Cambridge Water

South Staffs Water

South Staffordshire Water PLC

Annual report and financial statements

For the year ended 31 March 2022

Contents

The year at a glance

4th in the water sector **for customer service and experience**

Extra financial support for **58,611 customers**

£88,000 of biodiversity community grants awarded

90% of leaks fixed within 5 days

On track to hit **15% leakage reduction**

Our biggest ever construction projects are **safeguarding customer supplies**

Investors in People accredited

About South Staffordshire Water

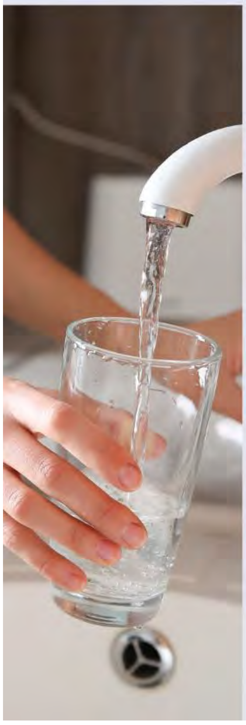
We operate South Staffs Water and Cambridge Water

We are a part of South Staffordshire Plc, an integrated services Group

We are a water only company, and do not take away your wastewater

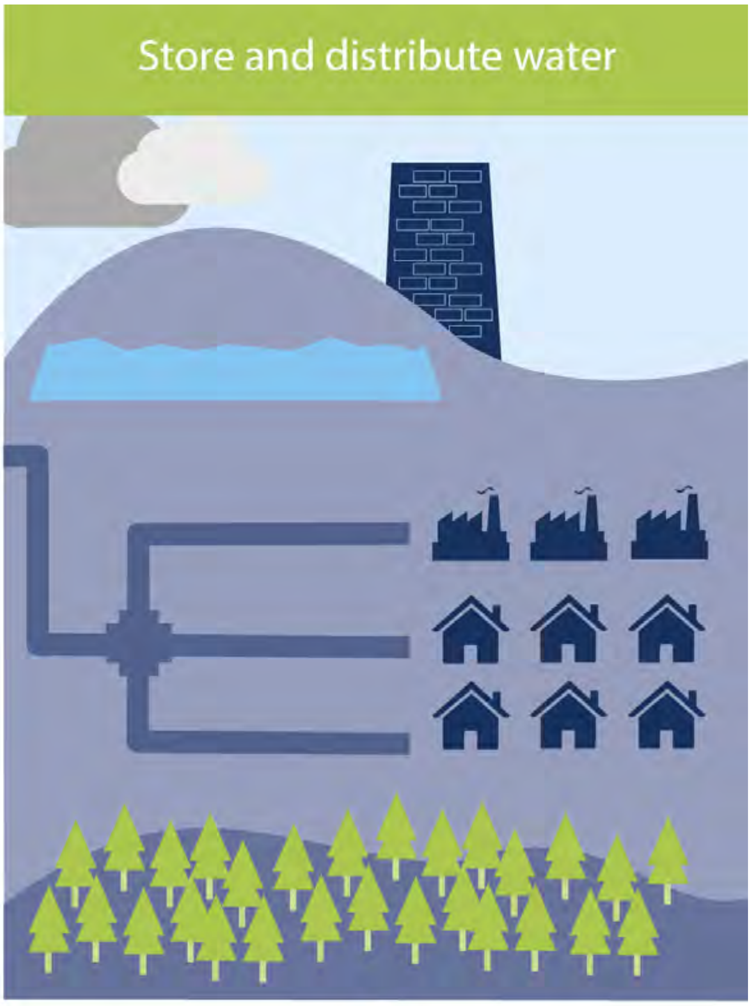
We are regulated by Ofwat, the economic regulator of the water companies in England and Wales.

We measure our performance against 30 commitments which our customers helped set



We bill you for wastewater on behalf Severn Trent or Anglian Water

Our role



44 borehole sites 2 surface water reservoirs	40 water treatment works	69 service reservoirs and water towers 113 booster pumping stations 8,675km of pipes	707,463 residential connections 42,578 business connections

Our vision, purpose and core beliefs

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

For more than 150 years, we have provided an essential public service to customers in our South Staffs and Cambridge regions that enables them to go about their daily lives. So that we can keep delivering the things that matter most to our customers, now and in the future, we:

- actively work in partnership with local communities – playing our part to help them thrive;
- act as the guardians of our assets, while always working hard to protect the local environment;
- put the safety of our customers and our people at the heart of our decision making; and
- run an efficient business, which is in everyone's interests.

This is how we are delivering what matters.

Our core beliefs

Our mission and purpose are underpinned by our core beliefs, which focus on:

- preparing for the future;
- building resilience in the face of climate change;
- minimising waste in every area of our business operations;
- using water wisely;
- always looking for new ways to do things better and quicker;
- listening to customers;
- local issues; and
- working with partners to create better communities.

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

Chair's foreword

For both of the last two years we've all been fervently hoping that we would have leapt away from the embrace of COVID-19 by now. Sadly, not. It's still very much around, though its severity (for now at least) does seem to have diminished.

We've inevitably faced a range of problems that have come in train, over these two years: a seriously increased use of water in households, and a dip in use in business premises; the impact of COVID-19 on our staff, with the need to self-isolate for periods; and now the formidable cost of living increases – driven by COVID-19, Brexit and the war in Ukraine – that are causing many of our customers real difficulty in their household finances. Through it all, our staff have worked their socks off to continue the essential task of ensuring clean water is delivered to every customer, every day. I'm truly grateful to them for their dedication and professionalism throughout the pandemic.

The cost of living crisis, and the affordability issues that have come with it, are causing real challenges for many of our customers. As a result, we have tried to keep our bills as low as possible for everyone, and we will continue to strive to do so. And we are making sure that arrangements can be made for particular support to be available for those customers who are genuinely struggling financially. The affordability of our water will be a major focus of our work through the coming year.

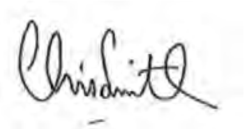
At the same time we are becoming ever more conscious of the challenge we have as stewards of our precious environment. We were reminded of this, of course, by the COP26 discussions in Glasgow last November. And we are now charged by the new Environment Act here in the UK to abstract less water in the future than we have in the past.

This will be especially important as an objective in the Cambridge area, where all water comes from below ground through boreholes, and the levels of groundwater below our feet are under threat. This is causing enormous concern for the survival of the unique chalk streams of the area; and we need to find ways of reducing our call on groundwater whilst at the same time catering for the dramatically growing number of people and businesses in the area.

Reducing our levels of abstraction is one major aspect of our need to face the climate crisis over the next few years. Reducing our carbon impact is another, and we are committed to achieving 'net zero' in carbon by the year 2030. There is much we are already doing, such as converting as many of our vans and vehicles to electric use as possible, or seeking to source our electricity from renewables. The deployment of pioneering ceramic-membrane technology at our Hampton Loade treatment plant beside the River Severn – which we are putting in at the moment – will also help to reduce our greenhouse gas emissions. But we still have a long way to go in order to fulfil our net zero commitment. We remain, however, firmly committed.

We recently marked the departure from our Board of Stephen Kay, who had been a stalwart champion of the water sector in Cambridge for decades. Stephen had been Managing Director of Cambridge Water over many years, and the knowledge and expertise he brought to the Board after he stepped down from his executive role were invaluable. We'll miss him.

Just after the end of the reporting year, we welcomed two new Board members – Professor Ian Barker and Ken Kagaya. Both bring a wide range of skills and experience to the Board and I look forward to working closely with them in the year ahead.



Lord Chris Smith

Managing Director's introduction

The end of each year is always a good time to reflect on our performance in providing the high quality and reliable water supply our customers expect and pay for, and to share where we've done well and where we've not quite met our own expectations. In this report we set out a summary of our perfromance, and I hope you find it useful.

When I joined the business in May 2020, we were in the grip of the first national COVID-19 lockdown. Who would have imagined that two years later, we'd still be dealing with the impact of the pandemic, which has affected every aspect of our daily lives. I'm immensely proud of the way our people have continued to pull together to ensure all our customers receive a seamless service. This is reflected in our performance, and I'm pleased to report that we've met or exceeded many of our targets during the year.

There's more about our performance in the following sections, but I did want to highlight a few things.

We're committed to making sure all our customers receive a good service and a great experience from us. Our regulator, Ofwat, measures this independently by surveying a quota of our customers four times a year, comparing our performance with that of the other water companies in England and Wales, through its C-MeX measure. Two years ago, we were ranked in 10th place out of 17 water companies, which is not where we wanted to be. I'm really pleased to announce that last year, we've improved significantly to 4th place, which is far more reflective of the level of service we want to provide and that our customers expect from us.

In these current tough times, it's been reassuring to see that we've been able to support more of our customers who've been struggling financially with their water bills, with more than 58,600 households receiving financial support from us. We continue to work really hard to make sure everyone is aware of all the help that's available, as we recognise this is more important than ever.

Finding and fixing leaks on our network is vitally important, as we continue to work together with all our customers to protect this precious resource. 'Waste not one drop' has become our mantra and featured in the TV messages we ran over Christmas. We're on track to hit our leakage reduction target of 15% in both our Cambridge and South Staffs operating areas by 2025.

While our performance this year has been really positive, we know there are some areas where we've not hit our targets, and where we need to improve. Once of these is our education outreach programme, where we share key water-saving messages to help our customers of the future 'use water wisely'. This has been affected by the COVID-19 pandemic, with schools having some restrictions in place for much of the year, and while we were able to offer remote sessions, we struggled to get the right level of traction.

We also failed to meet our targets for personal water consumption across our Cambridge and South Staffs operating areas. While more of us working from home during the pandemic will have impacted this, it's not the only factor. It's important we work together with all our customers in the year ahead to look to reduce water usage further to protect this essential resource for the future.

With the easing of COVID-19 restrictions, we turned our attention to the UK Government's green recovery initiatives. In July 2021, Ofwat confirmed its decision to support our proposals to bring investment forward from the next five-year planning period to enable us to install an innovative filtration system at Hampton Loade, the largest water treatment works in our South Staffs operating area. We were the only water only company to submit a bid to Ofwat for additional funding under the green recovery scheme. I'm proud of the leadership role we demonstrated with our submission; this is something I'm keen for us to build on in the future.

Another area where we've demonstrated our leadership within the water sector is regional water resources planning. We're active members of the Water Resources East and Water Resources West regional planning groups – I sit on the Boards of both groups – and played a key role in the development of the emerging water resources plans for both regional groups. As we look to the year ahead, we will continue our involvement with both groups, producing long-term regional water resources plans that deliver the best outcomes for our customers and the environment.

Every so often, a situation arises that tests the strongest and most resilient of businesses. That happened to us in February with the publication of an article in The Guardian about levels of a chemical historically used in fire retardants in one of the water sources in our Cambridge operating area. The Guardian's article contained a number of inaccuracies and inconsistencies, and although we were able to have corrections made, this was not before the story had spread, causing an understandable level of concern among some of our customers.

Our main objective was to reassure them that their water is safe to drink. So we carried out additional quality testing at customers' taps and wrote to all the customers in the area that potentially could have been supplied by the source. We also shared information with MPs and local councils, and attended a Parish Council meeting in one of the villages mentioned in the original Guardian article. We're learning the lessons of this incident to ensure we continue to engage effectively with all our stakeholders in the right way, with the right information and at the right time.

Looking to the year ahead, our focus will be shifting to Ofwat's regulatory price review process – known as PR24. We've already started thinking about our plans, and have been finding out about our customers' priorities for the five years from 2025 to 2030 and beyond. We've also developed a number of ambition statements, which describe our direction of travel in the years ahead, and which will form the basis of our long-term strategy. We'll continue to share our plans as we develop them.

I'll end with a thank you to the teams in our Cambridge and South Staffs operating areas who have, throughout the year, been dedicated and committed to providing an essential service to all our customers. We all recognise that they can't choose their water supplier and our people continue to put them at the heart of what we do and how we do it. We hold great pride in our responsibilities and the regions we serve.

Andy Willicott












Strategic report

Financial performance

Our business relies on strong financial resilience. Even with the continuing COVID-19 pandemic we have had another year of strong financial performance. We have closely managed our customers' water consumption needs and ensured uninterrupted supply while mitigating the associated upward pressures on costs, such as power and chemicals. With rising inflation beginning to impact our customers, our people and our business we will drive forward with securing cost efficiencies and support our customers who struggle to pay their bills through our social tariff packages.

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

	2022	2021
Turnover £m	140.1	130.3
Operating costs £m	(114.4)	(108.1)
EBITDA £m[1]	55.3	51.6
Operating profit £m[2]	33.2	28.2
Net debt £m[3]	231.0	246.4
Gearing[4]	51.4%	61.1%
Regulatory capital value £m (RCV)[5]	449.6	403.2
Return on regulated equity (RORE)[6]	(0.05)%	0.53%

Notes:

1. EBITDA reconciliation is shown below.

	2022	2021
Operating profit £m	33.2	28.2
Depreciation : non-infrastructure assets £m	21.7	22.6
Depreciation : infrastructure assets £m	3.8	4.0
Capital contributions £m	(3.4)	(3.2)
EBITDA £m	55.3	51.6

2. Operating profit less depreciation and amortisation of capital contributions.
3. Net debt £m is reported for borrowing covenants (see pages 11 and 92). Net debt for March 2021 has been restated. The prior period restatement note on page 110 gives further detail around the restatement.
4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 92 for details). Gearing for March 2021 has been restated. The prior period restatement note on page 110 gives further detail around the restatement.
5. Regulatory capital value (RCV) is an Ofwat measure used to asses a company's market value plus the value of accumulated capital investment assumed at each price review (see page 92).
6. This is a measure Ofwat uses to assess the impact of regulation and price controls on water companies' performance and returns (see page 12). Return on regulated equity (RORE) for March 2021 has been restated.

Turnover

Turnover in the year has increased by both regulated tariffs and inflation, alongside continued and increased household metered revenue. We have continued to be impacted by customers working from home in the period before the lifting of COVID-19 restictions and businesses implementing hybrid working arrangments. The non-household turnover has been steadily increasing back to pre-COVID-19 levels as more businesses have reopened.

Meter reading activity has resumed throughout the reporting year, where it was safe to do so, and readings have supported the trends for both household and non-household water consumption.

Non appointed revenues have remained consistent; however, we have improved the transparency of our disclosure of commissions earned by showing both the turnover and the associated operating costs in the current year. Commissions are earned on the collection of amounts billed for other water companies for sewerage services they provide to customers and also through an agreement to identify customers to offer insurance policies. Previously, this was shown net. The amounts can be seen in note 2 to the financial statements.

Additional information on the movement in our turnover by category is set out on page 98.

Operating profit

Our sites continued to keep health and safety at the forefront and remained safe, with measures still in place to protect our workforce and supply chain partners.

We have continued to observe sustained water demand across both the Cambridge and South staffs operating areas, resulting in continued upward pressure on production costs, such as power and chemicals. Despite demand remaining consistent with last year, it is still approximately 5% higher than pre-COVID-19 levels, with significant peaks in June and July.

Operating costs have increased by around £6m, with items such as the preparation for the implementation of the new Aptumo billing system under a 'Software as a Service' ('SaaS') arrangement and the commissions operating costs no longer being reported as net, associated with the turnover as noted in the turnover commentary. Net labour costs have increased and include a 1% annual pay award and a one-off bonus of £500.

Bad debt charges have remained largely consistent with prior year and represented around 3% of household revenue. (2021: 3%).

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

Although we have not seen a significant reduction in our cash collection performance in year, we will closely monitor our position while reviewing our offerings in place for future support for our customers, given pressure from cost of living inflation.

We have continued with our infrastructure renewals expenditure in line with our AMP7 (2020/25) plans.

Capital investment

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

Following our successful bid to Ofwat for additional funding under the green recovery scheme, we began to make good progress on the upgrade programme at our two largest water treatment works in our South Staffs operating area – Hampton Loade and Seedy Mill. Unfortunately, we had to stop work on these programmes for part of the year after our construction partner went into administration. We have now appointed new contractors to deliver the upgrade programmes and hope to get this work back on track in the year ahead. Further information on our green recovery programme can be found on page 23 and in the separate report published alongside this document.

Overall gross capital expenditure for the year was £54.2m (2021: £44.2m). Overall net capital expenditure, net of contributions was £45.5m (2021: £37.0m).

Treasury, net debt and borrowing covenants

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

Our funding position continues to be strong and we are carefully monitoring our liquidity and working capital. To support the long-term financing needs of the business commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa') was agreed with £20m drawn in 2021/22 and a further £40m drawn in June 2022.

There is a new Group structure in place to ring fence regulated liquidity from other parent group non-regulated activities. As part of the restructure we have received the repayment of a £25m outstanding intercompany loan which has reduced external debt requirements.

The long-term financing strategy takes in to account the long-term projected investment plans and forecasts liquidity requirements beyond the current planning period (AMP7), with the access to financing markets not expected to be a limiting factor in financing the business.

Our balance sheet on 31 March 2022 showed net cash of £50.1m (2021: £4.3m) and we had undrawn facilities amounting to £30m (2021: £25m). This gives us total liquidity headroom of £80.1m (2021: £29.3m). Our budgeted capital investment programme and other cash flow needs are covered by cash or committed facilities through to July 2023.

