agreed target dates and budget.

Unit of measurement

Percentage completed.

How we have performed

We are pleased to report that we remain on track to deliver the planned upgrades at the Hampton Loade and Seedy Mill water treatment works in our South Staffs region on time.

We completed the work to construct a new first-stage filtration block comprising eight sand filters at Seedy Mill in March 2023. We reported on this in last year's annual report and financial statements.

We are progressing well with the installation of additional ceramic membrane-based filtration technology at Hampton Loade. Our civil engineering partners have completed the principal construction work and the new filtration units have been installed.

Our attention now is turning to testing the filtration system fully before bringing the new plant into commission. We are due to complete this work by March 2025.

Once complete, this will be the largest deployment of this technology by volume globally and the first retrofit of its kind in an existing water treatment works.

Always meeting drinking water quality standards

Common or bespoke performance commitment: Common

Target met: **No**

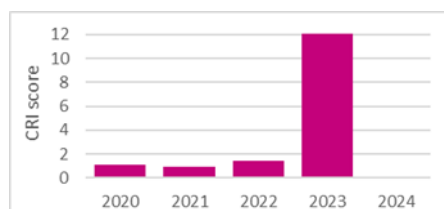
What we are measuring

Our compliance with drinking water quality regulations, as measured using the Drinking Water Inspectorate's Compliance Risk Index (CRI) metric.

Unit of measurement

CRI score.

How we have performed



We are disappointed to have failed our target for 2023. This is mainly because of a small number of significant compliance failures at Hampton Loade and Seedy Mill, our two largest water treatment works. Both works treat surface water from nearby rivers and reservoirs. Every day, we monitor hundreds of water quality parameters and take many water quality samples, which we send to laboratories for testing.

During the year, a very small number of these samples failed for a type of bacteria known as coliforms. This is a routine test which can indicate if untreated water is bypassing our treatment processes. On detecting these failures, we immediately investigated possible causes and found no single identifiable root cause for them. We continue to monitor our treatment processes robustly at these and other sites as the safety of the drinking water we supply to customers is paramount.

As reported in the Managing Director's review and in the column left, we are investing £97 million in upgrades at these two water treatment works. This is to ensure highly effective treatment processes over the long term.

Always meeting drinking water standards for appearance, smell and taste

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

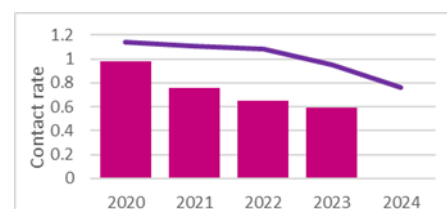
What we are measuring

The number of customer contacts we get each year about the appearance, smell and taste of their water, or any perceived illness.

Unit of measurement

Contacts per 1,000 of population.

How we have performed



Our customers' perceptions about and their direct experiences of the quality of water we supply to them is extremely important to us. When customers get in touch with us about the quality of their water, we always take these contacts very seriously.

In recent years, we have carried out activities across the network in our Cambridge and South Staffs regions to reduce the root causes of customer contact. Most of the contact is about discoloured water. This is often the result of disturbed sediment in our water mains, which can occur when we get rapid changes in water flow – for example, following a burst. So, we have routine flushing and network calming programmes in place to ensure we can minimise the risk of such disturbances.

This approach, in combination with other strategies, has led to a steady decline in customer contacts – there are now 48% fewer than in 2019. As a result, we have outperformed against this target (shown as a purple line) in every year of the current planning period.

Maintaining a reliable supply – supply interruptions

Common or bespoke performance commitment: Common

Target met: **Yes**

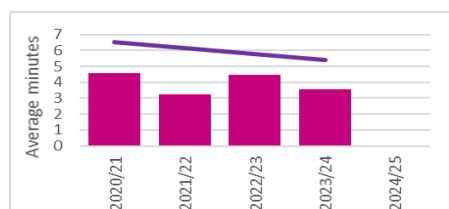
What we are measuring

The average minutes of interruption each property experiences for interruptions of three hours or more.

Unit of measurement

Average interruptions in minutes and seconds.

How we have performed



Interruptions to supply are one of the highest priority areas for customers. This commitment measures the average amount of time our customers are without water in an event of three hours or more in duration. So it is a measure of the reliability of our water supply to customers.

We are one of the best performers in the sector for supply interruptions. We work hard to ensure that when a disruption event such as a mains burst does occur the impact on our customers is kept to an absolute minimum.

We have outperformed our target for supply interruptions (shown as a purple line) in each year of the current five-year planning period to date.

Maintaining a reliable supply – severe supply restrictions

Common or bespoke performance commitment: Common

Target met: **Yes**

What we are measuring

Customers at risk of severe supply restrictions in a 1-in-200-year drought scenario.

Unit of measurement

Percentage of customers at risk.

How we have performed

This measure is an indicator of risk to the supply of water to customers under a defined 1-in-200-year drought scenario. We assess this risk in our water resources planning and report on it through this measure each year.

As a measure of risk, the performance reported is not something that directly impacts customers (unless the event actually happens, which it has not). The level of risk is influenced by the plans we have for dealing with water scarcity, leakage and customer demand.

We are delivering on our plans during the current five-year period and based on this, the risk level to customers is currently zero. This is the level we planned for in the 2019 water resources management plans for our Cambridge and South Staffs regions and is based on us delivering all approved schemes.

Reducing the number of water production failures

Common or bespoke performance commitment: Common

Target met: **Yes**

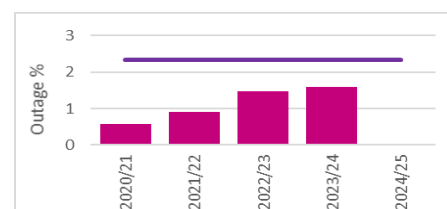
What we are measuring

Water production capacity lost through unplanned outage.

Unit of measurement

Unplanned outage as a percentage of total production capacity.

How we have performed



We measure unplanned outage to indicate the health of our water production assets. These include the pumps, electrical equipment and treatment works we use to treat, store and supply water to our customers.

It is normal that we have a small level of unplanned outage. All equipment fails periodically and we have many mitigations in place to ensure customers are not normally impacted when this happens.

We have outperformed our target (shown as a purple line) for unplanned target in each year of the current five-year planning period to date.

But we are concerned that the level of unplanned outage is increasing over time. This has been because of a small number of longer duration asset failures over the past few years, which has required greater intervention to resolve. Going forward, we will carry out a review of our assets to ensure this measure improves.

Finding and fixing visible leaks more quickly

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

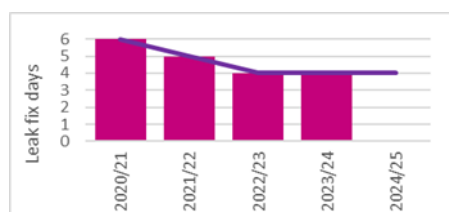
What we are measuring

The number of days we take to repair 90% of visible leaks on our networks, measured from the time the leak is found or reported.

Unit of measurement

Percentage of visible leaks repaired within a set number of days.

How we have performed



We know how important it is for our customers – and for our business – that we reduce leakage levels on our networks of water mains and pipes. We have significant overall leakage reduction targets, which we report separately for our Cambridge and South Staffs regions.

But we also know that when customers see visible leaks in the road, and report them to us, they want to be sure those leaks are fixed quickly – even though they may be small in some cases.

During the course of the current planning period, we have invested significantly in this area. This investment has paid off for us, as we have achieved our targets (shown as a purple line) for each of the past four years. We are pleased to have reduced our average leak repair time from nine days in 2019/20 to four days during the reporting year.

Reducing the number of burst mains

Common or bespoke performance commitment: Common

Target met: **Yes**

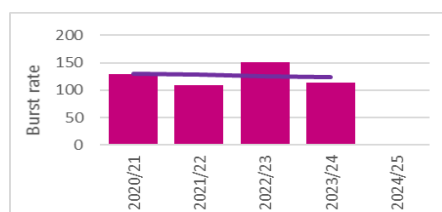
What we are measuring

The number of burst water mains on our networks in the Cambridge and South Staffs regions.

Unit of measurement

Number of bursts per 1,000 km of mains.

How we have performed



The number of burst mains we experience in any given year is an indicator of the health of the networks in our Cambridge and South Staffs regions. Over a long period of time, underground water mains can deteriorate and burst. Expressing the number of burst mains as a rate per 1,000 kilometres of pipe in our networks makes it easier for us to compare our performance with that of other water companies in the sector.

We track the number of bursts we experience over time to ensure these assets are not deteriorating at a faster rate than we are repairing or replacing them. This is to ensure we maintain a high level of supply reliability to our customers.

Mains bursts can be a volatile measure. This is because they can be sensitive to weather conditions – particularly high or low temperatures. These changes in weather can cause the ground to expand or contract, which can, in turn, cause mains to fracture. Despite the unpredictability of this measure, we have continued to perform well and have outperformed our target (as shown by a purple line) during the reporting year.

Delivering for the environment



Our environment promise

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



Addressing the impact of invasive non-native species

Invasive non-native species (INNS) are species that have been introduced into the UK, either accidentally or deliberately. Their presence can have serious environmental, economic and social impacts. This is because they often compete with or spread disease to our native species, often resulting in population decline. For example, the American mink, which was introduced into the UK for the fur trade, became established in the wild by the 1950s. It is now one of the biggest threats to the endangered water vole, with declines in population of up to 90% in some areas.

As well as the potential environmental harm, INNS also cost a lot of money to manage and control. The England and Wales water sector alone spends around £7.5 million a year to tackle problems associated with the spread of INNS. They also pose a risk to our own enjoyment of nature as a recreational activity. Species like floating pennywort, for example, can dominate our waterways. As well as restricting access to the water in some cases, it can also smother any aquatic life below the surface.

We are committed to stopping the spread of INNS through our land management approaches. We have biosecurity measures in place at our reservoirs and expect visitors to follow the 'check, clean, dry' protocol to help prevent the spread of INNS. In addition, the estates team at our Blithfield reservoir actively manages INNS at the site, including Himalayan balsam, Japanese knotweed and the American signal crayfish.

During the reporting year, as part of our Water Industry National Environment Programme (WINEP) obligations, we completed surveys at more than 90 of our own land holdings to identify where INNS are present. During the next five-year planning period from 2025 to 2030, we will implement long-term INNS management plans across our Cambridge and South Staffs regions, where necessary. We will also continue to use our PEBBLE biodiversity fund to support groups in removing INNS from protected habitats.

"Educating about water sets the seed at a young age to not waste water and to show them how water shortages can affect them. Many people think it's just a problem in hot countries" – household customer, Cambridge region

Why reducing leakage on our network of pipes matters

Reducing levels of leakage is really important to us. And it is consistently a key priority for our customers. In addition, there are also environmental and financial benefits to reducing the volume of water that leaks from our pipe networks.

From an environmental perspective, reducing leakage levels means we need to take less water from the environment. This helps to maintain levels in the sources from where we take our water. It also helps us to maintain natural habitats.

From a financial perspective, all leakage is wasted water that has cost money to take from the environment, treat and transport around our networks.

For these reasons, we have set very demanding leakage reduction targets to achieve in each year of the current planning period.

By 2025, we are aiming to deliver around a 15% reduction in leakage across our Cambridge and South Staffs regions. Our ultimate aim is to reduce leakage by 50% by 2050.

Reducing leakage levels – Cambridge region

Common or bespoke performance commitment: Common

Target met: **Yes**

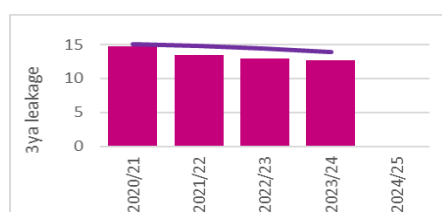
What we are measuring

Leakage levels in the Cambridge Water supply area.

Unit of measurement

Percentage reduction from baseline.

How we have performed



We measure leakage as a three-year average. This is to smooth out the volatility that weather can cause. Our performance across both regions against our target (shown by the purple line) is ahead of that target.

We have been working hard to meet and outperform our tough leakage targets (described in the sidebar, left). We have increased the resources we devote to finding and fixing leaks, and we have introduced new and innovative technologies to improve our leak detection activity.

We are pleased to report that we have outperformed our leakage target in our Cambridge region. We will continue to build on this in the coming year.

Reducing leakage levels – South Staffs region

Common or bespoke performance commitment: Common

Target met: **No**

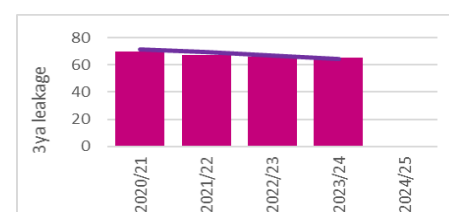
What we are measuring

Leakage levels in the South Staffs Water supply area.

Unit of measurement

Percentage reduction from baseline.

How we have performed



We measure leakage as a three-year average. This is to smooth out the volatility that weather can cause. Our performance across both regions against our target (shown by the purple line) is ahead of that target.

We have been working hard to meet and outperform our tough leakage targets (described in the sidebar, left). We have increased the resources we devote to finding and fixing leaks, and we have introduced new and innovative technologies to improve our leak detection activity.

We are disappointed to have just missed our leakage target in our South Staffs region. We will increase our efforts in the coming year to ensure we get back on track by the end of the current planning period.

Reducing how much water each person uses – Cambridge region

Common or bespoke performance commitment: Common

Target met: **No**

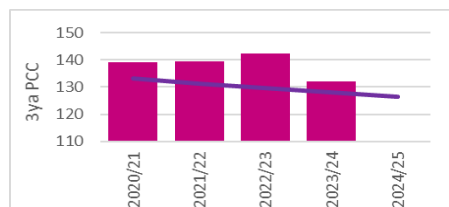
What we are measuring

The average water consumption by individual household consumers in the Cambridge Water supply area (per capita consumption, or PCC).

Unit of measurement

Percentage reduction from baseline.

How we have performed



PCC is measured as a three-year rolling average. Because water consumption in our Cambridge region rose significantly between 2020 and 2022 compared with pre-pandemic levels, we have failed our target in all years of the current planning period to date.

We are disappointed with this and are working hard to improve our performance in this area. Our ‘Can for the Cam’ campaign (see page 15) is a good example of the initiatives we have introduced to encourage our customers to use water wisely. We will continue to build on this in the year ahead.

Reducing how much water each person uses – South Staffs region

Common or bespoke performance commitment: Common

Target met: **No**

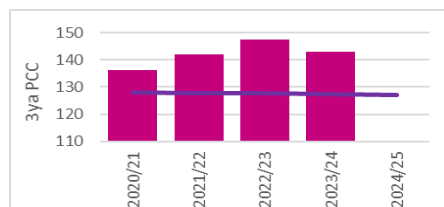
What we are measuring

The average water consumption by individual household consumers in the South Staffs Water supply area (per capita consumption, or PCC).

Unit of measurement

Percentage reduction from baseline.

How we have performed



PCC is measured as a three-year rolling average. Because water consumption in our Cambridge region rose significantly between 2020 and 2022 compared with pre-pandemic levels, we have failed our target in all years of the current planning period to date.

We are disappointed with this and are working hard to improve our performance in this area. We will continue to build on this in the year ahead.

Encouraging our customers to use water wisely

We know that fresh water is a precious and finite resource. So, we try to help all our customers use water wisely.

We do this through a variety of initiatives, including metering, communications, education outreach and direct support – providing free water efficiency devices for customers to use around their homes.

We measure water efficiency on household properties. In our business plan for 2020 to 2025, we set ambitious targets to reduce the volume of water each person uses.

The COVID-19 pandemic in 2020 meant many people had to stay at home. This led to an increase in water use, which impacted our performance against this metric.

We will continue to support customers to reduce how much water they use. We are working towards achieving a target of 110 litres per person per day by 2050.

Not taking too much water from environmentally sensitive sites

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

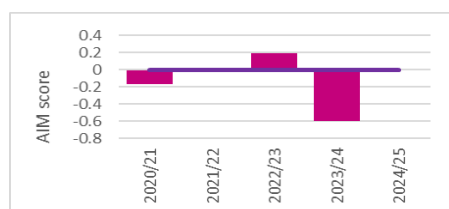
What we are measuring

Our compliance with pre-defined water abstraction thresholds for our designated Abstraction Incentive Mechanism (AIM) sites in our Cambridge and South Staffs regions.

Unit of measurement

AIM score.

How we have performed



The AIM is a composite score of under- or over-abstraction from a specific set of groundwater sources where local water courses have been identified as being at risk of over-abstraction.

We have one active AIM site in our Cambridge region (Horseheath). We carefully monitor the volumes of water we take ('abstract') from this site. When there is a low flow trigger on the local water course, we measure how our abstraction during this period compares with our allowed levels.

During the reporting year, we abstracted less water from this site during times of sensitivity. This means we outperformed the AIM measure. This is shown as a negative value on the chart above against our target of zero.

Delivering our WINEP requirements

Common or bespoke performance commitment: Common

Target met: **Yes**

What we are measuring

Delivery of our obligations under the Environment Agency's Water Industry National Environment Programme (WINEP).

Unit of measurement

Milestones set by the Environment Agency.

How we have performed

We have continued to progress with our WINEP schemes, liaising with both the Environment Agency and Natural England, where relevant.

Because of the dates agreed with the regulators to deliver our environmental obligations, no schemes required signing off during the current reporting year. The remaining schemes are scheduled to be completed in 2024/25, and we will report on the outcome of this in next year's annual report and financial statements.

Our main focus during the year was on preparing for our 2024/25 schemes and planning for the next five-year period (AMP8) through our statutory plans.

Protecting wildlife, plants, habitats and catchments

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

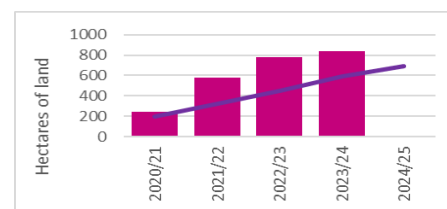
What we are measuring

The area of land that we manage actively in our Cambridge and South Staffs regions to protect wildlife, plants, habitats and catchments.

Unit of measurement

Hectares of land managed.

How we have performed



We have significantly increased the area of land we manage for biodiversity in each year of the current planning period to date. And we are delighted to have again outperformed our target in this area.

We have continued to expand our SPRING catchment management programme across both regions. And we have built on the increasing popularity of biodiversity enhancement measures within agriculture. Through SPRING, we have supported a range of measures, including flower rich margins, beetle banks and planting wild bird or pollen-rich seed mix. We have also funded buffer strips, field margins and under sowing of crops, which also have soil health and nutrient benefits.

In addition, we have made sure that habitats on our Sites of Special Scientific Interest (SSSIs) remain in a favourable condition for the target species, such as wading birds, and continued and ancient woodland. And we have continued to provide biodiversity and community benefits through our PEBBLE fund. This includes funding projects to protect and enhance chalk streams, create wildlife and community gardens, and support natural habitats.

Supporting water efficient house building

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

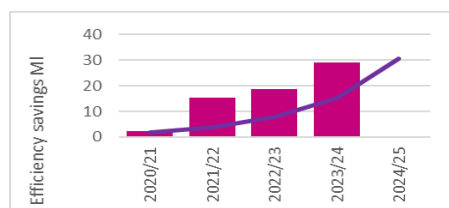
What we are measuring

The volume of water saved from new residential properties being built to [HQM](#) or [BREEAM](#) standards, and which meet a water efficiency level of 100 litres per person per day (l/p/d).

Unit of measurement

Volume of water saved in megalitres. (Note: a megalitre – Ml – is one million litres.)

How we have performed



As well as providing targeted water efficiency programmes for household customers in our Cambridge and South Staffs regions, we also work closely with housing developers to incentivise them to design new dwellings to improved water efficiency standards. We do this by offering financial incentives to developers adopting the HQM or BREEAM 100 l/p/d standard.

Against this, we have saved almost 30 Ml of water over the four years of the current planning period to date. And as the chart above shows, we are ahead of our target for this performance commitment.

Reducing our carbon emissions

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

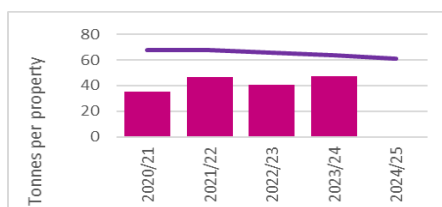
What we are measuring

The amount of operational carbon emissions from our operations, per connected property.

Unit of measurement

Kilograms per connected property.

How we have performed



We operate an energy-intensive business, and use large amounts to enable us to abstract, treat and pump water from source to tap. We are committed to reducing our carbon footprint wherever possible so that we can play our part towards achieving the water sector's ambitious net zero goals.

We are pleased to report that we have outperformed our target in every year of the current planning period to date. Initiatives such as a green energy purchase scheme, small-scale solar generation and energy efficiency improvements across our asset base have helped us to achieve this.

In future, we intend to go further by continuing to reduce our emissions, and by making sure the energy we use in our operations is sourced as cleanly as possible.

Delivering for our business



Our business promise

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



Taking a strategic view of asset management

Over the course of the current planning period to date, we have taken a more strategic approach to our asset management function. This includes restructuring our asset management team, with analytical and tactical delivery roles as core functions. We also developed an improved approach to understanding the value in our investment programmes, enabling us to make more informed and effective business decisions. And we recognised the need for a balanced and transparent process in generating and managing our investment programme. Key to this was the need to link our decision-making to both customers' priorities and strategic business requirements through an approach that balances costs, risks and improvements in performance. There was also a need to inform our long-term delivery programme, with a particular focus on the five-year planning period from 2025 to 2030.

To help address these challenges, in 2022 we implemented Copperleaf H2O, an asset investment planning tool that is now used widely throughout the water sector in both the UK and further afield. Implementing this system has given us a focal point within which investment options are effectively linked to our improving picture of asset risk and our customers' priorities, and our understanding of value through the Six Capitals Framework. It has also enabled us to see and analyse investment at a granular project level, all the way up to a whole portfolio appraisal. This is set within the context of our own business targets and performance commitments.

As an early adopter of the Copperleaf system in the England and Wales water sector, we have been at the forefront of pushing the existing capability through our bespoke implementation. We have also driven new features and functionality to help the wider Copperleaf user community. This is something we are regularly asked to showcase. During the reporting year, Copperleaf played a critical role in helping us to determine the scale of the investment programme at the heart of our business plan for 2025 to 2030. We also carried out work to understand more about how we use the system as a business-as-usual tool to support the overall governance, tracking and monitoring of our ambitious capital programme against our many internal and external commitments.

"All businesses have a responsibility to protect the environment and reduce carbon emissions. This should be at the forefront of business plans" – household customer, South Staffs region

Treating all our suppliers fairly

Common or bespoke performance commitment: Bespoke

Target met: **No**

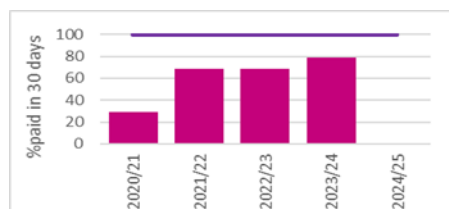
What we are measuring

Making sure we pay small businesses within 30 days as a signatory of the [Prompt Payment Code](#).

Unit of measurement

Percentage of small businesses paid within 30 days.

How we have performed



We value the vital services many of our small suppliers provide to us. We also recognise that small suppliers often have a greater need for reliable cash flows and that they can be more affected by payment delays.

In our business plan for 2020 to 2025, we committed to improve the speed of payment transactions to our small suppliers, by aligning our payment periods to the 30 days required by the Prompt Payment Code. We also committed to signing up to the code.

During the current planning period, our performance in this area has been improving year-on-year. In the reporting year, we paid more than 79% of our small supplier invoices within 30 days. But a small number of these often have outstanding disputes or other factors that prevent payment within this time frame. These are normally resolved quickly without further escalation.

We are exploring how to address these issues so that we can meet our target of paying 100% of small suppliers within 30 days (shown by the purple line). For this reason, we have not yet become a signatory to the Prompt Payment Code.

Making sure our property records are up to date

Common or bespoke performance commitment: Bespoke

Target met: **Yes**

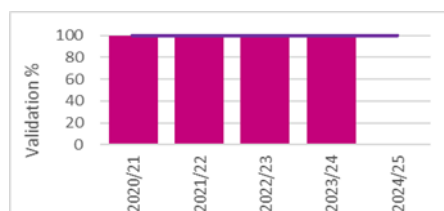
What we are measuring

The proportion of residential void properties we have validated and completion of gap site identification activity.

Unit of measurement

Percentage of properties validated.

How we have performed



It is important to us and our customers that everyone who should be paying a water bill is doing so. Void properties are those properties that are empty and are not charged. It is crucial these records are accurate, so that we can ensure bills are fair for all customers.

To do this, we validate all our void properties each year to check their status is still valid. Our target is to validate 100% of void properties (shown as a purple line). We have achieved this target every year during the current planning period.

We also look for 'gap sites', which are properties that do not appear on our records at all. During the reporting year, we did not find any gap sites.

Reducing our levels of bad debt

Common or bespoke performance commitment: Bespoke

Target met: **No**

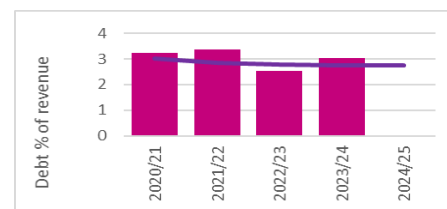
What we are measuring

The level of bad debt charge that we incur each year in the Annual Performance Review, expressed as a percentage of total revenue.

Unit of measurement

Bad debt as a percentage of revenue.

How we have performed



Controlling levels of bad debt is essential if we are to ensure fair charging for all our customers. So, it is vital that we collect all the revenues due to us to ensure we can run our operations and maintain our assets for the long term.

In our business plan for 2020 to 2025, we set ourselves a target for bad debt as a proportion of revenue from household customers. While we have been close to achieving this target (shown as a purple line) in the current planning period to date, we have failed to meet or outperform it in three of the past four years.

We are working hard to improve our ability to collect the money we are owed from customers. This includes helping those in vulnerable circumstances with additional support options, including our Assure social tariff.

Making sure all our people love their jobs

Common or bespoke performance commitment: Bespoke

Target met: **No**

What we are measuring

Achievement of Investors in People (IIP) accreditation and an annual employee survey.

Unit of measurement

Net Promoter Score (NPS)/achieving IIP accreditation.

How we have performed

A key focus of our business plan for 2020 to 2025 was our desire to make working for South Staffordshire Water a rewarding experience for all our people. We think this is something to which every business should aspire. To demonstrate our commitment to this, we set ourselves a target to improve our NPS over the current planning period, based on our regular employee surveys, and also to achieve IIP accreditation.

We achieved IIP accreditation at the Standard level in the 2020/21 financial year, slightly ahead of our original proposed timescale. This was a great achievement for our business – and also a great recognition for our people.

But we have not been able to achieve our NPS target. Measuring employee satisfaction is a complex activity, and, along with our performance review programme for our people, we want to ensure our approach is meaningful.

During the year, we launched a new people strategy and have focused our attention on designing an employee engagement programme that will work for the diverse activities we carry out across the business. We will report on our progress about how we engage with our people in next year's annual report and financial statements.

Delivering our core outcomes



Our core promise

We will provide value for money and maintain our customers' trust in us

Delivering services that are value for money

Common or bespoke performance commitment: Bespoke

Target met: **No**

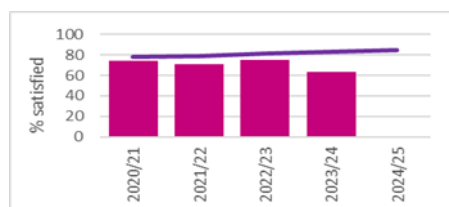
What we are measuring

Customers' satisfaction with our value for money, using a combination of our own tracker survey and a survey carried out by CCW, the consumer watchdog.

Unit of measurement

Percentage of satisfied customers.

How we have performed



In 2019, we set ourselves very challenging targets for customers' perception of the value for money of their water bills. We required more than 80% of our surveyed customers to be 'satisfied' or better with the level of service they receive from us.

We are disappointed that we have not yet managed to reach this target during the first four years of the current five-year planning period.

We think there are a number of reasons for this. Some of these relate to our own behaviours in our communications and customer-facing activities – and we have put improvement plans in place to address these.

But there has also been a more widespread deteriorating perception of water sector in general among customers in recent years, while the cost-of-living crisis has impacted customers' perceptions of the affordability of their water bills.

"What struck me is how little I know about my water company.... Maybe they can engage with us a bit more about where our utilities come from. It feels like water just appears and we're probably over-using it as well. So, a bit more about that mutual relationship would be good. It's not an endless commodity" – future household customer, Cambridge region

Making sure customers have a high level of trust in us

Common or bespoke performance commitment: Bespoke

Target met: **No**

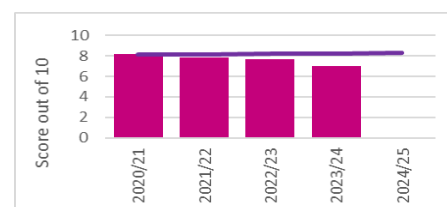
What we are measuring

The level of trust our customers have in us, using a combination of our own tracker survey and a survey carried out by CCW.

Unit of measurement

Score out of 10.

How we have performed



Similar to our value for money commitment, we set ourselves very challenging targets for customers' perceptions of trust for the five years from 2020 to 2025.