Our net debt includes index-linked debt, bank loans and debenture stock less cash.

For covenant reporting purposes, our net debt was £230.1m at 31 March 2022 (2021: £246.4m restated) and represented a ratio of 51.4% (2021: 61.1% restated) of our regulatory capital value (RCV). During the year we have revalued our index-linked debt to be a more simplified approach of accounting for finance costs by accruing with reference to actual PRI in any given period. The reconciliation between covenant net debt and book net debt is shown in the notes to the financial statements, along with a full analysis of our borrowings. Standard & Poor's (S&P) continues to rate the company as BBB+ with Moody's rating us at Baa2; both are within investment grade.

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

RORE for the reporting year was under actual returns and notional equity was minus 0.05%. This is 4.22% lower than that allowed in our final determination of 4.17%. The main driver for the underperformance is as a result of revaluing our index-linked debt (-2.30%) and retail costs (-1.88%) underperformance predominantly in relation to revised reporting requirements on accounting for Software-as-a-Service (SaaS) as part of cloud technology. This resulted in £1.8m being charged to retail costs rather than being capitalised and depreciated over a useful life.

A detailed reconciliation on RORE is shown on page 90 of the annual performance report published alongside these financial statements.

Dividend payment

Last year the Board reviewed our dividend policy following the outcome of our final determination and in light of the recent changes in economic circumstances as a result of the COVID-19 pandemic. The business usually makes two dividend payments: one interim and one final.

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

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

Ahead of the business making the decision on both the interim and final dividend payments, the Board considered carefully the financial position and performance of the business. Given the strong wholesale performance and the overall strong financial position of the business, the Board approved the interim and final payments split equally and totalling of £10.7m (2021: £6.2m). For further details, please refer to our annual performance report that we have published alongside these financial statements.

The dividend comprised:

- £7.6m from the appointed business (2021: £2.9m);
- £1.6m from the non-appointed business (2021: £1.5m); and
- £1.5m from intra-group interest to be paid back to the company (2021: £1.8m). This is from an intercompany loan repaid during the year as part of a wider group restructure.

This represents approximately 4.4% of regulated equity (2021: 3.2%). No further dividends are proposed.

There is more information on our dividend policy on page 47 of the annual performance report.

Approach to taxation

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

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

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

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

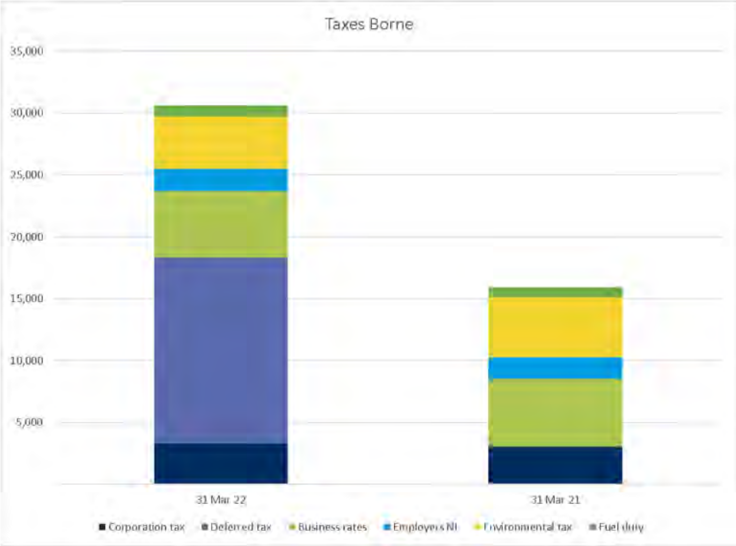
We make use of applicable tax incentives provided by the UK Government within the terms outlined above. These may include, for example, preferential rates of capital allowances or enhanced tax relief for research and development costs, and certain designated capital assets that add efficiency to our 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 a number of 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 £30.6m (2021 restated: 15.9m). The increase in the UK corporation tax rate from 19% to 25% with effect from the 1 April 2023 has increased the deferred tax expense to the profit and loss account.

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



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 Group Internal Audit 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 charge has increased from last year to £18.3m (2021: £3.0m), based on the impact of changes in the deferred tax rate in the prior year.

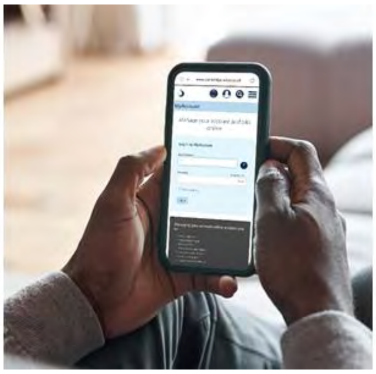
Operational performance

Performance against our targets

Outcome	Performance commitment	Unit of measurement	2020/21 target	2020/21 performance	2021/2022 target	2021/22 performance	Target met
Core outcomes	Delivering services that are value for money	% of satisfied customers	78	74	79	71	✗
	Making sure customers have a high level of trust in us	Score out of 10	8.10	8.16	8.15	7.85	✗
Our customers	Great customer service to our household customers	C-MeX score	Upper quartile	81.89	Upper quartile	83.38	✓
	Great customer service to our business market suppliers (retailers)	R-MeX score	93.3	76	93.3	87.3	✗
	Great service to developers	D-MeX score	Upper quartile	83.59	Upper quartile	84.4	✗
Our community	Financial support for household customers struggling to pay their bills	No. of customers helped	32,000	49,279	34,000	58,611	✓
	Extra Care support for customers who need assistance	% on PSR receiving extra care support	5.0	5.0	5.0	5.1	✓
	Education programme, working with schools about the need to use water wisely	No. of pupils engaged	6,000	297	6,000	2,284	✗
	Ensuring customers who need assistance are registered with us	% registered on Priority Services Register	6.1	5.8	6.6	8.7	✓
Our service	Delivering upgraded water treatment works	% completion	0	8	0	18	✓
	Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score (water quality measure)'	0	1.09	0	0.90	✗
	Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	1.14	0.98	1.11	0.76	✓
	Maintaining a reliable supply – supply interruptions	Average interruptions in minutes and seconds	06:30	04:33	06:08	03:15	✓
	Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	0	0	✓
	Reducing the number of water production failures	Unplanned outage as a % of total production capacity	2.34	0.57	2.34	0.90	✓
	Finding and fixing visible leaks more quickly	% of visible leaks repaired within set no. of days	90% within six days	90% within six days	90% within five days	90% within five days	✓
	Reducing the number of burst mains	No. of bursts per 1,000 km of mains	129.6	130.0	127.8	109.6	✓

Outcome	Performance commitment	Unit of measurement	2020/21 target	2020/21 performance	2021/2022 target	2021/22 performance	Target met
Our environment	Reducing leakage levels – South Staffs region	% reduction from baseline	1.8	3.0	4.2	5.8	✓
	Reducing leakage levels – Cambridge region	% reduction from baseline	2.9	5.1	5.1	13.5	✓
	Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	0.4	-5.9	0.5	-10.3	✗
	Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	1.2	-3.2	2.5	-3.5	✗
	Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	0	-0.07	0	0	✓
	Protecting wildlife, plants, habitats and catchments	Hectares of land managed	194	245.8	320	542	✓
	Supporting water-efficient house building	Volume of water saved (megalitres)	1.9	2.2	3.8	15.5	✓
	Reducing our carbon emissions	Kilograms per connected property	68	26.4	68	17.4	✓
	Delivering Water Industry National Environment Programme requirements	Milestones	Met	Not met	Met	Not met	✗
Our business	Making sure all our people love their jobs	Net Promoter Score (NPS)/Achieving Investors in People (IIP)	On track to gain IIP & 10pts increase in NPS from baseline	IIP achieved. NPS not achieved.	IIP achieved & 10pts increase in NPS from baseline	IIP achieved. NPS not achieved.	✗
	Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	100	29	100	69	✗
	Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.01	3.23	2.86	3.44	✗
	Making sure our property records are up to date	% validated	100	100	100	100	✓

Delivering for our customers



Our customer promise

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

How we performed during 2021/22

We always strive to deliver the best for our customers. So having their trust and making sure we offer value for money for the bills they pay are extremely important to us.

We use the combined results of two surveys to derive our trust and value for money scores. Half the results come from an independent annual survey of just over 800 household customers. We take the other results from consumer watchdog CCW's Water Matters survey of 300 household customers. Both surveys include a representative sample of customers from our Cambridge and South Staffs operating areas. We calculate each score as follows.

- Our trust score is an average out of ten, calculated from the results across both surveys. We exclude 'Don't know' responses when calculating the score.
- Our value for money score is calculated from the percentage of customers who gave an 'agree' or 'strongly agree' response across both surveys that our service represents value for money. Again, we exclude 'don't know' responses. This is so we can be sure the survey results are directly comparable and match the way CCW reports its Water Matters results.

Unfortunately, our trust and value for money scores have both deteriorated slightly during the reporting year. While we recognise that this change in sentiment reflects wider issues in the economy, we take our customers' views on this important issue very seriously and will be working hard to address their concerns. We will continue to track customers' views about these performance commitments and look at where we can drive improvements in the year ahead.

The main regulatory measure of customer experience and satisfaction is C-MeX. The aim of this measure is to drive us always to deliver excellent levels of service for all our household customers. It comprises the results of a survey with customers who recently contacted us about the service they received from us; and one with randomly selected members of the public about their experience of us as their water company.

In both cases, customers are asked how satisfied they are with the service we provide and how likely they would be to recommend us to their friends and families. We are very pleased to report that we ended the year in 4th place among the water companies in England and Wales, with an overall C-MeX score of 83.38. This is a significant improvement on our position in 2020/21 (10th) and is testament to the hard work of all the teams involved. We will continue to drive improvements in this area in the year ahead.

There is also a regulatory measure of customer experience for all our developer services customers – that is, large and small property developers, self-lay providers and water companies with new appointments and variations. Known as D-MeX, it comprises a survey of developer services customers that have recently completed a transaction with us and a measure of our performance against a set of service metrics developed by Water UK, the body that represents water companies. While we have seen some improvement in our D-MeX score during the year, our performance is still below the level at which we would like it to be. Our score of 84.40 is likely to place us 11th in the sector for the reporting year. We have put an action plan in place and are looking to improve our score in the year ahead.

We also have a third customer service performance commitment, which we call R-MeX. It measures business retailers' satisfaction in us as a wholesaler operating in a retail market. We use operating performance and market performance standards as the basis of R-MeX, combining them with our own retailer satisfaction survey. While we are disappointed to have missed our target during the reporting year, we are starting to see some improvement in this area, with a score of 87.3 in our bespoke performance commitment and a rank of 11th in the February 2022 industry joint survey. Closer engagement with our business retailers is the main driver for this improvement and we will continue to build on this in the year ahead.

Delivering an enhanced customer experience

We recognise how crucial it is for our customers to have a good experience of the service they receive from us. Central to this is having the right systems in place to ensure a seamless service where problems are resolved first time, all the time. We have focused much of our attention during the reporting year on delivering an enhanced experience for all our household customers and driving improvements in our C-MeX score. This includes, for example, improving the process at every touch point of the customer journey.

"We are very pleased to report that we ended the year in 4th place among the water companies in England and Wales, with an overall C-MeX score of 83.38. This is a significant improvement on our position in 2020/21 (10th) and is testament to the hard work of all the teams involved"

But to ensure we always deliver the best possible service for our customers, we also launched a major project to deliver a new billing system using a customer management product called Aptumo. This will enable us to bring all our billing and collection information together in one place, making it easier for us to manage and resolve customer contacts. We believe this solution will deliver a number of benefits for our customers and our business, including:

- giving us the ability to effectively tailor customers' bills and adopt more flexible payment approaches – what we are calling our 'any day, any way' approach;
- enabling improved cash payment collections;
- enhancing our digital capability, enabling us to offer more online services and choices for our customers; and
- supporting case management for complaints and complex cases.

We are due to complete the roll out of Aptumo across the business in summer 2022. We will report on the outcome of this project in next year's annual report and financial statements.

Understanding what our customers want

Understanding the things that matter to our customers and the areas where they want to hold us to account is important to us. It helps to inform our planning and drive our decision-making. During the reporting year, for example, we continued to run our strategic customer priorities and customer promises trackers to ensure our action plans align with customers' priorities. This also enables us to track how well we are delivering against our business plan performance commitments. And it helps us to support the teams responsible for delivering our performance against the C-MeX, D-MeX and R-MeX measures of customer experience.

For example, we started work during the reporting year on delivering the customer insight and research programme to support our submissions as part of the 2024 regulatory price review process (PR24) and the water resources management planning (WRMP) process. In addition, we collaborated with other water companies to run joint research studies to understand how customers want us to tackle the big challenges facing the water sector – such as climate change, long-term water resources planning and achieving net zero carbon emissions by 2030.

For one of these projects, which started earlier this year, we have been working in partnership with Anglian Water, Affinity Water, Essex & Suffolk Water, and an independent research agency to develop water demand propositions in collaboration with non-household retailers and the business customers they serve. The outputs of this project will feed into the WRMP for our Cambridge operating area to help reduce the demand for water across Eastern England.

We also worked with the regulators Ofwat and the Environment Agency – and with CCW, the consumer watchdog – to ensure our research and engagement programme delivers against their expectations. Finally, we launched our new supplier framework for PR24, which includes seven research agencies. This is to ensure our insight and research programme follows best practice and delivers a positive experience for the customers and other stakeholders taking part.

Breaking into television

Our customer communication activity took an exciting turn in December when our first TV information campaign aired on Sky and Virgin in our Cambridge and South Staffs operating areas. The aim of the campaign was to raise awareness among customers of who we are and what we do. We also wanted them to think about us as the people who ensure clean, high quality water is available every time they turn on their taps. The campaign also contained a message to encourage customers to think about the value they place on the water they use; this is something we will be building on with future communication campaigns.

The campaign ran across both operating areas until the end of January. We received a number of positive comments from our customers, from CCW and from our Board members. In our South Staffs operating area the advert reached an impressive 79.6% of the target audience, while in our Cambridge operating area the reach was 74.3%.

"Our people continually strive to improve our customer experience for both household and non-household customers at every touch point, as evidenced by how we performed last year. From planning our work, fixing leaks, improving our network, talking to customers and driving through communities; we aim to get it right first time for every customer"

Dan Rhodes, Customer Delivery Director

Delivering for our communities

Our community promise

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

How we performed during 2021/22

As the provider of an essential public service, we are committed to being embedded in the communities we serve. For us, this means more than just being visible in our communities. It also means being there to provide help and support to those customers who are struggling to pay their water bills or who may find themselves in circumstances that could make them vulnerable. And it means educating the next generation of water champions, encouraging them and their families to use water wisely.

We have a wide range of help available for those customers who are struggling to pay their water bills. This includes:

- our Assure social tariff, which aims to make our water bills affordable for customers on low incomes or those who receive Pension Credit or Universal Credit;
- the national WaterSure scheme, which is designed to help families save money if they have to use a lot of water – for example, because of medical reasons;
- payment breaks for customers, who are temporarily unable to pay their water bills; and
- flexible payment plans.

We are committed to helping those customers who, for whatever reason, find it difficult to pay their water bills. We saw another big jump in the number of customers we are supporting during the year – with 58,611 receiving some form of help from us, compared with our target for the year of 34,000.

One of the other ways we provide help and support to our customers is with our Priority Services Register (PSR). This a free service we offer customers who may need extra help because of, for example, age, medical reasons, or because they have learning or physical disabilities. This is another area where we performed well during the year. As well as extending our PSR reach to 8.7% of household customers, we also exceeded our target for the number of customers contacted during the year. And we met our target for the number of customers on our PSR who receive our 'Extra Care' support package, with 5.1% receiving additional help from us. We will continue to build on this success in the year ahead to ensure we always provide help and support to those customers who need it.

One area where our performance has not been as strong as we would have liked is our education outreach programme. We failed to meet our target for the year of engaging with 6,000 young people through our education programme, reaching 2,284 through our visits to schools in our Cambridge and South Staffs operating areas. This is largely the result of a long-term impact of the COVID-19 pandemic, with restrictions on access within schools in place for most of the year. We have been exploring ways to increase the reach of our education outreach programme and will be linking it more closely to our wider community engagement work. We believe this will help us to get this performance commitment back on track in the year ahead.

Being at the heart of the communities we serve

At South Staffordshire Water, we place a strong emphasis on being a community-focused company. The reopening of the award-winning community hub in our South Staffs operating area following the lifting of COVID-19 restrictions was hugely important for us. It meant we were once again able to organise events and get involved in new local initiatives. As well as popular events such as the school uniform swap, we launched a 'baby bank' project to support families in need and a 'dress to impress' campaign for people needing smart clothes for job interviews. The team also launched a 'love my hub' campaign to help raise the profile of this initiative on social media. We celebrated the hub's fourth anniversary in April 2022 and are pleased to see it continue to go from strength to strength.

But our community engagement is about much more than our hub. In November, for example, we launched a new 'water on wheels' initiative in our Cambridge operating area. This mobile approach to community engagement gives customers the opportunity to speak to our people face to face about the services we provide and the support we can offer. We launched a dedicated page about this service on our website, which includes an interactive map so that customers can see the locations the water on wheels vehicle will be visiting each week.