Again, we are disappointed to see a deterioration in this metric over the past few years, despite meeting our target in 2020/21.

As well as factors within our control, which we are working to address, our research suggests wider economic factors and current negative perceptions of the water sector are helping to drive the decline in our trust scores. We are seeing this in our own surveys and those of CCW.

Our people



Our people are at the heart of our business. We take our duties towards them seriously and actively encourage a fair and equitable working environment that enables them to perform to the best of their abilities. We also make sure we protect their health and wellbeing, and do everything we can to minimise the risk of harm.

Our people strategy

As a trusted business, it is important for us to create an inclusive environment where all our people can thrive. We are committed to fairness and transparency. And we are committed to shaping a culture that not only attracts top talent, but that also nurtures the continuous growth and fulfilment of all our people.

To that end, during the reporting year we started work to develop a new values-led and data-driven people strategy built on the foundations of:

- great people;
- operational excellence;
- customer focus; and
- trusted partnerships.

In developing this strategy, we have focused our attention on the following key themes as part of our business-as-usual activities.

- **Talent acquisition and onboarding.** This is about identifying, attracting and retaining exceptional individuals who align with our values and who possess the skills and perspectives necessary to drive innovation and success.
- **Employee voice.** This means developing a culture of open, two-way communication and inclusivity. It also means providing the mechanisms for our people to express their ideas and concerns. And it means harnessing the collective knowledge of the diverse teams across our business.

- **Talent management.** We strive to empower our people to achieve their personal and professional goals. We do this by aligning their skills and aspirations with the objectives of both our business and those of the wider South Staffordshire Plc Group.
- **Diversity, equity and inclusion.** This is about championing a workplace that embraces diversity, ensures equity for all and that cultivates an inclusive environment where everyone feels valued and empowered. We aim to create a culture that reflects the diversity of the communities we serve.

- **Reward and recognition.** We want to create a culture where excellence is recognised and rewarded. This is to promote a sense of pride, motivation and loyalty among our people.
- **HR governance.** This means establishing and upholding robust HR governance practices that contribute to the overall effectiveness, fairness and transparency of our people strategy.

Our primary objective is that we excel in all these areas by 2026/27, which will be demonstrated by an increase in overall employee engagement.

During the reporting year, we started work to understand the skills and capabilities of our HR team and to create an effective operating model going forward. We also carried out an audit and assessment of our HR data, processes, policies and practices, with the aim of identifying any compliance gaps and addressing them proactively. And we have started to assess our existing HR technology infrastructure and identify areas for improvement. Key for us is to adopt an approach to people processes that is consistent with other Group companies.

To ensure our people are well-informed about HR-related matters and have access to relevant resources, we have implemented a comprehensive communication plan. This will enable us to share information about changes to HR policies and other HR initiatives in a timely manner and accessible way.

Looking ahead, we will focus our attention on making sure leaders across the business receive the training and the development they need to enable them to deliver our people strategy.

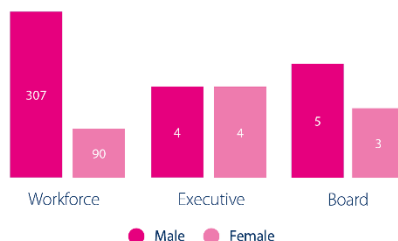
We will also initiate learning and development aligned programmes to address skills and capability gaps across the business. And we will introduce

additional employee engagement programmes that support the advancement of a positive work environment. We will report on our progress in next year's annual report and financial statements.

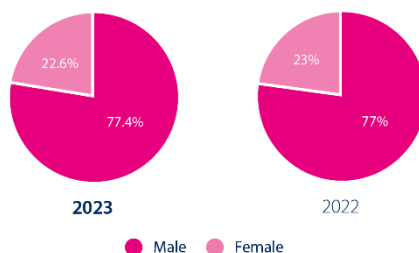
Gender, equality and diversity

As an employer with more than 250 employees, we are required to publish [gender pay gap data](#) in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. These regulations require us to report on our gender pay gap each year – in this case, for the 'snapshot' date of 5 April 2023.

On this date, we directly employed 397 people across our Cambridge and South Staffs regions. This is smaller than in the previous year because of the transfer of 25 FTE direct labour roles within the business to fellow Group company OnSite.



Overall, our gender workforce split is 77.4% male and 22.6% female. This represents a slight change from 2022.



Most of our people are employed in our wholesale function, including in the areas of water production and our field-based operations.

What is the gender pay gap?

This measures the difference, excluding overtime, between average hourly earnings of men and women as a proportion of men's average hourly earnings, expressed as a percentage of men's pay.

The gender pay gap is measured across all jobs in the UK. It does not measure the difference in pay between men and women for doing the same job.

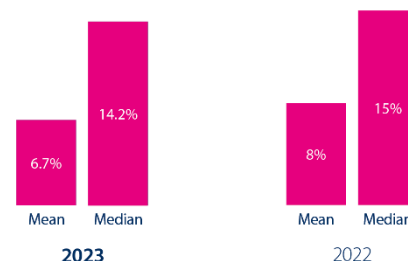
In the UK, the mean gender pay gap has been declining steadily over time. In the past ten years, it has fallen by around a quarter among all employees, standing at 7.7% in April 2023.¹

We use mean and median statistical values to measure our gender pay gap.

The mean value represents the difference between the average hourly pay for all men and women across the business. The median value represents the difference between the midpoints in the hourly pay ranges of all men and women across the business.

Our mean gender pay gap for the reporting year was 6.7%, a drop from 8% the previous year. This means that, on average, our female employees earned 6.7% less than their male counterparts across the business. The reduction indicates the positive progress we have made to reduce the disparity in average earnings between male and female employees over the reporting period.

At the same time, our median pay gap was 14.2%, a drop from 15% in 2022. Again, we see the narrowing of this gap as a positive thing, which reflects our commitment to address the disparity in median earnings between male and female employees across the business.



¹ 'Gender pay gap in the UK', Office for National Statistics, 1 November 2023.

There are a number of factors that have contributed to the change in our mean and median gender pay gaps. These include introducing more flexible working arrangements to support our people, accommodate diverse needs and help to promote a positive work/life balance.

Other initiatives include launching a Women’s Network to cultivate a dynamic and inclusive environment that empowers women from all parts of the business at every stage of their careers. The network is designed to foster professional growth, enable networking opportunities and advocate for gender equality so that women are supported, inspired and equipped to achieve their full potential and – in turn – contribute to the overall success of our business.

We think it is essential that we continue to implement initiatives that will enable us to build on our success to date. We are committed to our ongoing efforts to further reduce the mean and median gender pay gaps and create a workplace where all our people, regardless of gender or life stage, have equal opportunities and fair compensation.

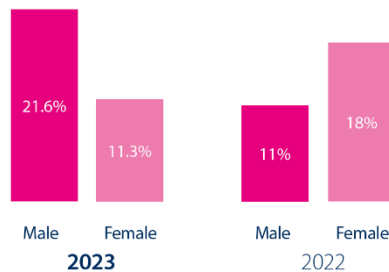
Our mean bonus pay gap during the reporting year was -0.9%, compared with 38% in 2022. This means that, on average, female employees received slightly higher bonuses than male employees during the year. This represents a significant achievement in promoting fairness and equity in bonus payments across the business.

What is the gender bonus gap?

This is the difference between the mean and median values of bonus pay for men and women across the business during the reporting year. It is expressed as a percentage of the bonuses paid to men.

One of the key reasons for this shift since 2022 has been the work we have carried out to review and adjust bonus structures to ensure they are allocated fairly. Our bonuses are linked to performance and are measured objectively, irrespective of gender.

On the other hand, our median bonus pay gap has increased from 0% in 2022 to 9.9% in 2023. We think the main reason for this is the reduction in the number of women eligible for a bonus and in increase in the number of eligible men.



We expect this gap to reduce as a result of the increase in the number of women in senior leadership roles across the business. We remain committed to our ongoing efforts to eliminate any disparities in our bonus payments and maintain a fair and equitable bonus distribution system.

“It is important for us to create an inclusive environment where all our people can thrive”

Looking ahead, we will continue to focus on initiatives that promote diversity and inclusion across our business. We have developed a strategic roadmap, which includes:

- carrying out further analysis of our pay structures to identify and address any potential gender disparities;
- expanding our training programmes to raise awareness and understanding of biases (both conscious and unconscious);
- continuing to build on our efforts to enhance diversity in recruitment and talent acquisition processes; continuing to attract, retain and develop female talent;
- advertising jobs on a flexible basis, where job sharing is encouraged;

- creating employee resource groups to gather insights from our people and encourage an even more inclusive workplace;
- implementing targeted initiatives and programmes to address gender-related challenges, such as mentorship programmes, diversity training and policies aimed at promoting a more inclusive workplace; and
- improving our family leave and other policies to make sure there is equity across the wider South Staffordshire Plc Group.

We will report on our progress against these and other initiatives in next year’s annual report and financial statements.

Supporting our people

We recognise the importance of supporting all our people, whatever their life stage or place within their careers. During the reporting year, we initiated a comprehensive people plan. The aim is to enhance the employee experience for all our people and foster a culture of continuous improvement across the business.

We have also made great strides in the following key areas.

- We have **revamped our HR policies and procedures** to ensure clarity, consistency and compliance with relevant regulations and best practice. These updates reflect our commitment to promoting fairness, transparency and accountability across all aspects of the employee life cycle.
- We have **improved our family benefits offering**. This is to give our people with caregiving responsibilities greater flexibility and assistance, helping them to balance those responsibilities with their professional commitments.

- We have implemented a **standardised job description format**. This is to streamline our recruitment processes and provide clarity, both to applicants and hiring managers.
- And, as a result of **implementing more robust recruitment approval processes** during the second half of the reporting year, we have successfully reduced our reliance on external agencies for recruitment.

As well as providing a welcoming, inclusive and safe workplace, a key priority for us is the health and wellbeing of our people. This is something we take very seriously.

Along with fellow South Staffordshire Plc Group company, IWS-M&E, we embarked on a programme of human and organisational performance (HOP) workshops during the reporting year. This is an approach that is used widely in high-hazard businesses all over the world.

HOP focuses on improving the performance of people and organisations by understanding and managing the complex interactions between human behaviour and organisational systems.

Around 80 leaders, managers and supervisors attended a series of workshops to explore a range of themes, including:

- the types of errors that can occur in everyday workplace activities, and what can cause them;
- the normalisation of risk within a business; and
- learning from both success and failure.

The workshops featured a combination of theory and practical exercises designed to illustrate how high-performing teams work. They also reinforced the mindset that safety within the workplace comes

from doing many things well – and doing them consistently.

Attendees have taken the learnings from these workshops forward into their action and improvement plans. In addition, the Executive team has been working to embed HOP principles within the business, encouraging a ‘no blame’ culture where everyone, including contractors, shares accountability when things go wrong. Alongside this, we also implemented a new process to verify that appropriate safety measures are in place before project work starts in areas where critical hazards may be present. This has enabled project managers to learn and improve the management control of critical risk activities.

As well as looking after the safety of our people, we are committed to creating a positive culture around physical and mental health, and provide a range of help and support. During the reporting year, we have focused our attention on:

- advocating good mental health and wellbeing practices both in and outside of the workplace;
- encouraging conversations about mental health and wellbeing;
- providing a safe space for our people; and
- signposting useful sources of help and guidance.

We have also shared communications and individual stories about a range of different topics, including ways to deal with stress, cancer awareness and maintaining a positive and healthy outlook throughout the year.

Engaging our people

It is our people who make our business. Everyone plays their part to ensure we always deliver the services our customers expect and pay for. During the reporting

year, we have refreshed our approach to employee engagement, adopting more two-way communication, and making sure our people feel their voices have been heard and that their opinions are valued.

As part of this, we have expanded the reach of our regular Executive updates, appreciating that people at our key sites are not always able to come to the main offices in our Cambridge or South Staffs regions. We now hold these sessions at all our key water production sites, giving teams the opportunities to hear from members of the Executive team directly – and ask them questions in an informal setting. We have found this to be an effective way of sharing updates and hearing directly from the people involved in every part of our business.

And while our focus is always on delivering for our customers, we also want our people to know that South Staffordshire Water is a great company to work for. We have held a number of engagement events during the year, ranging from a family fun day at Blithfield reservoir in our South Staffs region in August 2023 to holding a Christmas quiz hosted by members of the Executive team.

Among the other initiatives launched during the reporting year was the launch of an anonymous online suggestion box in September 2023. This gives our people an additional route through which their voices can be heard and their suggestions discussed and acted upon, where appropriate.

And we launched a new, more inclusive internal communications calendar in January 2024, marking more diversity and inclusion opportunities and wellbeing weeks.

We will continue to build on this solid foundation, and will report on our progress in this area in next year’s annual report and financial statements.



Our People Forum – supporting colleagues across the business

We know how important it is for all our people to feel supported and engaged. One of the ways we do this is through our People Forum. This is a committee of 13 volunteers from across our Cambridge and South Staffs regions who constructively engage with the business on behalf of our people, regardless of where they work.

Its role is to create and maintain a positive culture that helps to maintain trust, build a shared view of the business and deliver meaningful solutions for everyone. As well as being a channel for two-way communication, it also provides confidential support and guidance for colleagues who may be experiencing problems during their normal working activities.

During the reporting year, the People Forum hosted a number of activities and events. This included holding coffee mornings at all our key sites where colleagues are able to discuss issues that are important to them and bring forward ideas to help shape the business. The People Forum then shares the outcomes of these sessions with the Executive team for review and action.

Another initiative has been the launch of 'From the Source'. This is a magazine for all employees, with a particular emphasis on people and social activities. There is also a podcast and a talent pipeline for those interested in their personal and career development.

Looking to the year ahead, the People Forum aims to build on its achievements to date. It is already planning a programme of social events and is refining members' roles to ensure it continues to play a vital role in providing support to the business.

Engaging our customers and stakeholders



Making sure we understand and effectively capture the views of our customers and other stakeholders is essential if we are to deliver our plans as a business that acts in the public interest. In recent years, we have made a step change in the approach we take to our customer and stakeholder engagement, using a wide range of insight to inform our decision-making.

Engaging with our customers

We use insight from customers to help shape our day-to-day and long-term plans. During the reporting year, we carried out a number of projects as part of our wider engagement programme. This helped us to maintain our focus on customers' priorities and to understand how these are changing and why. The key engagement projects undertaken during the year include the following.

Understanding customers' long-term preferences

We carried out a major qualitative and quantitative research project among household and non-household customers covering ten ambition areas. The aim was to ensure customers' preferences were accurately reflected in our long-term

delivery strategy to 2050, which we submitted to the regulator Ofwat in October alongside our business plan for the five years from 2025 to 2030.

These preferences included:

- investments into water quality improvements;
- a range of environmental and net zero carbon ambitions; and
- customer service and affordability support.

Following this, we worked collaboratively with Impact Research, our triangulation partner for the PR24 price review process, to develop a decision-making framework using insights from across a range of relevant studies. We subsequently used this framework to inform key decisions around the phasing of major investments. We focused specifically on customers' input into plans that go beyond us

delivering service levels that meet the latest legal requirements and targets.

Customer contribution levels for our Assure social tariff

We engaged with household customers across our Cambridge and South Staffs regions to explore the level of contribution customers supported to fund our Assure social tariff.

We held in-depth focus groups to explore the structure of the tariff and the key decisions around fairness for funding to support customers struggling to pay their water bills. This stage of the study helped to inform the approach and development of the materials we used in a robust quantitative survey among 1,360 customers, designed to validate the qualitative feedback.

The independent External Challenge Group

In 2022, as part of the PR24 price review process, we set up an independent External Challenge Group – or ECG (originally called the Stakeholder Challenge Panel).

The ECG comprises around half a dozen specialist stakeholders, selected individually or from organisations with experience across a variety of key disciplines, including:

- previous experience of contributing to a formal challenge process;
- strategic understanding of environmental and societal challenges in relation to providing an essential public service; and
- a background in driving, commissioning or using robust and structured research to inform decision-making.

In developing our business plan for 2025 to 2030, we engaged regularly with the ECG. This was to test elements of our programme to ensure we deliver better outcomes for customers and the environment over the long term.

After we submitted our business plan to Ofwat in October, we decided to keep our ECG in place. This is so it can continue to provide 'light touch' independent external challenge in a number of key business areas.

We consider this approach gives us a different perspective, enabling us to refine our decisions and strategies. We also think it enables us to deliver material enhanced customer and environmental outcomes.

Our research partner, Qa Research, took care to ensure a robust number of customers who are struggling to pay their bills were included in the sample. This research supported our decision to increase the customer contribution level from £5 a year to £8. The change came into effect in April and will enable us to support even more customers with paying their bills.

We also held a workshop with customers in our Cambridge and South Staffs regions who would qualify for a new tariff we are trialling during 2024/25. We have designed this tariff to support customers with an annual household income of between £19,000 and £25,000, who do not qualify for our Assure social tariff and help them to save money and water. We are using the insight to:

- inform our approach;
- develop the customer journey; and
- devise the communications for the 1,000 customers who will be recruited onto the trial.

Testing the acceptability and affordability of our PR24 business plan

We carried out qualitative and quantitative acceptability and affordability research with household and non-household customers to test the proposed investments in our business plan. The study followed mandated guidance from Ofwat and CCW.

We also held two 'Your water, your say' open challenge sessions in June and October 2023 to gain further feedback on our business plan and the changes that customers and stakeholders wanted us to make.

We carried out a second wave of acceptability and affordability testing on our Cambridge and South Staffs water resources management plans. The aim was to enable us to understand customers' thoughts about our proposed investments and associated bill impacts to 2050.

We will use the insights to engage with customers and educate them about the role they need to play to help us deliver

our objectives, along with the support in place to enable them to do so.

Tracking changes in customers' priorities

We continued to engage with household customers across our Cambridge and South Staffs regions to understand the priority they place on different aspects of their water service. This is the fourth year of proactively tracking customer priorities to ensure we quickly identify any changes and understand what is driving these changes.

This insight will help us to continue to adapt our plans to better meet customers' needs.

Relaunching the Young Innovators' Panel

Now in its third year, the Young Innovators' Panel gives students aged 16 to 18 the opportunity to put their ideas forward towards tackling a real-world business challenge.

In June, we welcomed 25 students from across our South Staffs region onto the Panel from a group of around 70 who applied. Representatives from Blue Marble Research, our independent research partner, worked with us to design two days of activities, giving Panel members an insight into the world of water and an opportunity to feedback on our plans for the five years from 2025 to 2030.

We are developing the winning idea into a board game that will form part of an interactive workshop to engage Key Stage 3 pupils (aged 11 to 14) to value water and encourage others to do so. We will pilot this in a number of schools across our Cambridge and South Staffs regions. If this is successful, we will then roll it out wider as part of our education outreach programme.

Engaging with our H2Online communities

During the reporting year, we engaged with members of the H2Online communities in our Cambridge and South Staffs regions on 47 topics related to their

Water service. The content focused on surveys, polls and discussions that enabled members to provide input into key decisions that informed our business plan and our long-term delivery strategy.

We then fed these insights into our wider customer engagement programme triangulation framework, which we developed to increase the depth and breadth of the feedback we gained. In the 12 months to November, when the communities celebrated their fourth anniversary, 511 members from both regions took part in the activities.

We also continued with our 'You said, we did' approach, where we commit to updating customers who take part in our H2Online activities on the action we have taken as a result of their feedback.

Tracking service delivery and brand experience

We continued to track household and non-household customers' perceptions of our service delivery and brand experience. This is to ensure action plans focus on the areas that are most in need of improvement.

During the reporting year, more than 1,000 customers took part to help us understand how effective our plans have been in improving the experiences and services we deliver.

Benchmarking our performance

We continued to regularly benchmark our performance against best practice engagement within and outside the water sector. This is to ensure we build new

ideas into action to improve the services we deliver for customers.

Engaging with our stakeholders

Every day, people across our business engage with a wide variety of stakeholders, developing relationships and gaining insight from within and outside the water sector. This has enabled us to develop a clear understanding of their needs. We set out our key stakeholder engagement outputs in the section 172(1) statement that follows this chapter.

"We use insight from our customers to help shape our day-to-day and long-term plans. We also gain valuable insight from stakeholders within and outside the water sector"

During the year, we implemented a new approach to capture the insight from our stakeholder engagement more effectively, using the monthly reporting already in place to minimise the administrative burden on our people. We consider this approach is proportionate to our size as one of the smaller water only companies in the England and Wales water sector.

Our new approach is already delivering insight that we are using to help drive our decision-making across the business. One of the reasons for this is that we have

linked our engagement to the 'golden threads' – the overarching themes that matter most to our customers. These are:

- **transparency and engagement** to help customers and stakeholders understand the context and impact of any proposed changes to their water services and the role they can play in ensuring the best outcomes;
- a focus on **fairness and collective action** to meet water sector challenges;
- **concern for the environment**, specifically the water environment;
- the need to **protect vulnerable customers**; and
- **affordability and cost-of-living increases** impacting on customers.

In the year ahead, we will continue to develop our approach to capturing stakeholders' insights and using that insight to help shape our decisions.

We have also continued to engage specifically with local and national elected officials on matters of interest to their constituents.

Key among this is work we have carried out to track changes in political sentiment ahead of the 2024 General Election. This includes tracking potential changes to the political landscape in both our Cambridge and South Staffs regions and reporting on these changes to the Executive team and Board.

This will help to inform our ongoing engagement with Members of Parliament. It will also help to inform our corporate messaging going forward.

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 the interests of one group of stakeholders may not always be aligned with the interests of other groups.

The Board's approach to 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 as follows.

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

- To **provide feedback to those stakeholders with whom it has engaged directly**, which should be tailored appropriately.

Key decisions taken by the Board

During the reporting year, we have proactively sought stakeholders' views to enable the Board to make decisions across two strategic business themes: financial rhythm and the PR19/PR24 price review process. Below, we set out the topics on which the Board made decisions within each of those themes.

Financial rhythm

- Budgets and forecasts.
- Dividend payment.

- AMP7 wholesale capital investment programme and infrastructure renewals expenditure (IRE).
- Treasury investment policy.
- Financing update.
- Wholesale charges.
- Assure social tariff customer contribution change,
- Draft assurance plans.
- Pension scheme.

PR19/PR24 price review process

- Water resources management plans for our Cambridge and South Staffs regions.
- 'No deterioration' environmental commitments.
- The Can for the Cam behavioural change campaign.
- Drought planning.
- Environment Agency enforcement action.

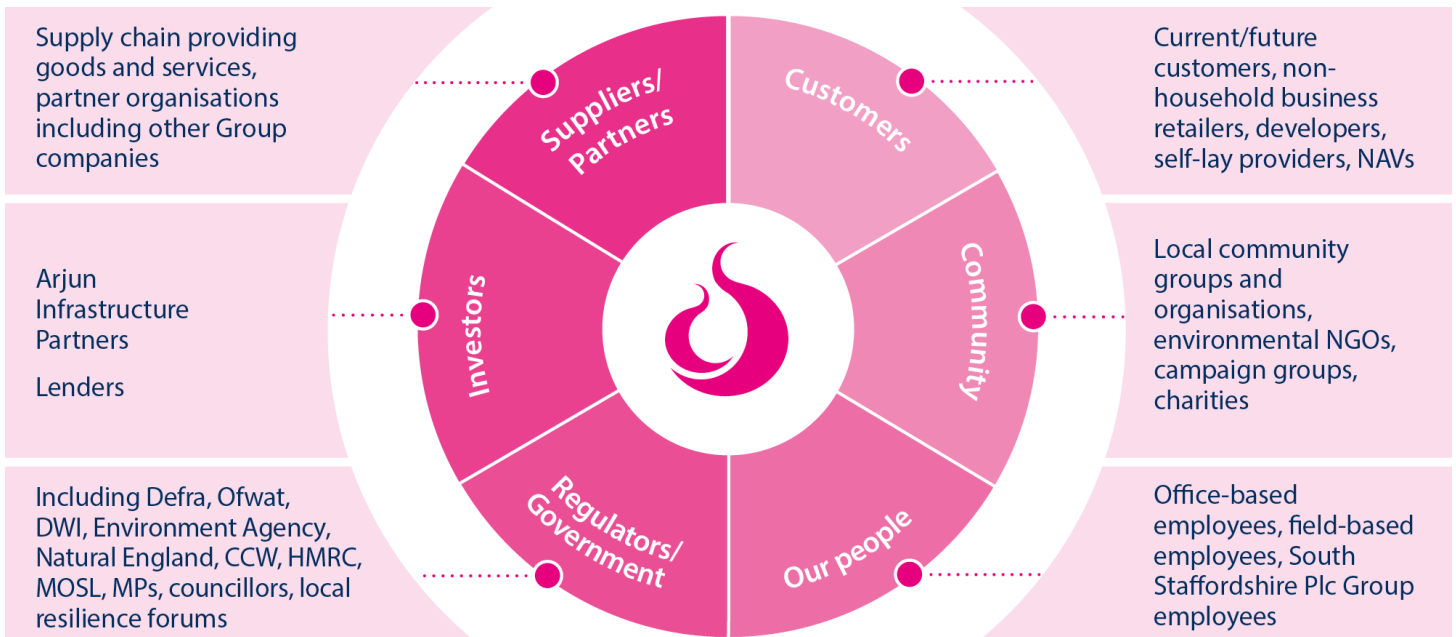
- Fens reservoir strategic resource option, being delivered in partnership with Anglian Water.
- Time-limited abstraction licence changes in our Cambridge region.

Individual Board members also carried out reviews and deep dives on a number of specific areas during the reporting year, including:

- per capita consumption (PCC), with specific reference to AMP7 penalty mitigation plans;
- leakage;
- voids;
- cash collections; and
- Compliance Risk Index (CRI) performance.

Other deep dives were carried out during the development of our long-term delivery strategy.

Our main stakeholder groups



How we have engaged with stakeholders

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

We have engaged extensively with our household customers during the reporting year to help shape our business plan for 2025 to 2030 and our long-term delivery strategy. In particular, we have used our insight programme to help us understand more about our customers' long-term preferences.

We have continued to use a wide range of qualitative and quantitative techniques to engage with our customers, including through:

- our ongoing priorities tracker;
- in-depth focus groups to explore funding levels for our Assure social tariff;

- acceptability and affordability testing for our business plan for 2025 to 2030;
- the Young Innovators' Panel in our South Staffs region; and
- the H2Online communities in our Cambridge and South Staffs regions.

There is more information on our customer engagement approach on pages 51 to 53.

“We have engaged extensively with our household customers during the year to help shape our business plan and long-term delivery strategy”

In addition, our non-household retail market team has initiated a new scheme that offers a 'Day in the life of...' experience for our water retailers. This is designed to show the journey requests from these retailers go on once they have been raised with us.

The non-household team works closely with our wholesale service desk to see how the request is translated into our job deployment system before being handed over to the dispatch team. Retailers are able to spend time with the dispatch and technical planning teams to see how requests are planned in accordance with the required Service Level Agreement (SLA).

They also have the opportunity to spend time with our field-based Customer Liaison Officers (CLOs) to see first-hand how the information they provide is used, the data that is gathered and the supporting evidence, such as photographs of the location of a water meter, is collated.

Our CLOs are the first face of our business for any customer issue. They are responsible for the operational maintenance of our water network, including the supervision of high-risk jobs. We have received positive feedback from this new engagement approach and are planning more visits in the year ahead.

We have also continued to engage with our independent Charitable Trust, which makes grants available towards the cost of water bills for those customers in the greatest need. Our engagement has focused on the customer journey of applying for funding from the Trust. We have also approved a scheme to help customers with the cost of repairing leaks on their premises.

How the Board has engaged

For its part, the Board has shaped and challenged deep dives in a number of customer-facing activities. These include challenging us on our approach to per capita consumption (PCC), leakage, void sites and cash collections. This challenge has helped us to develop our plans for the final year of the current five-year planning period. It has also informed our thinking for the five years from 2025 to 2030, as set out in our business plan.

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 PSR 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 many community groups and other organisations, including environmental NGOs. As well as raising our profile in our communities, this engagement also helps to build trust among our stakeholders.

How we have engaged

We have continued with our community engagement ‘one stop shop’ networking approach. This includes working with other partners to signpost customers to different sources of help and information.

In addition, we have continued to build on our established and extensive network of community relationships and partnerships to help support seldom heard and traditionally hard-to-reach customers.

We have also continued to operate our mobile ‘water on wheels’ initiative in our Cambridge region and our successful community hub in our South Staffs region. Both initiatives enables us to engage in person with customers who, for whatever reason, prefer a face-to-face approach rather than digital self-service.

And as part of our water efficiency in faith and diverse cultures project, we have engaged with stakeholders from Cambridge Central Mosque in our Cambridge region and the Gurdwara in Smethwick in our South Staffs region to gain insight on the most effective ways to reach our seldom heard and traditionally hard-to-reach communities. We recognise the influence these places of worship can have in their local communities and welcome the opportunity to continue working closely with them in the year ahead.

We have continued to encourage future water champions through our education outreach programme. This includes developing a ‘Blue Schools Award’ programme, which we launched just outside the reporting year in April 2024.

The programme aims to promote water efficiency and longer-term behavioural change among young people. It does this by providing space for reflection and encouraging conversations with others about saving water.

Through this programme, we hope the water consumers of the future will help to bring about change by sharing this issue with their friends and families. Taking part in the programme earns their school a Blue School Award. Our plan is

to bring this programme to schools across our Cambridge and South Staffs regions in the year ahead.

We have also engaged with the following environmental NGOs and community organisations, among others, on a range of topics related to the long-term chalk stream restoration programme we are carrying out in our Cambridge region.

“We have continued to build on our established and extensive network of community relationships and partnerships to help support our communities”

- Keep Britain Tidy.
- Wild Trout Trust.
- Cam Valley Forum.
- CamEO catchment partnership.

How the Board has engaged

During the reporting year, members of the Board continued to attend some of our PR24 customer engagement sessions. They also invited the Chair of the independent External Challenge Group to a Board meeting to discuss the Group’s assurance of our business plan. And they met with colleagues from Anglian Water as part of a site visit to the location of the Fens reservoir strategic resource option in Cambridgeshire.

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 continued to use all the tools at our disposal to engage with people across the business. This includes our annual employee engagement survey and regular Executive team updates at our principal sites in the Cambridge and South Staffs regions. Teams across the business have also hosted colleagues in regular ‘lunch and learn’ engagement sessions on a range of different topics, including the regulatory price review process and invasive non-native species.

In addition, our People Forum has organised a number of engagement events during the year, including a family fun day at Blithfield reservoir in our South Staffs region and an online Christmas quiz hosted by members of the Executive team. The People Forum has also launched a new employee magazine, ‘From the Source’, which includes articles and stories by and about our people.

We also encourage our people to give ‘shout outs’ about their colleagues. This could be someone from the same team or a colleague from elsewhere across the business. The aim is to recognise the contribution everyone makes to our success. Alongside this, we have launched an online suggestion box, which gives our people the opportunity to have their say in an anonymous, safe and respectful way.

And we launched a new, more inclusive internal communications calendar in January 2024, marking more diversity and inclusion opportunities and wellbeing weeks.

A key principle of our employee engagement is the need for two-way communication. Listening to our people is critically important for us, as is the need to act when our people ask for new tools or equipment to carry out their roles more effectively.

During the reporting year, for example, we implemented a new Smart Hub system to improve the connectivity of our field-based teams with our mobile works management system – Maximo Anywhere. Many other organisations use Smart Hubs, including the Welsh Ambulance Service.

We have installed Smart Hubs on a number of our light vehicle fleet across the Cambridge and South Staffs regions. Our people are already seeing some of the benefits of this technology. In particular, it gives our field-based people a reliable and flexible Wi-Fi connection in nearly any location. This means they can receive critical information while they are on the move, which helps to streamline communication and improve efficiency.

In addition, we have launched a scheme to incentivise our CLOs to carry out straightforward repairs on customers' external stop taps, which are used to isolate the water supply to customers' homes and businesses. The aim is to encourage a 'right first time' approach that benefits customers and that helps our people to deliver efficiencies across the business.

Adopting this new approach is already delivering a number of benefits. Having a CLO carrying out a stop tap repair where possible is better for customers as it means the issue is addressed at the first visit, freeing our CLOs to deal with other network issues. We also think it will deliver cost savings for us as it means we do not have to dig up the stop tap and replace it, or have to pay permit costs to the local authority. We will continue to develop this approach in the year ahead.

How the Board has engaged

During the review of Board effectiveness carried out during the year, Board members identified the need to improve how they engage with our people. A number of proposals to address this have been put forward to raise the profile of the Board, including:

- having members attend Executive roadshows to increase their visibility;
- giving Board members the chance to attend 'Day in the life of...' sessions with different teams and different parts of the business; and
- making more opportunities for Board members to make site visits.

A forward-looking engagement plan is currently in development.

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);
- HMRC;
- the UK Health Security Agency (formerly Public Health England); and
- CCW, the consumer watchdog.

“A key principle of our employee engagement is two-way communication. Listening to our people is critically important for us”

Government stakeholders include, among others:

- local and national elected officials;
- highways authorities;
- emergency services;
- the NHS;
- local resilience forums; and
- local enterprise groups.

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 sector-wide working groups. We have also continued with our business as usual engagement with local and national elected officials.

A key focus for our engagement with regulators and government has been associated with the development of our business plan for 2025 to 2030, our long-term delivery strategy to 2050 and the latest draft water resources management plans for our Cambridge and South Staffs regions.

Another important focus has been the engagement carried out for the Fens reservoir project that we are delivering in partnership with Anglian Water. Engagement here has primarily been through public consultation, but there have also been regular briefings with national and local elected officials.

In particular, there has been a regular programme of engagement with local authorities that are likely to be directly impacted by the construction of the reservoir and the associated infrastructure that will be needed to transport water to and from the reservoir site.

Although it falls just outside the reporting period, the second public consultation phase for the reservoir launched at the end of May 2024. We will report on the progress of this project and the engagement that has taken place in next year's annual report and financial statements.

We have also used our engagement with Staffs Fire and Rescue Service to test our incident response team readiness. This includes applying JESIP (Joint Emergency Service Interoperability Protocol) principles to our approach. And we have held discussions with the Staffordshire Local Resilience Forum on the support it can provide us in emergencies, particularly in relation to supporting our customers on the PSR in the event of a major incident.

How the Board has engaged

The Board has challenged our key regulatory submissions during the year, including our:

- business plan for 2025 to 2030;
- the draft water resources management plans for our Cambridge and South Staffs regions, and the associated annual reviews; and
- our annual report and financial statements and annual performance report.

Individual Board members have also challenged our thinking by carrying out deep dives on a number of specific areas during the reporting year, including:

- the approach we used to develop our long-term delivery strategy;
- the assumptions used for the annual customer charges – in particular, how this took account of the uncertainty on consumption, with specific reference to the likely impact of an economic recession;
- the approach taken to the outputs used in our long-term viability statement, including the use of Monte Carlo analysis; and
- our business plan financeability assessment.

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 our investors during the reporting year was mainly through Board meetings and through meetings of the PR24 Committee. We have also engaged with our investors on a number of 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

During the reporting year, Board engagement with our investors has focused on:

“A key focus for engagement with regulators and government has been associated with the development of our business plan, our long-term delivery strategy and our water resources management plans”

- the development and delivery of our business plan for 2025 to 2030;
- our long-term delivery strategy to 2050;
- the long-term draft water resources management plans for our Cambridge and South Staffs regions; and
- the Fens reservoir strategic resource option, being developed in partnership with Anglian Water.

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

We have continued to work with colleagues across the business to ensure our supply chains are resilient and cost

effective. We carried out the following work during the year.

- We facilitated our **first Achilles Ethical Employment Audit**. We achieved a successful outcome from the audit, which we consider to have been a beneficial exercise for us. We are rolling out this audit for all our critical suppliers.
- We developed a **Service Level Agreement (SLA) with Fleet Services**, which has now been integrated into the broader Group SLA governance project.
- We finalised the **updated Echo contract**.
- We **aligned our fuel cards with the wider Group contract**, resulting in commercial benefits for us.
- We **launched a number of key operational frameworks to the market** through Achilles (Bounty III, Base Capital Maintenance, and Infrastructure).
- We **revised our modern day slavery checklist** and shared this with our supply chain.
- We **analysed our small and medium-sized enterprise (SME) data** to help us reach our target of paying all small businesses within 30 days in line with the Prompt Payment Code.

In addition, we are working with partners from the hospitality sector on an innovative project to tackle water efficiency in non-household properties across our South Staffs region.

And we have worked with our supplier partners to implement a new streetworks application to help the planning teams in our Cambridge and South Staffs regions raise permits with local authorities. We are required to apply for a permit whenever we need to fix a leak in the road.

The Aurora application is a managed service that replaces our previous Insight streetworks system. It brings with it many improvements, including more licences to increase access. It is also compatible with our Maximo works management system,

giving our operational teams greater insight about permit status without the delays associated with our old system. Aurora went live in March 2024. It is now being used across the business.

How the Board has engaged

A focus of Board engagement this year has been on the contract negotiations with Homeserve, the home emergency

repairs and improvements business. The Board has also been involved in discussions about the impact of the HS2 project on the A38 diversion scheme in our South Staffs region.

This section 172(1) statement was approved at a meeting of Directors held on 12 July 2024 and duly signed on its behalf.



Andy Willicott
Managing Director

12 July 2024

Climate-related financial disclosures



We pride ourselves on our openness and transparency. We recognise the importance of making information about our climate-related risks and opportunities available for our customers and other stakeholders. These disclosures help to drive our approach to sustainability and deliver our wider company purpose.

Our approach to climate change

As a business that is committed to planning for the long term, we take a proactive approach to climate change. This includes building resilience into and future-proofing our assets to enable us to adapt to a range of different scenarios. It also helps us to mitigate the effect of things like more intense rainfall and more prolonged periods of drought.

In November 2021, we published [‘Looking to the future’](#), our vision to 2050. This also formed one of the pillars in our long-term delivery strategy, which we submitted to Ofwat in October alongside our business plan for 2025 to 2030. Key among our long-term ambitions is our commitment to lead in adapting to climate change.

This means playing an active part to deliver the water sector’s ambitious net zero operational carbon emissions target by 2030. It also means not adding any extra carbon or other greenhouse gas emissions from our own operations into the atmosphere by 2050. And it means running a safe, efficient and sustainable business that is agile and able to respond to the dual challenges of a changing climate and a growing population.

In addition, there are financial and other risks associated with the transition to a low-carbon economy. These centre on the switch to renewable energy and identifying the optimum way to address those emissions that we cannot reduce.

But a changing climate also presents opportunities to drive performance improvements and mitigation activities. This includes things like our universal

metering programme, which we started to develop during the reporting year, and our plans for the next five-year planning period to introduce more renewable energy sources at key sites in our South Staffs region.

Our climate change strategy

We are familiar with the need to assess the risks and adaptation opportunities that climate change is creating – it has been a core part of our business for many years.

Under the Water Industry Act 1991 (as amended), we are required to assess and explain how we will manage our water resources to meet the needs of a growing population. This is particularly true for our Cambridge region, which is in one of the driest parts of the country. It also means

Determining climate-related risks and opportunities

In accordance with the recommendations for climate-related financial disclosures, we have assessed our climate change risks and opportunities over the following time frames.

- Short to medium term: up to 2030.
- Long term: up to 2050 and beyond.

We have chosen these time frames because they align with current regulatory planning cycles.

They also enable us to take an evidence-based approach to managing climate change risks and opportunities over the short to medium term, and an adaptive planning approach over the longer term.

We think this approach will enable us to remain resilient to the full range of current and future climate change impacts.

assessing the impacts of climate change, such as increased temperatures or greater rainfall. And it means taking changes to regulatory policy and legislation into consideration.

For example, every five years we produce a business plan for the subsequent five-year period. A new requirement on us as part of Ofwat's PR24 price review process is to set this plan within the context of a 25-year long-term delivery strategy that reflects a vision and ambition for our business that is shared by the Board and the Executive team.

We also produce and consult on 25-year water resources management plans at least every five years. We produce separate plans for our Cambridge and South Staffs regions, to account for the geographic and climate-related differences of these diverse water supply zones. Alongside these sit a number of other obligations that we are required to deliver, including our drought management plans and our plans under the WINEP.

Key climate change risks and opportunities

We have a dedicated working group within our Water Strategy team, which has carried out an in-depth climate risk assessment. This has determined our priority climate risks, which we have cross-referenced with the [UK Third Climate Change Risk Assessment](#) and fed into our corporate risk register. We describe our priority climate-related risks – and some of the opportunities to mitigate those risks – below.

Securing future water supplies

The Environment Agency has classified both our Cambridge and South Staffs regions as areas of serious water stress. This means we have to focus our attention on ensuring long-term water supply sustainability across both regions in the face of a changing climate and population growth.

In the water resources management plans for each region, we outline our strategies for:

- demand management;
- abstraction reductions; and
- drought resilience.

In addition, our demand forecasts show that both regions face the risk of water scarcity over the long term because of increasing levels of consumption – particularly during prolonged periods of hot, dry weather – combined with the need to reduce the volume of water we take from our groundwater sources.

We think short-term demand management proposals, such as the introduction water efficiency labelling on white goods, coupled with long-term targets to reduce leakage by 50% by 2050 should help to mitigate this risk. Our projections suggest these measures are likely to be sufficient in our South Staffs region. But in our Cambridge region, we are also exploring supply options like the Fens reservoir to ensure a long-term and sustainable water supply.

Delivering a resilient supply of good quality water

An assessment of climate change impacts on drinking water quality carried out for our long-term delivery strategy highlighted a number of future risks. These include an increase in low flow events affecting river abstraction, and increases in the levels of some nutrients in our reservoirs.

To mitigate these risks, we have developed an adaptive planning pathway that identifies the potential investments in our treatment processes and raw water storage that we might need by 2050.

We have also proposed an £84 million investment programme for our assets, starting in 2030. This includes renewing our network of water mains and delivering three schemes in our South Staffs region that will help to deliver more storage capacity and address single points of failure within our water storage and distribution system. This investment will also help to address water quality challenges arising from higher temperatures.

And our catchment management work also aims to improve raw water quality on a wider scale. We have plans in place to expand schemes targeting pollution from nitrates. This will become an increasing risk as we experience more frequent and intense rainfall events, leading to more agricultural run-off and diffuse pollution.

Maintaining asset reliability and resilience

More intense weather events will place an additional stress on our water infrastructure. This includes our networks of treatment works, pipes and pumping stations. As a business that has always planned for the long term, we continually invest in these assets. In addition, our new resilience models incorporate future climate predictions and deterioration forecasts to help us identify our long-term needs in an efficient way.

We have adopted holistic approaches, such as 'systems thinking' workshops, to help us identify and manage all our interdependent risks. We are also ensuring supply chain resilience through our sustainable procurement practices. And we are collaborating proactively with our supply chain partners to support our long-term adaptation goals.

In terms of mitigation, we have an established incident response process, which should help to mitigate community impacts from extreme weather events. But we acknowledge there is more work for us to do to increase our understanding of future flood risks. We will build our knowledge in this area to increase our levels of flood resilience across all our operational sites.

Minimising the impact of our activities on the environment

As well as ensuring secure water supplies, we also prioritise the need to protect and enhance the environment. We work with a number of partners to make sure we have sustainable water supplies and flourishing local habitats that are resilient to the impacts of a changing climate.

Through WINEP, we aim to enhance biodiversity, remove invasive species and protect key habitats. To enable us to deliver these obligations, we are

reducing how much water we take from the environment across both regions to prevent the deterioration of water bodies. From 2025 onwards, we will carry out investigations to determine any additional reductions that are needed to meet the Environment Agency's defined environmental destination.

To help limit the impacts of global warming on our customers, our business and the environment, we have also committed to reduce our carbon emissions. We discuss this in more detail on page 65 below.

“In our Cambridge region, we are exploring supply options like the Fens reservoir to ensure a sustainable water supply”

Climate change scenario testing

In line with the requirements for climate-related financial disclosures, we have carried out qualitative testing under the following scenarios.

Scenario 1: the impact on the business if the world warms by more than 2°C

As part of the process for developing our long-term delivery strategy, we carried out climate change scenario testing under a high climate change assessment (RCP8.5) to understand the impact to our core pathway investment areas of the world warming by more than 2°C. The areas of operational resilience and water quality triggered the need for additional investment to ensure we can deliver our ambitions. We discuss each of these in more detail below.

It is well documented that a high climate scenario as per RCP8.5 would result in prolonged periods of dry weather, as well as more extreme heatwaves. The effect of this on our **operational resilience** and our ability to provide reliable water supplies is also well evidenced. The impact of this is that despite water consumption reducing overall, these hotter periods bring much

higher demand coupled with reduced raw water availability.

In developing our long-term strategy, we used a supply zone resilience model to replicate these conditions. This allowed us to stress test the networks in our Cambridge and South Staffs regions, and identify under what conditions and environmental factors customers would be at risk of losing their water supply. This enabled us to identify the water supply zones that would not meet our ambition under a high climate scenario.

We also developed a new model to predict bursts and identify mains renewal rates. This model also forecasts to 2050 and includes climate parameters that can have a material impact on the deterioration of our distribution mains. Results from the model have validated what we have observed during recent extreme weather events, with climate sensitive parameters such as air temperature and rainfall driving burst rates across our networks.

In addition, we worked with third party consultants (Atkins) to understand how the impacts of climate change can affect **raw water quality**, and at what point our existing infrastructure is no longer fit for purpose. The analysis evaluated the potential risk to drinking water quality at our Hampton Loade and Seedy Mill water treatment works in relation to climate change related impacts on river flows.

There were a number of key findings from this assessment, including the following.

- More frequent **low flow events** will increase the number of days when river abstraction is constrained.
- A modest increase in **algal populations in the River Severn** is projected because of an increase in low flow events.
- A moderate increase in **phosphorus and nitrates in Chelmarsh reservoir** could increase the incidences of algal blooms and other quality-related problems.

Our analysis suggests these changes are likely to occur in the medium term from 2040 onwards and increase in severity

beyond this date. In addition, for the high climate scenario our analysis suggests that, by 2035, our existing infrastructure will no longer be able to meet our regulatory needs and that an alternative pathway for investment will be required from 2040 onwards.

More information on our climate change scenario testing can be found on pages 57 to 60 of our long-term delivery strategy.

Scenario 2: the impact on the business if the world warms by 1.5°C or less

We also tested a second scenario based on the current situation in our latest draft water resources management plans for the [Cambridge](#) and [South Staffs](#) regions. A lot has changed across both regions since we produced our last water resources management plans in 2019.

Much of this is driven by climate change and its impact on future water availability both for public water supply and to address environmental needs. As both regions are in areas of serious water stress this means that in the future, the household demand for water is likely to be a high proportion of the current effective rainfall.

So, within both plans, we have included an assessment of the impact of climate change on the availability of water supply. We used the latest climate change projections ([UKCP18](#)) within the scenarios to develop these assessments. We also used the approach to assessing climate change impacts as set out in the Environment Agency's [water resources planning guideline](#).

Through our analysis, we have identified a number of key challenges across both regions within our latest water resources management plans. These include the following.

- An **increase in demand** driven by a growing population and the need to make sure we have enough water to meet this demand.
- The **need to reduce abstraction** to prevent environmental deterioration, particularly in our Cambridge region.

- **Changes in rainfall patterns** leading to a higher risk of flooding and longer periods of drought.

Our analysis suggests these challenges are likely to become more pronounced over the medium term. In our business plan for 2025 to 2030, we set out the investments we will make to mitigate these challenges over the short term, including:

“More intense weather events will place an additional stress on our networks of treatment works, pipes and pumping stations”

- delivering leakage reductions of at least 15% across our Cambridge and South Staffs regions. This is on top of the ambitious leakage targets we are delivering in the current five-year planning period;
- developing alternative water sources, such as the transfer from Anglian Water's Grafham Water reservoir into our Cambridge region;
- encouraging customers to be more water efficient, making more use of behavioural change campaigns like Can for the Cam; and
- delivering a universal metering programme across both regions over the ten years to 2035.

More information on our planned short-term investments to 2030 can be found in chapter 3 of our business plan (pages 33 to 67).

Our progress in 2023/24

During the reporting year, our focus has been on developing our long-term delivery strategy, our business plan for 2025 to 2030 and the draft water resources plans for our Cambridge and South Staffs regions. Building resilience to a changing climate, and our ability to adapt quickly and flexibly to emerging challenges, are key considerations for all these strategies and plans. We have engaged regularly with the Board to develop these plans, which has provided challenge and feedback at each step of the process.

We have also developed a net zero strategy, taking into consideration the medium- and long-term goals described in more detail in our plans. We have continued to focus our activities primarily on reducing our Scope 1 and Scope 2 greenhouse gas (GHG) emissions. Alongside this, we have carried out a full renewable energy assessment and have explored a range of energy efficiency opportunities, including:

- re-using heat from existing operations rather than replacing boilers;
- installing low-energy lighting across our sites; and
- installing energy management controls.

We have also carried out heat pump feasibility studies at several sites across our Cambridge and South Staffs regions that currently use fossil fuel boilers for hot water. And we have benchmarked best practice from across the sector and continued to employ our pump efficiency programme, with ten sites identified and surveyed during the year.

Looking to the future

We will continue to drive our net zero ambitions over the medium term through a combination of activities, including:

- demand reduction;
- efficiency measures; and
- customer and stakeholder engagement.

In addition, we will consider the suitability of Corporate Power Purchase agreements (CPPAs) for our business. These are long-term contracts between the owner of a renewable energy plan and the corporate buyer to deliver 100% green electricity and the corresponding Energy Attribute Certificates.

We will also consider nature-based insetting solutions targeted at our value chain and communities. Insetting is an approach to carbon footprint reduction that helps companies meet their sustainability goals, while supporting actions that are relevant to their stakeholders and communities. It involves implementing nature-based solutions, such as reforestation, agroforestry,

renewable energy and regenerative agriculture.

Over the five years from 2025 to 2030, and subject to Ofwat’s approval, we will invest £7.2 million in ground-mounted photovoltaic (PV) electricity generating assets at key sites across our South Staffs region. This investment is in addition to our existing plans to reduce our Scope 1 and Scope 2 emissions, and will enable us to deliver the following strategic objectives.

- It will help us to **deliver absolute carbon emission reductions** in an affordable way.
- It will improve **resilience and security of supply**.
- It will give us **cost and budget certainty**.
- It will **maximise value to stakeholders** through the use of assets and the leveraging of commercial funding and technology solutions.

Governance

As a long-term business and the provider of an essential public service, we take the impact of climate change on our operations seriously. The Board regularly considers climate-related risks and opportunities, and how they drive decision-making across the business. This includes, for example, during the business planning process and operational budget setting.

The Board has ultimate responsibility to address any climate-related risks and opportunities. This includes, for example approving the water resources management plans for the Cambridge and South Staffs regions, and the capital investment programme for each five-year planning period. Ensuring our resilience to a changing climate and managing the risks and opportunities associated with this is a key consideration for the Board.

Supporting the Board at a strategic level is the Environmental, Social and Governance (ESG) Sub-Committee (see page 110 for more information). The Committee typically meets two times a year to discuss

ESG matters, including those related to climate change, to provide direction to the business and to make recommendations to the Board. The ESG Sub-committee therefore has a role as a secondary approval body and reviewer.

Climate change is reflected in the focus on environmental factors in the terms of reference for both the Board and ESG Sub-Committee, and also in the skills and experience of relevant Board members (see pages 110 and 87, respectively).

“Building resilience to a changing climate and our ability to act quickly and flexibly to emerging challenges are key considerations for us”

At an operational level, climate change is a common business consideration. During the reporting year, we adopted a new risk management framework (see pages 70 to 75), which ensures the Executive team is accountable for managing risk and the Board is accountable for overseeing risk management, as well as for setting our approved risk appetite and tolerance levels.

In line with this framework, we use a risk scoring matrix to ensure risks are evaluated consistently and the appropriate actions are prioritised as a result. The matrix considers the likelihood, financial impact and reputational impact of each key business risk.

We assess each risk against: the impact on the business and the probability of the risk occurring. We determine the overall rating of each risk by taking the product of the impact and probability scores and weighting this for impact.

The compound scores us to focus on the most important risks affecting our business. Priority and greater management time is given to implementing controls over these risks, rather than focusing on those risks that are of less significance and may be more easily controlled as a result.

We view climate change as a company specific corporate risk. The South Staffordshire Water PLC Audit and Risk Committee and ESG Committee alongside it are responsible for identifying and considering our climate-related risks and opportunities in addition to our other key corporate risks.

The Committee reviews our key corporate risks twice a year and examines the effectiveness of our existing risk management approach and the internal control framework. Emerging climate change risks are captured as appropriate and we carry out additional investigations as required when further assurance is needed. See pages 70 to 75 for more information.

In addition, within our Strategy and Regulation Directorate, climate-related issues are embedded in our long-term delivery strategy, our water resources management plans, our five-yearly business plan and in our climate change adaptation report.

And within our Energy and Asset Performance Directorate, climate change mitigation is considered as part of our carbon reduction initiatives, as we drive our net zero operational carbon ambitions, and the greater use of renewables across the business.

Finally, all large budgetary and policy-based climate-related decisions for the short, medium and long term are subject to rigorous business planning, such as with the regulatory price review process, and through Board and Sub-Committee oversight. Our commitment to ESG focuses on the extent to which we have demonstrated our progress and transparency, and which includes climate-related activities.

Our progress in 2023/24

During the reporting year, our focus was on implementing a targeted approach for reporting our climate-related disclosures that was both compliant and proportionate for the size of our business.

The Committee also agreed that we should produce a customer-facing ESG report each year, with a focus on aspects related to climate change. We have

published our first sustainability and social responsibility report, set within the context of ESG compliance, alongside this annual report.

In addition, the Committee provided valuable input into our PR24 customer engagement process, with specific reference to the Net Zero Citizens' Jury, challenging our thinking as we developed our plans around carbon insetting. We used a Citizens' Jury for the first time during the year to challenge our strategy and ambition for achieving net zero carbon emissions.

And, as part of the wider business planning process, the Committee supported our decisions around medium-term investments into photovoltaic (PV) technology and wind generating contracts.

Looking to the future

The ESG Sub-Committee will continue to provide a holistic analysis of each aspect of our broader environmental, social and governance compliance. In addition, as part of a wider South Staffordshire Plc initiative, we will collaborate with other Group companies on areas of climate change mitigation through an ESG working group and an ESG management group. The findings from these groups will input into Board decisions taken at both a Group and water company level.

Risk management

We assess climate change risk as an integral part of our risk management processes. We consider the physical risks associated with droughts and flooding – and the potential impact of these on our customers and operations – as part of our wider risk management framework. We also consider the transitional risks associated with changes to regulatory or environmental policy. We review these regularly in line with our risk management framework. There is more information on

our approach to risk management on pages 70 to 75.

Our progress in 2023/24

During the reporting year, we have continued to monitor and review the principal risks associated with our business. For example, the Environment Agency now requires us to have climate resilience plans in place for all our key sites. This has caused us to renew our focus in certain areas. All sites now have these plans in place and we are mitigating the current regulatory risk related to climate change.

Looking to the future

We will continue to review best practice in the area of climate change disclosures and the associated risks. Current projections suggest that climate change impacts will worsen over the medium and long terms. So, we will continue to mitigate our operational risks as appropriate to ensure we are resilient to changing circumstances.

Metrics and targets

Reporting methodology

The Board and our Executive team are responsible for the reporting methodology used to collect the information in our climate-related financial disclosures. The metrics we have used reflect our overarching strategic objectives, our investors' views and standard ESG requirements.

Our investors, the Executive team and other internal stakeholders agreed the climate-related metrics we report against. We have followed the definitions that specify the type of measurements we must use according to regulation or law. This includes those definitions that have been agreed nationally or internationally – for

example, the GHG Protocol Methodology for measuring carbon emissions.

There is guidance for the water sector within IFRS S2. We have added these metrics to the ones we consider to be climate related. But they do not have a confidence rating because they have not been collated in the same way as our metrics. In addition, we have not disaggregated GHG emissions because we do not consider this would provide any additional information.

During the reporting year, we improved our internal data collection controls and processes. This included creating a Data Assurance and Confidence Grade Register to better reflect the accuracy, completeness and reliability of ESG data. We used Ofwat's data confidence grade methodology as the basis for this. Going forward, we will continue to develop and evolve our data collection approach.

Targets

Our key climate-related targets are associated with our net zero carbon ambitions. These are to achieve net zero for Scope 1 and 2 GHG emissions by 2030, and net zero for Scope 1, 2 and 3 GHG emissions by 2050 as part of a sector-wide approach. We report our Scope 1 and 2 emissions in more detail in the Directors' report on pages 98 to 99.

Metrics

The tables below include some of the key climate change-related metrics we report each year. For each metric, we apply an assurance grade, based on the reliability and accuracy of the data provided. This is an indicator of our maturity in this space and highlights the areas where we need to improve our data. Looking ahead, we will explore the possibility of introducing metrics and targets that link to our key climate change risks and opportunities as outlined on page 62 above and that measure our progress over time.