The relaxing of COVID-19 restrictions also meant that we were once again able to offer a range of volunteering opportunities for our people. We actively encourage our people to participate in our employee volunteer scheme (EVS), enabling them to take three days each year as volunteering days. During the reporting year, our people took part in a number of activities, including:

- helping out at the Institute of Water's Z-Fest event in our Cambridge operating area:
- restoring the gardens at Acorns Children's Hospice and taking charge of the water bar at the Lichfield Fuse Festival in our South Staffs operating area; and
- helping out at the Staffordshire County Show.

We will continue to offer volunteering opportunities to our people, as we believe this is one of the ways for us to demonstrate our commitment to being embedded in the communities we serve.

"We are committed to helping those customers who find it difficult to pay their water bills. We saw another big jump in the number of customers we are supporting during the year – with 58,611 receiving some form of help from us, compared with our target for the year of 34,000"

H2Online turns two!

H2Online – our online customer community – celebrated its second birthday in November. H2Online is a two-way research platform that enables our customers to give us their opinions and feedback about our services. It also gives us valuable insight, enabling us to build our customers' views into our decision-making. We update H2Online members regularly with the actions we have taken from their feedback and our wider engagement programme. At the end of the reporting year, we had 677 customers registered as members of our H2Online community (239 in our Cambridge operating area and 438 in our South Staffs operating area).

As well as the usual weekly programme of activities for discussion and engagement, we also launched a new 'community points' incentive scheme with H2Online members during the reporting year. As part of this initiative, members take part in a series of activities and polls to earn points. These points then contribute to an overall target – if the target is reached, we make a donation to a charity of their choosing.

Between January and March, and May and July H2Online members in our Cambridge operating area 'earned' 5,200 points, which resulted in us making a £500 donation to Jimmy's Night Shelter in Cambridge. We set a new community points target in October, with members earning points for Winter Comfort, a support hub for homeless people in the Cambridge area.

In our South Staffs operating area, H2Online members earned more than 5,000 points between May and July, and September and November. As a result, we were able to make a £500 donation to St Giles Hospice. We set a new community points target in January, with members earning points to support the Glebe Centre, which provides support to vulnerable adults in the Black Country.

Christmas tractors take to the road

In early December, we joined forces with Staffordshire Young Farmers' Clubs for the second annual tractor run across Staffordshire. In what must be one of the more unusual community activities in which we take part, the event saw around 100 festively decorated tractors take to the road in a charity Christmas convoy.

The tractors followed a 20-mile route through the villages of Hamstall Ridware, Blithbury, Abbots Bromley, Blithfield, Colton and Hill Ridware. Despite the chilly weather, there was an excellent turn out for the event, with a number of our people volunteering as stewards and bucket shakers. We raised just over £6,000, which was divided equally between Staffordshire Young Farmers' Clubs and the Midlands Air Ambulance. The event was first held in 2019, with 80 tractors joining the convoy – it was suspended in 2020 because of the COVID-19 pandemic.

"I'm proud of the engaging and personal service that we deliver to our communities. Our teams support our 'water on wheels' service and our award-winning community hub. They give tailored advice to support customers with their specific needs and provide additional services – such as our school uniform swap. We will continue to develop this relationship in the years ahead"

Dan Rhodes, Customer Delivery Director

Delivering a reliable service

Our service promise

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

How we performed during 2021/22

Our customers quite rightly expect always to receive water of the highest quality from us. We have a rolling programme of investment and maintenance that we carry out to ensure the long-term health of our network of pipes, pumping stations and treatment works across our Cambridge and South Staffs operating areas. The reporting year marks the second year of our ambitious £600 million investment programme, which will see us deliver a number of significant improvements across our network by 2025.

One area where we have continued to invest is in the quality of the water we supply to our customers. This is consistently a top priority for them and an area where they think it is important to hold us to account. During the reporting year, we saw strong outperformance in the acceptability of the water we supply to customers in terms of taste, smell and appearance, receiving only 0.76 contacts per thousand population against our target of 1.11 contacts per thousand population.

In addition, we continued to perform well against our Compliance Risk Index (CRI), the main regulatory measure of compliance with very stringent water quality standards. The upgrade programmes at the Hampton Loade and Seedy Mill water treatment works in our South Staffs operating area will ensure we continue to deliver reliable, high quality water supplies to our customers. Unfortunately, we had to stop work on these programmes for part of the year after our construction partner went into administration – see case study (right). We have now appointed new contractors to deliver the upgrade programmes and hope to get this work back on track in the year ahead.

We also performed well in terms of planned interruptions to supply, with performance in this area is being driven in part by improvements in our event handling processes. In terms of unplanned interruptions, we have again outperformed our performance commitment, mainly because of our continued focus on finding and fixing faults quickly. Similarly, we are also seeing the benefits of our ongoing mains renewal programme, having carried out nearly 25km of mains repairs and renewals during the year, while a mild winter meant we outperformed our target for mains bursts.

At the start of the current five-year planning period, we introduced a new target for visible leak repairs. This is another priority for our customers. When we introduced this target, we put in place new systems and processes to enable us to find and fix these leaks quickly, and encouraged customers to contact us if they came across any leaks in the road. During the reporting year, we fixed 90% of visible leaks in five days, which is an outstanding achievement, given how difficult it can be to fix leaks on public highways.

Building back better with green recovery funding

In July, Ofwat confirmed its decision to allow us additional funding of around £18 million under its post-COVID green recovery initiative to accelerate the installation of an innovative ceramic membrane filtration solution at our Hampton Loade water treatment works. We were the only water only company to submit a bid under this initiative – the others being Severn Trent Water, South West Water, Thames Water and United Utilities.

We believe the solution will provide enhanced water quality to around 700,000 customers in our South Staffs operating area, deliver a reduction in carbon emissions of around 1,000 tonnes a year and lead to improved operational flexibility and resilience. Once complete, it will be the largest deployment of ceramic membrane technology in the UK, and the first retrofit of its kind in an existing water treatment works.

As we mentioned above, our construction partner, NMCN, went into administration in October and work at the site came to a halt. Since then, we have been working to recruit another construction partner with the necessary experience and expertise to take over from NMCN. And although it falls just outside the reporting year, in May we announced Ross-Shire Engineering and Barhale as our new construction partners. Work has now started again at Hampton Loade. We will report on the progress of the upgrade programmes both at Hampton Loade and Seedy Mill in next year's annual report and financial statements.

We also welcomed Philip Dunne, Ludlow MP and Chair of the Environmental Audit Committee, to Hampton Loade earlier this year. Andy Willicott, our Managing Director,

"We continued to perform well against our Compliance Risk Index (CRI), with a score within acceptable levels. CRI is the main regulatory measure of compliance with very stringent water quality standards"

and Andrew Lobley, our Operations Director, gave Mr Dunne a guided tour of the site and updated him on the progress of the upgrade programme.

Construction work at Bourn reservoir

One of the commitments in our business plan for 2020 to 2025 was to construct a new eight million litre reinforced concrete storage reservoir at the Bourn site in our Cambridge operating area. This new resource will replace and expand an existing reservoir at the site to accommodate the increased demand for water in the area as a result of population growth.

We started demolition work at the site in 2020, leaving only one active reservoir (Bourn 3), which supplies around 14,000 households. Once all the appropriate planning proposals had been submitted and approved, construction at the site finally got under way earlier this year. Our partners in this project, Stonbury, will be overseeing the build on our behalf. We are due to complete this project later this year.

Dealing with service issues

While we endeavour always to deliver a seamless service to all our customers, we know that problems can occasionally occur on our network. When this happens, our priority is to minimise the impact of an event or incident on our customers and return the service to normal as quickly as possible.

In October, for example, we identified a leak on a 24-inch trunk main as it passed over a freight rail line in Streetly in our South Staffs operating area. The main is critical to the supply of around 15,000 customers, which meant it could not be isolated without significant planning and preparation.

We used line stop technology to isolate the main before making the repair. This involves inserting a mechanical plug into the main to stop the water flow at the location of the leak so that the repair can be made. Although there was considerable disruption for customers in the vicinity of the leak – for example, in terms of the impact on local traffic – we only received one written customer complaint. We believe this is because of the proactive way we engaged the local community and kept them informed about the progress of the repair.

And in February, we faced a different type of incident following the publication of an article in The Guardian about levels of a chemical historically used in fire retardants in one of the water sources in our Cambridge operating area. The article contained a number of inaccuracies and inconsistencies, and while we were able to get corrections made, this was not before the story had spread, causing an understandable level of concern among some of our customers. Our focus was on rebuilding trust and on reassuring them about the safety of their drinking water. To reinforce this message, we carried out additional quality testing at customers' taps and wrote to every household in the area that potentially could have been supplied by the source. We also shared information with MPs and local councils, and attended a Parish Council meeting in one of the villages mentioned in the original Guardian article.

We will report on any specific learnings from this incident as appropriate in next year's annual report and financial statements.

"We're really proud of our performance in many of the areas that we know are important to our customers This includes safeguarding drinking water quality, minimising interruptions to customers' water supplies and driving down leakage. These achievements are the result of the hard work and dedication of our teams, who deliver essential services in our communities every day"

Andrew Lobley, Operations Director

Delivering for the environment

Our environment promise

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

How we performed during 2021/22

We are very mindful of the impact our activities can have on the environment and work hard to ensure we minimise that impact. We take our environmental stewardship role seriously.

One area where we are continuing to outperform our target is in delivering environmental improvements and biodiversity benefits across both of our Cambridge and South Staffs operating areas. Our PEBBLE biodiversity fund and SPRING catchment management programme are key to driving our performance in this area – by the end of the reporting year we had helped to protect or enhance the environment across 542 hectares in both operating areas, outperforming our target by 222 hectares. We will continue to demonstrate our environmental stewardship by expanding our biodiversity and catchment management programmes in the year ahead.

Another area where we have continued to perform well is in reducing leakage from our network of pipes. This is an important environmental commitment for us because reducing the volume of water leaking from our pipes means more water is left in the environment. It is also a key priority for our customers and an area where they expect us always to make year-on-year improvements. The 2021/22 reporting year is no exception – we ended the year on track to deliver a reduction in leakage of around 15% across both our Cambridge and South Staffs operating areas by the end of the current planning period.

We also continued to manage the volumes of water we abstract from the environment, despite the challenges we faced with the sustained high demand we have seen since the start of the COVID-19 pandemic in 2020. This is especially important for our Cambridge operating area and the impact abstracting water from the environment can have on the rare and precious chalk streams that are a prominent feature of the region. Once again, we delivered our performance commitment in this area, and did not have to trigger the regulatory abstraction incentive mechanism (AIM).

Along with the rest of the UK water sector, we have an ambitious target to achieve net zero operational carbon emissions by 2030. We have committed to play our part to deliver this and have a performance commitment to reduce carbon emissions to 61kg per connected property by the end of the current reporting period. We achieved our target for the year primarily by switching to renewable energy sources at all our operational sites. But we know we have much more to do if we are to reach our net zero target by 2030. So we developed a net zero strategy during the year, which describes how we will continue to target energy efficiency across all our assets and operations.

One area where we have again failed to meet our target for the year is personal water consumption. We are still seeing very high levels of individual demand for water across both our Cambridge and South Staffs operating areas. In particular, we are seeing high levels of demand among our South Staffs household customers, with consumption at10% above target. In our Cambridge operating area, we are 7% above target. We have set out an action plan for this target in the supplementary information that accompanies this document.

We are looking very carefully at the reasons why water use by individuals and households has remained consistently high since the start of the COVID-19 pandemic. We are also focusing our attention on changing our customers' attitudes towards water and considering ways to encourage them to value it more as a precious and finite resource. We will report on the progress we have made to get this target back on track in next year's annual report and financial statements.

Creating a ripple with PEBBLE

Every year, we make grants available for projects that deliver biodiversity benefits and positive community impacts. Charities, community groups and other organisations can apply for grants of up to £10,000 from our PEBBLE biodiversity fund. During the reporting year, we awarded more than £88,000 to 21 charities and community groups for projects that will enhance the environment in around 18 hectares across both our operating areas.

In our Cambridge operating area, we awarded grants of around £39,700 to 10 organisations for a range of projects, including:

> **"…by the end of the reporting year we had helped to protect or enhance the environment across 542 hectares in both operating areas, outperforming our target by 222 hectares"**

- restoration work at Coldhams Brook, a chalk stream in the centre of Cambridge;
- creating wildflower areas on the East Road Estate and at five schools in Cambridge;
- refurbishing a pond in Barrington by reinstating and reshaping the banks; and
- developing a wetland and reed bed at the Mill River Reserve to improve water quality and provide additional wildlife habitats.

In our South Staffs operating area, we awarded grants totalling more than £48,400 to 11 charities and community groups for projects that include:

- monitoring the presence of skylarks in the area around our Blithfield reservoir;
- creating a community green space in a neglected area in Dudley;
- eradicating Himalayan Balsam from a site in Kinver; and
- providing more habitats for bees at the Grenfell Road Allotments in Walsall.

Since we first launched our PEBBLE fund in 2016, 54.7 hectares of land (the equivalent of nearly 55 rugby pitches) across both our Cambridge and South Staffs operating areas have been improved thanks to the biodiversity projects we have supported.

Planning water resources for the long term

As the provider of an essential public service, we understand how crucial it is for us to ensure water is available every time our customers turn on their taps. Following the publication of the Environment Agency's National Framework for Water Resources in 2020, we have been working with other water companies and stakeholders to develop long-term regional water resources plans as key members of Water Resources East (WRE) in our Cambridge operating area and Water Resources West (WRW) in our South Staffs operating area. The regional water resources plans are due to be finalised in 2023 and seek to:

- increase levels of resilience for all water users;
- ensure that water (either too much or not enough) is not a barrier to economic development; and
- protect and enhance the environment.

Along with the other regional groups, in January WRE and WRW launched consultations on their emerging long-term water resources plans. The plans set out each regional group's initial thinking on how they will meet the needs for all water users, including how they will tackle the effects of climate change and protect the environment. The consultations closed in March and work is now under way to develop the formal consultations on each region's plan. These will be published in the autumn.

The regional water resources plans will inform our own water resources management plans (WRMP) for the Cambridge and South Staffs operating areas. These plans set out, in detail, how we will provide customers with high quality, sustainable and resilient water supplies over a 25-year period.

We started work to develop our latest WRMPs during the reporting year. We are due to submit our draft plans to the Secretary of State for Environment, Food and Rural Affairs in October. As part of this work, we published pre-consultation information for both the Cambridge and South Staffs operating areas, setting out our early thinking about the scale of the challenge we are facing and the potential solutions we are developing. We will report on the progress of these plans in next year's annual report and financial statements.

Being animated about leakage

We are always looking for different ways to share information with our customers about the wide range of work we carry out. In May, for example, we launched a new animation – produced entirely in house by our Communications team – that explains our leakage repair process. The one-minute video captures the key processes we carry out from when a leak has been detected up to the point of repair. The aim is to show our customers the complexities sometimes associated with repairing leaks, as well as to encourage them to report any leaks they see in the public highway.

"We're fortunate to work for a company that gives us the opportunity to enhance our environment – such as helping schools to develop conservation areas, or by protecting the sources from where we take our water. Our green spaces are important and I'm proud that one of our core ambitions is to always leave the environment in a better state than when we started"

Caroline Cooper, Strategy and Regulation Director

Delivering for our business

Our business promise

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

How we performed in 2021/22

In our business plan for 2020 to 2025 we committed to run an efficient business with people who are happy in their jobs, where our customers pay their fair share, and where we treat our suppliers fairly and in line with the Prompt Payment Code.

To ensure we deliver for our people we have a specific performance commitment for employee engagement and have focused much of our attention over the past year on improving the channels we use to communicate with and engage our people. This includes:

- holding induction sessions for people returning to the office after COVID-19 restrictions were lifted;
- using regular communication emails to share updates and information;
- setting up WhatsApp groups to communicate with our field-based teams and enable them to keep up to date with news; and
- relaunching our monthly employee newsletter, giving it a vibrant new look and name.

We also sought the opinions of our people during the reporting year. For example, we ran a number of viewpoint surveys at a water company and Group level, on a range of topics, including returning to the office, and mental health and wellbeing. And we continued to deliver against our Investors in People action plan (IIP), which we mentioned in last year's annual report and financial statements. As part of this, we launched four new values for the business, which focus on the following.

- **Equality, diversity and inclusion** – embracing and valuing all our people, while adopting diverse and inclusive approaches.

- **Excellence in service** – leading by example to improve ways of working, while going above and beyond for our customers.

- **Responsibility** – being motivated to deliver high standards, while demonstrating ownership and responsibility for delivering business objectives.

- **Trust** – respecting and valuing those we work with, while building trusting relationships and empowering others to make decisions.

We have embedded the values within our appraisals process – and will continue to ensure they are central to all our people's objectives. We believe this will help us to deliver the outcomes our customers have told us are important to them and meet the targets set out in our performance commitments in the year ahead.