Emissions

Metric	Definition	Assurance grade 2023/24	2023/24
CO ² direct emissions – Scope 1 (tCO ² e)	Scope 1 includes direct emissions due to owned or controlled sources using the GHG Protocol Corporate Standard. Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology.	A3	23,080
CO ² indirect emissions – Scope 2 (tCO ² e)	Scope 2 includes direct emissions due to the purchase of electricity, heat or steam, etc, under the GHG Protocol Scope 2 Guidance. Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology.	A2	20,384
CO ² indirect emissions – Scope 3 (tCO ² e)	Scope 3 includes all other indirect emissions accounted for under the GHG Protocol Corporate Value Chain (Scope 3). Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology.	n/a	n/a
Biogenic emissions (tCO ² e)	Direct CO ² emissions from the combustion of biomass. As per the GHG Protocol Methodology, this is being separated from Scope 1.	A1	0

Energy

Metric	Definition	Assurance grade 2023/24	2023/24
Energy consumption (GWh)	Total energy directly consumed (eg, direct fuel usage, purchased electricity/heating, cooling/steam energy).	A2	247.79
Procured from non-renewable energy (%)	Energy consumption other than that defined under 'renewable energy consumption' below.	A2	60.25
Procured from renewable energy (%)	Renewable energy consumed from geothermal, solar, sustainably sourced biomass (inc. biogas), hydropower and wind energy sources. Where electricity is contracted under a 'renewable scheme', like the UK Renewable Energy Guarantees of Origin (REGO) certificate scheme, it is accounted as 'renewable'.	A2	39.75
Energy production (GWh)	Total energy directly produced.	A2	43.13
Energy produced which is non-renewable energy (%)	Energy production other than that defined under 'renewable energy production' below.	A2	98.84
Energy produced which is renewable energy (%)	Renewable energy produced from geothermal, solar, sustainably sourced biomass (inc. biogas), hydropower and wind energy sources. Where the energy if consumed would be contracted under a 'renewable scheme', like the UK Renewable Energy Guarantees of Origin (REGO) certificate scheme, it is accounted as 'renewable' for production.	A2	0.16

Water conservation

Metric	Definition	Assurance grade 2023/24	2023/24
Total water consumption (m ³)	Total water consumed due to business activities or operations.	A2	149,072,934
Emissions to water (tonnes)	Emissions from business activities or operations to water.	B2	44.07

Waste

Metric	Definition	Assurance grade 2023/24	2023/24
Total waste (tonnes)	Total waste directly resulting from business activities or operations. Waste is defined as any substance or object being discarded.	A2	283.79
Total waste recovered (%)	Total waste directly resulting from business activities or operations that have been repurposed for another process and not discarded.	A2	55.24
Total waste sent to landfill (%)	Total waste directly resulting from business activities or operations sent to a site to be buried.	A2	0.00
Total waste sent to waste energy facility (%)	Total waste directly resulting from business activities or operations converted into energy of any form.	D6	55.24
Total waste set for incineration (%)	Total waste directly resulting from business activities or operations burned.	A2	0.00
Hazardous waste (tonnes)	Waste directly resulting from business operations that is hazardous. Hazardous waste is defined in Article 3(2) of Directive 2008/98 EC of the European Parliament and of the Council.	A2	1.47
Radioactive waste (tonnes)	Waste directly resulting from business activities or operations that is radioactive. Radioactive waste is defined in Article 3(7) of Council Directive 2011/0/Euratom.	A2	0
Volume of raw materials that are renewable, recyclable and reusable (tonnes)	Volume of raw materials procured, extracted, or created, directly from business activities or operations that is renewable, recyclable or reusable.	A2	47.07

Environmental compliance

Metric	Definition	Assurance grade 2023/24	2023/24
Number of non-environmental compliances (no.)	Environmental compliance incidents based on local jurisdiction requirements.	A1	9

Fossil fuel exposure

Metric	Definition	Assurance grade 2023/24	2023/24
Percentage of revenue linked to companies active in the fossil fuel sector (%)	Amount of revenue directly or indirectly linked to operations within the fossil fuel sector. This includes fossil fuel extractors and any known fossil fuel service organisations. Fossil fuels include any substance that releases CO ₂ when combusted such as coal, natural gas, derived gas, crude oil and petroleum.	A1	0

Metrics confidence grades – reliability

Reliability band	Methodology and scope description
A	Sound textual records, procedures, investigations and analysis properly documented and recognised as the best method of assessment. All ready data point areas are covered.
B	As A, but with minor shortcomings. Examples include old assessment, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation. Almost all data points are covered but those missed would not make a material difference.
C	Extrapolation from a limited sample for which grade A or B is available. Some data point areas that would make a material difference are not included.
D	Unconfirmed verbal reports, cursory inspections or analysis. Many data point areas that would make a material difference are not included.

Metrics confidence grades – accuracy

Accuracy band	Quantitative description	Qualitative description
1	Within 0-0.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive detailed comment that covers everything.
2	Within 1-4.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive detailed comment that covers everything, leaving insignificant details out.
3	Within 5-9.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive and detailed comment that covers most areas.
4	Within 10-24.99% of the accurate figure in the collector's professional opinion based on available data.	A moderately detailed answer covering several of the relevant areas.
5	Within 25-49.99% of the accurate figure in the collector's professional opinion based on available data.	A moderately detailed answer on a few relevant areas.
6	Within 50-100% of the accurate figure in the collector's professional opinion based on available data.	A poor and incomplete answer providing the most basic of details on only a few relevant areas.
7	Accuracy is outside of the above, small numbers or otherwise incompatible.	Somehow incompatible.

Metrics compatible confidence grades

Accuracy band	A	B	C	D
1	A1			
2	A2	B2	C2	
3	A3	B3	C3	D3
4	A4	B4	C4	D4

Managing risk and uncertainty

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.

Refreshing our risk management framework

During the reporting year, we carried out a review of our risk management framework. Key to this was a consideration of:

- the factors the Executive team and senior leaders should take into account when using the risk management framework to identify, review and manage risks;
- the factors the Board should have regard to when approving future risk management reviews; and

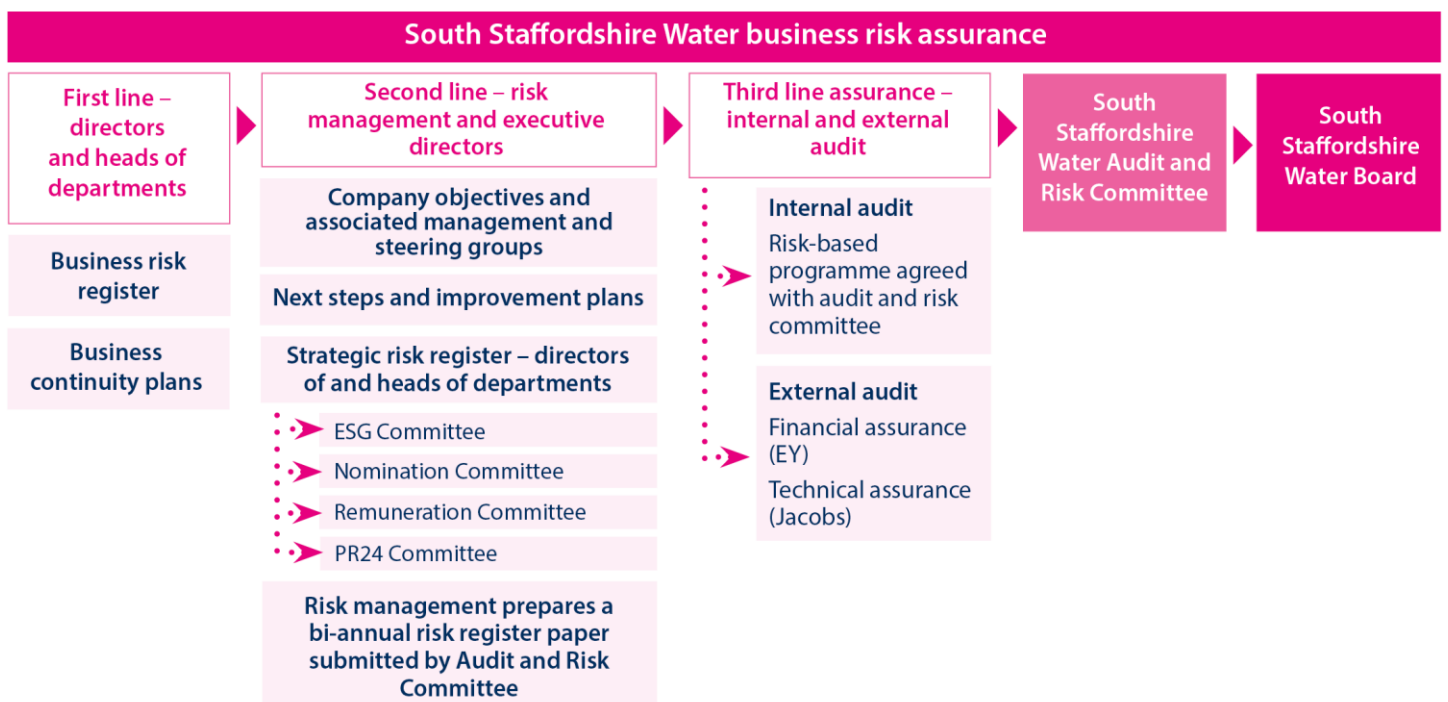
- options for future benchmarking against best practice.

The refreshed framework ensures we will continue to assess and manage risk effectively in all areas of:

- planning;
- delivery;
- operating and overseeing projects; and
- performance.

Through our refreshed risk management framework, we aim to encourage a collaborative culture of well-informed risk-based decision-making across all levels of the business. We also aim to improve our performance, encourage innovation and support the achievement of our overarching business objectives.

Our approach to risk assurance



Key water sector business risks

In common with other companies in the water sector, we face a number of strategic business risks. We set out these sector-wide risks below.

Supply chain and resource risks

- **Dependency on suppliers.** We are reliant on external suppliers for chemicals, equipment and operational resources. This introduces risks to supply chain interruptions.
- **Skilled workforce.** Challenges in attracting and retaining skilled people across the business may impact our operational efficiency and our ability to respond to emergencies.

Water quality and treatment

- **Compliance with standards.** It is critically important to ensure we

- always comply with regulatory water quality standards and guidelines to avoid legal and reputational risks.
- **Contamination.** There is a risk around the potential for contaminants, both known and emerging, to enter the water supply and affect water quality – leading to Compliance Risk Index (CRI) failures.

Infrastructure integrity

- **An ageing infrastructure.** The deterioration of pipes, treatment works and other infrastructure components can lead to bursts, leaks and service disruptions.
- **Asset management plan.** Inadequate asset management practices may result in inefficient operations, maintenance delays, and increased vulnerability to system failures.
- **Obtaining permits.** Delays or challenges in obtaining permits for infrastructure upgrades or new facilities may impact project timelines and costs.

Financial sustainability

- **Revenue stability.** Changes in water demand trends, changes in consumer behaviour and the volume of void properties can negatively impact revenue stability.
- **Cost base.** Macro-economic factors affecting price points in commodities such as energy and chemicals can add significant pressure on our business costs and impact the stability of our cost base. At the time of writing, we were awaiting Ofwat's draft determination on our business plan for 2025 to 2030.
- **Covenants pressure.** We must maintain key ratios to comply with covenants with our debt providers and the relevant credit rating agencies. Our licence required us to maintain an investment grade credit rating. Our debt portfolio includes index-linked debt.

Principal risks – summary

Risk	Link to outcomes	Risk profile
Health and safety	Delivering for our business	▼
Water resources – Cambridge region	Delivering for the environment	◀▶
Customer affordability	Delivering for our customers	◀▶
Water quality	Delivering a reliable service	▲
Regulatory price review process (PR24)	Delivering for our business	◀▶
Financial resilience	Delivering for our business	◀▶
Cyber security	Delivering for our business	◀▶
Legacy systems	Delivering for our business	◀▶
Climate change	Delivering for our business	◀▶
Environmental impact	Delivering for the environment	◀▶
Supply chain	Delivering for our business	▼
Asset health	Delivering a reliable service	▼

Key:

- ▲ Risk profile is increasing.
- ▼ Risk profile is decreasing.
- ◀▶ Risk profile is stable/unchanged.

Health and safety

Risk profile: ▼

How we are mitigating this risk

During the reporting year, we have enhanced our commitment to safety with a new Group-wide 'staying safe together' health and safety strategy.

This strategy underpins the expectations of how we and the other Group companies approach safety. It also sets clear expectations on the safety behaviours we expect from all our people.

Our new strategy aligns with the 'plan, do, check' continuous improvement framework and also with the best regulatory practice. Alongside this, a new health and safety policy ensures shared and aligned standards for the management of our hazards across all Group companies.

In addition, we have started to put in place improved and clear governance frameworks to provide oversight for the Group Executive team and the Board. And we have introduced new performance metrics that will measure and drive culture change across the business.

As we report in more detail on page 49, we have implemented human organisational performance (HOP) principles to help us learn from our successes and our failures, and to encourage a culture that makes it safe to speak out and hold colleagues to account in a 'just' way. We have also consolidated our safety management systems and made them accessible across the business. And we have strengthened our health and safety training for all our people.

We will continue to build on these initiatives in the year ahead to further mitigate this risk.

Water resources – Cambridge region

Risk profile: ◀▶

How we are mitigating this risk

We are continuing to work with the Environment Agency to develop the water resources management plans for our Cambridge and South Staffs regions.

We are also working with the Agency on the Water Resources East (WRE) and Water Resources West (WRW) regional water resources plans and on the delivery of our WINEP obligations.

And we are continuing to develop two strategic resource options with our neighbour Anglian Water – the Grafham Water transfer and Fens reservoir. The Fens reservoir project is being progressed through the Regulators' Alliance for Progressing Infrastructure Development (RAPID) process.

We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include:

- our water resources management plans and drought plans;
- collaborative regional engagement through WRE and WRW;
- tracking our leakage and individual water use (PCC) metrics; and
- our ongoing asset maintenance programme to minimise the risks of short-term supply interruptions.

Customer affordability

Risk profile: ◀▶

How we are mitigating this risk

We are progressing our plans in line with the consumer watchdog CCW's [affordability review](#). We have also implemented a new 'help when you need it' programme, which has affordability as a core theme.

Alongside our customer support tariffs, we are also planning to implement a 'pay in your own way' approach to increase payment choices for customers. As part of this, we are exploring things like QR codes on customers' bills and ApplePay.

In addition, we are implementing a 24/7 self-serve approach. This will enable customers to make payments and changes to their accounts at a time that best suits them. And we are offering flexible options to help customers spread their payments across a 12-month period to suit their individual circumstances.

We have implemented Aptumo, a new integrated billing and collections system. This provides reliable and accurate bills that have been designed with our customers in mind. It also gives us access to customisations that will enable us to take customer segmentation and personalised customer service to a new level.

We also have a Debt Steering Group, which meets each month, and which monitors debt performance and agrees strategy.

Water quality

Risk profile: ▲

How we are mitigating this risk

Following compliance failures at our Hampton Loade and Seedy Mill water treatment works during the reporting year, our focus is on putting in place new control measures to mitigate the risk of further deterioration in water quality. This includes:

- holding weekly Steering Group meetings to manage actions resulting from compliance failures;
- working with external consultants WRc to carry out root cause analysis of microbiological failures at Hampton Loade;
- reviewing the structure of the water quality team to ensure we continually meet public health protection requirements;
- developing and implementing new water quality related policies and procedures; and
- working alongside our Capital Investment and Delivery team to support the delivery of our long-term capital investment and asset maintenance programme.

We are continuing to progress the installation of a new ceramic membrane filtration system at Hampton Loade. This will enable us to deliver enhanced water quality for our customers.

In addition, we are planning further improvements to our drinking water safety planning process to ensure risks are more adequately identified, assessed and appropriately mitigated.

Regulatory price review process (PR24)

Risk profile: ◀▶

How we are mitigating this risk

We have reviewed other water companies' PR24 business plans to assess how our plan compares with the rest of the sector. This has highlighted areas of concern that we can prepare for further engagement with Ofwat in the next stages of the process.

Since we submitted our business plan in October 2023, we have followed all PR24 guidance to ensure we are compliant with the price review process. This includes responding to queries quickly and providing any additional information required to ensure Ofwat can accurately assess our plan.

At the time of writing, we had started planning our response to Ofwat's draft determination of our business plan. This planning is critical if we are to secure the final determination we need in December 2024.

We will continue to review risks and issues as we progress through the price review process and raise any significant areas of concern to senior stakeholders, including Ofwat.

Financial resilience

Risk profile: ◀▶

How we are mitigating this risk

We have significant ongoing funding requirements for operational costs, our ambitious capital programme and our long-term debt. As well as needing sufficient cash to run our business, we are also required to maintain key financial ratios to comply with covenants with our debt providers and the relevant credit rating agencies.

To mitigate this risk, we have carried out an assessment of our long-term viability (see pages 76 to 80 for more detail). We have also strengthened our short-term financial resilience by putting cash on deposit to receive interest, which has improved our position.

In addition, we share a monthly finance pack with the Group Executive team, and discuss the profit and loss account, cash flow and various metrics, including regulatory capital value (RCV), AICR and net debt variances to the budget with the Board. And we have renewed our £30 million revolving credit facility in the prior year and secured £20 million of private placement debt with Pricoa in the current year.

We will continue to explore measures to strengthen our financial resilience over the long term.

Cyber security

Risk profile: ◀▶

How we are mitigating this risk

Following the criminal cyber-attack on our parent company in 2022, we have strengthened our responsiveness in this area. For example, we have rolled out increased cyber awareness and GDPR training across the business. We also hold regular phishing simulations to help our people recognise potentially harmful emails.

In addition, we have implemented 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.

A key risk mitigation activity for us in the coming year will be a comprehensive penetration test across all boundary connections to determine our level of resilience against potential cyber-attacks.

Legacy systems

Risk profile: ◀▶

How we are mitigating this risk

Linked to the work we have carried out to strengthen our cyber security, we have also continued to upgrade our legacy IT systems. Again, we have adopted a defence in-depth strategy aligned to the MITRE framework, which tracks the tactics and techniques used by cyber criminals and other threat actors.

In addition, we have implemented a programme of continuous vulnerability scanning of all our externally facing systems and web application firewalls. And we have set up a Technical Design Authority to review all new technology solutions are implemented as designed, and that they meet the necessary security requirements.

Climate change

Risk profile: ◀▶

How we are mitigating this risk

To adapt to a changing climate we recognise the need to consider all the risks and take action against those which are significant. This includes increasing the resilience of the water supply networks across our Cambridge and South Staffs regions and planning for any incremental impacts on performance that a changing climate may bring.

Our water resources management plans give us a 25-year forward-looking planning approach to help us address future challenges, including those relating to climate change. In addition, our business plans for 2020 to 2025 and 2025 to 2030 demonstrate our commitment to investing in network and asset resilience schemes, and catchment management and investigation schemes.

Because of the investment we have made in recent years, our water resources, asset base and operations can generally cope with extreme weather conditions. That said, we recognise these systems can become overwhelmed during such events.

We know that climate change will affect both our capacity and our capability for service delivery and the environment that we strive to protect and enhance. It remains a key focus for our Executive team and our ESG agenda, and to manage the risks associated with a changing climate, we have voluntarily committed to the principles set for climate-related financial disclosures (see pages 61 to 69 for more detail).

Environmental impact

Risk profile: ◀▶

How we are mitigating this risk

In recent years, we have made considerable strides in mitigating this risk and the impact of our activities on the environment.

This includes strengthening our Water Strategy team. We have also made improvements to our internal processes, including quickly mobilising the relevant teams when incidents occur to minimise any potential environmental impact. And we work with the Environment Agency and Natural England to ensure we deliver our WINEP obligations and achieve sustainable abstraction over the long term.

In addition, we have a well-established catchment management team and are making good progress in our work with farmers and landowners across our Cambridge and South Staffs regions. Through our SPRING catchment management programme, for example, we make financial contributions available to help farmers to improve their facilities for pesticide use and to prevent other water quality problems at source. We are currently expanding the reach of this programme.

Looking ahead, we will continue to focus our attention on activities that will not only meet our environmental obligations, but will also deliver wider societal and reputational benefits. For example, some of the grants we make available through our community-focused PEBBLE biodiversity fund directly benefit the rare chalk stream habitats in our Cambridge region.

Other activities we carry out to minimise our environmental impact include working closely with our operational technology and water production teams to maintain MCERTS compliance for selected discharge permits and monitoring compliance with our abstraction licences. This is a key focus in our Cambridge region because of the impact of our abstraction from the aquifer on chalk streams across Cambridgeshire.

We are also working with other companies to carry out benchmarking with the aim of improving our clean water response and monitoring. As part of this, we have reviewed all our discharges and compliance and have put a plan in place to ensure delivery in this area. And we are developing a clean water pollution process and procedure that we will roll out across the business.

Supply chain

Risk profile: ▼

How we are mitigating this risk

We have recently enhanced our assurance and due diligence with all our suppliers. This is to ensure we have a resilient supply chain that is fit for purpose over the long term.

We have also made a number of tactical changes to our approach to managing our supply chain, including:

- increasing financial stability assurance and the capabilities of our framework of approved suppliers;
- moving away from 'just in time' delivery and adopting a more resilient 'procure and secure' approach; and
- identifying alternative suppliers for components and consumables.

Our Procurement team works closely with operational teams across the business, colleagues in other water companies, regulators and the supply chain to ensure we maintain critical supplies.

In addition, we take part in sector working group meetings, and use supplier audits and other reporting mechanisms to identify supply issues early, particularly for critical consumables.

We also cover supply chain resilience in our departmental business continuity plans to enable us to adapt quickly to changing circumstances. And we keep our stock policies under regular review to ensure we maintain adequate supplies, enabling us to manage the impacts of supply chain disruptions.

Asset health

Risk profile: ▼

How we are mitigating this risk

We recognise the ongoing need to maintain and improve our assets. Our long-term plans are set within the wider context of managing and maintaining our assets and supply capabilities.

In our business plan for 2025 to 2030, we have modelled an identification of needs and solutions to support optimum investment strategies to mitigate this risk. This includes:

- making significant investment at Hampton Loade and Seedy Mill;
- carrying out proactive maintenance programmes; and
- reducing network failure through targeted mains rehabilitation schemes.

We have also aligned our asset management function to proactive interventions based on continuing performance monitoring. This means we justify investment based on the inherent risk within the business, ensuring that resources and finances are always prioritised effectively.

Ensuring our long-term viability

We have carried out an assessment of our long-term financial viability. We have performed modelling on base plans for the ten-year period to 2034 by selecting a plausible range of scenarios. We have considered 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.

Stress testing

We have stress-tested our financial projections for the ten years from 2024 to 2034 by performing modelling against a number of 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 in the previous chapter 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. We currently hold a credit rating with both Moody's and Standard & Poor's (S&P).

Although our current credit rating with Moody's is Baa2, consistent with the Board's objective of maintaining a strong investment grade, we are targeting a credit rating with Moody's of Baa1. We consider

this maintains our current level of credit quality and provides some headroom to enable the company to remain financially resilient. Moody's uses the following two key metrics when assessing credit ratings.

- The **ratio of debt to the Regulatory Capital Value** of the business (RCV gearing).
- An **Adjusted Interest Cover Ratio** (AICR).

Moody's current guidance ranges 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 as a result of the strong regulatory framework. Any breach of these ratios would also need to be "persistent"

to trigger a possible 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%.

Our target credit rating with S&P is BBB+. The key metric used in its assessment is the ratio of Funds from Operations (FFO) to net debt.

To maintain our credit rating, 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 submitted our business plan for 2025 to 2030 to Ofwat in October 2023. We have performed our stress tests against this plan and included the most significant risks where Ofwat may not agree with our assumptions; namely the cost of capital, energy costs and PCC penalty.

Below we set out the specific scenarios we have modelled.

Scenario	Size of the impact	Explanation
Base expenditure (botex) over/underspend (AMP8 and AMP9)	+/- 5% of allowed botex	We could overspend our plans as a result of the cost of delivering schemes being more expensive than planned or further investment being required to meet our service targets. We could also underspend our botex through new innovative solutions or cost efficiencies.
Enhancement capex over/underspend (AMP8 and AMP9)	5% underspend/15% overspend	Ofwat could disallow some of our enhancement expenditure. There is a risk 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 the potential for new or emerging risks that could require additional investment to maintain service.
Early investment in conditioning and storage plant as a result of unexpected increase in household demand (AMP8)	£40 million of spend brought forward from AMP9 plans	We are currently working with Anglian Water on a new strategic resource option in Cambridgeshire (Fens reservoir) as part of the RAPID process. It is expected that the work will be carried out from AMP9 (2030/35). But there is risk that during AMP8, demand in our Cambridge region increases unexpectedly – for example, because of greater levels 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 and brought into commission.

Scenario	Size of the impact	Explanation
Cash collection rates (2025/34)	+/- 20% change in bad debt charge	Collection of outstanding debt could lower as a result 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 (2025/34)	Average CPIH: +2%/-2%	Although inflation has been falling recently, there is a risk that, with a tight labour market, higher wage claims and ongoing uncertainty in world events, the inflation trend may reverse and start to increase again. So, we have run a scenario where inflation is at a persistently elevated level of 2% above the long-term historical rate of 2%. Within this scenario, we have assumed that costs only increase by 1%. 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 continue to fall but with a risk that it is not seen in relation to specific water sector costs. Our scenario assumes that inflation remains at 2% below the long-term rate. We have assumed that none of the lower inflation feeds into lower sector-specific costs, leading to real terms overspend in totex.
CPIH/RPI wedge (2025/30)	CPIH/RPI wedge of 3%	Historically, RPI has been around 1% higher than CPIH. However, over the past couple of years, the wedge between the two indices has been as high as 4%. This has a specific impact on our business as a significant proportion of our debt is RPI-index linked. From 2025 onwards, RCV will be indexed by CPIH. 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 is at 3%.
Energy costs (2025/34)	+20% increase in wholesale electricity prices above AMP8 assumptions	Energy costs increased significantly in 2022. Although they have fallen recently, 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 and so will only reflect rises in the most recent year's data; or any reduction in energy costs reverses. Energy represents a significant proportion of our operating costs and we have run a scenario where energy costs are 20% higher than our base projections.
Cost of capital (2025/30)	No company-specific uplift to the cost of debt: -55bps	Our business plan for 2025 to 2030 assumed a company-specific uplift of 55bps to the cost of debt, recognising the specific challenge for smaller companies. This is above Ofwat's view in its final methodology. So, there is a risk that a similar uplift is disallowed at PR24.
Interest rates (2025/34)	+/-2% increase in the cost of new debt	The vast majority of our debt is fixed and we have financing in place to deliver our investment programme for the remainder of AMP7. But 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.
Outcome delivery incentives – ODIs (2025/30)	AMP8: +£2m/-£12m	Our final determination may have stretching performance commitments. In the downside scenario, there is a risk that we fail to achieve our targets, resulting a penalty being incurred. Our PCC performance has been significantly impacted by COVID-19 and Ofwat has deferred the assessment until PR24. Based on the extrapolation of current performance we could potentially incur a £12 million penalty on PCC if Ofwat does not make an adjustment for COVID-19. So, we have assumed there is a 10% chance that the PCC penalty at PR24 is £10 million. In addition, two of our performance commitments, CRI and leakage, also carry a risk of underperformance. So, we have also included £2 million of penalties in AMP8. We will continue to target outperformance and have assumed that in the upside scenario we achieve £2 million of rewards for five years from 2025 to 2030.

Monte Carlo modelling and outputs

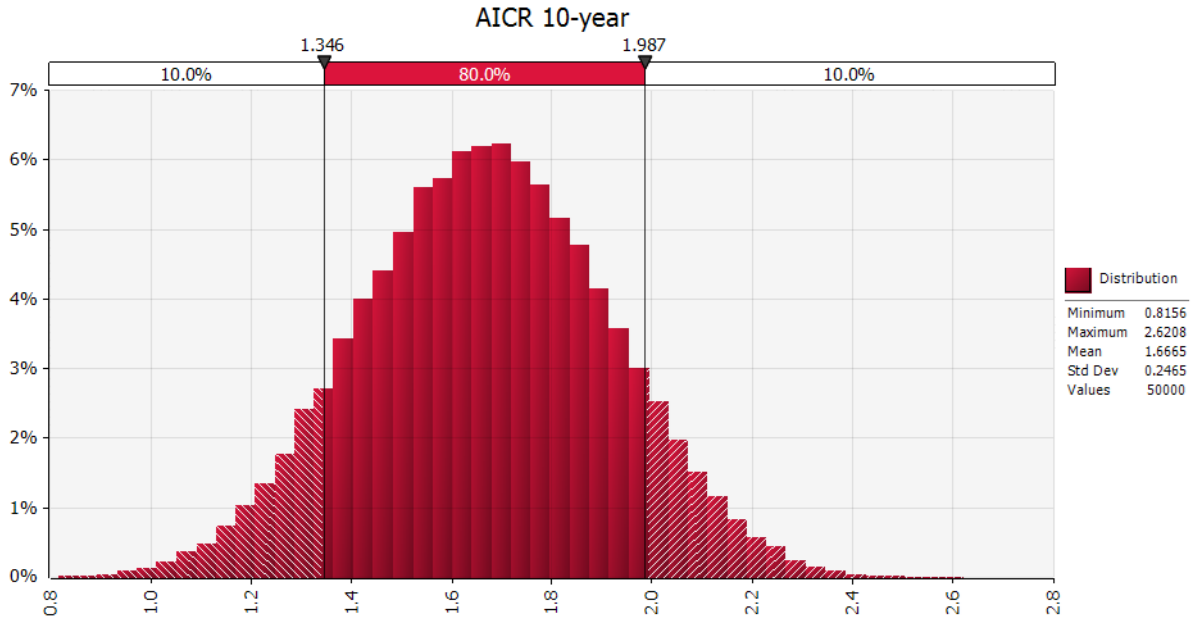
To understand the range of possible impacts on our financial resilience, we have undertaken Monte Carlo simulation.

This is a statistical modelling approach that 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 undertaken this modelling on AICR, FFO/net debt and gearing as these impact

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.

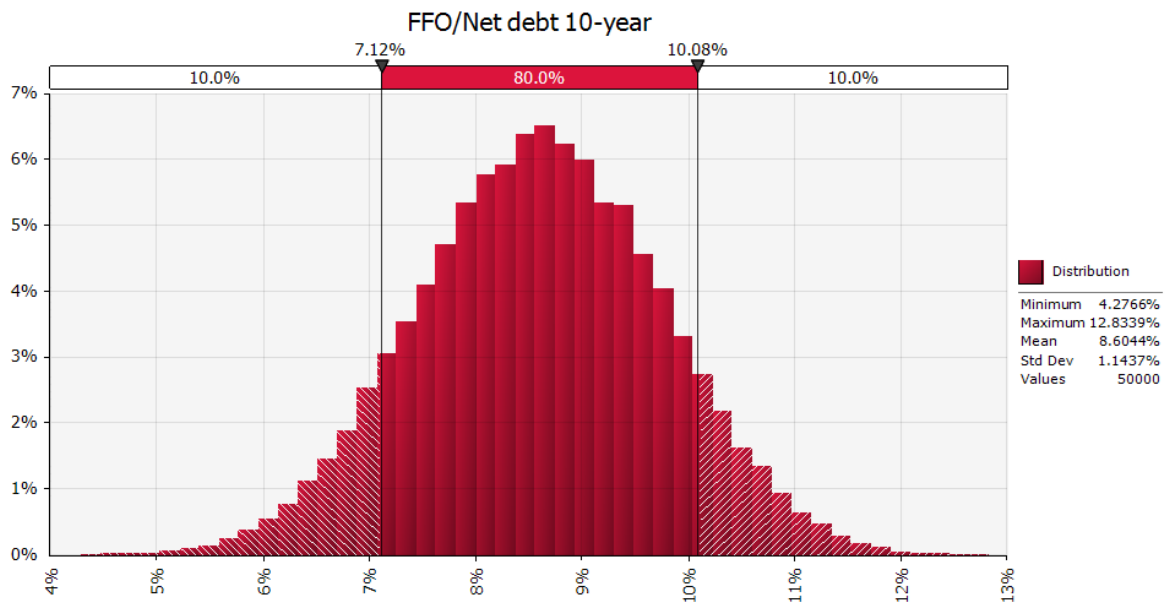
Below, we set out the modelling outputs for the ten-year period to 2034.

AICR



Our base AICR is 1.7 and the modelling output shows a 10% chance that this is as high as 2.0 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

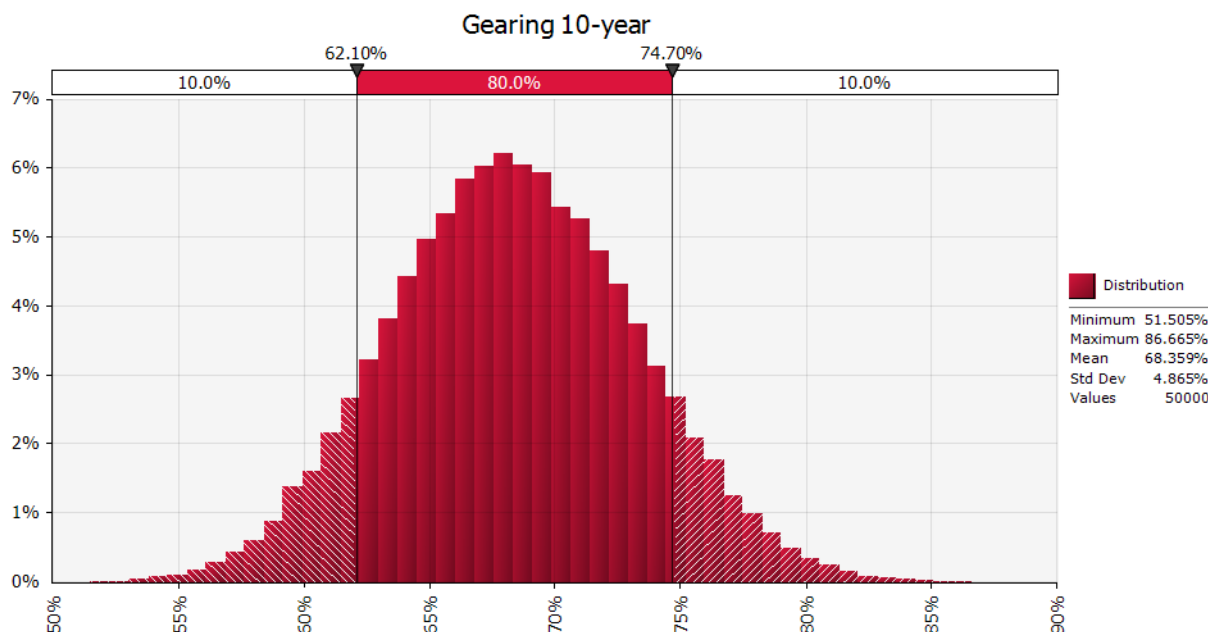


Our base FFO/net debt is 8.6%. Although this is still investment grade, it is marginally below the level of our target of 9.0% and is being impacted by both the CPIH/RPI wedge and a proposed reduction in the RCV run-off rate from over 6.4% to 4.5% to align with Ofwat’s PR24 final methodology

guidance. Each 1% reduction in the run-off rate impacts the metric by around 0.7%. We consider that S&P would most likely take this into account in its assessment of our credit rating, given the longer-term strengthening of cash flows.

The resulting modelling output shows a 10% chance that this metric is as high as 10.1% and a 10% chance that it is as low as 7.1%. This would be below the level required to maintain our target credit rating, although it is still within investment grade.

Gearing



Our base gearing is 68% and the modelling output shows that there is a 10% chance this is as low as 62% and a 10% chance that it is as high as 75%. This is above that required to maintain our target credit rating, although it would still be within investment grade and below the level required by our debt covenants.

Within the scenarios we have considered, a number are to some extent under management control. However, decisions around the cost of capital (both the

industry level and a company-specific adjustment), the price review treatment of RPI-linked embedded debt and PCC are all be determined by Ofwat.

If we just look at those risks alone and they all crystallised in AMP8, the impact would be to lower AICR to around 1.4 and FFO/net debt to 6.4%. This would put significant pressure on our ability to maintain an investment grade credit rating and access the debt markets. We received Ofwat’s draft determination on 11 July.

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 1.4 and FFO/net debt is 7.1%. 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 appropriate controls are put in place to minimise them. But we recognise that it does not eliminate all risks and that some events can develop quickly – for example, weather events.
Totex outperformance	To ensure we maintain our credit rating, we could target a level of totex outperformance by, for example, using new, innovative solutions or 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 previously received £40 million of additional equity over the past three years with the early repayment of two intercompany loans, which has helped to strengthen our financial resilience.
Regulatory mechanisms	<p>There are a number of 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; • indexation of the cost of new debt mechanism to protect companies from changes in interest rates; • tax reconciliations to protect companies from changes in tax rates; and • uncertainty mechanisms. <p>As part of the price review process, companies also have the ability to appeal Ofwat’s decisions to the Competition and Markets Authority (CMA).</p>

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

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. We have used senior management to carry 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. We have then carried out independent internal assurance to ensure our statement is consistent with these calculations and that it covers the requirements set out by Ofwat.

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 2034.

The ten-year period has been selected because:

- the five years to March 2030 are covered by the company's PR24 business plan submission;
- the business plan also considers financeability in the longer term by modelling the five years from 2030 to 2035; 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 costs of capital (WACC), the indexation of embedded debt, PCC and other key factors at PR24. If all

these scenarios crystallise, there could be considerable pressure on the company's ability to maintain an investment grade credit rating and access debt markets.

The Board also declares 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 considered.

Details of the tests are described on pages 76 to 77 above. These tests are considered to cover severe, 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 the availability of new funding and is based on the realistic assumptions 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 of key metrics utilised by rating agencies.

The Board also declares that it has received appropriate assurance that **the testing carried out is both appropriate and accurately performed.**

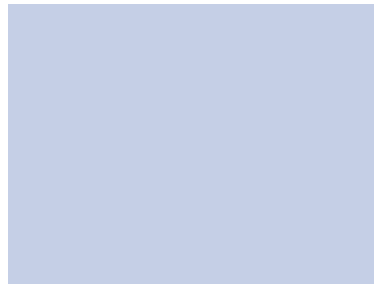
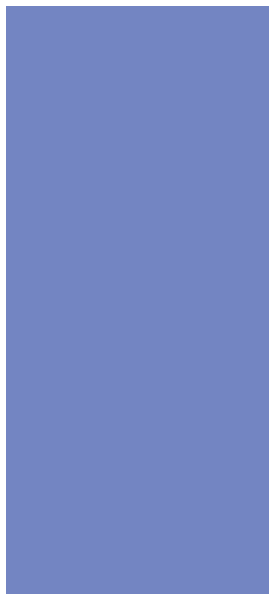
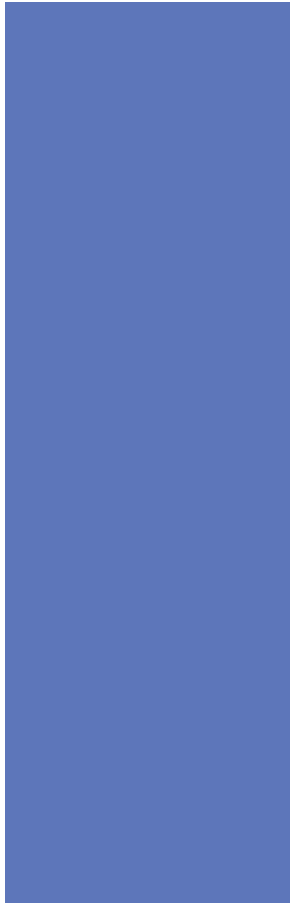
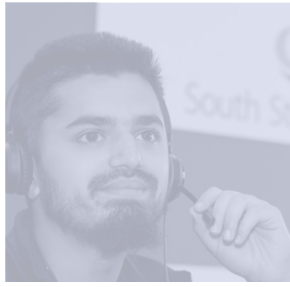
Testing has been performed internally by expert people within the company. The calculations used in the testing have been verified by senior management and assured by independent internal assurance. This assurance is in line with the company's assurance framework.

This strategic report was approved at a meeting of Directors held on 12 July 2024 and duly signed on its behalf.



Andy Willicott
Managing Director

12 July 2024



Governance

Chair's introduction



We might have been forgiven for thinking, two years ago, that in the aftermath of COVID-19 and then close on its heels the serious criminal cyber-attack we suffered, everything would be easy. It hasn't been, but we've made real progress nonetheless.

A lot of the Board's focus during the past year has been on preparing for the five-yearly PR24 process with Ofwat, the economic regulator. We've been ably assisted by a terrific PR24 team in the office, but the care with which we've prepared our case, and made our ambitions to be a best-in-class water company, clear, has been remarkable. As I write, we're waiting with a mixture of trepidation and confidence the preliminary indications from Ofwat of how it will respond.

One of the major future issues we face is, of course, the long-term sustainability of water resources in our Cambridge region. All of Cambridge's water at the moment comes from boreholes tapping into the water in the aquifers below ground. We've just lived through the second wettest winter in recent memory, and as a result the aquifers are reasonably full.

But we cannot and should not depend on wet winters. If we experienced two very dry winters in a row, we would face serious problems – not only in sustaining

“The Board must always strive to find the right priorities between the needs of our customers, the needs of our investors, and the needs of the environment”

water supplies, but in protecting the precious environment of the chalk streams that also depend on the underground water.

We need to enhance sustainability for the long term. And that's why we've been launching campaigns like 'Can for the Cam' to try and encourage people to use less water.

And it's why, in the longer term, we want to ensure that we can transfer water into our Cambridge region from Grafham Water, and then create a new Fens reservoir near Chatteris. The Board went on a recent visit to view the site of the proposed reservoir, and we were able to see at first hand the sheer scale of what is proposed. The task of achieving it will be exciting and daunting in equal measure.

The Board itself has also been going through a determined effort to ensure our governance is in good order. We've reformed our sub-committee structures, so we now have an Audit and Risk

The ESG Committee

Two years ago we decided to establish an ESG Committee of the Board, to ensure that our commitment to environmental standards, good governance and social impact are up to standard. I chair the Committee, as Chair of the Board; and we meet at least two times a year.

We've looked seriously at our environmental performance, our progress towards net zero (we're committed to get there by 2030, if at all possible), and the reporting of environmental standards in our accounts and other public statements.

We've looked at our governance, including the performance of the Board itself, the skills we have and the ones we need, the transparency of our reporting, and the interactions between Board members and employees.

And we've looked at our social impact, especially given the demographic nature of the communities we serve. We've also looked at the staff survey responses, and the ways in which we demonstrate our determination to be as inclusive and diverse a company as possible.

We're always aware that we need not only to get the basics right – delivering good, clean water to our customers every day – but also to live up to our values as a company: values of openness, commitment to customers and the environment, equality and diversity, and high ambition.

Committee, a Remuneration/ Nomination Committee, and an ESG Committee. We've improved the transparency of what we say and do. And we've reviewed and enhanced all of our terms of reference. We're now more fit for purpose than we've ever been.

The Board must always strive to find the right priorities between the needs of our customers, the needs of our investors, and the needs of the environment.

This isn't always a simple process, and at the moment there is much public criticism of water companies. It is mainly focused, of course, on the water and sewerage companies. But as a water only company, we mustn't be complacent. We have to work hard to make sure we supply all of our customers with high-quality, clean water, that we sustain supplies, and that we take good care of the environment in the process. We're determined to continue doing all of these things.



Lord Chris Smith
Chair

Governance framework

We place good governance at the heart of our business. It is a commitment the Board and the Executive team takes very seriously.

By 'governance', we mean the rules, controls and processes that dictate how the business is controlled and operates, and how our people are held to account. It encompasses a range of elements, including:

- ethics;
- risk management;
- compliance; and
- administration.

Background

The appointment of a new Chief Executive for our parent company, South Staffordshire Plc, in 2023 presented us with an opportunity to look afresh at our own governance practices. So during the reporting year, we reviewed our governance framework and are in the process of updating and improving it.

This was to ensure it aligned with the UK Corporate Governance Code 2018 on a 'comply or explain' basis where applicable, and Ofwat's principles on Board leadership, transparency and governance, as updated in 2021. We discuss how we have complied with these principles in more detail on pages 10 to

12 of the annual performance report published alongside this document.

The work carried out during the reporting year gives us a solid foundation for an effective Board and Committee framework aligned with best practice.

New governance framework

During the reporting year, our focus has been on the following four elements of the new governance framework. Each element has a number of work streams associated with it.

- Board functions.
- Board processes.
- Board effectiveness.
- Governance role – definitions.

At the time of writing, the tasks associated with these work streams were ongoing.

Key tasks delivered

During the reporting year, we delivered a number of key tasks related to the development of the new governance

framework. Key among these, were the following.

- Reducing **the number of Board meetings from ten to six** a year. The principal rationale for this is to enable the governance framework to be embedded across the business. It also supports a financial cycle that requires comprehensive audit planning and risk management review. And it supports the decision-making and approvals of the investment programme as it enables the increase in the number of committee meetings from 8 to 12 a year.
- Carrying out a **complete skills review of Board members and developing an at-a-glance skills matrix** (see page 96).
- Carrying out a **Board effectiveness review** to ensure alignment with the relevant codes of practice and with best practice in the water sector (see page 94).

The governance framework will be reviewed each year to ensure ongoing compliance.

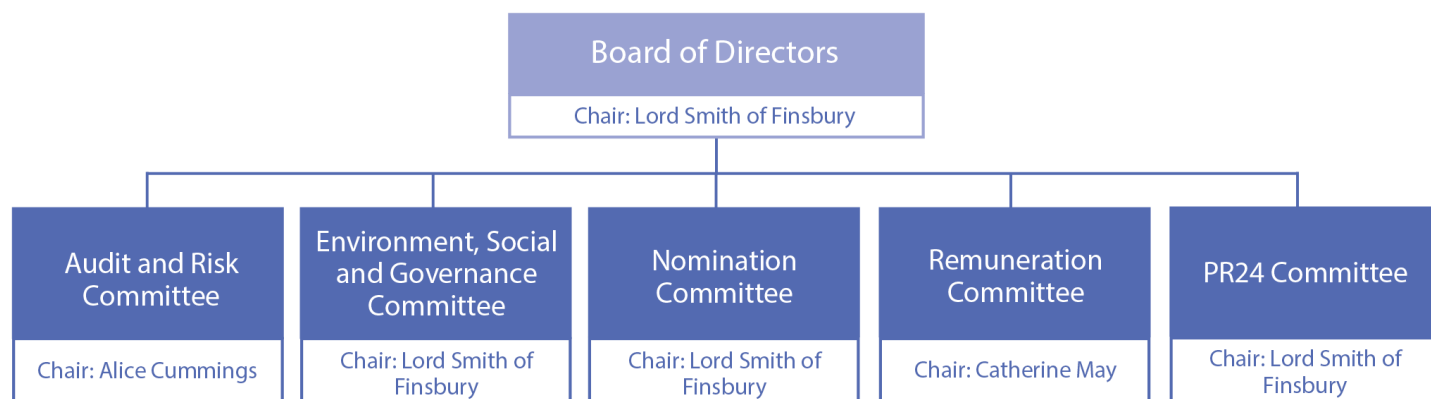
Board of Directors



Non-executive Board members Alice Cummings (second left), Professor Ian Barker, Catherine May, Peter Antolik and Lord Smith are pictured at the site of the proposed Fens reservoir with Tom Fewster, our Asset Management and Investment Delivery Director (second right), and Natalie Akroyd, our Director of Water Quality and Environment. Also pictured are Jonathan Hillier, Fens reservoir project manager (first left) from Anglian Water and Charles Crawford, Masteplanning Lead and Director at LDA Design (back).

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 reporting year was that of Independent Non-executive Directors, including the Chair.

Board structure



Note: At the start of the 2024/25 financial year, a decision was taken to divide the Remuneration and Nomination Committee into two separate Committees: the Remuneration Committee, chaired by Catherine May; and the Nomination Committee, chaired by Lord Smith.

Details of the terms of reference of all the Committees, their membership and activities during the reporting year are set out on pages 107 to 112.

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



Committee membership



Chair, Environment, Social and Governance (ESG) Committee
Chair, Nomination Committee
Chair, PR24 Committee

Date appointed

Lord Smith was appointed as an Independent Non-executive Director in October 2018.

Skills and experience

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 a Life Peer in the House of Lords. 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.
South Staffordshire Water PLC



Committee membership



Date appointed

Andy was appointed Managing Director in May 2020, having previously served as Transformation Director at Bristol Water.

Skills and experience

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.

Charley Maher, Group Chief
Executive Officer, South
Staffordshire Plc



Committee membership



Date appointed

Charley was appointed as Group Chief Executive Officer of South Staffordshire Plc in September 2023.

Skills and experience

Charley has previously held senior leadership roles in the financial services and utilities sectors. Before joining South Staffordshire Plc, Charley worked for YTL UK, as Chief Commercial Officer at Wessex Water Group, and as Managing Director at Pelican Business Services and water2business. Earlier in her career, she was with NatWest and the RBS Group.

Catherine May, Senior Independent Non-executive Director



Committee membership



Chair, Remuneration Committee

Date appointed

Catherine was appointed as an Independent Non-executive Director in October 2018.

Skills and experience

Catherine has more than 12 years' experience as a Non-executive Director, Chair and Senior Independent Director, and has served on audit, finance, remunerations, nominations and ESG Committees as a member and Chair. Previously, she served on the Executive Committee of RELX plc, Centrica Plc and SAB Miller plc.

External appointments

Catherine is Chair of Shoreham Port and Senior Independent Director and Chair of the Remunerations and Nomination Committee of the Pensions and Lifetime Savings Association (PLSA), and Chair of the English National Opera Trust. 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



Committee membership



Chair, Audit and Risk Committee

Date appointed

Alice was appointed as an Independent Non-executive Director in May 2020.

Skills and experience

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. She is also a Non-executive Director and Chair of the Audit and Assurance Committee at Curo Housing Association.

Professor Ian Barker, Independent Non-executive Director



Committee membership



Date appointed

Ian was appointed as an Independent Non-executive Director in April 2022.

Skills and experience

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 & Arjun Infrastructure
Partners Representative**



Committee membership



Date appointed

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

Skills and experience

Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, where 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 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 & Arjun Infrastructure
Partners Representative**



Committee membership



Date appointed

Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018.

Skills and experience

Peter 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 Committee
	Remuneration Committee
	PR24 Committee

**Resignations from the Board
during the reporting year**

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

Executive team



The Executive team is responsible for setting the strategic direction of the business. It is also responsible for the day-to-day operations of the wholesale and retail functions across the Cambridge and South Staffs regions.

Overview

The Executive team oversees the implementation of policies and procedures that align with regulatory standards and environmental guidelines.

Members of the executive team work together closely to ensure financial stability through effective budgeting and cost control.

The team engages with a wide range of stakeholders, including customers and communities, government bodies and

investors to foster a spirit of trust and collaboration.

Overall, the leadership of the Executive team is key in ensuring the long-term success of the business and in enabling it to navigate the complex challenges of the England and Wales water sector.

Abbie Poulton,
Finance Director



Date appointed

Abbie joined South Staffordshire Water in 2019 and was appointed to the Executive team in 2022, having previously been Financial Controller.

Skills and experience

Abbie 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



Date appointed

Caroline was appointed to the Executive team in 2020.

Skills and experience

Caroline 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



Date appointed

Andrew was appointed to the Executive team in 2021.

Skills and experience

Andrew 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



Date appointed

Tom was appointed to the Executive team in 2022.

Skills and experience

Tom 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.

Robert Boswell, Energy and Asset
Performance Director



Date appointed

Robert was appointed to the Executive team in 2023.

Skills and experience

Robert started his career with South Staffordshire Water more than 27 years ago. He has been responsible for delivering operational experience throughout multiple front-line departments, specialising in energy, water production and civil engineering.

In this role, Robert oversees the delivery of projects and operational technologies. His focus is on managing one of our biggest costs – energy – and tackling how we become greener as a business, while developing smarter networks.

Heidi Knapton, Director of
Customer Delivery



Date appointed

Heidi was appointed to the Executive team in 2023.

Skills and experience

Heidi is responsible for delivering our customer service strategy. Her remit covers our household and non-household business retail customers.

Heidi has held several roles since joining South Staffordshire Water, including Head of Customer Operations and Metering Strategy Manager. She joined us from Severn Trent Water in 2018, where she worked in planning and network control roles. Her skills include strategy development, customer service, business transformation and project management.

Sara McCann, Head of People



Date appointed

Sara was appointed to the Executive team in 2023. In May 2024, she was appointed Group HR Director.

Skills and experience

Sara has more than two decades of dedicated experience in human resources and has operated in senior HR leadership positions in organisations with both global and European remits. She has a breadth of knowledge and skills across a range of disciplines, including operational HR, employee relations, transformation projects, talent management, and learning and development.

Sara's role at South Staffordshire Water has been to act as a trusted partner to the business, spearheading the development and implementation of a strategic people plan.

Sara is a Chartered Member of the Chartered Institute of Personnel and Development (CIPD) and holds certifications in Six Sigma Green Belt and Health and Safety IOSH.

Resignations from the Executive team during the reporting year

Rebecca Smith, Customer Delivery Director (resigned 3 May 2023).

Board effectiveness and evaluation

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

Board effectiveness review

During the reporting year, an internal review into the effectiveness of the Board was carried out as part of the process for refreshing the company's governance framework. As part of this review, individual Directors were asked a series of questions about the:

- balance of skills and competences to ensure the effectiveness of the Board;
- culture of openness, challenge and respect for differing opinions that exists;
- relationship between the Board and the Executive team;
- frequency, timings and duration of Board and Committee meetings to allow for proper consideration and debate;
- quality of Board papers and the role they play in decision-making;
- effectiveness of the Board Committees;
- Board's knowledge and understanding of the company and its business;
- Board's responsibility and accountability for its actions;

- overall effectiveness of the Board in ensuring high-quality decisions that address the needs of customers and other stakeholders; and
- mechanisms the Board has in place to hear the voice of employees.

There was a 100% completion rate from Directors.

Key highlights

Following the review, a RAG status was applied to each response. The Board identified that it needed to improve the mechanisms in place to help it capture the voice of employees across the business more effectively. The following proposals were put forward.

- **Board attendance at roadshows or hosting specific engagement sessions.** This would give employees the opportunity to ask questions and share feedback.
- **Promote Board members to employees.** This would increase the Board's visibility and help employees to recognise and understand Board members.

- **Organise 'Day in the life of...' opportunities for the Board,** enabling them to spend a day with employees from different areas of the business. This would allow the Board to gain first-hand insight into the company's daily operations and the challenges its employees face.
- **Make opportunities available for site visits.** This would help to increase levels of Board engagement with employees at different sites across the Cambridge and South Staffs regions.

Next steps

A review of the Chair was carried out by the Senior Independent Non-executive Director in 2022. This was followed by the effectiveness review carried out during the reporting year. The intention is to align both during the 2024/25 financial year and undertake an independent external review, in accordance with the company's governance framework (see page 85).

Directors' report

The Directors are pleased to present their annual report and financial statements for the year ended 31 March 2024. 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 2024, 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
The Rt Hon Lord Smith of Finsbury	Independent Non-executive Director and Chair from 27/03/2020	25/10/2018		12/13
Phil Newland	Group Chief Executive – South Staffordshire Plc	29/04/2020	28/04/2023	0/1
Charley Maher	Group Chief Executive – South Staffordshire Plc	29/09/2023		8/8
Andy Willicott	Managing Director	11/05/2020		13/13
Catherine May	Senior Independent Non-executive Director	25/10/2018		12/13
Alice Cummings	Independent Non-executive Director	14/05/2020		13/13
Professor Ian Barker	Independent Non-executive Director	12/04/2022		13/13
Keith Harris	Non-executive Director	30/04/2015		13/13
Peter Antolik	Non-executive Director	25/10/2018		12/13

Note:

During the reporting year, there were ten scheduled Board meetings and three additional meetings.

Board composition at a glance



Independent Chair of the Board Senior Independent Non-executive Director Independent Non-executive Directors

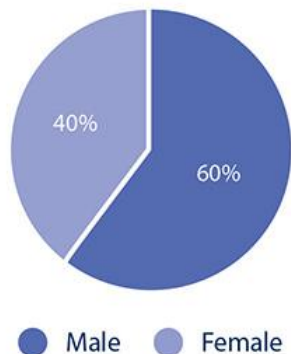


Non-executive Directors Executive Directors

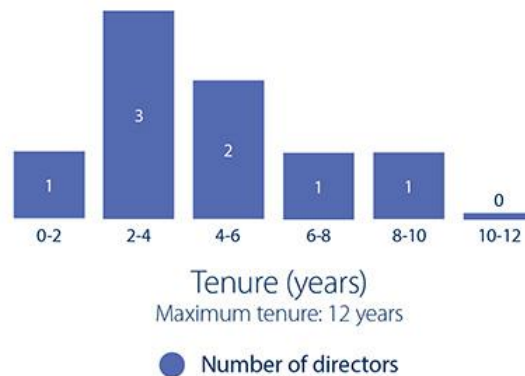
No Director had any material interest in any contract of significance with the company. The largest single group of Directors on the Board are Independent Non-executive Directors, including the Independent Chair.

Gender balance and tenure of Board members

Gender balance: Board of directors
as at 31 March 2024



Board member tenure in years
as at 31 March 2024



Skills matrix

	Lord Chris Smith	Catherine May	Alice Cummings	Professor Ian Barker	Keith Harris	Peter Antolik	Andy Willicott	Charley Maher
Corporate governance	1	1	1	1	1	2	2	2
Regulatory and legal	2	2	1	1	1	1	1	2
Strategy	1	1	1	1	1	1	1	1
Health and safety	2	2	2	1	2	2	1	1
Environment/sustainability	1	1	2	1	1	2	1	2
Financial mgt/reporting/accounting	2	1	1	2	1	1	2	2
Audit and risk management	2	2	1	2	1	2	2	2
Corporate finance/Treasury	2	2	1	–	1	1	2	2
Employee performance mgt	2	1	1	1	1	2	1	1
Diversity, equality and inclusion	1	1	1	2	2	2	2	1
Customer relationships/insight	1	2	2	1	1	2	2	1
Infrastructure/capital delivery	2	2	1	1	1	2	1	1
Tech systems – strategy/investment	2	2	1	2	2	2	1	2
Cyber and IT security	–	–	2	–	2	1	1	–
Comms/stakeholder relationships	1	1	1	2	1	1	1	1
Gov/political/regulatory experience	1	1	2	1	1	1	1	2

Note:

'1' denotes primary skills; '2' denotes secondary skills.

Financial results

The company's financial results are shown in the financial statements on page 122 onwards, and summarised in the strategic report on pages 21 to 25.

Dividends of £5.3 million were paid during the year (2023: £9.2 million). This includes a non-appointed dividend of £0.5 million (2023: £1.5 million).

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 21 to 25.

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 2024 represent 25 days (2023: 27 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 a number of key decisions affecting the business in the short, medium and long term. This includes, among other things:

- all aspects of the company's PR24 business plan submission, with a particular focus on total expenditure (totex), the enhancement programme, cost allowances and the impact on customers' bills over the five years from 2025 to 2030, set within the context of a 25-year long-term delivery strategy;

- the draft water resources management plans for the Cambridge and South Staffs regions;
- the Fens reservoir project being carried out in partnership with Anglian Water;
- the progress of the upgrade programme at the Hampton Loade water treatment works in the South Staffs region; and
- the impact on the business of Compliance Risk Index (CRI) failures during the year.

The Board has continued to be actively involved in the company's customer engagement and insight programme.

For more information on how the Board's engagement has driven decision-making across the business, see the section 172(1) statement on page 54. Other information on customer and stakeholder engagement can be found 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 all its people 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, and internal communication channels. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests through the People Forum.

The company considers its corporate social responsibility within the context of environmental, social and governance

(ESG) compliance. The company has an ESG Board sub-committee and reports each year against key ESG metrics.

Recognising the activities it carries out as a business have a direct impact on society and the environment, the company has published a sustainability and social responsibility report. This report is aimed at customers and describes some of the activities carried out during the reporting year, including the development and implementation of the company's:

- net zero strategy;
- people plan (see page 46); and
- governance framework (see page 85).

The sustainability and social responsibility report is published on the company's website alongside this annual report and financial statements.