We know how important it is for our customers, suppliers and other stakeholders to trust us. Without this trust, our legitimacy as the provider of an essential public service is broken. One of the ways we are building this trust is by making sure everyone who should be paying a bill is doing so. During the reporting year, we continued with our void property checks to ensure fairness across charges and delivered against our performance commitment target.

One of the other ways we engender trust is by treating our suppliers fairly and paying them in a timely manner. This is particularly important for small businesses and for those that are critical to our day-to-day operations. In our business plan, we committed to paying companies with turnover less than £6.5 million within 30 days of receiving their invoice. Unfortunately, we missed our target in this area and are exploring ways we can improve on this in the year ahead. For example, we published a Supplier Code of Conduct in March, which outlines our expectation of how our suppliers, and their supply chain partners, should act when providing us with goods and services.

New Cambridge Water logo launched

In August, we launched a new logo in our Cambridge operating area as part of an exercise to strengthen our brand and create greater continuity between Cambridge Water and South Staffs Water. We tested the design for the new logo with members of our H2Online community based in our Cambridge operating area, with 64% saying they preferred it to the old version, and also that it was more modern and easier to read on screen.

Our Communications team developed the new logo in house. We were keen to acknowledge the history of Cambridge Water, while at the same time recognising its place within the South Staffordshire Plc group of companies. To that end, we retained the iconic Cambridge Water light blue, but adopted the style of logo used by South Staffs Water. To minimise any potential impact on customers and keep costs low, we took a phased approach to rolling out the new logo across our Cambridge Water operating area, starting with our digital channels.

"We have embedded our values within our appraisals process – we will continue to ensure they are central to all our people's objectives. We believe this will help us to deliver the outcomes our customers have said are important to them"

Alongside the new Cambridge logo, we also produced new brand guidelines for all our people across both the Cambridge and South Staffs operating areas to follow, covering things like email signatures, letterheads, corporate publications, uniforms and company vehicles. The aim is to present everything we do in a clearly defined and consistent way – an approach that is integral to building a strong brand identity that resonates with our customers.

Focus on apprenticeships

In our business plan for 2020 to 2025, we committed to recruit between 25 and 30 apprentices over the five-year planning period. Our apprenticeship scheme gives young people across our Cambridge and South Staffs operating areas opportunities to gain the skills and knowledge they need to work in a wide range of roles across our business.

Since we launched our apprenticeship programme in 2016, we have recruited 17 apprentices across both operating areas. Six of our original cohort are now in permanent roles within the business. At the time of writing, we have nine young people currently progressing through their apprenticeships.

We believe our commitment to our apprenticeship programme delivers a number of benefits – for us and our apprentices. It gives them an opportunity to learn all the skills they need for their future career, including studying for recognised qualifications while earning a salary and gaining valuable work experience. For our part, we see our apprentices as an important part of our succession planning, helping us to build the highly skilled work force that we will need in the future. It is for that reason that we make sure there is a permanent role within the business when our apprentices complete their studies. So, they benefit from having job security and we benefit from the skills they have learned.

Preventing illegal water use

One of the ways we protect our customers' interests and demonstrate our responsibility as a business is by taking action against companies and organisations that take water from our network illegally, typically through the unauthorised use of standpipes. It is an offence under section 174 of the Water Industry Act 1991 to make any connection to our network without our prior agreement or authorisation. When companies do this, it can compromise the quality and pressure of the water we supply to our customers. So it is an issue we take seriously.

During the reporting year, we took action against five companies in our South Staffs operating area for illegally taking water from our network (none in our Cambridge operating area). In total, these companies were ordered by the Courts to pay us nearly £32,000 in fines and legal costs. We will continue to take action in this way to discourage other companies from acting irresponsibly in the future.

"We're committed to running an efficient and sustainable business for all our customers. This includes implementing a strategy to achieve net zero operational carbon emissions by 2030. We're also focused on delivering our largest-ever capital investment programme, a key part of which is the upgrade of two of our largest water treatment works – Hampton Loade and Seedy Mill – which we're on track to deliver in line with our regulatory targets"

Tom Fewster, Asset Management & Investment Delivery Director

Our people

Gender, equality and diversity

As a company with more than 250 employees, we are legally required to publish a gender pay gap report each year.

Our report for 2021/22 is based on the snapshot date of 5 April 2021. At the time, we directly employed 448 people across the following business functions in our Cambridge and South Staffs operating areas.

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

Overall, our gender workforce split is 76% male (2021: 77%) and 24% female (2021: 23%); 67% of our people are employed within the wholesale function, including in the areas of water production and our field-based operations.

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

- The mean difference between the hourly pay of our male and female employees is 2% (2021: 4%), while the median difference is 6% (2021: 5%).

- The mean and median difference in bonus pay (shown as male employees earning more than female employees) is 28% and 19%, respectively. This accounts for a management bonus and productivity-based bonus schemes.

- The proportions of male and female employees receiving a bonus during the reporting year was 9% and 17%, respectively.

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

- We continued to **re-shape the way in which we attract new talent** and how we present ourselves as a business that is embedded in the communities we serve. This includes using gender-neutral language in our job adverts, focusing instead on skills, ability and opportunities for development as a way of attracting more female applicants.

- We **worked proactively with schools, colleges and universities**, attending careers fairs (where COVID-19 restrictions permitted) and sharing information about the opportunities we have available. We also offer work experience and have a successful apprenticeship programme.

- We **continued to encourage a flexible working approach**. The second year of the COVID-19 pandemic led us to create an environment where home working for part of the week has become the new normal for our office-based people. There is no doubt that strengthening our approach to flexible working in the year ahead will enable us to continue to recruit and retain the right people to drive our work programmes in the future.

When it comes to diversity, we are mindful that the water sector is not yet representative of the UK workforce for sex and gender; black, Asian and minority ethnic communities; disability and the under-24s. To address this, we have committed to work collaboratively with others within and outside the sector to drive change.

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

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

Supporting our people

We take the health and wellbeing of our people seriously and are committed always to minimise the risk of harm. Our accident rate improved slightly during the reporting year, with eight minor accidents (2021: ten) and one RIDDOR reportable incident (2021: one) where one of our people sustained a serious injury while carrying out their operational duties. We shared the learnings from this incident with our people across the business to raise awareness and minimise the risk of such events happening again in the future.

Over the past year, we also started reporting to the Board on high potential (HiPo) incidents. These are any events with the potential to result in a life threatening or a life altering injury. This could be an accident or a near miss. We recorded three such incidents during the reporting year, the most serious of which resulted in a localised fire on grassland near to an area where one of our contractors was carrying out some work.

We will continue to raise awareness among our people and supply chain partners of the importance of health and safety within the work place, and remind them of the need to be mindful of the ways they can mitigate any risk associated with their roles.

We also launched a programme of site visits for the Executive team and senior leaders during the year, with 72 management visits taking place. The aims of these visits are to:

- increase the visibility of our senior leaders across the business;
- give senior leaders more opportunity to engage with our operational teams; and
- help demonstrate the commitment of the whole business to the health, safety and wellbeing of all employees.

We will continue to report on our progress in this area as we strive to deliver our ambition of being a zero accident work place.

If the COVID-19 pandemic has taught us anything, it is the importance of protecting the mental health and wellbeing of our people, both within and outside the work place. We continued to support our people during the reporting year with our mental health first aiders, through initiatives such as our 'Wellbeing Wednesdays' and by raising awareness of mental health issues through our support for things like as Mental Health Awareness Week, which takes place in May each year. We also used our internal communication channels to share tips and ideas about improving individual wellbeing – from taking regular breaks while working to discussing the benefits of exercise and nutrition.

But there are other ways in which we demonstrate our support and commitment to the wellbeing of our people. For example, we have lone worker devices, supported by Solo Protect, for our operational and field-based people. This enables our people to activate a 'red alert' or 'man down' alarm in the event of an accident or injury. Operators in the Solo Protect control room pick up these alerts and locate the user, enabling help to be sent quickly. In addition, we have implemented a 'director on call' rota to help us manage any incidents more effectively. The director on call is the strategic level representative for the incident controller to liaise with during an incident.

We also launched a 'proud to be…' employee engagement campaign during the reporting year as a way of celebrating our successes and highlighting the wide variety of roles across the business. The aim is to create a sense of pride in the work we do and the communities we serve. And we repurposed the staff canteen at our Green Lane head office as a friendly and inviting collaboration hub, which is available for anyone from the South Staffordshire Plc Group to use and enjoy. The hub is multi-functional, giving our people a bright and modern space to meet colleagues, work – individually or in groups – and relax. It has proved very popular since it opened in October.

"Our people are at the heart of our business, and we take their health and wellbeing seriously. We've run a number of initiatives during the year to promote good mental health. We've also run a 'Proud to be…' campaign, giving our people an opportunity to share why they think South Staffordshire Water is a great place to work"

Marcella Nash, HR Director

Looking to PR24 and beyond

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

We have already established a clear governance process for PR24, with the key work streams and activities well under way. This includes engaging the Board on some of the key building blocks and expected themes for the price review. In addition, we participated in several Ofwat-led workshops during the reporting year on key aspects of the price review and responded to a number of consultations that will influence the direction of the draft PR24 methodology, which was published recently.

Towards the end of 2021, we started work to develop our long-term strategy. As part of this, we engaged with colleagues from across the business through a number of interactive workshops where we discussed our strategic challenges. More than 60 people from across the business took part in these workshops, which is reflective of the appetite to be involved in the PR24 planning process. One of the key outputs from these workshops were the following five long-term ambition statements that describe our direction of travel to 2050.

- **Our customers:** we will innovate to exceed customers' expectations of our service, and make sure that those needing help can access it.
- **Our community:** we will be an essential part of our communities, using partnerships and education to help people to work and to thrive.
- **Our service:** we will use leading edge 'smart' technology to ensure customers receive a resilient supply of high-quality drinking water every day.
- **The environment:** we will lead in protecting and enhancing the environment – working with partners to ensure sustainable water supplies and flourishing local habitats.
- **Our business:** we will run a safe, efficient and sustainable business with a skilled, inclusive and engaged workforce that can adapt to future challenges.

We have also started to implement a valuation framework to help guide our future investment decisions, using the Copperleaf H2O solution. This is an asset investment solution that is optimised to the UK water sector. For PR24 we will assess our investment projects against the industry standard aligned to the six capitals framework – that is, **financial, manufactured, intellectual, human, social, and natural capital**. This covers a broader spectrum of values, including the natural and social measures of these values – for example, carbon emissions and public perception – to provide a consistent and robust view of what our investment plan will deliver.

As part of the process for defining our investment needs, we held several risk elicitation workshops and strategic review meetings with teams across the business during the year. The aim of these workshops and meetings has been to capture the aspirations, needs and risks for the 2025 to 2030 planning period (known as AMP8) and beyond. We have already started to turn these needs into potential solutions for our PR24 business plan submission.

We also carried out an independent top down assessment of where we think we may rank in terms of efficiency compared with other companies in the sector. And we have started to develop our potential key themes and USPs for PR24, taking into account Ofwat's priorities and a number of existing and emerging challenges, such as:

- climate change;
- population growth;
- the cost of living crisis;
- the need to implement adaptable planning; and
- the need to innovate in partnership with others to meet the needs of an uncertain future.

We will report on our progress towards delivering our PR24 commitments in next year's annual report and financial statements.

Risk review

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

The Board sets our strategic objectives and 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, through 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 Assurance Committee reviews the effectiveness of our risk management and internal control framework again through six-monthly reviews of the principal risks.

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

We have embedded risk management in all our day-to-day business activities. To facilitate the risk management process, every six months the Executive team reviews our principal business risks as identified and documented by senior managers. They consider the impact of the risks on the whole business, as well as the proposed mitigating controls and procedures that are designed to reduce risks to an acceptable level.

We then present these risks to the Audit and Risk Assurance Committee for review, which challenges and comments on behalf of the Board, with any agreed actions passed to the relevant senior manager, and any significant issues escalated to the Board.

The objectives of this process are to:

- ensure the Executive team is able to identify and prioritise all key business risks;
- implement appropriate procedures and controls to mitigate risks to an acceptable level; and
- enable senior managers to highlight, document, prioritise and execute any identified actions.

We assess and score each identified risk (from 1 to 25) against the impact of the risk on the business and the likelihood of this risk occurring. We determine the overall rating of each risk by taking the product of the impact and probability scores. The compound score enables us to focus on the most important risks, with greater management time given to implementing control over these risks.

Risk Matrix

Probability					
Certain	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
Rare	1	2	3	4	5
	Negligible		Impact		Extreme

High
Moderate
Low
Very Low

The impact assessment considers the estimated consequences of the risk on our net assets. But we also take into account other factors, such as the loss of our customers' trust, or damage to our reputation or brand.

The overall risk rating is determined by taking the product of the impact and probability scores (impact x probability). The score between 1 (lowest risk) and 25 (highest risk) allows us to focus on the most important risks.

If the assessment of the risk score changes between six-monthly assessments, we highlight this to the Executive team and the Audit and Risk Assurance Committee, along with recommended actions.

Key risks 2021/22

The economic challenges following the COVID-19 pandemic have continued during the reporting year, with rising commodity and energy prices, inflation and debt all putting pressure on our business. In addition, supply chain interruptions (some of which relate to the conflict in Ukraine) and higher transport costs are also creating inflationary pressures.

The economic climate created by the COVID-19 pandemic, coupled with the end of the UK Government's financial support schemes and the large increases in energy bills have placed additional pressure on our customers' ability to pay their water bills. We manage the issue of bill affordability through monthly debt working and steering groups, which monitor and agree strategy. We have also launched a debt transformation project, in line with CCW's affordability review. The aim is to develop a best practice framework that will enable us to focus on:

- debt prevention;
- data use and sharing; and
- standard and advanced collection activity.

Delivering our ambitious capital investment programme continues to be at the forefront of our risk review. During the year, we have been impacted by resource challenges in the capital delivery team and also by NMCN, our construction partner for the Hampton Loade and Seedy Mill upgrade programmes, going into administration. We have integrated the asset management and capital delivery functions, and made key appointments to the team. We have also appointed alternative construction partners – Ross-Shire Engineering and Barhale at Hampton Loade, and Galliford Try at Seedy Mill – for the treatment works upgrade programme. But this will remain an area of focus for us as inherent risks remain within the supply chain.

State sponsored and criminal cyber threats continue to pose a risk to all critical infrastructure. We take a defensive position to protecting all our assets and equipment, and aim to limit the damage that a cyberattack could cause. We carried out a cyber-incident response exercise in November and are in the process of developing cyber awareness training for all Board members.

The UK employment market has been through a considerable amount of upheaval since the start of the COVID-19 pandemic in 2020 – and the situation is not likely to improve during the 2022/23 financial year. While research from CIPD, the professional body for human resources and people development, suggests that the most popular response among employers has been to raise salaries, there is also a suggestion these employers may be reaching a limit on how much further they can go. So they are looking for other means to tackle resourcing challenges, including developing existing employees' skills and offering more flexible working arrangements. These are important factors to improving job quality and are something we are taking into account as we consider our own approach to recruitment and retention.

During our risk assessment process we have identified two areas where our risks have improved and are considered very low.

- First, our financial risk has been reduced further as a result of the completion of the initial tranche of financing secured and the final tranche to be drawn in the 2022/23 financial year. There is also a new Group structure in place to strengthen the regulated ring fence liquidity beyond the AMP7 planning period.
- Second, a dedicated resource for focused customer engagement has led us to assess this risk as very low, and sufficiently addressed and mitigated.

Looking to the year ahead, the key focus of our risk mitigation will be on the following.

- Affordability and the cost of living crisis.
- Supply chain disruptions.
- State-sponsored cyberattacks.
- Higher attrition and a challenging job market.