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 – scope 1	2023/24		2022/23		2021/22	
	KWh	Tonnes CO ₂ e	KWh	Tonnes CO ₂ e	KWh	Tonnes CO ₂ e
Natural gas	106,228,048	19,432	97,059,704	17,717	105,539,614	19,147
Gasoil (Class A2 – red diesel)	No longer used		556,428	146	1,504,145	411
White diesel (operations/generators)	696,040	186	1,279,515	327	Not recorded	
Petrol (operations)	110,558	28	–	–	–	–
Kerosene (heating)	179,955	47	316,730	83	298,028	74
Hydrogenated vegetable oil (HVO)	0	0	405,659	34	202,393	4
Diesel BS EN 590 (transport)	2,791,516	709	6,453,752	1,564	5,904,148	1,398
Unleaded petrol (transport)	229,795	54	311,007	80	227,869	52
Total	110,235,913	20,456	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 used to operate 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. For consistency with previous annual reports, it has also included the market-based reporting in the table below.

Electricity	2023/24		2022/23		2021/22	
	kWh	Tonnes CO ₂ e	kWh	Tonnes CO ₂ e	kWh	Tonnes CO ₂ e
Location-based emissions	94,349,063	21,228	104,869,246	22,135	97,676,198	22,759
Market-based emissions	94,349,063	7	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			
	2023/24	2022/23	2021/22	2020/21	2023/24	2022/23	2021/22	2020/21
Emissions (tonnes CO ₂ e)	44,422	43,348	43,845	43,450	24,889	21,213	21,086	19,256
Emissions (kg CO ₂ e per Ml of treated water)	272	255	265	263	154	121	128	117

Note: Ml = megalitre (one megalitre equals one million litres).

Corporate governance

The corporate governance report is set out on pages 100 to 113. The Group structure is shown in the chart on page 102.

Financial instruments

The company's financial risk management objectives and policies, and the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk are set out on pages 21 to 25 of the strategic report.

Post-balance sheet events

In April 2024, the company sold a property at its Blithfield site, which was

no longer required for operational use. The profit on the sale was £0.3 million.

Equal opportunities

The company's policy in respect of its commitment to equality, diversity and inclusion is set out on pages 106 to 106 of the corporate governance report.

Risk management

The company's practices in respect of risk management are set out on pages 70 to 75 of the strategic report.

Going concern

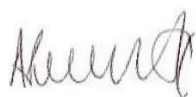
The company's statement on going concern and the basis for the going

concern assumption are set out on page 107.

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 LLP will be reappointed at the Annual General Meeting for 2024/25.

This Directors' report was approved by the Board on 12 July 2024 and signed on its behalf by:



Andy Willicott
Managing Director

12 July 2024

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

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.

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 reports 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 business overview and strategic report.

During the reporting year, the company developed and implemented a new governance framework. More information about this is set out on page 85.

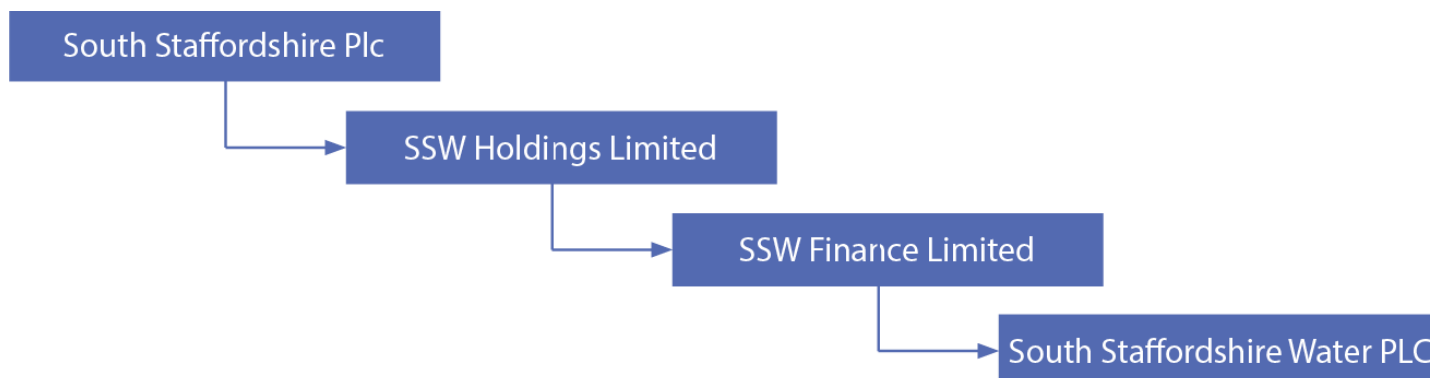
Compliance with the 2018 Corporate Governance Code

The company is committed to delivering effective corporate governance and thinks 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 in the table 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 (pages 54 to 60). • Corporate social responsibility/environmental, social and governance (ESG) compliance (page 97). See also the sustainability and social responsibility report published alongside this document. • Company direction and performance statement (see annual performance report, page 13).
Division of responsibilities	<ul style="list-style-type: none"> • Functions of the Board (pages 102 to 103). • Board Committees (pages 107 to 112). • Directors' responsibilities statement (page 120). • Statement of Directors' responsibilities for regulatory information (see annual performance report, page 39).
Composition, succession and evaluation	<ul style="list-style-type: none"> • Board structure (page 86). • Board effectiveness and evaluation (page 94).
Audit, risk and internal control	<ul style="list-style-type: none"> • Managing risk and uncertainty (pages 70 to 75). • Risk and compliance statement (see annual performance report, page 41). • Statement on the accuracy and completeness of data and information (see annual performance report, page 39). • Ensuring our long-term viability (pages 76 to 80). • Board statement on long-term viability (page 81).
Remuneration	<ul style="list-style-type: none"> • Remuneration report (pages 114 to 119).

Group structure

South Staffordshire Water PLC's immediate parent company is SSW Finance Limited. The ultimate controlling party is AIP Holdings Limited.



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 were no direct transactions 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.

The company's 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 (see following page for complete Group structure).

Relations with investors and the immediate holding companies

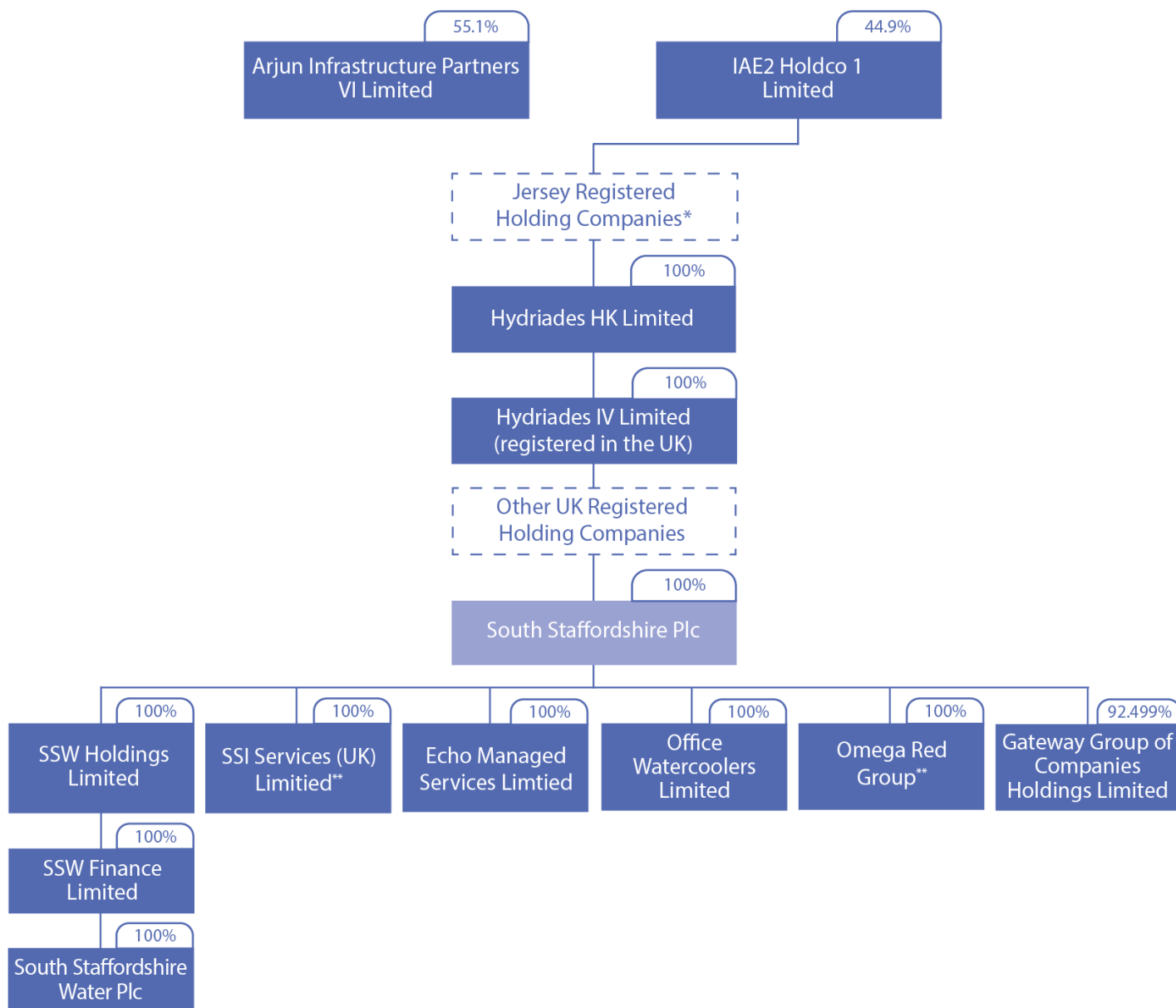
During the reporting year, there were two UK registered intermediate holding companies above South Staffordshire Water and several UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydriades IV Limited.

There are intermediate holding companies above Hydriades 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.

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.



* 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.

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. At the AGM held on

20 July 2023, Lord Chris Smith and Keith Harris retired and were re-elected by the Board.

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 responsible for monitoring corporate governance matters.

A full list of Board members can be found on pages 87 to 89.

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.

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.
- Community (civil society).
- Employees.
- Regulators/Government.
- Investors.
- Suppliers/partners.

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 91 to 93.

In 2022, the Senior Independent Director, Catherine May, carried out an assessment of the Independent Chair. This was followed during 2023 by an internal review of Board effectiveness, in accordance with the refreshed governance framework (see page 85). The intention is to align both the assessment of the Chair and the effectiveness of the Board in an independent review during the 2024/25 financial year.

The Board and its sub-committees consider potential conflicts of interest 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 2024, there were ten planned Board meetings and three additional meetings of the Board via teleconferencing facilities.

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 95.

Executive Directors' remuneration policy

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

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.

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 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.

For more information, see the remuneration report on page 114.

Board and Executive terms of engagement

The Rt Hon Lord Smith of Finsbury, Catherine May, Alice Cummings and Professor Ian Barker 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 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 considers it is important that, for Executive Directors and senior management, a proportion of the remuneration package should be performance related.

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.

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 information about risk management and the company's key risks are set out on pages 70 to 75 of the strategic report.

Employee engagement

The company uses a range of communication channels and activities to engage with its people. For more information about the engagement activities undertaken during the reporting year, see the 'Our people' chapter on page 46 and the section 172(1) statement on page 54.

Equality, diversity and inclusion

In line with other companies in the South Staffordshire Plc Group, the company considers that all people should have equal chances and opportunities. The company is an equal opportunity employer. This means that its policy is to ensure that no unlawful discrimination occurs, either directly or indirectly, against any employee on the grounds of:

- age;
- gender;
- gender reassignment;
- colour;
- sexual orientation;
- disability;
- marital status;
- race;
- religious beliefs; and
- ethnic or national origin.

The company is committed to creating and maintaining a diverse and inclusive work place. It considers that a diverse and inclusive environment enhances its ability to attract and retain talented employees, leads to more creative and innovative thinking, and results in better services for its customers.

Through its equal opportunity, diversity, and inclusion policy, the company aims to:

- work to eliminate unlawful discrimination and harassment against individuals;
- make a commitment to treat employees with dignity and respect;
- promote equality and opportunity;
- promote positive attitudes and good relations with people;
- encourage participation by all;
- take steps to account for disabilities;
- promote different minority groups;
- support equal opportunities in employment and recruitment;
- provide and maintain adequate arrangements to enable employees to raise issues; and
- provide employees with equality and opportunities training as part of the induction process.

The company takes steps to ensure its recruitment and hiring practices are inclusive and fair. This includes actively seeking out and recruiting candidates from diverse backgrounds, and making sure its recruitment and hiring practices do not discriminate against any group of individuals.

The company also takes steps to ensure the work place is accessible to people with disabilities and has a duty to make reasonable adjustments to facilitate the employment of people with disabilities. Such reasonable adjustments may include:

- adjusting premises;
- re-allocating some or all of a disabled employee's duties;
- transferring a disabled employee to a more suitable office;
- giving a disabled employee time off work for medical treatment or rehabilitation;
- providing training or mentoring for a disabled employee;
- supplying or modifying equipment, instruction, and training manuals for disabled employees; or
- any other adjustments the company considers reasonable and necessary, provided such adjustments are within the financial means of the company.

If an employee has a disability and considers any such adjustments could be made by the company, they should contact the Managing Director or Office Manager.

All employees are encouraged to participate in the company's efforts to create a diverse and inclusive work place. If there are any concerns about discrimination or harassment, these can be brought to the attention of the Managing Director or Office Manager.

The company is committed to nurturing a culture of diversity and inclusion, and is working to create an environment where all employees feel valued and respected. It will review the policy on an ongoing basis to ensure it continues to meet its commitment to diversity and inclusion.

For more information about the company's initiatives to promote a more inclusive working environment, see the 'Our people' chapter on page 46.

Regulatory reporting

South Staffordshire Water 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 Ernst & Young LLP.

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 page 63 onwards.

Going concern and basis for assumption

The Directors consider 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 ended 31 March 2025 and financial forecasts to 15 July 2025. The going concern period is therefore to 15 July 2025.

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 11 to 82. The company's financial position, its liquidity position and available borrowing facilities are set out in the balance sheet on page 123 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 agreements.

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 fixed price agreement 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 recent 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 able to make additional funding available under a documented private shelf facility of up to £20 million. 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.

- The **final determination for the five years from 2025 to 2030** is in progress. The assumption used in the company's going concern assessment for the period 1 April to 15 July 2025 is in line with the company's PR24 submission.

The company has 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 criminal cyber-attack that was identified in July 2022.

The company has also considered the PR24 draft determination issued by Ofwat on 11 July 2024. The Directors are of the view that the outcomes in the draft determination do not indicate a materially different view from the assumptions used in the going concern period assessment and sensitivity analysis in the going concern period.

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 scenario is the quantum and timing of legal and regulatory costs arising from the criminal; cyber-attack and the mitigations thereof which the company can influence.

In notes 22 and 23 to the financial statements the Directors set out that the quantum and value of civil claims the company may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty, and is therefore subject to change as the matters progress and the factual position becomes clearer.

The Directors are confident the company has sufficient access to bank, private placement and capital markets to raise

the level of incremental debt facilities assumed in the business and the Treasury policy in place is sufficient to support this.

The company's financing structure is relatively straightforward when compared with many in the sector. It does not have a 'Whole Business Securitisation' structure with subordinated debt arrangements; all debt ranks equally on a senior unsecured basis. Also, the Artesian Loan is a bilateral arrangement that does not impact the wider financing arrangements.

The active engagement with two banks and progress towards final agreement for a new £100 million revolving credit facility, which will include refinancing of the existing £30 million maturing in March 2026, demonstrates the company's ability to access funding in the bank and capital markets.

The Directors are therefore confident that the company will refinance the maturity comfortably ahead of expiry in March 2026. Therefore, the Directors consider the company has sufficient financial resources to meet its obligation 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 2024

Director	Role	Meeting attendances
Alice Cummings	Member and Chair	5/5
Catherine May	Member	5/5
Keith Harris	Member	4/5
Professor Ian Barker	Member	5/5

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 Executive Officer;
- 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.

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, unaudited 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

During the reporting year, the Committee focused on the key business risks as set out on pages 70 to 75 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;
- management override of control;
- going concern;
- capitalisation of fixed assets;
- recoverability of receivables; and

- criminal cyber-attack future liabilities and disclosures.

Individual departments across the business 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.

Water quality focus, specifically related to CRI events during the year at the Hampton Loade water treatment works, have increased. The upgrade programme at the works, which is due to be completed by 31 March 2025, should reduce this risk significantly.

Other areas of focus for the Committee include:

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

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:

- water quality on commissioning and completing the Hampton Loade treatment works' new filtration system;
- financial resilience and forward planning linked to the outcomes of the PR24 price review process;
- water resources in the Cambridge region; and
- climate change and environmental impact.

In reviewing the significant financial reporting risks around revenue recognition, management override of control, going concern, capitalisation of fixed assets, recoverability of receivables and the outcomes of the criminal cyber-attack, the Committee worked with senior management to ensure 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 70 to 75 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 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. However, during the annual review, the Board assessed, through the Audit and Risk Committee, to strengthen the internal Audit function going forward with the addition of a co-sourced arrangement using an external audit firm, RSM, to perform additional internal audit activities pre-approved by the 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 independent external auditor in the area of financial reporting are set out in its report relating to each year's financial statements.

Ernst & Young LLP is the company's external auditor. Ernst & Young LLP took

up its appointment for the 2022/23 audit. Jacobs is the company's independent technical auditor. It is responsible for auditing the financially incentivised performance commitments and other areas of the company's work.

Environmental, Social and Governance (ESG) Committee

Membership for the year ended 31 March 2024

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	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.

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.
- **Reviewing and approving the revised terms of reference** for the Committee.
- **Approving the company's approach to ESG reporting**, with particular reference to the standards deemed most appropriate for the company to adopt, given its maturity in the ESG space.
- **Discussing making use of a Citizens' Jury approach** as part of a wider PR24 customer engagement process to understand perceptions around the company's net zero journey.
- **Discussing the new people strategy**, with particular reference to the governance process around the company's HR policies.

ESG Committee activities

During the reporting year, the Committee focused its attention on the following activities.

- **Approving the company's new governance framework** (see page 85).

Remuneration and Nomination Committee

Membership for the year ended 31 March 2024

Director	Role	Meeting attendances
Catherine May (from 1 April 2024 – Remuneration Committee)	Member and Chair	2/2
The Rt Hon Lord Smith of Finsbury (from 1 April 2024 – Nomination Committee)	Member and Chair	2/2
Keith Harris	Member	2/2
Alice Cummings (appointed 20/06/2022)	Member	2/2

The Remuneration and Nomination Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair. 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.

At the start of the 2024/25 financial year, a decision was taken to divide the Remuneration and Nomination Committee into two separate Committees: the Remuneration Committee, chaired by Catherine May; and the Nomination Committee, chaired by Lord Smith. Charley Maher, Group Chief Executive Officer, has been appointed as a shareholder representative on both the Remuneration and Nomination Committees.

There is a majority of Independent Non-executive Directors on the Remuneration Committee, and it is chaired by an Independent Non-Executive Director appointed by the Board. By way of exception to the UK Corporate Governance Code, Charley Maher and Keith Harris are members of the Remuneration Committee appointed by the shareholder as Shareholder Representatives. However, the majority Independent Non-executive Directors, led by an independent Chair (who holds the casting vote) ensures a formal and transparent procedure for developing policy on executive remuneration.

There is a majority of Independent Non-executive Directors on the Nomination Committee, and it is chaired by an Independent Non-executive Director appointed by the Board. By way of exception to the UK Corporate Governance Code, Charley Maher and Keith Harris are members of the Nomination Committee appointed by the shareholder as Shareholder Representatives. However, the majority Independent Non-executive Directors, led by an independent Chair (who holds the casting vote) ensures a formal and transparent procedure for developing nomination policies and managing appointments.

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.

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 of 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.

Remuneration and Nomination Committee activities

During the reporting year, the Committee focused its attention on the following activities.

- Reviewing **talent management and succession planning** for the Executive team.
- Employee **engagement and feedback**.
- Approving a **refreshed approach to evaluating Board effectiveness**,
- in accordance with the new governance framework.
- The new Board **skills matrix**.
- The Board **forward planner**.
- Reviewing the Committee's **terms of reference**.

PR24 Committee

Membership for the year ended 31 March 2024

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	4/4
Alice Cummings	Member	4/4
Professor Ian Barker	Member	4/4
Keith Harris	Member	4/4
Andy Willicott	Member	4/4

Note:

Catherine May, Charley Maher and Peter Antolik attended meetings as appropriate, with final decisions about the PR24 process being taken at a Board level.

Roles and responsibilities

The role of the Committee is to advise, challenge and assist the Board in managing strategic matters relating to Ofwat's 2024 periodic review of price controls ('PR24').

- **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 three main total expenditure (totex) components – base, retail and enhancement expenditure – were discussed at length. And key decisions and trade-offs were made on the shape and focus of the investment programme for 2025 to 2030.

As well as the Committee meetings, follow-up deep dive sessions were also held with Board members on the long-term delivery strategy. These sessions helped to shape the no/low regret investment proposals and set them in the context of achieving long-term outcomes.

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.

PR24 Committee activities

There were six PR24 Committee meetings held during the year, covering the different building blocks of the company's business plan submission. A number of key decisions were made, including where third party independent assessment was required to build further evidence and assurance on key aspects of the plan.

The Board agreed the plan and performance commitment targets set for affordability and acceptability testing.

The PR24 business plan and Board assurance statements were signed off by the Board in September 2023 ahead of submission to Ofwat in October

This corporate governance report was approved by the Board on 12 July 2024 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Chris Smith', with a horizontal line underneath.

Lord Chris Smith
Chair

12 July 2024

Remuneration report

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2024. The report summarises the company's key objectives, remuneration policy, and linkages between Directors' pay and the company's performance, in addition to the level of the Directors' emoluments for the year.

The company is committed to the sustainable delivery of clean, affordable water for all our customers, and to working to protect and enhance the environment. It also places a high importance on keeping its people, its customers and everyone it comes into contact with safe and well, every day. The Board expects the Executive Directors to take this seriously and reinforce a culture where everyone's health, safety and wellbeing is always a top priority for the business.

The Board aims 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. It strives to make sure it links executive pay to successful business performance, which is in turn linked to demonstrable customer benefits. It sets out below how it has achieved this during what has been a very challenging year.

Composition of the Remuneration Committee

The Board has reviewed the composition of the Remuneration Committee and are satisfied that it remains appropriate for the five-year period to 2025. It confirms that it is independently chaired and the majority of its members are Independent Non-executive Directors.

Remuneration policy

Purpose of the policy

The company's remuneration policy establishes the principles, framework, and guidelines governing the remuneration of

the Managing Director and the Executive Directors, referred to collectively as 'Executives' of South Staffordshire Water PLC. It will be implemented with fairness, transparency and accountability in mind.

Objectives of the policy

The policy's objectives are to:

- attract, retain, and motivate high-calibre Executive Directors;
- align the objectives and performance of the Executive Directors with those of the company;
- ensure a fair and transparent process in determining remuneration packages; and
- comply with relevant legal and regulatory requirements.

The policy applies to the Managing Director and members of the Executive team. It incorporates a substantial link between Executive pay and delivery for customers and the environment.

Terms of the policy

- **Performance targets are continually assessed** to ensure they remain stretching throughout each five-year business planning period.
- The Remuneration Committee retains the **power to reduce all or part of performance-related payments** resulting from exceptional circumstances.
- In terms of the **process for determining potential annual Executive team bonuses (short-term incentive plan – STIP) and deferred bonus payments**, the Remuneration Committee reviews progress against objectives. This includes both actual financial and non-financial

performance data. The Committee also considers other external factors influencing any measurement period.

- Final decisions on the STIP and deferred bonus payments **are made at the June meeting** of the Remuneration Committee each year. This follows receipt of the externally audited performance results for the year.
- **Measures are in place to avoid or deal with any potential conflicts of interest** that should arise during this process. The Managing Director is not present during the discussions of their potential STIP or deferred bonus awards. In addition, the Committee has access to third party audit reports to objectively verify both the financial and non-financial performance of the business, including delivery of service to the company's customers.
- To ensure the policy and associated STIP targets are sufficiently stretching, the Board will ensure **any outperformance is only payable if the company is earning a net reward for the delivery of customer promises** in any given year.
- Through the Remuneration Committee, the Board is **committed to being fully transparent and to continuously reviewing Executive pay policies over time**. Where they develop and change, it will explain the reasons in the company's annual report and financial statements.

Components of Executive remuneration

Executive remuneration may include the following components.

- **Base salary.** Fixed and regular compensation reflecting the individual's role, responsibilities and market conditions.
- **Performance bonus (STIP).** Variable component linked to the achievement of specific performance targets and corporate objectives. The STIP is designed to reward short-term performance. It is not intended to contribute to pension or retirement benefits.
- **Benefits.** Non-cash benefits, such as health insurance, retirement plans and other perquisites.
- **Retention and sign-on bonuses.** Special payments designed to incentivise the attraction or retention of key talent within the company. They do not form part of pension or retirement benefits.
- **Performance reviews.** Regular reviews to assess individual and company performance, with adjustments to remuneration as appropriate.

The deferred bonus plan is not counted as remuneration and is designed to align the interests of Executive Directors with shareholders. It does not form any part of remuneration or count as remuneration for any purpose. Nor is it pensionable.

Malus and clawback provision

In the event that an Executive Director engages in conduct that is detrimental to the company's interests, the company reserves the right to invoke malus or clawback provisions on STIP and deferred bonus plan arrangements. Examples of detrimental conduct include fraud, unethical behaviour and acts of gross misconduct.

Under malus provisions, the company may withhold or reduce STIP bonuses or deferred bonus plan awards if circumstances arise during the five-year business planning period that materially impacts on Executive Directors' performance, reputation or contribution to the company.

Under clawback provisions, if an Executive Director is found to have engaged in conduct that causes significant harm to the company, it has the right to recover sums previously paid out under STIP or deferred bonus plan arrangements within two years following the end of the five-year business planning period during which the payments were made. Deductions may be taken from any payment owing to an Executive Director, including but not limited to:

- salary;
- bonuses;
- holiday pay; or
- any other sum which would otherwise be payable under the clawback provisions of the scheme.

The company can also recover any additional payments made for meeting environmental protection targets if an Executive Director who has left the company is found to be culpable of an environmental breach during their tenure at South Staffordshire Water.

The Remuneration Committee is responsible for making the decision to invoke the malus or clawback provisions, with the Board approving these decisions. Before making any such decision, the Committee will thoroughly investigate and consider all the relevant factors. The company will adhere to all legal requirements and contractual obligations in implementing malus or clawback provisions. This provision ensures accountability and aligns Executive compensation with the company's long-term success and sustainability.

Base salary

This is the core element of fixed remuneration, reflecting the size and scope of the role. Its purpose is to enable the company to recruit and retain directors of the calibre required to drive the company's success and to deliver upper quartile performance for customers.

Executive Directors' base salary is reviewed each year and is normally fixed for 12 months, starting on 1 July. While the Executive Directors are contractually entitled to an annual review of their

salary, there is no entitlement to an increase because of this review. The Remuneration Committee determines salary levels, taking a range of factors into consideration, including:

- role, experience and performance;
- prevailing market conditions;
- external benchmarks for similar roles at comparable companies; and
- award levels for the rest of the business.

While increases in base salaries are reviewed in the context of salary increases across the company, there will always be a great level of scrutiny for Executive pay. So this is reviewed separately. The Remuneration Committee considers any reasons why increases should diverge from this benchmark, including:

- increase in scope, complexity or responsibility of the role;
- increase on promotion to an Executive role;
- a salary falling significantly below market positioning;
- alignment to inflation and market benchmarks; and
- the gap between Executive remuneration and the pay levels of the rest of the business.

Annual bonus – short-term incentive plan (STIP)

The STIP rewards performance against annual targets that support the company's strategic direction. To qualify for a bonus payment, an Executive Director must be actively employed at the time the bonus is scheduled for payment and must not have given notice to terminate their employment.

Annual targets include shared corporate targets for the levels of service to customers and other aspects of operational performance, financial performance and individual performance goals. The Board sets these targets before the start of each financial year, following advice from the Remuneration Committee and independent assurance of the levels of service achieved. As with all

bonuses, these remain discretionary and can be adjusted or removed at the company's discretion. The maximum bonus opportunities are detailed in Executive Directors' terms and conditions of employment.

Executive Director objectives

The company selects performance metrics to align with the delivery of its strategy. The targets are designed to be stretching and require year-on-year improvements in overall business performance. In setting stretching performance targets, the Remuneration Committee takes a range of factors into account, including:

- the company's medium-term business plans;
- customer commitments;
- regulatory and other obligations; and
- shareholder expectations.

Personal targets focus on critical areas of business development, including:

- process and service enhancements;
- demonstrating the company's values; and
- employee leadership and development.

The company's ambition is to transition to a balanced score card approach that will bring it more in line with the rest of the sector. Key to this will be making sure it includes an emphasis on environmental performance.

Deferred bonus plan

The deferred bonus plan rewards performance against longer-term financial targets that support the strategic direction and value of the Group of which the company is part. It also provides an incentive for Executives to remain in the business, which provides stability and continuity in a competitive market place, and allows full focus on achieving customer objectives.

The deferred bonus plan was introduced to align with the long-term interests of shareholders. Performance is assessed each year, following audit of the Group's financial statements and independent

assurance of the levels of service achieved, ahead of the Group's annual report being published. Rewards only become payable after a two-year holding period after joining the scheme.

Should an Executive Director cease to be employed by a Group member company, they are not entitled to compensation for the loss of any right or benefit, or prospective right or benefit under the plan. The exception is if the Executive Director is described as a 'Good Leaver' under the scheme's rules.

The deferred bonus plan is discretionary and can be adjusted or removed at the Group's discretion. This is exercised by the Remuneration Committee on behalf of the Board.

Executive Directors are invited to participate in the deferred bonus plan scheme. But it does not form part of any contract of employment between an Executive Director and any Group member company. Executive Directors have no right to be granted an award and receiving one in any given year is no indication they will be granted subsequent awards. The deferred bonus plan does not form part of Executive Directors' remuneration or count as remuneration for any purpose. The annual payment banked to the deferred bonus plan is the equivalent value of what is awarded and paid as STIP.

Benefits

The purpose of benefits is to ensure the overall remuneration package is competitive, enabling the company to recruit and retain directors of the calibre required for the business. Executive Directors receive benefits in line with market practice, which include a car or car allowance, private medical insurance and life assurance. Other benefits may be provided based on the role and individual circumstances, and may include, for example, relocation costs and travel allowances.

Benefits are set at a level that the Remuneration Committee considers appropriate against the market. They are designed to provide a sufficient level of benefit based on individual circumstances.

Retirement benefits

The purpose of these benefits is to enable the company to recruit and retain directors of the calibre required and to provide market competitive post-employment benefits.

Executive Directors' pension contributions are set as per an individual's contract. This is higher than other employees within the business (at around 10% for the Managing Director, compared with 6% for all other employees) and is considered part of their overall remuneration package.

All Executive Directors are eligible to participate in the company's defined pension scheme (or such other pension plan as may be deemed appropriate). Executive Directors have personal pension plans or, where appropriate, an option of a pension allowance (at the same contribution rate as their pension) in lieu of pension contributions by the company.

Performance metrics

The Remuneration Committee is responsible for setting clear and measurable performance metrics aligned with the company's strategic goals. These metrics are used to determine any increase in Executive Directors' base salary, as well as any adjustments to the variable components of remuneration.

Governance and decision-making

The Remuneration Committee is responsible for approving and overseeing the implementation of the remuneration policy. This includes carrying out periodic reviews of Executive Directors' remuneration as and when required, taking into consideration market benchmarks and sector practices. This is to ensure the policy's continued effectiveness and relevance. Amendments may be made as necessary, with approval from the Board.

Decisions on remuneration are made with due consideration for the financial performance of the Group, shareholder interests, and applicable legal and regulatory requirements.

Bonus awards

The Remuneration Committee awarded the Managing Director of South Staffordshire Water a STIP bonus of £49,376, which was 28.5% of his maximum award. An equivalent amount has been added to his deferred bonus plan. The Remuneration Committee awarded the Executive team on average a STIP bonus of 40.9% (£11.483), which was 46% of their maximum award. A number of the Executive team are entitled to deferred bonus plan awards. The average award was 40% and this has been accrued to the deferred bonus plan bank.

Executive pay ratio

The Board has disclosed the Managing Director pay ratio, which shows how the Managing Director's single total figure for remuneration compares with the equivalent figures for South Staffordshire Water employees and takes account of the full-time equivalent basis for the company's 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 deferred bonuses (not due to be paid out for five years). The company is committed to paying the National Living Wage to employees. Based

on a 37-hour a week contract at £11.44 an hour (2023: £10.42) rate for outside London, this would give an annual salary of £21,491. Most employees are paid at or higher than the National Living wage.

In comparison with the Managing Director, the highest paid directly employed Board member, this gives a ratio of 10.6 against basic salary and 14.4 against total remuneration, both of which sit within the 20:1 ratio.

Directors' remuneration

The personal performance targets set for Andy Willcott, and assessed for STIP and the deferred bonus plan, are outlined below.

Performance target	Target	Performance	Outcome	Maximum bonus %age	Achieved %age	Bonus %age	Bonus value £'000
Efficient delivery and cost control							
Net wholesale totex ¹	£124.5m	£130.8m	Not achieved	13.3%	0%	0%	£0
Net wholesale botex	£96.6m	£102.6m	Not achieved	13.3%	0%	0%	£0
Other financial							
Cash flow before interest and tax	£(18.9)m	£(30.2)m	Not achieved	13.3%	0%	0%	£0
Customer – strategic objective							
Achieve a level of performance consistent with upper quartile (UQ) overall ²			Partially achieved	40%	37.5%	15%	£25.988
Personal							
Achieve employee engagement of 80% or greater for the directorate			Not achieved	5%	0%	0%	£0
Submit the company's PR24 business plan to the required timescales and ensure high-quality production			Achieved plus discretion	5%	100%+ 50% discretion	7.5%	£12.994
Secure a successful PR24 determination			Awaiting outcome, discretionary award	5%	60%	3%	£5.197
Deliver a customer engagement plan to support customer experience, collections and affordability ³			Partially achieved	5%	60%	3%	£5.197
Total bonus							£49.376

Notes:

- Totex to be adjusted for acceleration and slippage to identify actual outperformance of allowances with agreed output delivery.
- Across the common water only ODIs. UQ as assessed by APR24 sector review.
- Focus is on delivering a proactive contact strategy to include bespoke campaigns to targeted customer groups across all contact channels (website, text, email, social media, etc) and is inclusive of a community outreach strategy to target activity at areas of deprivation.

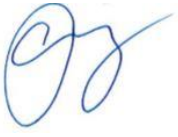
Further details of the Directors' remuneration are set out below.

Name	Board £'000																
	Basic salary		Bonus ¹		Deferred bonus plan ²		Other benefits and pay ³		Fees		Total emoluments		Pension contributions ⁴		Total remuneration		
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	
The Rt Hon Lord Smith of Finsbury										71	60	71	60			71	60
Andy Willcott ⁵	228	215	49	101			10	2			287	318	23	22	310	340	
Charley Maher ⁶																	
Catherine May										41	37	41	37			41	37
Alice Cummings										43	38	43	38			43	38
Professor Ian Barker										43	37	43	37			43	37
Keith Harris ⁶																	
Peter Antolik ⁶																	
Stephen Kay											3		3				3
Total	228	215	49	101			10	2	198	175	485	493	23	22	508	515	
	Executive team £'000																
	Basic salary		Bonus ⁷		Deferred bonus plan		Other benefits and pay ³		Fees		Total emoluments		Pension contributions ⁴		Total remuneration		
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	
Total	652	519	81	138			33	159			766	816	36	38	802	854	
Average	99	99	11	25			7	8			117	132	10	5	127	137	

Notes:

- For 2023/24 the bonus includes bonus approved and accrued.
- The deferred bonus plan is remunerated by the intermediate parent company, South Staffordshire Plc, and cross charged.
- '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.
- Pension contributions are payments by the company in respect of money purchase pension schemes.
- Basic Salary has been pro rata from employment commencing.
- These Directors were remunerated either by the intermediate parent company, South Staffordshire Plc, or received no remuneration for their services during the year.
- Bonus figures include any deferred amounts paid in the year and approved figures in respect of the year ended 31 March 2024.

This remuneration report was approved by the Board on 12 July 2024 and signed on its behalf by:

A handwritten signature in blue ink, appearing to be 'Catherine May', written in a cursive style.

Catherine May
Chair, Remuneration Committee

12 July 2024

Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, 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 2023/24 financial year.

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:

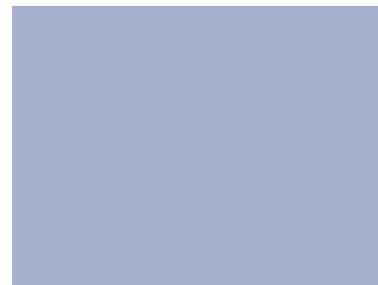
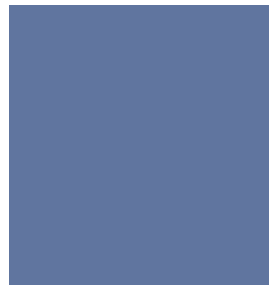
- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position, and profit and loss of the company;
- the strategic review includes a fair review of the development and performance of the business 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 by the Board on 12 July 2024 and signed on its behalf by:



Andy Willcott
Managing Director

12 July 2024



Financial statements

Profit and loss account – for the 12 months ended 31 March 2024

	Note	31 Mar 24 £'000	31 Mar 23 £'000
Turnover	2	151,602	146,402
Operating costs	3	(133,918)	(130,948)
Other operating income	6	9,626	11,693
Operating profit (before exceptional items)		27,310	27,147
Exceptional items	7	898	(3,500)
Operating profit (after exceptional items)		28,208	23,647
Finance Income (receivable)	8	2,350	1,158
Finance cost (payable)	8	(35,189)	(38,891)
Loss before taxation		(4,631)	(14,086)
Tax on loss	9	1,452	6,000
Loss for financial period attributable to the equity shareholders of the Company		(3,179)	(8,086)
Loss per share			
Basic	11	(149.7p)	(380.8p)
Diluted	11	(149.7p)	(380.8p)

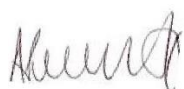
The results above are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

Balance sheet – as at 31 March 2024

	Note	31 Mar 24 £'000	31 Mar 23 £'000
Fixed Assets			
Intangible assets	12	17,362	4,838
Tangible assets	13	685,763	655,010
		703,125	659,848
Current Assets			
Stocks	16	4,084	3,870
Debtors - amounts recoverable within one year	17	56,056	66,110
Debtors - amounts recoverable in more than one year	17	3,439	4,049
Investments	18	2	2
Cash and cash equivalents	26	21,155	23,571
		84,736	97,602
Trade and other creditors - amounts falling due within one year	19	(76,149)	(89,534)
Net current assets		8,587	8,068
Total assets less current liabilities		711,712	667,916
Borrowings - amounts falling due after more than one year	20	(402,546)	(361,063)
Other creditors - amounts falling due after more than one year	20	(9,355)	(10,054)
Accruals and deferred income - falling due after more than one year	15	(191,012)	(180,153)
Provisions for liabilities - falling due after more than one year	22	(61,996)	(61,203)
Net Assets		46,803	55,443
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		29,739	30,163
Profit and loss account		12,606	20,661
Hedging reserve		(2,610)	(2,449)
Shareholders' Funds		46,803	55,443

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 12 July 2024.



Andy Willicott
Managing Director

12 July 2024

Statement of comprehensive income – for the 12 months ended 31 March 2024

	31 Mar 24	31 Mar 23
	£'000	£'000
Loss after taxation	(3,179)	(8,086)
Movement in hedging reserve (gross of deferred tax)	(215)	1,835
Deferred tax impact of movement in hedging reserve	54	(459)
Total comprehensive loss	(3,340)	(6,710)

Statement of changes in equity – as at 31 March 2024

	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		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)
Other comprehensive income		-	-	-	-	-	1,376	1,376
Total comprehensive income/(loss)		-	-	-	-	(8,086)	1,376	(6,710)
Amounts transferred to profit and loss	0	-	-	-	(424)	424	-	-
Dividends	10	-	-	-	-	(9,200)	-	(9,200)
Balance at 31 March 2023		2,123	495	4,450	30,163	20,661	(2,449)	55,443

Statement of changes in equity – as at 31 March 2024 (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 2023		2,123	495	4,450	30,163	20,661	(2,449)	55,443
Loss for financial period		-	-	-	-	(3,179)	-	(3,179)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)		-	-	-	-	-	(384)	(384)
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	96	96
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	169	169
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(42)	(42)
Other comprehensive loss		-	-	-	-	-	(161)	(161)
Total comprehensive loss		-	-	-	-	(3,179)	(161)	(3,340)
Amounts transferred to profit and loss		-	-	-	(424)	424	-	-
Dividends	10	-	-	-	-	(5,300)	-	(5,300)
Balance at 31 March 2024		2,123	495	4,450	29,739	12,606	(2,610)	46,803

Notes:

1. **Called up Share Capital.** The equity reserve represents the equity component of company.
2. **Share Premium Account.** The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.
3. **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.
4. **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.
5. **Profit and Loss account.** The profit and loss reserve represents cumulative profits, net of dividends paid and other adjustments.
6. **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 106.

Cash flow statement – as at 31 March 2024

	Note	31 Mar 24		31 Mar 23	
		£'000	£'000	£'000	£'000
Cash inflow from operating activities			56,943		46,646
Corporation tax paid			(743)		-
Net cash inflow from operating activities	(a)		56,200		46,646
Cash flows from investing activities					
Purchase of intangible fixed assets		(8,493)		(916)	
Purchase of tangible fixed assets		(71,783)		(89,041)	
Proceeds from sale of tangible fixed assets		2,339		470	
Interest received		3,361		1,158	
Other short term investments		-		(20,000)	
Contributions and grants received		14,363		14,882	
Net cash outflow from investing activities			(60,213)		(93,447)
Cash flows from financing activities					
Interest paid		(13,099)		(10,527)	
Equity dividends paid		(5,300)		(9,200)	
Additions to Private placement loans (cash)		20,000		40,000	
Private placement loan issue costs paid		(4)		(35)	
Net cash inflow from financing activities			1,597		20,238
Decrease in cash	(b)		(2,416)		(26,564)
Cash and cash equivalents at the beginning of the period			23,571		50,135
Cash and cash equivalents at the end of the period			21,155		23,571

Purchase of intangible and tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid, £80,276,000, and additions reported in the fixed asset note 12 and 13 of £73,757,000 is due to the in-year movement of creditors relating to capital purchases of £6,519,000.

Notes to the cash flow statement

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

	31 Mar 24		31 Mar 23	
	£'000	£'000	£'000	£'000
Total operating profit (after exceptional items)		28,208		23,647
Depreciation	29,301		26,335	
Amortisation	1,142		446	
Amortisation of capital contributions	(3,504)		(3,432)	
Profit on disposal of tangible fixed assets	(2,219)		(283)	
		24,720		23,066
(Increase) in stocks	(214)		(798)	
Decrease/(increase) in debtors	9,171		(11,241)	
(Decrease)/increase in creditors	(4,942)		11,972	
Cash inflow / (outflow) from operating activities		4,015		(67)
Corporation tax paid		(743)		-
Net cash inflow from operating activities		56,200		46,646

(b) Reconciliation in movement in net debt

	31 Mar 24	31 Mar 23
	£'000	£'000
Decrease in cash	(2,416)	(26,564)
Accrual of bank term loan issue costs (non-cash)	150	-
Bank term issue cost amortisation (non-cash)	(80)	(63)
Increase in private placement loan (cash)	(20,000)	(40,000)
Private placement issue cost (cash)	4	35
Movement on index-linked debt (non-cash)	(21,557)	(28,364)
Movement in derivatives (non-cash)	(384)	1,664
(Increase) in net debt in period	(44,283)	(93,292)
Net debt brought forward	(335,883)	(242,591)
Net debt carried forward	(380,166)	(335,883)

Notes to the cash flow statement (continued)

	Balance at 31 Mar 2023 £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2024 £'000
Cash and cash equivalents	23,571	(2,416)	-	21,155
	23,571	(2,416)	-	21,155
Irredeemable debenture stock	(1,652)	66	(66)	(1,652)
Bank loans (net of issue costs)	(29,972)	1,084	(1,014)	(29,902)
Private placement loans (net of issue costs)	(59,923)	(18,386)	(1,610)	(79,919)
Index-linked debt (net of issue costs and including premium)	(269,515)	9,160	(30,717)	(291,072)
Derivatives	1,608	-	(384)	1,224
Other interest paid	-	1,175	(1,175)	-
Net debt	(335,883)	(9,317)	(34,966)	(380,166)

Interest paid on the above borrowings have been shown in interest paid within the cash flow.

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 24 £'000	31 Mar 23 £'000
Book net debt (as reported above)	(380,166)	(335,883)
Derivatives	(1,224)	(1,608)
Short term deposits	0	20,000
Exclude book premium on issue of index linked debt	11,682	12,060
Exclude unamortised issue costs	(1,645)	(1,617)
Exclude accrued interest	1,462	1,230
Net debt reported for borrowing covenants	(369,891)	(305,818)
Regulatory Capital Value	540,533	515,854

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 financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

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. 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 106, under the historical cost convention, as modified by the revaluation of land and buildings.

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 2025 and financial forecasts to 15 July 2025. The going concern period is therefore to 15 July 2025.

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 11 to 82. The company's financial position, its liquidity position and available borrowing facilities are set out on the balance sheet on page 123 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 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 recent 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 able to make additional funding available under a documented

private shelf facility of up to £20 million. 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.

- The final determination for the five years from 2025 to 2030 is in progress. The assumptions used in with the company's going concern assessment for the period 1 April to 15 July 2025 is in line with the company's PR24 submission.

The company has 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.

The company has also considered the PR24 draft determination issued by Ofwat on 11 July 2024. The Directors are of the view that the outcomes in the draft determination do not indicate a materially different view from the assumptions used in the going concern period assessment and sensitivity analysis in the going concern period.

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 and the mitigations thereof which the company can influence. In notes 22 and 23 to the financial statements the Directors set out that the quantum and value of civil claims the company may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty, and is therefore subject to change as the matters progress and the factual position becomes clearer.

The Directors are confident the company has sufficient access to bank, private placement and capital markets to raise the level of incremental debt facilities assumed in the business plan and the Treasury policy in place is sufficient to support this.

The Company's financing structure is relatively straight forward when compared to many in the sector. It does not have a 'Whole Business Securitisation' structure with subordinated debt arrangements, all debt ranks equally on a senior unsecured basis. Also, the Artesian Loan is a bilateral arrangement that does not impact the wider financing arrangements.

The active engagement with two banks and progress towards final agreement for a new £100m revolving credit facility, which will include refinancing of the existing £30m maturing in March 2026, demonstrates the Company's ability to access funding in the bank and capital markets.

The Directors are therefore confident that the company will refinance the maturity comfortably ahead of expiry in March 2026.

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.

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 137.

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 11 to 82.

b) Turnover

Turnover includes water revenue and commissions.

Turnover represents the fair value of consideration receivable, excluding value added tax, and trade discounts, in the ordinary course of business for goods and services provided. The company recognises revenue generally at the time of delivery and when collection of the resulting receivable has been deemed probable. In estimating the amount of revenue to recognise, where the company considers

that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is deemed probable. The criteria whereby management does not recognise revenue for amounts which have been billed to those customers on the basis that collectability is not probable where the customer has not paid their bills over multiple years.

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 is 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 are 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.

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.

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 transferred to the profit and loss reserve 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 in course of construction are not depreciated until commissioned. 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	Specialised Operational Assets	50–80 years
Mains, mains diversions	Infrastructure Assets	100 years
Impounding reservoirs and land	Infrastructure Assets	50–80 years
Fixed plant	Non-specialised Operational Assets	20–30 years
Meters	Other Tangible Assets	5 years
Mobile plant	Other Tangible Assets	5–7 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) Capital 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 other operating Income 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 profit and loss account.

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 can be reliably estimated.

Where the company has a possible obligation arising from a past event, or a present obligation which does not meet the recognition criteria for a provision, this represents a contingent liability. Contingent liabilities are not recognised in the financial statements, but are disclosed, unless the probability of an outflow is remote.

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.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that arises when income or expenses from subsidiaries, associates and joint ventures have been recognised in the financial statements and will be assessed to tax in a future period, except where the entity is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future;
- where there are differences between the amounts that can be deducted for tax for assets (other than goodwill) and/or between amounts that will be assessed for tax in respect of liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination, deferred tax liabilities/(assets) are recognised. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

q) Financial instruments

The company has chosen to account for its financial instruments in accordance with Sections 11 and 12 of FRS 102.

Financial assets

Financial assets comprise cash and cash equivalents, trade debtors, accrued income, 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 (r) 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 effective interest rate (EIR) is calculated based on expected cash flows at initial recognition. Thereafter, the company increases the borrowings to reflect the finance expense and reduces it for payments made. The company accrues the finance expense based on the prevailing interest and inflation rates with the finance cost comprising both the expense relating to coupon payments and the RPI accretion of the notional amount. In doing so it takes into account actual cumulative inflation up until the reporting date. 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 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 (r) 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 as hedging instruments 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 and accumulated in the cash flow hedge reserve in equity, 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

- **Operating expenditure (opex) v capital expenditure (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. There is an ongoing investigation under regulations 18 of the Network and Information Systems Regulations 2018 (as amended) by the Drinking Water Inspectorate (DWI) related to the cyber-attack. Based on currently available information, it is not possible to reliably estimate a provision for this matter. For further details, please refer to note 23.
- **Disclosure of provisions.** During the year, the company has increased specific provisions relating to potential regulatory penalties and other payments associated with the 2022 data breach and based on a recent ongoing investigation with another regulator. The regulators have not issued penalty notices however, the company has estimated a potential penalty amount. Further in relation to the civil claims, there is significant judgment and uncertainty involved in relation to the quantum and value of civil claims we may receive, and the costs of liabilities that may be incurred addressing those claims. The assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

Key accounting estimates

- **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 £41,752,000 as at 31 March 2024 (2023: £35,414,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by approximately £1,100,000.
- **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 2024 was £16,050,000 (2023: £14,513,000). A 1% movement in consumption equates to a £124,000 movement.

- **Amortised cost of index-linked borrowings.** In order to record the company's index-linked borrowings at amortised cost the actual or estimated forward look inflation rate (Retail Price Index – or RPI) per annum is assessed. The net book value of index-linked borrowings as at 31 March 2024 was £291,072,000 (2023: £269,516,000). Further detail can be found on page 150.
- **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 2024 was £685,763,000 (2023: £655,010,000). 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 a change in the depreciation of approximately £1,525,000.
- **Impairment review of fixed 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.
- **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 Directors' report on page 95. 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 whilst they will provide a need for investment in the future, the company concludes 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. Based on the information regularly reviewed by the Directors the company has a single operating segment.

An analysis of turnover from UK operations is provided below.

	31 Mar 24 £'000	31 Mar 23 £'000
Appointed turnover		
Household - measured	56,275	51,360
Household - unmeasured	56,471	56,672
Non-household - measured	26,482	24,942
Non-household – unmeasured	1,190	1,041
Third party services	2,915	3,402
	143,333	137,417
Non-appointed turnover		
Aqua Direct spring water business	4,563	5,474
Other Non Appointed	525	451
Commissions	3,181	3,060
	8,269	8,985
	151,602	146,402

The company recognises revenue generally at the time of delivery and when collection of the resulting receivable has been assessed as probable. During the year, the company's estimate of the amounts billed to customers where collectability is not probable has changed (for example, to reflect instances where a customer has not paid their bills over multiple years). As a result, amounts have been removed from turnover where collectability is not probable. The impact of this is to reduce revenue by £3.5m with a corresponding reduction in bad debt expense for the same amount, this has resulted in a lower bad debt expense in the current year

compared to the prior year. Provisions for doubtful debts for 2024, as disclosed in note 3, operating costs has been adjusted accordingly. If the same revision to the recognition and presentation had been applied in the prior year, the prior year revenue and bad debt expense would have been reduced by £3.2m.

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 sell insurance policies on behalf of HomeServe.

3. Operating costs

	31 Mar 24 £'000	31 Mar 23 £'000
Operating costs were as follows:		
Raw materials and consumables	9,323	8,449
Staff costs (see note 4)	21,648	20,631
Own work capitalised	(9,290)	(8,860)
Amortisation : intangible assets	1,142	446
Depreciation : non-infrastructure assets	24,863	22,047
Depreciation : infrastructure assets	4,438	4,288
Infrastructure renewals expenditure	11,668	18,864
Power	18,149	15,911
Hired and contracted services	26,823	26,185
Rates	4,061	5,320
Abstraction charges	5,197	3,623
Commissions	2,445	2,288
Provision for doubtful debts	468	3,672
Other operating costs	12,983	8,084
	133,918	130,948

The company recognises revenue generally at the time of delivery and when collection of the resulting receivable has been assessed as probable. During the year, the company's estimate of the amounts billed to customers where collectability is not probable has changed (for example, to reflect instances where a customer has not paid their bills over multiple years). As a result, amounts have been removed from turnover where collectability is not probable. The impact of this is to reduce revenue by £3.5m with a corresponding reduction in bad debt expense for the same amount, this has resulted in a lower bad debt expense in the current year compared to the prior year. Analysis of turnover for 2024, as disclosed in note 2, has been adjusted accordingly. If the same revision to the recognition and presentation had been applied in the prior year, the prior year revenue and bad debt expense would have been reduced by £3.2m.

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 sell insurance policies.

Software as a service (SaaS) costs included within operating costs amounts to £675,000 (2023: £1,737,000).

Operating costs (continued)

Auditor remuneration is analysed as follows.

	31 Mar 24 £'000	31 Mar 23 £'000
Audit of the Company's annual accounts	788	317
Total audit fees	788	317
Audit related assurance services	60	101
Total non-audit fees	60	101
	848	418

The year ended 31 March 2024 includes £212,000 of overrun costs from prior year.

There are £60,000 of non-audit services payable in the year (2023: £101,000). Non-audit services include agreed upon procedures work for the annual performance report sections 1 and 4.

4. Staff costs

	31 Mar 24 £'000	31 Mar 23 £'000
Wages and salaries	18,441	17,865
Social security costs	1,880	1,961
Pension costs (see note 25)	1,327	805
	21,648	20,631
	31 Mar 24 Number	31 Mar 23 Number
Monthly average number of direct employees	346	361
Monthly average number of administration and support functions employees	61	61
Monthly average number of employees	407	422

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 24 £'000	31 Mar 23 £'000
Emoluments	533	592
Pensions	23	22
	556	614

The highest paid directly employed Director received emoluments of £287,000 (2023: £340,000) and received a contribution of £23,000 (2023: £22,000) paid by the company in respect of defined contribution pension schemes during the year. The awards under the LTIP are accrued at £49,000 (2023: £101,000).

During the year and the prior year, specific Directors received no emoluments as Directors of the company, or received no remuneration for their services. These Directors were remunerated by the intermediate parent company, South Staffordshire Plc. The total of their emoluments received during the year was £945,000 for three Directors (2023: £335,000 for two Directors). Contributions in respect of money purchase pension schemes for these Directors was £30,000 (2023: £22,000). A proportion of their emoluments was recharged to the company.

No Directors (2023: 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 (2023: two) were contributing members under a money purchase scheme.

The remuneration report on page 114 gives further detail around the remuneration of the Directors and Executive team.

6. Other operating income

		31 Mar 24 £'000	31 Mar 23 £'000
Profit on disposal of fixed assets	Note	321	283
Rental income		151	121
Grants and Contributions	15	3,504	3,432
Infrastructure renewals contributions		5,650	7,857
		9,626	11,693

Grants and contribution amounts received from developers for diversion activity is recognised when the service to divert the infrastructure has been completed and is amortised over its useful economic life.

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.

During the year the company sold one rental property £294,000 that was no longer required for operational usage. Other disposals included vehicles and totalled £91,000.

7. Exceptional item

During the year the company sold one piece of land that was no longer required for operational use, resulting in a gain on disposal of £1,898,000. While the company typically records gains and losses on tangible fixed assets within 'Other operating income', due to the size a non-recurring nature of this disposal, the gain has been separately identified as exceptional in line with the Company's accounting policy. The profit on disposal gives rise to a capital gain for corporation tax purposes at 25%. No current tax arises on this gain due to tax losses arising in the year being available for offset.

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 Company classified the costs associated with this incident as exceptional in the prior year in accordance with the Company's accounting policy. The provision has been treated as non-tax deductible for corporation tax purposes.

During the year the Company increased specific provisions relating to potential regulatory penalties and other payments associated with the 2022 data breach.

The quantum and value of civil claims we may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty. The assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

Other ongoing regulatory investigations are ongoing the assessment of these is therefore subject to change until the factual position becomes clearer.

8. Finance costs (net)

	31 Mar 24	31 Mar 23
	£'000	£'000
Interest payable and similar charges:		
Index-linked debt (cash)	9,179	8,675
Index-linked debt (non-cash)	21,697	28,364
Bank loan and other interest	2,024	206
Private Placement Interest	2,061	1,432
Debenture interest	59	43
	<hr/> 35,020	<hr/> 38,720
Interest receivable and similar income:		
Bank loan and other interest	(2,350)	(1,158)
	<hr/> (2,350)	<hr/> (1,158)
Other finance charges:		
Amounts recycled from hedging reserve	169	171
	<hr/> 32,839	<hr/> 37,733

9. Tax on profit

	31 Mar 24 £'000	31 Mar 23 £'000
Current tax:		
UK corporation tax at 25% (2023: 19%)	(922)	(923)
Adjustments in respect of prior periods	923	(844)
Total current tax charge / (credit)	1	(1,767)
Deferred tax:		
Origination and reversal of timing differences	178	(4,226)
Adjustments in respect of prior periods	(1,631)	(7)
Total deferred tax credit	(1,453)	(4,233)
Total tax credit	(1,452)	(6,000)

Tax included in statement of comprehensive income

Deferred tax:		
Movement in hedging reserve	(54)	459
Total tax (credit) / charge	(54)	459

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 25% (2023: 19%). The differences are reconciled below.