Below we set out our key risks, as identified using the process described above. We detail what each risk means for us, the actions we are taking to mitigate its impacts and any change in the risk during the reporting year.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Resilient supply of good quality water	We are legally required to meet regulatory standards for water quality and to ensure our customers always receive a reliable water supply. Failing to provide a secure supply of clean, safe drinking water or meet long-term demand requirements may: • impact public health; • result in regulatory enforcement action; and • damage our customers' trust and confidence in us.	We have carried out significant work to mitigate the water quality and safety risks. This includes: • installing ultraviolet (UV) treatment at our Hampton Loade and Seedy Mill water treatment works; and • having an ambitious, long-term capital investment and asset maintenance programme. We also have a number of controls in place to reduce the probability of having insufficient water resources, including: • our long-term water resources management plans (WRMP) for our Cambridge/South Staffs operating areas; and • having drought plans consistent with our WRMPs and business plan for 2020 to 2025. And we are collaborating with other water companies and key stakeholders on regional water resources plans through Water Resources East (WRE) and Water Resources West (WRW).	
Water resources	There is a risk that the demand for water may exceed the volume we have available for supply – for example, during a severe drought. The impact of running out of water is high because of the potential impact on public health, and the long-term financial and reputational damage that could arise as a result. Incidences of prolonged hot, dry weather can pose challenges to our supply/demand balance over the longer term; underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk. There is a low residual risk that our selected options – for example, large-scale leakage reduction, lower per capita consumption (PCC) and more household metering will not deliver the water savings expected. The impact the COVID-19 pandemic has had in terms of driving a material increase in household water use is also a challenge.	We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include: • our WRMPs and drought plans; • collaborative regional engagement through WRE and WRW; • tracking our leakage and PCC metrics; and • our ongoing asset maintenance programme to minimise the risks of short-term supply interruptions. To mitigate this risk, we are continuing to work with the Environment Agency to produce our WRMPs, regional water resources plans and on the delivery of our environmental programme (WINEP). We have also updated our drought plans, which we submitted to the Secretary of State at Defra in March 2022, and we have focused particularly on our Cambridge region through our work with WRE to identify medium- and long-term solutions for additional water resources.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Health and safety	Our risks associated with health and safety include things that affect the wellbeing of our people, our contractors and members of the public, including injuries and fatalities. They also include non-compliance prosecutions, and the reputational damage that could result from failing to meet our own health and safety standards. These risks could result in incidents leading to a loss of life and could impact on families and our people. They could also result in damaging press coverage, Board involvement, stress and the risk of imprisonment for members of the Executive team. A Health and Safety Executive (HSE) enquiry could impact on resources and morale.	We aspire to be a zero injury work place, and are continuing to drive down the risks associated with health and safety. In addition, the approach we took as we emerged from COVID-19 restrictions in terms of installing monitoring equipment for adequate ventilation and enhanced cleaning routings will help to form the basis of our continued mitigation. We have also implemented a number of other mitigations during the reporting year, aimed at driving a culture that puts critical risk management at the heart of everything we do. These include: • introducing a severity matrix for events and escalations; • shifting our focus to high potential (HiPo) risks, which we report to the Board each month; • reviewing the function and purpose of the Health and Safety Committee to ensure it continues to deliver value at a strategic level; • putting in place a programme of insight tours for the Executive and senior leadership teams; • carrying out H&S training and education, and face-to-face induction training; and • working with Cadent, Willmott Dixon and City Fibre on a services improvement project for safe digging practices.	
Failure to meet regulatory performance commitments	There is a risk that we could underperform against the commitments agreed by Ofwat in our PR19 final determination. Out of 30 performance commitments, 19 have financial incentives attached. Ofwat has deliberately set performance targets at stretching levels. Their purpose is to drive our service forward. This policy has led to challenging step change targets to achieve in the areas of: • leakage; • bursts; • supply interruptions; and • the Compliance Risk Index (CRI) water quality measure. Some performance commitments are exposed to significant volatility from factors outside of direct management control. There are revenue, reputational and regulatory impacts associated with this risk.	We have implemented a number of actions to help us achieve our performance commitment targets. This includes: • improving our reporting/assurance processes; and • having greater exposure of our performance at Executive and Board level on a regular basis. We are also mitigating the risk of a net underperformance penalty by making sure we maximise the reward opportunity for other measures. The action plans we have in place for each measure take this into account. Some performance commitments (such as PCC and education outreach) continue to be susceptible to the long-term impacts of the COVID-19 pandemic. This could also impact other survey-based metrics, such as C-MeX, D-MeX, and trust and value for money. This will require a representation to Ofwat on these impacts, which are substantially outside of management control. We are involved in some cross-sector collaborative work to help build this case.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Asset reliability and resilience	We have a number of assets that are critical to the supply of clean drinking water to customers. The reliability and resilience of our assets are fundamental in ensuring we are able to abstract, treat, store and distribute sufficient volumes of clean water to maintain supplies to all our customers, and deliver against our agreed performance commitment targets. We must make sure that sufficient funding is available and prioritised to enable us to control the risks around: • customer service – in particular, the significant impact reactive failures can have on our C-MeX performance; • reputation management – including the impact high-profile asset failures that result in supply interruptions can have in terms of negative media attention and criticism from external stakeholders; • water quality – such as the risk of prosecution by the Drinking Water Inspectorate (DWI) for failing to meet the required water quality standards, and the impact of this on our CRI and C-MeX targets; and • finance – including the risks of financial penalties for asset failures and increased operating costs for inefficient assets.	We recognise the need to improve our assets. Our long-term plans are set in the wider context of managing and maintaining our assets and supply capabilities. Our business plan has modelled an identification of needs and solutions to support optimum investment strategies to mitigate this risk. This includes: • making significant investment in Hampton Loade and Seedy Mill; • carrying out proactive maintenance programmes; and • reducing network failure through targeted mains rehabilitation. We have aligned our asset management function with proactive interventions based on the continuous monitoring of the performance of our assets. We justify any investment based on the inherent risk within the business, making sure that resources and finances are prioritised effectively. As part of this, we have implemented mechanisms to facilitate efficient reporting of the status of our assets. The Executive team reviews these each month.	
Achieving our AMP7 leakage reduction target	The risk is that we do not achieve specific regulatory measures across our Cambridge/South Staffs operating areas. Underperformance in this area will incur a reputational and financial impact. We have a commitment within our WRMPs to reduce leakage and mitigate the environmental impact of our abstraction. Ofwat, the Environment Agency and CCW, among others, scrutinise our performance in this area very closely.	We have put a strategy in place to achieve our leakage targets across both regions, including: • continuous performance monitoring; • sufficient resourcing of leak detection and repair activity; • prioritising prompt leak repairs; • replacing ageing assets; and • investing in a proactive live operating network. The COVID-19 pandemic has impacted our work to reduce leaks on customers' supply pipes. But our overall detection performance has improved and leaks are being repaired quickly. At the time of writing, our Cambridge/South Staffs operating areas are currently performing in line with our AMP7 leakage targets.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Impact of our activities on the environment	There is a risk that our activities could cause harm to the environment. This risk relates to the negative consequences associated with harming the environment. This could include pollution incidents or failure to comply with permits and licences. In addition, this risk covers the real and perceived reputational impact of our operations on habitats such as chalk streams and rivers. This area of our work is subject to much greater media attention – driven mainly by the focus on water and sewerage companies' discharges from sewer overflows into rivers and other water courses. This risk also relates to non-compliance with environmental regulations or legislation, and includes pollution incidents or the failure to comply with our permits and licences. MCERTS conditions are now included on some of our discharge permits and we are audited each year to ensure compliance. The next audit will take place on 27 September 2022. The water resources risk above considers risks associated with climate change.	We summarised all our environmental obligations in our Water Industry Strategic Environmental Regulations (WISER) submission to the Environment Agency in August 2018. Specific risk mitigations in this area include: • fast mobilisation of on-the-ground teams when incidents occur: • our Water Industry National Environment Programme (WINEP) work; • delivery of our eel screening programme by September 2022; • the Abstraction Incentive Mechanism (AIM), which helps us to maintain sustainable abstraction practices; • our well-established and successful SPRING catchment management programme, which we are currently expanding; • our PEBBLE biodiversity fund, which helps to deliver wider societal and community benefits, as well as environmental enhancements; • maintaining MCERTS compliance for selected discharge permits through close cross-team working, and • identifying alternative water sources in our Cambridge operating area because of the detrimental impact of abstraction on chalk streams.	
Non-compliance with regulatory obligations	The risk is that we fail to comply with our statutory or regulatory obligations as a licensed water undertaker. This could result in Ofwat or other regulatory bodies taking action against us. Examples of breaches include: • our annual data returns not complying with Ofwat's guidelines, leading to the data having to be re-published; • failing to operate a level playing field for retailers, developers and new markets, in breach of competition rules; and • not complying with our licence conditions, leading to regulatory enforcement action and fines of up to 10% of turnover.	Each year, we consider our obligations as a licensed water undertaker, and that we understand and comply with them. We do this in a number of ways, including: • assessing the impact of any licence or legislative changes made during the year; and • making sure we adopt any new obligations. In addition, we review and publish any documents as required under our licence, making use of appropriate internal and external assurance as required. We also require Board sign off of all significant obligations, such as our customer charges and annual performance report.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Supply – economic impacts	There is a significant risk of loss of critical supply or disruption to the delivery of: • chemicals, which we require to treat the water we abstract to the regulated standards; • critical component spares, which could impact on the operation of critical equipment, such as pumps for water distribution; • stock consumable items, such as pipes and fittings, which could impact planned maintenance and repair work; and • fuels, which could have a wide range of impacts on our operations. These risks may affect our ability to produce and supply clean drinking water for our customers.	Our Executive team and senior leadership team continue to work with the Defra, Water UK, relevant sub-groups and the supply chain to mitigate the impact of this risk. We previously reviewed our business continuity plans in light of the risks associated with the UK's exit from the European Union. We continue to monitor supplier deliveries and stock levels. We also report through water sector working groups, which have continued to focus on early identification of supply or delivery issues – notably in relation to the availability of chemicals.	
Technology, systems and security	There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure, which could result in reputational damage or regulatory fines. These risks fall into the following categories. • Disaster recovery capabilities, which includes the risk of the Green Lane data centre going offline, impacting our ability to access our email, financial and network data sharing systems. • Legacy system support and management, with a specific focus on the lack of access to either internal or external capabilities to support legacy systems. • Data integrity (including loss or corruption), which includes the risk of inadequate controls resulting in the loss of data or information, or an external data breach. • State sponsored cyberattacks, given the increase in tensions between the UK and Russia (including financial sanctions).	We are mitigating these risks in a number of ways, including: • reinstating the Information Security Steering Group (ISSG) in Q2 of the 2022/23 financial year and introducing other business Information Security Forums that will feed into the ISSG; • having a compliance framework in place for Security of Network & Information Systems Regulations (NIS); • having ISO 27001 certification for our Group IT operations; • using our Group Cloud strategy to reduce legacy impacts; • having managed services for monitoring and security operations centre (SOC) provision in place; • implementing OT intrusion detection software on critical networks; • implementing a new SCADA system across our Cambridge/South Staffs operating areas; • having a privacy team and Data Protection Officer in place, and implementing a sustainability plan; • making sure that all data is backed up and that regular recovery tests are carried out; • making sure high availability architecture and monitoring is built into core systems such as firewall, networks, switches and servers; • providing training and communication to all employees – for example, on cyber awareness; and • applying robust change control processes to ensure changes to live systems are only made when the risk to confidentiality, availability and integrity of data is reduced to an acceptable level.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Financing our business	The key risks are around us being unable to fund the business sufficiently so that we can meet our liabilities as they fall due, including: • having insufficient financial resources to finance the business; • reduced access to capital markets; • the potential for lower credit ratings; • higher funding costs; • the levels of fixed cost embedded debt; and • changes in risk scoring by rating agencies, which could lead to some or all of the above.	To mitigate this risk, we have: • completed the initial tranche of refinancing, with an additional tranche to be drawn in Q1 of the 2022/23 financial year; • employed hedging strategies; • carried out regular market monitoring; • carried out regular monthly management reporting, including cash flow reporting; • repaid outstanding intercompany loans, reducing our external debt requirements; • implemented a new Group structure to ring fence regulated liquidity from other parent group non-regulated activities; and • implemented a long-term financing strategy, which takes into account long-term projected investment plans and forecasts liquidity requirements beyond AMP7. It should be noted that much of this work is being led by Group Treasury as part of the longer-term refinancing strategy.	
Customer affordability and debt	There is a revenue risk resulting from levels of customer bad debt and the associated costs of collection delivery. There is also a risk that the economic climate created by the COVID-19 pandemic, the end of Government support schemes such as Furlough and the temporary Universal Credit uplift, and rises in other household bills will place an additional pressure on customers, impacting their ability to pay their water bills. The conflict in Ukraine is also likely to have a negative impact on the economy.	We hold monthly Debt Steering Group meetings to monitor our performance. In addition, we have launched a debt transformation project, using a debt best practice framework to deliver changes focusing on debt prevention, data use and sharing, and standard and advanced collection activity. This project is progressing in line with CCW's affordability review. We also have an affordability plan, which considers how we improve our support schemes and make access easier. And we hold weekly review meetings to monitor activity and debt performance, and enable us to make informed decisions quickly. Other actions to mitigate this risk include: • putting in place and promoting customer support tariffs; • rolling out customer debt payment matching schemes; • adding litigation methods to the advanced recovery process; • increasing/changing activity within the standard recovery process; • introducing a trace service; and • introducing open banking to enhance I&E checks.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Customer satisfaction	There is a risk around the demand for a service provision that is multi-channel and accessible 24/7 as customer expectations continue to increase. As the implementation of our digital channels is a recent change for us, we have experienced a high level of phone contact, which also increases our cost to serve. In addition, the C-MeX measure of customer service and experience monitors both customer service and customer engagement. Although our performance in this area has improved, single events can have a significant impact on our C-MeX scores, which may result in in-year penalties and have a negative effect on our reputation.	Insight gained from our customer engagement activity has helped to shape our customer experience strategy, improve our digital channels and improve the customer journey. In addition, we have set up a monthly Customer Experience Steering Group and have put improvement plans in place. We also monitor our performance and customer satisfaction on a daily basis. And we use monthly service delivery meetings as a decision point for any actions that impact our customers. Other actions to mitigate this risk include: • delivering a retail change programme, which includes making improvements to MyAccount and our mobile app, reducing repeat contacts and improving the 'moving house' customer journey; • considering how we provide suitable customer support packages, and how this may affect our overall debt performance; • implementing a defined digital change plan, which includes monitoring digital services; • monitoring customer satisfaction on a daily basis; and • making balanced decisions in the context of C-MeX.	
Failure or increased cost of capital projects/exposure to contract failures	There is a risk around the business experiencing additional costs and delays that impact the condition or performance of our assets. This in turn could impact on customer service, water quality, efficiency or environmental performance.	We have created a dedicated Capital Delivery Director role with a focus on aligning our asset management/capital investment delivery functions. The aim is to provide clarity around the priorities of our capital programme. We have also set up an Investment Programme Steering Group. In addition, we have put additional resources and cost controls in place to facilitate the escalation in activity associated with our Hampton Loade and Seedy Mill upgrade programmes. And we are implementing a number of best practice initiatives into our programme and project delivery to ensure delivery on budget and to the appropriate quality. We are backfilling vacancies within the investment delivery function and are using resources from Costain under our engineering services framework to assure the financial administration of our contracts. As we have reported elsewhere in this document, in October 2021, NMCN, our construction partner for the Hampton Loade and Seedy Mill upgrades went into administration. We are continuing to work with advisers and the supply chain to mitigate the impact, notably in relation to delays and cost pressures. We have novated to Galliford Try for the Seedy Mill upgrade and have awarded the Hampton Loade contract to Ross-Shire Engineering and Barhale.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
Higher attrition and a difficult job market	There is a risk for us around attrition rates across the business, which remain high (around 16% a year). There is also a risk around the job market, which is particularly challenging. We advertise opportunities regularly, sometimes having to go out to market more than once for the same role. There are a number of reasons for this, including a poor response rate to job adverts. The demand for flexible working, skills shortages (HGV drivers and project managers in particular) and a real demand for higher remuneration remain additional challenges for us.	To mitigate this risk, we have formally adopted the South Staffordshire Plc Group hybrid working policy to allow more choice of working location for our office-based people. In addition, we benchmark pay and have addressed pockets of upward pay pressure (for example, when recruiting HGV drivers), introduced small retention bonuses in certain circumstances and have reviewed our contract prices. And although it falls just outside the reporting year, we believe this year's 5% negotiated pay increase will help to create more stability and loyalty among our people. We have also turned the restaurant at our Green Lane head office into a bright and vibrant space for our people to work, collaborate and relax. But there is still some work we need to do to mitigate this risk, including: • taking on board the feedback from employee surveys run during the reporting year; • reviewing rewards and benefits; • improving some of our work areas and conditions; and • improving engagement with our people to make them feel more valued. For certain Executive and Director roles, we are mitigating this risk through the remuneration package comprising an LTIP mechanism, competitive salaries and bonus scheme. We have also re-instigated succession planning for top-level roles; we are looking to develop our approach for other senior and business critical roles.	
Impacts of pandemic illness on business continuity/ delivering our essential service	Pandemic illness has always been a known risk. But the COVID-19 outbreak in early 2020 presented a range of challenges – for our business, our people and our customers. Being unable to operate our business effectively could result in us being in breach of our legal duties and impact our business resilience. Risks in this area include: • the likely increased demand for water as a result of enhanced hygiene requirements and home working; • a greater strain on our IT systems as a result of more remote working and increased customer demand; • the impact on our operations resulting from employee illness or unavailability; and • potential quality impacts in businesses that have locked down.	The things we learned from the COVID-19 pandemic has helped to shape our approach to mitigating this risk, focusing on: • the capability of our people to work from home (if they feel well enough to do so); • limiting the number of people in the office and issuing guidance on safe working (including PPE); • putting special arrangements in place for our Control Room; • monitoring business absence and identifying where additional support is required; and • having an incident team in place to monitor impacts and implement any actions as necessary.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
PR24 delivery	In October 2023, we will submit our draft PR24 business plan to Ofwat. This will outline our goals for AMP8 and the costs required to deliver those goals. Ofwat will review our plan and assess it in the context of the other England and Wales water companies. It will make its final decisions on our investment programme in December 2024. We are aware of the extensive work that goes in to delivering the price review process. The complexity and scope of the process is a challenge for all companies, but especially for smaller companies with fewer resources available. Because of this, there is a risk that we will not be able to meet the demands of the process and will be unable to submit a robust, well-evidenced plan that stands up to Ofwat's scrutiny. The impact of submitting a sub-standard plan would be both financial and reputational. For example: • a weak plan would make it unlikely for Ofwat to award us the required funding to support the delivery of our AMP8 investment programme. This would create a huge challenge across the business; and • a weak plan could impact the perception external stakeholders, including customers, have of our business, which could last longer than the five-year planning period.	We are mitigating this risk by starting to plan our submission early, having already put a governance structure in place and communicated with key business planning areas. We are planning to engage additional resource and consultancy support when required, to ensure our plans meet Ofwat's expectations. We will continue to keep this risk under review as we move through the PR24 process, and raise any significant areas of concern to senior stakeholders.	
Stakeholder engagement	We have identified a risk around the failure to identify and engage with the right stakeholders in the right way and at the right time that could result in short- and long-term reputational damage or harm. A failure to identify and engage with the right stakeholders could impact on how the business is perceived by others – including customers and regulators. It could damage our reputation and lead to more regulatory oversight – for example, in the form of additional reporting or action plans. It could also damage our customers' trust in us as the provider of an essential public service. This risk is particularly prevalent for our Cambridge operating area, with the combined pressure on water resources because of population growth and new developments, and on the environmental impact of our abstractions on the aquifer that feeds the rare chalk stream habitats in the region.	Since 2019, we have had a dedicated resource within the business devoted to stakeholder liaison and engagement. As well as identifying key stakeholder groups, we have also carried out stakeholder mapping exercises and have built effective relationships with key stakeholders, which includes but is not limited to: • engaging regularly with MPs and local authority councillors across both our Cambridge and South Staffs operating area; • attending sector-specific working groups and meeting regularly with local interest groups; • sharing intelligence with colleagues across the business; • proactively raising issues of concern with stakeholders (for example, giving local councillors advance notice of any mains replacement or rehab schemes taking place in their wards/divisions); and • working closely with the Communications team to share positive messages about our work and the role we play in our communities.	