	31 Mar 24 £'000	31 Mar 23 £'000
Loss on ordinary activities before tax	(4,631)	(14,086)
Loss on ordinary activities multiplied by standard UK corporation tax rate of 25% (2023: 19%)	(1,158)	(2,676)
Expenses not deductible for tax purposes (net)	414	224
Benefit of capital allowances super-deduction 30% element	-	(1,683)
Difference in current tax and deferred tax rates	-	(1,014)
Adjustments in respect of prior years	(708)	(851)
Total tax credit	(1,452)	(6,000)

10. Dividends paid

	31 Mar 24 £'000	31 Mar 23 £'000
Equity Interests		
Ordinary Dividends paid of 249.62p (2023: 433.31p) per share	5,300	9,200

In 2024, the dividend comprised of:

- £4,622,000 from the appointed business (2023: £7,663,000); and
- £678,000 from the non-appointed business (2023: £1,537,000)

Further details of the dividend paid in the year are provided on page 24 of the strategic report.

11. Loss per share

	31 Mar 24	31 Mar 23
	£'000	£'000
Loss on ordinary activities after taxation and loss for earnings per share	(3,179)	(8,086)
	31 Mar 24	31 Mar 23
	Number of	Number of
	Shares	Shares
Weighted average number of shares for basic and diluted loss per share	2,123,210	2,123,210

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

12. Intangible fixed assets

	Software	Other Intangible Assets under the course of Construction	Total
	£'000	£'000	£'000
Cost			
At 1 April 2023	11,863	-	11,863
Additions	-	8,493	8,493
Transfers to intangible assets	2,242	2,931	5,173
Disposals	-	-	-
At 31 March 2024	14,105	11,424	25,529
Amortisation			
At 1 April 2023	7,025	-	7,025
Charge for the year	1,142	-	1,142
Transfers to intangible assets	-	-	-
Disposals	-	-	-
At 31 March 2024	8,167	-	8,167
Net Book Value			
Owned	5,938	11,424	17,362
At 31 March 2024	5,938	11,424	17,362
Net Book Value			
Owned	4,838	-	4,838
At 31 March 2023	4,838	-	4,838

Intangible assets are mainly software and include the company's customer billing system, works management system and financial reporting system. In the current year £2,242,000 of assets under the course of construction has been transferred from tangible to intangible, which is mainly software.

Other intangible assets under the course of construction relates to Fens reservoir. Fens reservoir is a proposed new reservoir and has been identified as a large-scale investment in new water resources that the company needs and will play a critical role in securing water supply long into the future, which the company has the right to use, therefore classified as intangible.

The procurement route for the Fens reservoir strategic resource option is currently proposed as under the Specified Infrastructure Projects Regulations (SIPR). The project is being developed through the RAPID regulatory framework process. During remainder of AMP7 and AMP8 is driven a number of key workstreams.

1. Design for Development Consent Order (DCO).
2. Design for delivery procurement of design and build contractors.
3. DCO submission (Rapid Gate 4, May 2026) and examination phase (Rapid Gate 5, August 2027).
4. Procurement of the design and build contractors.
5. Creation of shadow Investment Provider (IP) organisation to provide investment to deliver and become the licensed operator for the Fens reservoir.
6. Creation of the Programme Management Consultancy organisation to manage delivery of the Project on behalf of the IP.

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 2023	253,685	24,459	530,364	251,712	107,064	279	1,167,563
Capitalisation of completed assets	38,583	272	10,872	16,760	(66,487)	-	-
Additions	-	-	-	-	65,264	-	65,264
Transfer between classes	9,545	264	(9,816)	7	-	-	-
Transfers to intangible assets	-	-	-	-	(5,173)	-	(5,173)
Disposals	-	(37)	-	(120)	-	(9)	(166)
At 31 March 2024	301,813	24,958	531,420	268,359	100,668	270	1,227,488
Depreciation							
At 1 April 2023	140,724	9,107	201,251	161,368	-	103	512,553
Charge for the year	10,238	407	4,438	14,214	-	4	29,301
Transfers to intangible assets	-	-	-	-	-	-	-
Disposals	-	(1)	-	(121)	-	(7)	(129)
At 31 March 2024	150,962	9,513	205,689	175,461	-	100	541,725
Net Book Value							
Owned	150,560	15,445	325,731	92,898	100,668	170	685,472
Leased	291	-	-	-	-	-	291
At 31 March 2024	150,851	15,445	325,731	92,898	100,668	170	685,763
Net Book Value							
Owned	112,664	15,352	329,113	90,367	107,064	176	654,736
Leased	297	-	-	(23)	-	-	274
At 31 March 2023	112,961	15,352	329,113	90,344	107,064	176	655,010

Tangible fixed assets include freehold land of £2,555,000 (2023: £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 £100,668,000 at 31 March 2024 (2023: £107,064,000).

14. Commitments

Capital commitments outstanding at 31 March 2024 were £26,785,000 (2023: £44,682,000). Payments due not later than one year were £26,785,000 (2023: £35,900,000). The majority of this relates to the major upgrade of our largest treatment work.

15. Capital contributions – accruals and deferred income

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
At 1 April 2023	155,485	24,668	180,153
Capital contributions received	2,731	11,632	14,363
Amortised in year	(2,024)	(1,480)	(3,504)
Balance at 31 March 2024	156,192	34,820	191,012

Capital contributions are expected to be amortised over the life of the asset.

16. Stocks

	31 Mar 24 £'000	31 Mar 23 £'000
Raw materials and consumables	4,084	3,870

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 24 £'000	31 Mar 23 £'000
Amounts recoverable within one year:		
Trade debtors	21,325	18,168
Other debtors	3,250	1,691
Amounts due from other group undertakings	3,689	1,560
Amounts due from parent undertakings	4,293	3,541
Prepayments	645	1,029
Accrued income	22,854	20,121
Other short term investments	-	20,000
	56,056	66,110
Amounts recoverable in more than one year:		
Other amounts due from parent undertakings	2,215	2,441
Derivative financial debtors	1,224	1,608
	3,439	4,049
	59,495	70,159

Amounts due from parent undertakings of £4,293,000 (2023: £3,541,000) 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 £2,215,000 (2023: £2,441,000) are trade balances receivable in more than one year.

Amounts due from parent undertakings includes an amount for corporation tax receivable of £2,813,000 (2023: £2,815,000), 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 149.

Derivative financial debtors 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 debtors are shown in note 27 on page 149. The effective portion of the

gain or loss on the hedging instrument is recognised in the statement of other comprehensive income and accumulated 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.

18. Investments

	31 Mar 24 £'000	31 Mar 23 £'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 24 £'000	31 Mar 23 £'000
Payments on account	27,575	30,948
Trade creditors	4,916	4,073
Other creditors	9,604	9,719
Accruals	25,287	32,874
Retentions	362	266
Deposits and Refunds	1,968	1,348
Amounts owed to other group undertakings	5,773	8,874
Corporation tax payable	-	743
Other taxation and social security	664	689
Total creditors amounts falling due within one year	76,149	89,534

Amounts owed to other group undertakings, which are fellow group subsidiaries, £5,773,000 (2023: £8,874,000) are trade balances payable on demand.

20. Creditors – amount falling due after more than one year

	31 Mar 24 £'000	31 Mar 23 £'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 one and two years	29,902	-
payable between two and five years	-	29,972
Private Placement loans (unsecured and net of issue costs):		
more than five years	79,919	59,923
Retail Price Index-linked debt (unsecured)	291,073	269,516
Borrowings	402,546	361,062
Payments on account	2,916	2,962
Other creditors	6,439	7,092
Creditors	9,355	10,054
Total creditors amounts falling due after more than one year	411,901	371,116

The gross bank loans (unsecured) of £30,000,000 (2023: £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 (2023: £30,000,000).

Private placement loans of £80,000,000 (2023: £60,000,000) included in amounts falling due after more than five years, net of fees.

The book value index-linked debt of £291,073,000 (2023: £269,515,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £279,396,000 (2023: £257,739,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 27 on page 149.

21. Irredeemable debenture stock

	31 Mar 24 £'000	31 Mar 23 £'000
3.5%	476	476
4.0%	627	627
5.0%	500	500
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	1,633	1,633

22. Provisions for liabilities – falling due after more than one year

	Deferred Taxation £'000	Other Provisions £'000
At 1 April 2023	61,203	1,000*
Charged to profit and loss account	(1,453)	1,300
Credit to other comprehensive income	(54)	
At 31 March 2024	59,696	2,300
	31 Mar 24 £'000	31 Mar 23 £'000
Analysis of deferred tax		
Accelerated Capital Allowances	86,175	77,799
Deferred tax arising in relation to retirement benefit obligations	(126)	-
Tax losses available	(25,141)	(15,414)
Timing differences in respect of hedging reserves	(870)	(816)
Timing differences in respect of finance charges	(210)	(218)
Other timing differences	(132)	(148)
Provision for deferred tax	59,696	61,203

*In the prior year, the related balance was included in 'other creditors' on the grounds of materiality.

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 £154,000 in the next 12 months.

Deferred tax assets and liabilities are offset only where the company has a legal 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 (2023: £2,733,000).

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.

During the year the company increased specific provisions relating to potential regulatory penalties and other payments associated with the 2022 data breach. In the prior year, the related balance was included in 'other creditors' on the grounds of materiality.

The quantum and value of civil claims we may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty. The assessment is therefore subject to change as the claims progress and the factual position becomes clearer.

In addition, 'other provision' also includes an ongoing regulatory investigation the assessment of which is therefore subject to change until the factual position becomes clearer.

23. Contingent liability

In addition to the details of the provisions included in note 22 during the year the company received a notice of intention to impose a penalty under regulations 18 of the Network and Information Systems Regulations 2018 (as amended) by the Drinking Water Inspectorate (DWI) related to the cyber-attack. The DWI have subsequently suspended any further action, pending further investigation.

It is presently unknown whether the DWI will issue a penalty and if so the quantum of any potential penalty.

24. Share capital

	31 Mar 24 £'000	31 Mar 23 £'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 2024 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 are charged against profits as incurred with the amount for the year ended 31 March 2024 being £822,000 (2023: £805,000). £505,000 has been accrued in 2023/24 for the valuation for Water Companies Pension Scheme defined benefit pension scheme.

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 2024, 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 £255,000 (2023: surplus of £946,000). 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-24 Valuation £'000	Mar-23 Valuation £'000
Growth assets including equities and diversified growth funds	-	-
High yield bonds/gilts and liability driven investments	-	-
Buy and maintain credit	-	-
Buy-in policy	122,384	123,784
Liquidity funds	5	7,579
Net current assets/(liabilities)	635	(5,826)
Cash	105	1,148
Market value of assets	123,129	126,685
Present value of scheme liabilities	(122,874)	(125,739)
Surplus in the scheme before deferred tax	255	946
Related deferred tax liability	(64)	(237)
Surplus after deferred tax	191	709

26. Cash and cash equivalents

	31 Mar 24 £'000	31 Mar 23 £'000
Cash at bank and in hand	21,155	3,571
Short term investments	-	20,000
Cash and cash equivalents	21,155	23,571

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The company has in place an overdraft facility of £100 on all accounts and card facilities with a limit of £450,000.

Cash at bank and in hand includes cash collateral balances totalling £277,497 at year-end (2023: £162,152).

27. Financial assets and financial liabilities

The company's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial assets and liabilities, trade creditors, trade debtors and accrued income. Borrowings as at 31 March 2024 represent bank term loans, private placement loan notes, finance lease obligations, index-linked debt and irredeemable 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.

Borrowings represent:

	31 Mar 24 £'000	31 Mar 23 £'000
Fixed rate financial liabilities	111,471	91,547
Retail Price Index-Linked debt	291,073	269,515

Retail Price Index-Linked debt are listed items of debt on the UK Stock Exchange.

The above borrowings are stated at their book value as opposed to the value used for borrowing covenant purposes. See below for a comparison between book and covenant net debt. The floating rate borrowings comprise sterling denominated short-term bank loans (revolving credit facilities) that bear interest at rates based on SONIA. Floating rate bank loans, include a principal value of

£30,000,000 (2023: £30,000,000) that is effectively swapped to fixed rate by cash flow hedges using floating to fixed interest rate swaps where cash flows under the swaps have commenced. The company's trade debtors and trade creditors are not subject to interest unless considered to be overdue.

a) Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2024 was as follows.

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Retail Price Index-Linked debt £'000
31 March 2024	111,471	-	291,073
31 March 2023	91,547	-	269,516

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. 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 24 £'000	31 Mar 23 £'000
Retail Price Index-Linked Loan		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	217,564	199,540
Book Value	228,141	210,458
Retail Price Index-Linked Bond		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	61,831	58,200
Book Value	62,931	59,057

b) Fixed-rate borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2024	3.6	8.8
31 March 2023	2.9	10.3

c) 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.

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.

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.

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.

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 24	31 Mar 23	31 Mar 24	31 Mar 23	31 Mar 24	31 Mar 23
	%	%	£'000	£'000	£'000	£'000
Period to maturity						
In more than two years, but not more than five years	2.14	2.14	30,000	30,000	(1,224)	(1,608)

Negative figures represent debtors and positive figures represent creditors.

Value	Category	Lender	RCF / Term	Fixed / Floating	Nominal Interest Rate	Start date	Maturity date
£1.7m	Debenture stock	Various	Term	Fixed	4.11%		
£30.0m	Revolving Cash Facility (RCF)	NatWest	RCF	Floating	3.34%	Mar-23	Mar-26
£20.0m	Private placement (A)	Pricoa	Term	Fixed	2.57%	Sep-21	Sep-36
£40.0m	Private placement loan (B)	Pricoa	Term	Fixed	2.75%	Jun-22	Jun-37
£20.0m	Private placement loan (C)	Pricoa	Term	Fixed	6.70%	Dec-23	Dec-30
		Artesian					
£111.4m	RPI Index Linked Bond	Finance	Term	Index Linked	3.76%	Sep-05	Sep-45
£35.0m	RPI Index Linked Bond	Citibank	Term	Index Linked	1.84%	Jun-08	Jun-51

Debtors recoverable in more than one year

Debtors recoverable in more than one year of £3,439,000 (2023: £4,049,000). Of this £2,215,000 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. The remaining £1,224,000 relates to 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 31 March 2024 in respect of such provisions was £468,000 (2023: £3,672,000). Total trade debtors as at 31 March 2024 were £21,325,000 (2023: £18,168,000). The total amount of the provision included in the above, as at 31 March 2024, was £41,752,000 (2023: £35,414,000). Please refer to note 3 for the explanation for the reduction in charge.

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 £277,497 at year end (2023: £162,152).

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.

Ageing of debtors

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
2024	13,008	4,169	2,006	1,906	12	252	21,353
2023	12,534	2,260	1,613	126	399	344	17,276
Non-Regulated							Total £'000
			<1 month £'000	1-2 months £'000	>2 months £'000	>3 months £'000	
2024			438	105	1	(53)	491
2023			771	29	1	1	802

Non regulated debtors are provided to the value £64,000 (2023: £4,000) 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
2024	4,564	4,032	4,539	4,223	4,372	20,024	41,754
2023	3,347	4,315	4,102	4,250	4,343	15,057	35,414

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 2024 was £2,579,000 (2023: £2,804,000). 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 £17,683,000 (2023: £17,726,000). In relation to these transactions £0 was outstanding at the year-end (2023: £17,000). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2024 an amount of £400 was payable to PWSL for cash collected during the year that has not been paid over (2023: £2,000).

29. Ultimate controlling party

The immediate parent company is SSW Finance Ltd, which is registered in England and Wales.

The intermediate parent company is South Staffordshire Plc, which is registered in England and Wales 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 Hydriades IV Limited, registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Water PLC at 31 March 2024. The consolidated accounts for Hydriades 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. Post-balance sheet events

On 26 April 2024, the company disposed of Blithfield Education Centre receiving proceeds of £615,000, with a net book value of £170,000.

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 ("the company") for the year ended 31 March 2024 which comprise the Profit and loss account, the Balance sheet, the Statement of comprehensive income, the Statement of changes in equity, Cash flow statement, Notes to 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" (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 2024 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 company'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 15 July 2025.
- ▶ 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 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. 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 challenged management's forecast and relative sensitivity with respect to the PR24 business plan that is included within the going concern period from 1 April 2025 to 15 July 2025. We sensitised for downside scenarios where the proposed PR 24 business plan may not be fully approved by Ofwat and evaluated available mitigating actions. We also considered management's assessment of the draft determination issued by Ofwat on 11 July 2024.
- ▶ We have challenged 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 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, PR24 business plan outcomes 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 and regulatory fines well beyond the going concern period.
- ▶ We considered events after the end of the going concern review period in the context of the requirements of ISA 570 (revised), in particular, the refinancing of one of the facilities expiring in March 2026, (ie, 8 months after the going concern assessment period). With the involvement of our debt advisory specialist, we challenged management's assumptions on their ability to refinance this facility before its expiry, including discussions held directly with the relevant banks.
- ▶ 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.

Going concern has also been determined to be a key audit matter.

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 have included the worst outcomes based on legal advice. The Directors believe that the potential costs can be met through mitigating actions which the company can influence. The Directors believe that, should such costs be significantly great 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 have also sensitised for downside scenarios with respect to the PR24 business plan as it relates to the going concern assessment period, focusing on assumptions with no cost mitigation. The Directors are of the view that the outcomes in the draft determination issued on 11 July 2024 do not indicate a materially different view for their going concern assessment and sensitivity analysis in the going concern period. Further, the Directors evaluated their ability to refinance one of the facilities expiring

in March 2026, (ie, 8 months after the going concern assessment period) and are confident in their ability to do so before its expiry 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 for a period to 15 July 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.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • 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. • Impact of cyber-attack on the financial statements, the presentation of related exceptional items and the valuation / completeness of related provisions / contingent liabilities and associated disclosures. • Capitalisation of costs relating to capital programme. • Going concern basis of preparation and disclosures.
Materiality	<ul style="list-style-type: none"> • Overall materiality of £1.7m which represents 3% of adjusted 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 Staffordshire Water Plc. The company has determined that the most significant future impacts from climate change on its operations will be on supply of water resources. These are explained on pages 61 to 69 in the Climate Related Financial Disclosures and on pages 70 to 75 in the principal risks and uncertainties. They have also explained their climate commitments on page 66. All of these disclosures 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 key accounting estimates section of the statement of accounting policies how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change are included in note 1. 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 evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 61 to 69 and the significant judgements and estimates disclosed in note 1 and whether these 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. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

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	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Manual journals to revenue and revenue recognition of unbilled accrued measured income</p> <p><i>Refer to the Audit and Risk Committee Report (page 108); Accounting policies (page 131 & 137); and Note 2 & 17 of the</i></p>	<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</p>	<p>We did not identify evidence of management override through inappropriate journal entries recorded to revenue, including unbilled accrued measured income.</p> <p>We identified an immaterial difference in the calculation of</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p><i>Financial Statements (page 138-139, 145)</i></p> <p>There is a risk that management may override controls to intentionally overstate revenue transactions, and consequently operating profit, through:</p> <p>a) Inappropriate manual journal entries to revenue; and b) Inappropriate calculations and manual journals to unbilled accrued measured income.</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 reading, 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>The risk has remained consistent in the current year.</p>	<p>effectiveness of key controls over the revenue process but did not rely on these key controls.</p> <p>We performed substantive analytical procedures by comparing revenue balances for the year against expectations and obtained support for significant variances.</p> <p>We used data analytics to understand the journal entries posted as part of the revenue, trade receivables and accrued income to cash collection process to identify transactions that were outside of our expectation and corroborated these to source documentation to check whether the entries and revenue recognised were valid.</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 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</p>	<p>accrued income which was corrected by management.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Revenue for the year was £151.6m (2023: £146.4m). the total accrued income was £22.9m (2023: £20.1m) at the balance sheet date including unbilled accrued measured income of £16.1m (2023: £14.5m)</p>	<p>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 estimated 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 key judgements and manual adjustments to the accrued income 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 independently developed an expectation of the unbilled accrued measured income balance at the period end and compared this to management's own estimate.</p> <p>To assess the reliability of the assumptions used to determine accrued income, we compared the invoices raised post year end based on actual meter readings since the year end and traced a sample of these to supporting evidence.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Valuation of bad and doubtful debt provisions for trade debtors and accrued income.</p> <p><i>Refer to the Audit and Risk Committee Report (page 108); Accounting policies (page 135 & 137); and Note 3 & 17 of the Financial Statements (page 139 & 145)</i></p> <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 understate the bad debt provision and related expense, and consequently overstate 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 overstated.</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 billings raised during the year 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.</p>	<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 but did not rely on key controls.</p> <p>We evaluated the historical accuracy of management's cash collection rates to actual cash collections by agreeing a sample of cash receipts from cash collection rate data and comparing it to the bills raised during the year.</p> <p>We recalculated the estimated bad and doubtful debt provision to gain assurance over the arithmetical accuracy of management's calculation. We evaluated the appropriateness of additional adjustments made by management.</p> <p>We developed our own independent view of cash collection rates by considering the debt collection cycle pattern over the multiple years. The highest historical collection rate was then applied against the billings during the year and accrued income balances to calculate our own expected bad and doubtful debt provision which we compared to management's estimate.</p> <p>In addition, we performed a benchmark analysis to assess the collection rates employed by peer companies for their bad debts provision against those utilised by the company, taking into consideration demographic and socio-economic differences</p>	<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 and the related bad debt expense.</p> <p>We raised a judgemental audit difference to increase the bad debt provision by £1.9m based on our independent assessment, which was accepted and adjusted by management.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>The risk has remained consistent in the current year.</p> <p>The bad and doubtful debt provision at the balance sheet date was £41.8m (2023: £35.4m). The bad and doubtful debt expense for the period was £0.5m (2023: £3.7m).</p> <p>In 2024, revenue recognised was reduced by £3.5m of amounts billed to customers whose collectability is not probable. There was corresponding reduction in bad debt expense for the same amount. There is no impact on profit.</p>	<p>of the geographical area in which the company operates in.</p> <p>We assessed the appropriateness and completeness of disclosures provided in the financial statements with respect to the bad and doubtful debt provision and bad debt expense.</p>	
<p>Impact of cyber-attack on the financial statements, the presentation of related exceptional items and the valuation and completeness of related provisions and contingent liabilities and associated disclosures.</p> <p><i>Refer to the Audit Committee Report (page 108); Accounting policies (page 134 & 137); and Note 7, 22 and 23 of the Financial Statements (page 141, 147 & 148)</i></p> <p>As described in notes 7, 22 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 2022 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>We updated our understanding of management's process to assess the impact of the cyber attack on the annual report and accounts, including their involvement of external legal counsel.</p> <p>We have 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.</p> <p>We have reviewed minutes of board, audit and other sub-committee meetings in relation to the cyber incident and its related provision and corroborated with other related evidence obtained and</p>	<p>Provisions and contingent liabilities in relation to the cyber-attack have been recognised and disclosed in accordance with the requirements of FRS 102, Section 21 'Provisions and Contingencies'.</p> <p>With respect to potential regulatory penalties and other payments, we consider the level of provision recognised by management to fall within an acceptable range of possible outcomes.</p> <p>For the other elements concluded as contingent liability, we draw attention to note 23 of the financial statements, which describes management's judgements.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Management exercised judgement over the likelihood and reliability of the estimated outflow for regulatory penalties and civil claims. There is a risk of inappropriate conclusions, estimates, presentation and disclosure related to provisions, exceptional items and contingent liabilities from possible regulatory penalties and civil claims.</p> <p>The risk has been modified this year to exclude the assessment of company's response to the cyber- attack in the year of the incident.</p> <p>During the year the company increased specific provisions relating to potential regulatory penalties and other payments associated with the 2022 data breach.</p> <p>The related provisions and contingent liability are disclosed within Notes 22 and 23.</p>	<p>ensured there are no inconsistencies.</p> <p>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 directly discussed legal advice and legal conclusions with management's external legal advisors for both ongoing regulatory investigations and civil claims. 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.</p> <p>We assessed the appropriateness and completeness of disclosures provided in the financial statements with respect to the cyber attack and related costs.</p>	
<p>Capitalisation of costs relating to capital programme</p> <p><i>Refer to the Audit and Risk Committee Report (page 108); Accounting policies (page 132 & 137); and Note 12 and 13 of the Financial Statements (page 143 and 144)</i></p> <p>The company has a substantial capital programme in accordance with the business plan agreed with Ofwat and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets.</p>	<p>We performed a walkthrough of the process for capitalising fixed assets to confirm our understanding of the process and the areas of judgement involved.</p> <p>We evaluated capital and operating expenditures and assessed whether these are appropriately classified.</p> <p>For a sample of capitalised additions (including costs relating to the Fens reservoir), we evaluated the appropriateness of the classification as capital by considering the nature of the expenditure with reference to invoice, nature of the work performed by the employee or</p>	<p>We did not identify any material error in the amounts capitalised as tangible or intangible assets.</p> <p>Costs capitalised in respect of the capital programme have been treated in accordance with the requirements of FRS 102 Section 17 Property, Plant and Equipment and Section 18 Intangible Assets other than Goodwill.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>There is judgement involved in allocating costs between operating and capital expenditure given the nature of certain projects which include both repairs and maintenance and as well as assets enhancement. Therefore, there is a risk of incorrect capitalisation of costs on the balance sheet.</p> <p>In addition, internal expenditures including staff cost are capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefits to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria.</p> <p>The risk has been identified as a key audit matter in the current year due to the significance of the capital spend.</p> <p>The additions to the tangible fixed assets and intangible assets for the current year is £73.7m (2023: £88.2m) and £8.5m (2023: £0.9m).</p>	<p>other relevant documents. We also considered the judgements management applied in capitalising certain staff cost and overheads. For the Fens reservoir costs, we also had discussions with the Asset Management and Investment Delivery director to understand the arrangements of this project and corroborated the status of relevant approvals from the regulatory agency.</p> <p>We tested a sample of items allocated to expenditure in the income statement and verified whether they are correctly classified by considering the nature of the work i.e., repairs and maintenance or asset enhancement, to which the expenditure relates.</p> <p>We physically visited two sites with the most significant additions and verified the existence of a sample of assets. Further, during these site visits, we made inquiries of project managers to gain an understanding of the projects, the benefits expected, status of the work and any indicators of potential impairment.</p> <p>Using data analytics, we identified unexpected patterns of capitalisation which may indicate misstatements.</p> <p>We assessed the appropriateness and completeness of disclosures provided in the financial statements.</p>	

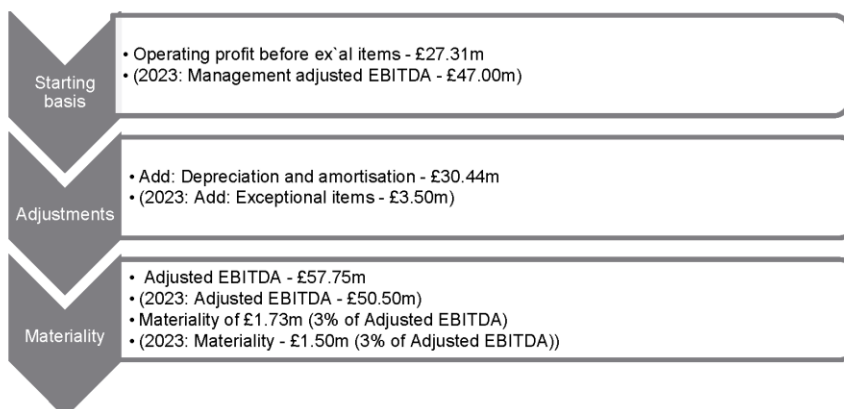
Our application of materiality

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 £1.73 million (2023: £1.50 million), which is 3% (2023: 3%) of adjusted Earnings before interest, tax, depreciation and amortisation ("EBITDA"). In the prior year, the starting point was management's adjusted EBITDA as shown on page 22 of the Annual report and financial statements which is adjusted for exceptional items and capital contributions. In the current year, the adjusted EBITDA used to determine materiality is defined as operating profit after exceptional items adjusted for depreciation and amortisation. We believe that adjusted EBITDA is the most relevant performance measure to the stakeholders as exceptional items were non-recurring, sufficiently material and not related to the ongoing trading of the company. Below, we have shown the comparative materiality calculations for both years.



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% (2023: 50%) of our planning materiality, namely £0.9m (2023: £0.8m). We have set performance materiality at this percentage due to the large number of audit differences identified in prior year.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.09m (2023: £0.08m), 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.

Opinions on other matters in accordance with the terms of our engagement letter with the company

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.

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.

Corporate governance statement

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 and any material uncertainties identified set out on page 106;
- 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 106;
- 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 76;
- Directors' statement on fair, balanced and understandable set out on page 120;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 70;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 70; and;
- The section describing the work of the Audit and Risk Committee set out on page 107.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 120, 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, the company has to comply with the GDPR, health and safety regulations, employment and environmental laws and regulations.
- 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 General Counsel and Company Secretary, Strategy and Regulation Director and internal audit. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit and Risk Committee and attendance at meetings of the Audit and Risk 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 Managing Director, Finance Director, Head of Internal Audit, General Counsel and Company Secretary, Strategy and Regulation Director and Audit and Risk Committee Chair. We also considered management remuneration and covenant compliance requirements which may create an incentive or pressure for management to manipulate results.

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, those charged with governance and legal counsel, reviewing key policies, 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 involved our internal specialists where appropriate. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.
- 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.

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 and Risk Committee we were appointed by the company to audit the financial statements for the year ending 31 March 2024 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 1 year and 9 months, covering the years ended 31 March 2023 to 31 March 2024.

- 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 and Risk 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.



Christine Chua (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
12 July 2024

Cambridge Water

90 Fulbourn Road
Cambridge
CB1 9JN

Tel: +44 (0)1223 706050

www.cambridge-water.co.uk

South Staffs Water

Green Lane
Walsall
WS2 7PD

Tel: +44 (0)1922 638282

www.south-staffs-water.co.uk