Long-term viability statement

We have carried out an assessment of the company's long-term financial viability. We have performed Monte Carlo modelling on base plans for the ten-year period to 2032 by selecting a plausible range of scenarios. We have considered for the downside scenario that has a 10% chance of occurring and what mitigations we could take to ensure we maintain an investment grade credit rating.

Monte Carlo stress testing

We have stress-tested our financial projections for the period covering the years from 2025 to 2032 by performing Monte Carlo modelling against a number of plausible scenarios that could realistically impact our business. We have taken into account the key risks facing the business and the impact they could have on customers and other stakeholders. These are set out on pages36 to 45 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.

Consistent with the Board's objective of maintaining a strong investment grade, we are targeting a credit rating with Moody's of Baa1. We believe this maintains our current level of credit quality and provides some headroom to enable the company to remain financially resilient. Moody's current guidance ranges for RCV gearing and AICR are set out in the table below.

Moody's credit rating	RCV gearing	AICR
Baa1	65% – 72%	1.5x – 1.7x
Baa2	72% – 80%	1.3x – 1.5x

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 >1.5 is considered the standard to achieve the target credit rating, while maintaining covenant net debt to RCV below 72%.

To maintain our credit rating with S&P of BBB+, we require a minimum FFO/net debt of 10% for the appointed business. This is consistent with the target ratio of other water companies with the same target credit rating.

Below we set out the specific scenarios we have modelled.

Scenario	Size of the impact	Explanation
Base expenditure (botex) over/under-spend	+/− 5% of allowed botex	We could **overspend our botex** compared with our PR19 final determination because of the cost of delivering schemes being more expensive than planned or because further investment is required to meet our service targets. We could also **underspend our botex** through new innovative solutions or cost efficiencies.
Enhancement capital expenditure (capex) over/underspend	5% underspend/15% overspend	In our final determination Ofwat disallowed a significant amount of enhancement expenditure. There is a **risk that these schemes will still need to be delivered** and that it will not be possible to offset these additional costs with efficiencies. There is also a risk that **new emerging risks could require additional investment** to maintain service.
Early investment in conditioning and storage plant as a result of unexpected increase in household demand	£40m of spend brought forward from AMP9 plans	We are **currently working with Anglian Water on a new strategic resource in Eastern England** as part of the Regulators' Alliance for Progressing Infrastructure Development (RAPID) process. It is expected that the work will be carried out from AMP9 (2035 to 2040). But there is a **risk that during AMP8 (2030 to 2035) demand in our Cambridge operating area increases unexpectedly** – for example, because of the level of housing growth. As a result, it may be necessary to build storage and conditioning plant to transfer water from an alternative source until the strategic resource has been constructed.

Scenario	Size of the impact	Explanation
Cash collection rates	+/− 2% of household revenue	Collection of **outstanding debt could be lower** as a result of the legacy of COVID-19 and the current cost of living crisis on the economy. It is also possible that **new collection processes or systems could help to improve collection performance**.
Inflation	Average CPIH: Yr1 +8%/−2% Yr2 +5%/−2%	At the time of writing, the Bank of England was projecting inflation to reach 10% by the end of this calendar year. There is a **risk that this could persist** for the medium term. So we have run a scenario where inflation is 8% higher than planned in 2022/23 and 5% higher in 2023/24. Within this scenario we have assumed that costs increase by 4% and 2.5%, respectively. This recognises that some of our costs are less affected by inflation, such as hedged energy costs (modelled below) and other fixed contracts currently in place. Equally, **inflation could be lower if the UK economy enters into a recession** and there is a risk that it is not seen in relation to specific industry costs. We have assumed that none of the lower inflation feeds into lower sector-specific costs, leading to a real terms overspend in total expenditure (totex).
CPIH/RPI wedge	CPIH/RPI wedge of 4% through the remainder of AMP7 and AMP8	Historically, RPI has been around 1% higher than CPIH. However, over the past year, the wedge between the two indices has increased to between 3% and 4%. This has a specific impact on us as **a significant proportion of our debt is RPI index-linked**. Our RCV is currently indexed with a blended rate of CPIH and RPI, and Ofwat has indicated its preference to move to full CPIH indexation from 2025. If the CPIH/RPI wedge continues to be higher than historic levels, this will put pressure on our key ratios – in particular, FFO/net debt and gearing. We have assumed a downside scenario where the CPIH/RPI wedge remains at 4% for the remainder of AMP7 and AMP8.
Energy costs	+50% increase in wholesale electricity prices	Energy costs **have increased significantly in 2022**, with a further increase of up to 50% expected in October. We hedged 100% of our electricity costs for 2022/23 and 80% of costs for the following two years, so we are not fully exposed to changes in market prices. But as **energy represents a significant proportion of our operating costs**, we have run a scenario where the 20% of energy costs that are not hedged increase by a further 50%.
Cost of capital	+/− 50bps change in wholesale WACC for AMP8 No company-specific uplift to the cost of debt −33bps	There is a **risk that the cost of capital set at PR24 is lower than that at PR19**. There is also the possibility that the cost of capital could be higher depending on prevailing market returns. At PR19 we **secured a company-specific uplift of 33bps to the cost of debt**, recognising the specific challenge for smaller water companies. There is a risk that a similar uplift is disallowed at PR24.
Interest rates	+/− 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)	AMP 7: +/− £2m AMP 8: + £2m/− £11m	Our final determination has stretching performance commitments. Excluding per capita consumption (PCC), we earned a reward of £1.8m (2017/18 prices) in 2021/22. We will **continue to target outperformance** and have assumed that in the upside scenario we achieve £2m of rewards for the period from 2023 to 2025. In the downside scenario, there is a **risk that we fail to achieve our targets**, resulting in a penalty being incurred. Our PCC performance has been significantly impacted by the COVID-19 pandemic and Ofwat has deferred the assessment until PR24. Based on the extrapolation of current performance, we could potentially incur an £11m penalty on PCC if no adjustment is made by Ofwat for COVID-19. So we have assumed there is a 20% chance that the PCC penalty at PR24 is £9m.

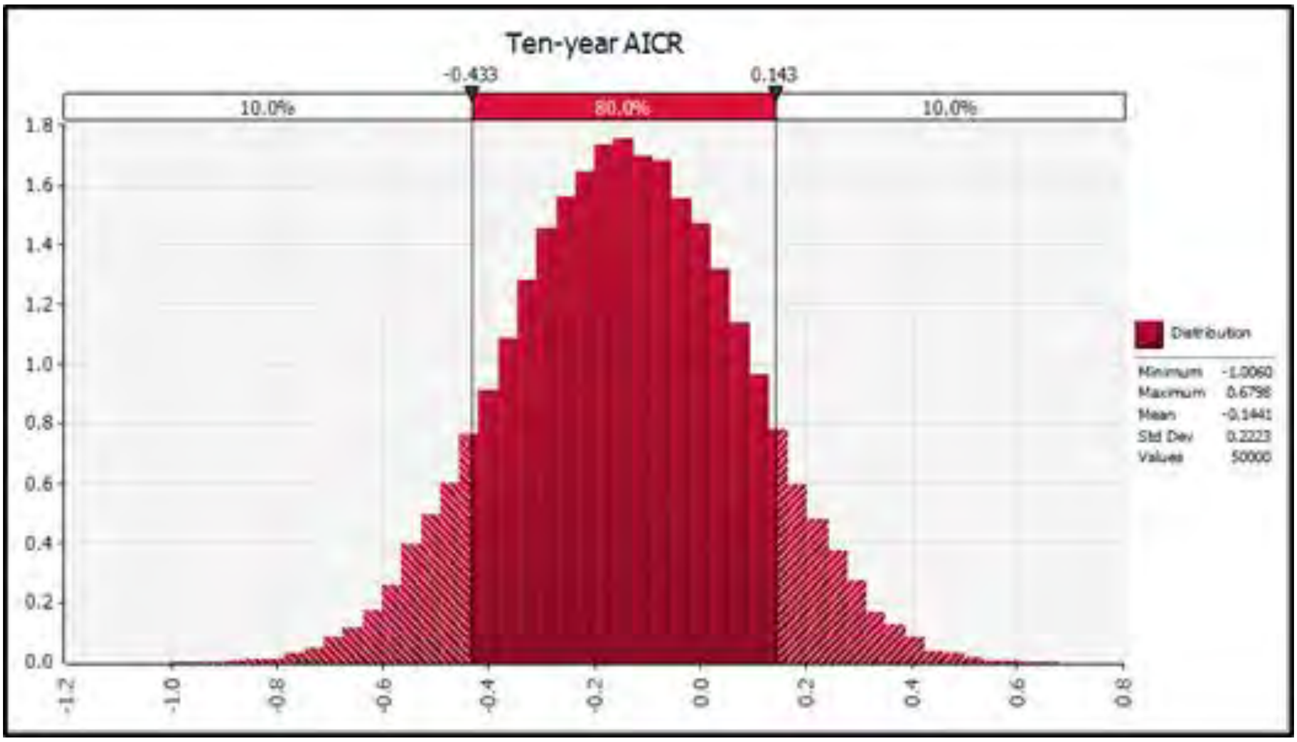
Scenario	Size of the impact	Explanation
		In addition, two of our performance commitments – the Compliance Risk Index (CRI) and leakage – also carry a risk of underperformance. So we have also included £2m of penalties in the 2020 to 2025 period.

Monte Carlo outputs

To understand the range of possible impacts on our financial resilience, we have carried out a Monte Carlo simulation. This is a modelling approach which predicts the probability of different events happening by performing random sampling thousands of times to construct a probability distribution. This shows the likelihood of each outcome occurring. We have carried out this modelling on AICR, FFO/net debt and gearing as these impact 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.

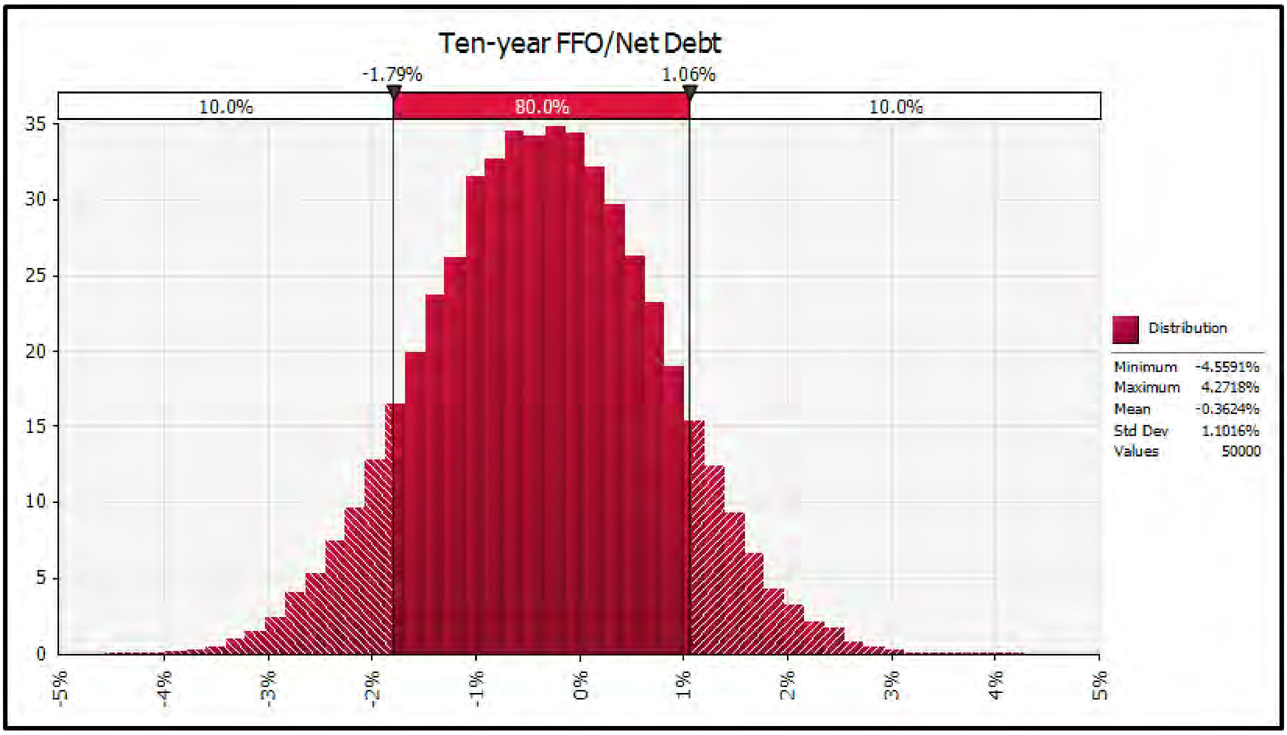
We set out the modelling outputs for the ten-year period to 2032 below.

AICR



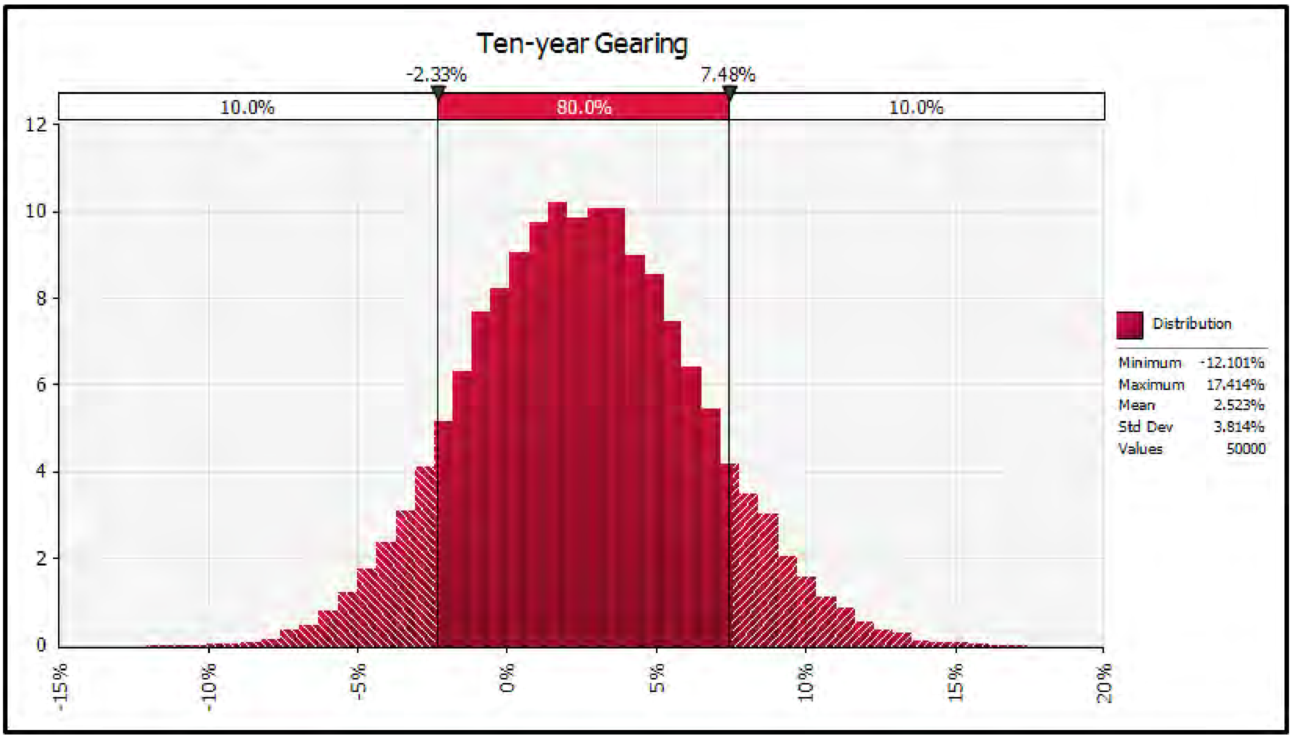
Our base AICR is 1.7 and the modelling output shows a 10 % chance that this is as high as 1.8 and a 10% chance that it is as low as 1.2. At this level, we would be below the level required to maintain our target credit rating, although we would still be within investment grade.

FFO/net debt



Our base FFO/net debt is 9.3% and the modelling output shows a 10 % chance that this is as high as 10.4% and a 10% chance that it is as low as 7.5%. At this level, we would be below the level required to maintain our target credit rating.

Gearing



The gearing figures are based on our covenant debt, which is used by credit rating agencies in their assessment. Where the gearing on a book debt basis is above the threshold for Ofwat's gearing outperformance sharing mechanism, we have included the adjustment in the modelling. Our base gearing is 67% and the modelling output shows that there is a 10% chance this is as low as 65% and a 10% chance that it is as high as 75%, which is above that required to maintain our target credit rating, although it would still be within investment grade.

Within the scenarios we have considered, a number are to some extent within 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 (as the allowances fully transition to CPIH) and PCC are determined by Ofwat. If we just look at those risks also and they crystallised in AMP8, the impact would be lower AICR to below 1.2 and FFO/net debt to around 6%. This would put a significant pressure on our ability to maintain an investment grade credit rating and access the debt markets. Although we could consider using further equity injections, AICR is relatively insensitive to such mitigations.

Mitigations considered

We have considered the actions senior management could take to ensure we maintain our target credit rating at the 10% chance of occurrence where AICR is 1.2 and FFO/net debt is 7.5%. We believe that one or a combination of them would restore the financial metrics to an acceptable range.

Mitigation	Explanation
Risk management	We have a **risk management process in place** to ensure we understand the key risks facing our business. We assess each identified risk against the impact it has on our business and the likelihood of the risk occurring. We determine the overall rating of each risk by multiplying the impact and likelihood scores. This enables us to **focus on the most important risks** and ensure that appropriate controls are put in place to minimise them. However, we recognise that it does not eliminate all risks and that some events can develop quickly – extreme weather events, for example.
Total expenditure (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 already received £40m of additional cash over the past two years with the early repayment of two intercompany loans. This has helped to **strengthen our financial resilience**.
Regulatory mechanisms	There are a number of regulatory mechanisms in place for water companies that protect them from significant shocks. These include: • totex sharing allowances that share the out- or underperformance of costs between customers and investors; • a revenue true-up mechanism for wholesale over- or under-recovery; • the impact of indexation of the cost of new debt mechanism introduced in this price control period (2020 to 2025); and • uncertainty mechanisms.
Non-regulated business	The metrics set out above **relate to the regulated part of our business**, operating as a completely ring-fenced entity from any non-regulated activity. Rating agencies determine their ratings based on the whole company, including the non-regulated parts of the business. This gives us an additional buffer on the key metrics as including the non-regulated business adds around 0.2 to the AICR metric. So in extreme circumstances, this could act as short-term protection.

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

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

Overall, we believe that 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 that the change from the base position is consistent with what would be expected from the particular scenario. We have then carried out external assurance using Jacobs 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 financially viable for the ten years to 2032.

The ten-year period has been selected because:

- the three years from April 2022 are covered by the company's latest Board approved budget;
- specific stress testing has been performed for the five years to March 2030, largely based on assumptions used in the company's PR19 business plan submission; and
- the Board has confidence that the regulatory system, under which the company is licensed, will ensure that it will remain financeable in future periods provided the business operates efficiently and Ofwat continues to make proportionate decisions regarding the weighted average cost of capital (WACC), the indexation of embedded debt and PCC, and other key factors at PR24. If all these scenarios crystallise, then there would be significant pressure on the company's ability to maintain an investment grade credit rating and access debt markets.

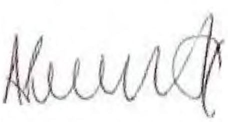
The Directors also declare that the company has carried out appropriate stress testing of its proposed performance over the next ten years using Monte Carlo modelling, and that the results of these tests show the business to be financially resilient once the range of mitigations are taken into account.

- Details of the tests carried out are described on pages 46 to 48 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 availability of new funding and is based on the realistic assumption that the company continues to have its existing access to capital markets to fund its required investment programme and provide sufficient liquidity.
- The stress testing considers the implications on key metrics utilised by rating agencies.

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

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

This strategic report was approved at a meeting of Directors held on 30 June 2022 and duly signed on its behalf.



Andy Willicott
Managing Director
30 June 2022

Section 172(1) statement

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

In doing this, the Directors have 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 its different stakeholder groups, the company has developed a clear understanding of their needs and monitors the impact their input has had on its strategic decision-making. The Directors have considered the potential impact of their decisions on relevant stakeholders, while also having regard to the factors listed above and the likely long-term consequences of their decisions.

During the year, the company has proactively sought stakeholders' views to enable it to make decisions in a number of key strategic business areas, including the following.

- The emerging **Water Resources East (WRE) and Water Resources West (WRW) regional plans**, allowed for in the Environment Agency's national framework for water resources.
- The long-term **water resources management plans** (WRMPs) for the Cambridge and South Staffs operating areas.
- Planning for Ofwat's next five-yearly review of water companies' price controls (PR24).
- The **green recovery bid** to install an innovative ceramic membrane based filtration system at the company's Hampton Loade water treatment works.
- The **development and relaunch of four new values** for the business, focusing on the areas of equality, excellence, responsibility and trust.

Other examples of how the company has taken account of the section 172(1) factors can be found in the strategic report

Key stakeholder group	How we have engaged with these stakeholders
Customers	We continued to **engage regularly with our household and non-household customers** during the year, as their views are essential in driving all our decision-making. It is important that we always provide a good experience for all our customers as a failure to do so could result in reputational or financial harm. We use a range of deliberative and quantitative customer research techniques and a variety of different channels in our engagement, including: • our website; • the H2Online customer community – see page 20 for more information; • social media – Facebook, Twitter and Instagram; and • You Tube. We share our customer insights with teams across the business through our internal communications, Board reports, interactive de-briefs with the senior managers responsible for delivering out plans, and presentations to the Executive team and to Board steering groups. In addition, we **engaged regularly with the Independent Customer Panel**, sharing information and asking for the Panel's input on the quality of our customer engagement and customer-facing corporate documents. Non-executive Directors attended a number of Customer Panel meetings during the year, increasing Board insight into our customer engagement. We also **implemented the following approaches and processes** during the reporting year to help us communicate the impact of our research and insights programme more effectively with all stakeholders, including customers.

<table>
<tr><th>Key stakeholder group</th><th>How we have engaged with these stakeholders</th></tr>
<tr><td></td><td>

We developed our customer dashboard to include a more comprehensive 'you said, we did' section so that customers can understand the actions we have taken to improve our service as a result of their feedback. We also provide 'you said, we did' updates to our H2Online community to help members understand the changes we have made as a direct result of their feedback, and also to enable them to comment on whether they agree with our decisions. This has proved to be a popular development with our engaged community members.
As part of our strategic research programme, we also ask customers at the end of the engagement whether they want to receive feedback on next steps. For those who do, we send a link to a video and infographic outlining how we have used their feedback in our decision-making.
And we developed a strategic document that outlines to senior managers what customers are saying about how we are performing against key targets, as well as to enable us to capture action plans to ensure they are aligned with what customers have said they expect us to deliver.

This engagement activity links directly to the delivery of our excellent C-MeX performance during the reporting year. See page 17 for more information.
We continued to engage with developers, self-lay providers, and new appointments and variations (NAVS) during the reporting year. This included hosting two forums (by customer segment) covering a range of themes, including:

developer charges;
a self-lay code for adoption;
water efficiency opportunities; and
changes to the customer journey.

In addition, we increased the day-to-day level of proactive contact with customers about the status and cost of their works. We also introduced the first of a series of user guides, continued to develop the content on our website and simplified the information we issue to customers.
Another area where we focused our attention during the reporting year was on building our relationships with retailers and their end customers. This is important to us as we have a bespoke performance commitment to deliver an excellent service for retailers (our 'R-MeX' measure) over the five years from 2020 to 2025. During the year, we appointed a Retail Market Manager with responsibility for developing and implementing our R-MeX strategy. As part of this role, the Retail Market Manager has:

held quarterly review meetings and twice-yearly review sessions with all our retailers;
attended regular Market Operator Services Ltd (MOSL) Operational Advisory Group meetings and MOSL User Forum meetings to share insight and information with other stakeholders;
held monthly metering sessions with one key retailer;
produced quarterly newsletters for retailers and MOSL; and
engaged with CCW on our retail market plan.

</td></tr>
<tr><td>Community</td><td>
A key feature of our brand identity is being embedded in the communities we serve. Failure to engage with our community stakeholders could result in reputational harm and a loss of trust in our brand. So making sure we build and maintain relationships within our community is important to us.
We continued to feel the impact of the COVID-19 pandemic on our community activities during the reporting year. But in August we were finally able to re-open our community hub and participate once again in a number of local initiatives and activities. This included a launching a 'baby bank' project for families in need, a 'dress to impress' campaign for people needing access to smart clothes for job interviews and a 'love my hub' campaign.
As well as being a focal point for the community in and around the town of Wednesbury in our South Staffs Water operating area, our hub is also a designated 'Place of welcome', where people from the local community can go along each Monday to meet others for a drink and a chat. See page 20 for more information.
We also launched a mobile community initiative in our Cambridge operating area during the reporting year called 'water on wheels'. We believe this approach will enable us to reach those customers who prefer to engage with us face to face, while at the same time increasing our presence and visibility in the communities we serve, some of which are located in rural areas. We launched a dedicated web page, which enables customers to see where the community vehicle will be in the week ahead.
The easing of most lockdown restrictions in July 2021 meant that we were able to relaunch our Employee Volunteer Scheme (EVS). Under this scheme, our people are able to take up to three days a year to participate
</td></tr>
</table>

Key stakeholder group	How we have engaged with these stakeholders
	in activities that will make a positive impact in their communities. During the year, our people took part in a number of EVS activities, including hedge and tree planting, and helping out at community events and festivals. We believe all these events help to raise our profile as a community focused company. See page 20 for more information. Another way we **raise the profile of our business and our activities** is through our H2Online community. This is a two-way research platform that gives us valuable insight about our customers' views, enabling us to build these views into our decision-making. As well as inviting members to take part in a range of activities, we also update them regularly with the actions we have taken from their feedback and our wider engagement programme. This feedback loop is important for us to demonstrate how we have taken our customers' views into account. See page 20 for more information. And while our **education outreach activity was severely curtailed** because of restrictions on access to schools for much of the year, we continued to encourage the next generation of water users with our annual competition to design a water-saving poster. The competition is open to children across our Cambridge and South Staffs operating areas aged 5-11 and encourages bold designs with a water efficiency theme. We shared the winning posters from each operating area on our website. We also continued to share information with more than **400 community groups and charities with which we have built meaningful relationships** over the past few years. And we continued to work in partnership with other organisations. This included, for example, renewing our sponsorship of the Dry Garden at Cambridge University's Botanic Garden. Our Cambridge operating area is an area of serious water stress and receives only around 550 mm of rainfall each year on average. So the plants in the Dry Garden have been selected for their ability to survive in areas of low rainfall. We are pleased to be able to provide ongoing support for the Dry Garden.
Employees	In last year's section 172(1) statement, we reported on our success at achieving Investors in People (IIP) accreditation. As part of this process, we carried out a project to refresh our corporate values, which underpin our business objectives – and those of our people. During the reporting year, we **launched four new values for the business, which focus on equality, diversity and inclusion; excellence in service; responsibility; and trust**. We have embedded these values within our appraisals process to ensure they are reflected in our people's objectives. We believe this will help us to deliver the outcomes our customers have told us are important to them. See page 29 for more information. In addition, we looked afresh at our internal communications as part of an approach to **encourage more employee engagement**. During the reporting year, for example, we launched a number of WhatsApp groups specifically for our field-based teams. We also relaunched our internal monthly newsletter, giving it a new name ('News Splash'), a vibrant new look and a number of new features, and launched a revised version of MiHub, the platform we use to give our people control over their personal data. And we continued to use the full range of tools at our disposal to engage our people and keep them informed, including: • regular internal communications emails on a range of different topics; • regular updates on Yammer, our internal engagement, sharing and collaboration platform; • a quarterly 'Talent pipeline' newsletter, with information about new starters, promotions and leavers; and • regular health and wellbeing surveys.
Regulators/government	This is a crucial group of stakeholders for us, as failure to comply with our legal or regulatory requirements could result in financial penalties or enforcement action, resulting in reputational harm. Engagement with these stakeholders during the reporting year was primarily through **regulatory submissions, meetings, and membership of relevant groups and organisations**, including: • Water UK's Regulatory and Strategy Committee, which is attended by Strategy and Regulation Directors and discusses future regulation policy; • Ofwat's regulatory working groups (such as the cost assessment working group) to help shape future decisions; and • various Environment Agency technical advisory groups. In addition, as a key member of Water Resources East (WRE) in our Cambridge operating area and Water Resources West (WRW) in our South Staffs operating area we engaged with other water companies and key stakeholders on the **development of long-term regional water resources plans** allowed for in the Environment Agency's national framework for water resources. In January, along with the other regional planning groups, WRE and WRW published their emerging regional plans, ahead of formal consultations in autumn 2022. The final regional plans are due to be published in 2023.

Key stakeholder group	How we have engaged with these stakeholders
	We have also continued to engage with **national and local elected officials** during the year. In September, for example, we hosted Anthony Browne, the Conservative MP for South Cambridgeshire, at our Cambridge office, where we shared with him some of our plans for securing long-term water resources. And although it falls just outside the reporting year, in April Philip Dunne, the Conservative MP for Ludlow, visited our Hampton Loade water treatment works to learn more about the upgrade programme and the successful green recovery bid, which will enable us to install an innovative ceramic membrane based filtration system at the works. See page 23 for more information.
Shareholders	Our shareholders want to be assured that we run our business efficiently, and that we proactively engage with them on strategic decisions. Failure to engage with this group of stakeholders would impact our ability to deliver an effective business strategy. As with previous years engagement directly with shareholders was **through Board meetings**. We also engaged with shareholders regularly on key issues affecting the business, such as our financial performance, key risks, and our compliance with environmental, social and governance (ESG) metrics and indicators.
Suppliers/partners	We continued to work with a **range of companies across a number of disciplines and sectors** during the year. This is so we can be sure we use the right suppliers and skills to support us in maintaining our water supplies and serving our customers. We use a range of competitive processes to appoint our suppliers, which allows us to check that they provide value for money, while delivering high-quality goods and services. We also **work closely with our supply chain** to ensure they understand the importance of ethical procurement and review their health and safety, cyber security and insurance policies. In March, we published a new supplier code of conduct, which outlines our **expectations of how our suppliers – and their supply chain partners – should act** when providing us with goods and services. This new code of conduct covers a number of themes, including: • business ethics; • dealing with fraud and tax evasion; • entertainment and hospitality: and • health and safety. We expect all suppliers to acquaint themselves with, and follow, our supplier code of conduct.

This section 172(1) statement was approved at a meeting of Directors held on 30 June 2022 and duly signed on its behalf.

Andy Willicott
Managing Director
30 June 2022













Governance

Board, Directors and Executive team

Board structure

Details of the terms of reference of all the committees their membership and activities during the year are reported on pages 72 to 77.

Board of Directors

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

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

Lord Smith was appointed as an Independent Non-executive Director in October 2018. He is a Life Peer in the House of Lords.

Lord Smith has extensive senior leadership experience in both the political world and the public sector, having previously held the posts of Chair of the Environment Agency and Founding Chair of the UK Water Partnership. He is also a Cambridge Water customer.

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

Andy Willicott – Managing Director

Appointed Managing Director in May 2020, having previously been Transformation Director at Bristol Water. Past roles include Executive Director with 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: Board member, Water Resources East; Board member, Water Resources West.

Phil Newland – Group Chief Executive, South Staffordshire Plc

Appointed Group Chief Executive of South Staffordshire Plc in April 2020. Previously Managing Director of South Staffordshire Water PLC from April 2014. From 2006, Phil worked within the South Staffordshire Plc Group as Managing Director of Echo Managed Services Ltd, supplying technology and retail services to the water sector. He was previously a management consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

External appointments: Director, Pennon Water Services Ltd.

Catherine May – Senior Independent Non-executive Director

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

External appointments: Independent Non-executive Director and Remunerations and Nominations Committee Chair, Pensions and Life Savings Association (PLSA); Chair, English National Opera Trust. She is also principal of an advisory practice providing leadership coaching and reputation management services.

Alice Cummings – Independent Non-executive Director

Appointed as an Independent Non-executive Director in May 2020. Alice has relevant commercial, financial and governance experience in regulated service industries.

Previously, she was Group CFO at the InHealth Group and Group CFO at the AEA Group. Her 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: Non-executive Director, Chair of Audit Committee and Remuneration Committee Member of Idox plc; Non-executive Director, Vice Chair and Chair of Audit and Risk Committee of Cottsway Housing Association; Non-executive Director and Chair of Audit Committee of Recycling Technologies Group Plc.

Professor Ian Barker – Independent Non-executive Director (appointed 12 April 2022)

Appointed as an Independent Non-executive Director in April 2022. Ian is a Chartered Environmentalist and an Honorary Fellow of the Society for the Environment, a fellow of the Institute of Water, and an honorary professor at the University of Exeter.

He 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: Non-executive Directorships with the Institute of Water, the Water Industry Forum and the Society for the Environment; Managing Director, Water Policy International Ltd; adviser on water governance and management to the OECD.

Keith Harris – Non-executive Director and Arjun Infrastructure Partners Representative

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

Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, including a period of time at ENRON/AZURIX, where he was global Head of Regulation. At Wessex Water he held various senior executive and Board positions, including CFO and deputy CEO, and brings strong financial and regulatory experience to the Board.

External appointments: Independent Non-executive Director of Ervia, the parent company of Irish Water; Gas Networks Ireland and Aurora Telecom Industry Partner with Arjun Infrastructure Partners; Associate with OXERA.

Peter Antolik – Non-executive Director and Arjun Infrastructure Partners Representative

Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018.

He is a Partner of Arjun Infrastructure Partners and his background covers regulated companies, transport regulation, and the management of infrastructure funds and investments.

Peter joined Arjun Infrastructure Partners from the Office of Rail and Road, and was previously Strategy and Regulation Director at Thames Water.

Ken Kagaya – Non-executive Director and Mitsubishi Corporation Representative (appointed 12 April 2022)

Ken was appointed as a Non-executive Director and Mitsubishi Corporation Representative in April 2022.

His background covers business development and asset management, in the renewable energy, oil and gas sectors across the United Kingdom, Europe, the USA, Australia and Japan.

Ken has been with Mitsubishi Corporation for nine years. He has a M.S. degree in civil engineering.

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

Stephen Kay, Independent Non-executive Director – resigned 25 March 2022

Appointed as an Independent Non-executive Director in April 2013. Stephen is a Chartered Engineer who has spent his career in the water sector, both in the UK and internationally. He was the Managing Director of Cambridge Water PLC until March 2013 and brought strong water industry, engineering and compliance experience to the Board. **External appointments:** Senior Independent Non-executive Director of Jersey Water; Director of the Water Companies Pension Scheme Trustee Company; Trustee of the Arthur Rank Hospice Charity; Director of Watersafe Ltd.

Keita Saito, Non-executive Director and Mitsubishi Corporation Representative – resigned 31 March 2022

Keita was appointed as a Non-executive Director and Mitsubishi Corporation Representative in June 2020. He is the Head of Water Business Team at Mitsubishi Corporation and his background covers business development, project management, M&A and investment management in the renewable energy and water sectors across Europe, Asia Pacific and the Middle East. Keita has been with Mitsubishi Corporation for 17 years. **External appointments:** Director of Cleanairtech Sudamérica S.A., a desalination and water transmission company in Chile.

Executive team

Abbie Poulton – Interim Finance Director (appointed February 2022)

Abbie was appointed to the Executive team on an interim basis in February 2022, having previously been our Financial Controller. She is a Chartered and Certified Accountant who qualified with Pricewaterhousecoopers LLP in 2004. Abbie joined Severn Trent in 2010 and after progressing through a number of roles in both Group Finance and the Financial Service Centre joined South Staffordshire Water in 2019.

Caroline Cooper – Strategy and Regulation Director

Caroline was appointed to the Executive team in 2020 having previously been 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 of her career in the water sector, previously working for Severn Trent Water until she joined South Staffordshire Water in 2003. She originally joined as an analyst in asset management and has progressed through a number of roles within the business, and has extensive knowledge of asset management, business planning and strategy development.

Andrew Lobley – Operations Director

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

In 2009 Andrew achieved a PhD in Civil Engineering, focusing on water quality risk management. He joined South Staffordshire Water in 2014, and before being appointed to his current role, held the positions of Director of Operations, and Head of Water Quality and Compliance at South Staffs Water.

Dan Rhodes – Customer Delivery Director (appointed March 2022)

Dan was appointed to the Executive team in 2022 and has responsibility for delivering an excellent service for household and retailer customers, as well as change programmes and innovation.

Dan was previously Head of Customer Service at Morrison Water Services, where he implemented a change programme to deliver a superior experience for all customers. This programme won the Institute of Customer Service (ICS) Best Customer Satisfaction Strategy 2019. Dan has also held roles at Severn Trent Water and Morrison Utility Services.

Tom Fewster – Asset Management & Investment Delivery Director (appointed March 2022)

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

Tom has a huge amount of 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.

Marcella Nash – Director of Human Resources

Marcella was appointed to the Executive team in January 2014, having previously worked within South Staffordshire Plc as head of human resources for Echo.

She has extensive generalist HR experience and is currently responsible for organisational capability and people performance, as well as health and safety standards, performance and culture. Prior to this, she was a senior HR manager at Severn Trent Group and Severn Trent Water.

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

Pete Aspley, Wholesale Director – resigned 30 April 2021

Pete has a well-established background in the water sector, having worked within the South Staffordshire Plc Group for more than 25 years. He trained as a mechanical and electrical engineer within the manufacturing sector, before joining the Group as a water treatment manager in 1990. Pete has a wealth of operational and management experience in the abstraction, treatment, storage and distribution of potable water. In 2004 he set up and became managing director of Integrated Water Services Ltd (IWS) – a new Group company providing a wide range of specialist support services to water and related industries. Pete joined South Staffordshire Water in 2015.

Rachael Merrell, Customer Delivery Director – resigned 1 February 2022

Rachael was appointed to the Executive team in 2020, and in 2021 added wholesale planning and scheduling to her directorate. Rachael has a wide range of experience working in utilities, having previously worked with South Staffordshire Water for three years as Head of Retail Services and previously at npower, First Utility and Virgin Media, plus eight years as operations manager/director with RSA insurance group. Rachael is passionate about ensuring an excellent customer experience is delivered across the business, providing the right level of service now and in the future, using transformational change to make continual improvements for customers and colleagues.

Andrew McGeoghan, Finance and Commercial Director – resigned 2 February 2022

Andrew was appointed to the Executive team in March 2019, having previously worked at Jacobs as Head of Economic Regulation and Assurance. Andrew is a Chartered Management Accountant and a member of the Association of Corporate Treasurers. He has diverse experience in both the public and private sectors, having held a variety of senior finance positions. Andrew spent several years with Ofwat as an Associate Director developing annual performance reporting, implementing accounting separation, and leading data governance and financial modelling for PR14. In 2015 Andrew joined Jacobs to set up and lead a specialist team advising regulated companies on their reporting and control processes.

Directors' report

The Directors are pleased to present their annual report and financial statements for the year ended 31 March 2022. The Directors confirm that they consider the annual report and financial statements to be fairly presented 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 2022, 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		10/10
Phil Newland	Group Chief Executive – South Staffordshire Plc	29/04/2020		10/10
Andy Willicott	Managing Director	11/05/2020		10/10
Catherine May	Senior Independent Non-executive Director	25/10/2018		10/10
Stephen Kay	Independent Non-executive Director	01/04/2013	25/3/2022	10/10
Alice Cummings	Independent Non-executive Director	14/05/2020		9/10
Keith Harris	Non-executive Director	30/04/2015		10/10
Peter Antolik	Non-executive Director	25/10/2018		10/10
Keita Saito	Non-executive Director	29/06/2020	31/03/2022	10/10
Professor Ian Barker[1]	Independent Non-executive Director	12/04/2022		
Ken Kagaya[1]	Non-executive Director	12/04/2022		

1. Professor Ian Barker and Ken Kagaya attended all meetings following their appointment dates.

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.

Financial results

The company's financial results are shown in the financial statements on pages 86 to 114.

Dividends of £10.7m were paid during the year (2021: £6.2m), including non-appointed dividends of £1.6m (2021: £2.9m). 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 10 to 13.

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

Payment of creditors and commercial arrangements

The company's policy is to pay suppliers in line with the terms of payment agreed with each of them, when contracting for their products or services. Trade creditors at 31 March 2022 represent 40 days (2021: 34 days) of purchases. The company is not reliant on any single commercial arrangement.

No political donations were made during the financial year (2021: nil).

Corporate social responsibility

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

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

During the reporting year, the company began looking at its corporate social responsibility through the lens of environmental, social and governance (ESG) compliance. Increasingly, customers and investors are using ESG performance as a measure of a company's public value, sustainability and ethical impact. The company has set up a Board ESG sub-committee and has started reporting against key ESG criteria. The company and Group now have a shared resource devoted to co-ordinating ESG activity and compliance.

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

Further information on the company's corporate social responsibility activities is set out in the strategic report on pages 14 to 33.

Energy use and carbon emissions

The UK water sector is leading the world in its commitment to achieve 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 through the use of the UK Carbon Accounting Workbook, which is used as a standard process developed for carbon accounting within the water sector and audited by an external auditor appointed by Ofwat. Reporting boundaries are defined by financial control. We have also used UK Carbon Factors for Greenhouse Gas Emissions, published by the Department for Business, Energy and Industrial Strategy (BEIS).

Scope 1 energy use and emissions

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

Our scope 1 energy use and carbon emissions for the reporting year are set out below.

Fuel	2021/22		2020/21	
	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e
Natural gas	105,539,614	19,147	81,986,780	15,075
Diesel BS EN 590	5,904,148	1,398	5,836,043	1,492
Gasoil (Class A2)	1,504,145	411	9,739,780	2,660
Kerosene	298,028	74	–	–
Hydrogenated vegetable oil (HVO)	202,393	4	524,198	10
Petrol	227,869	52	78,470	19
Total	**113,676,197**	**21,086**	**98,165,271**	**19,256**

Scope 2 energy use and emissions

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

We report our emissions resulting from grid electricity consumption using both location-based emissions factors, which reveals what the company is physically putting into the air (UK grid emissions factors); and market-based emissions factors, which shows emissions the company is responsible for through its purchasing decisions. These take into account the procurement of low and zero carbon electrical energy.

During both 2020/21 and 2021/22 we produced 100% of our grid electricity from zero carbon sources.

Electricity	2021/22		2020/21	
	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e
Location-based emissions	97,676,198	22,759	103,776,614	24,194
Market-based emissions	97,676,198	0	103,776,614	0

Total emissions

Scope 1 and 2 emissions are those directly associated with our business operations. We have summarised them below, using both location-based and market-based factors for electricity (taking into account our certified clean renewable energy sources) and presenting emissions per megalitre (Ml) of treated water supplied in the reporting period to relate them to the activity of the business.

Year	Emissions (tonnes CO_2e)	Emissions (kg CO_2e per Ml of treated water)
2021/22 (location-based electricity factor)	43,845	265
2021/22 (market-based electricity factor)	21,086	127.5
2020/21 (location-based electricity factor)	43,450	263
2020/21 (market-based electricity factor)	19,256	117

Efficiency measures

During the reporting year, we have continued to invest in the efficiency of our network and facilities. Below, we set out some of the key highlights.

- We have improved production efficiency and reduced demand for energy through our ongoing pump efficiency and leak reduction programmes. While the leak reduction programme is subject to its own public commitment to reducing demand through wastage, the pump efficiency programme is dedicated to maintaining the condition of equipment purely for reasons of energy efficiency and benefits from a £450,000 annual budget allocated in every year of the current five-year planning period.

- While the 2020/21 financial year saw the start of a 12-month trial using HVO bio-fuel to run the legacy diesel generators at our Hampton Loade water treatment works, this was successfully completed during the reporting year. The trial has subsequently enabled us to remove all mineral diesel storage at the site within the last financial year and plan the conversion of other sites as part of our net zero strategy. To the best of our knowledge, in 2021/22 our Hampton Loade site became the first major site in the water sector to operate its standby generation facility solely on HVO bio-fuel. In doing so, we have demonstrated that critical national infrastructure can be reinforced with low carbon standby power supplies without significant capital investment.

- We developed our renewable energy strategy in significant part in the 2020/21 financial year. Following this, in 2021/22 we have tendered the first stages of our installation programme which will see two significant photovoltaic (PV) installations, but which, at the time of writing, were subject to a non-disclosure agreement.

- We began implementing our strategy to electrify our vehicle fleet, with the first electric vans entering service in the second quarter of 2022/23. Following initial discussions with prospective contractors, a major tender process was started during the reporting year with contracts awarded to supply, operate and maintain a network of charging facilities across our estate during the second quarter of 2022/23.

- Following review of the lighting provision at our Green Lane Head Office during the 2020/21 financial year, we have invested in the installation of a full LED lighting solution in spaces occupied by both South Staffordshire Water and Group businesses during the reporting year. The benefits to electrical efficiency and carbon emissions are accompanied by improved internal environment for our people and a reduction in the need for air conditioning as a result of reduced heat gains.

Corporate governance

The corporate governance report is set out on pages 66 to 77. The Group structure is shown in the chart on page 68.

Risk management

The company's practices in respect of risk management are set out on pages 35 to 45 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 71.

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. Deloitte LLP will be resigning as independent auditor post the audit for 2021/22. A resolution proposing the appointment of Ernst & Young LLP as independent auditor for 2022/23 will be approved at the Annual General Meeting.

This Directors' report was approved by the Board and signed on its behalf by:

Andy Willicott
Managing Director
30 June 2022

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

Corporate governance report

The Directors of South Staffordshire Water have always placed good governance at the core of the business. They are aware of their obligations to ensure effective leadership and appropriate governance arrangements are in place.

Although the company 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. A summary on how the company follows these principles is set out below.

The company also applies the Walker Guidelines on transparency and disclosure.

The company frequently 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 itdelivers this and its strategy are set out in the strategic report on pages 10 to 56.

Compliance with the 2018 Corporate Governance Code

The company is committed to delivering good corporate governance and believes it is essential to give customers confidence in its performance. Some of the ways in which the company can demonstrate its compliance with the Corporate Governance Code are set out below.

Corporate Governance Code requirement	How the company demonstrates compliance
Board leadership and company purpose	• Company vision, mission statement and purpose (page 5). • Section 172(1) statement (page 53). • Corporate social responsibility/environmental, social and governance compliance (page 63). • Company direction and performance statement (see annual performance report, page 35).
Division of responsibilities	• Functions of the Board (page 69). • Board Committees (pages 72 to 77). • Directors' responsibilities statement (page 84). • Statement of Directors' responsibilities for regulatory information (see annual performance report, page 36).
Composition, succession and evaluation	• Board structure (page 58). • Board effectiveness (page 83).
Audit, risk and internal control	• Risk review and analysis of key risks for the business (pages 35 to 45). • Long-term viability statement (pages 46 to 51). • Board statement on long-term viability (page 52). • Statement on accuracy and completeness of data and information (see annual performance report, page 45). • Risk and compliance statement (see annual performance report, page 42).
Remuneration	• Remuneration report (pages 78 to 82).

Group structure

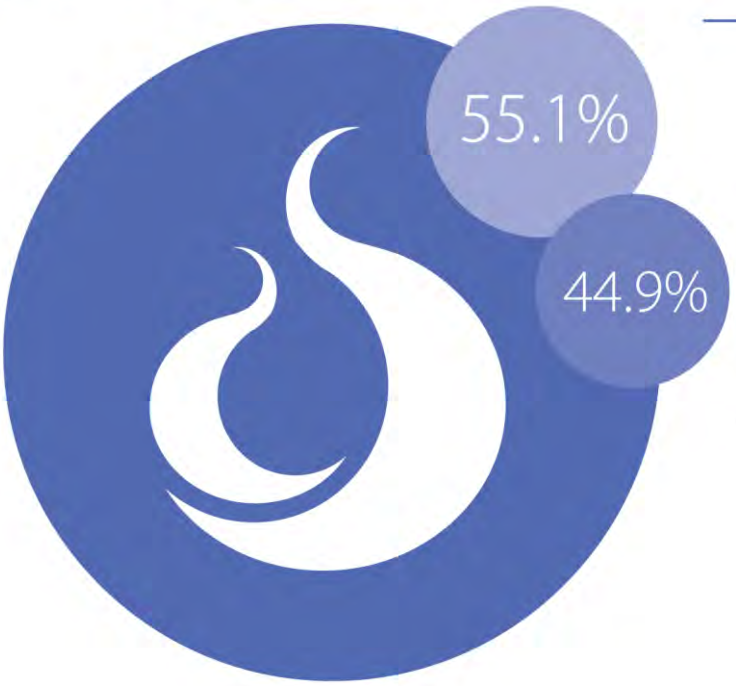
During the year the Group completed a refinancing programme and SSW Finance Limited (a holding company) became the immediate parent company of South Staffordshire Water. South Staffordshire Plc remains South Staffordshire Water's ultimate parent company within the Group structure immediately below Aquainvest Acquisitions 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 sit on the Boards of South Staffordshire Plc, SSW Finance Limited and the company, South Staffordshire Water acts, with the support of the Group, as if it were a separate listed company.

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

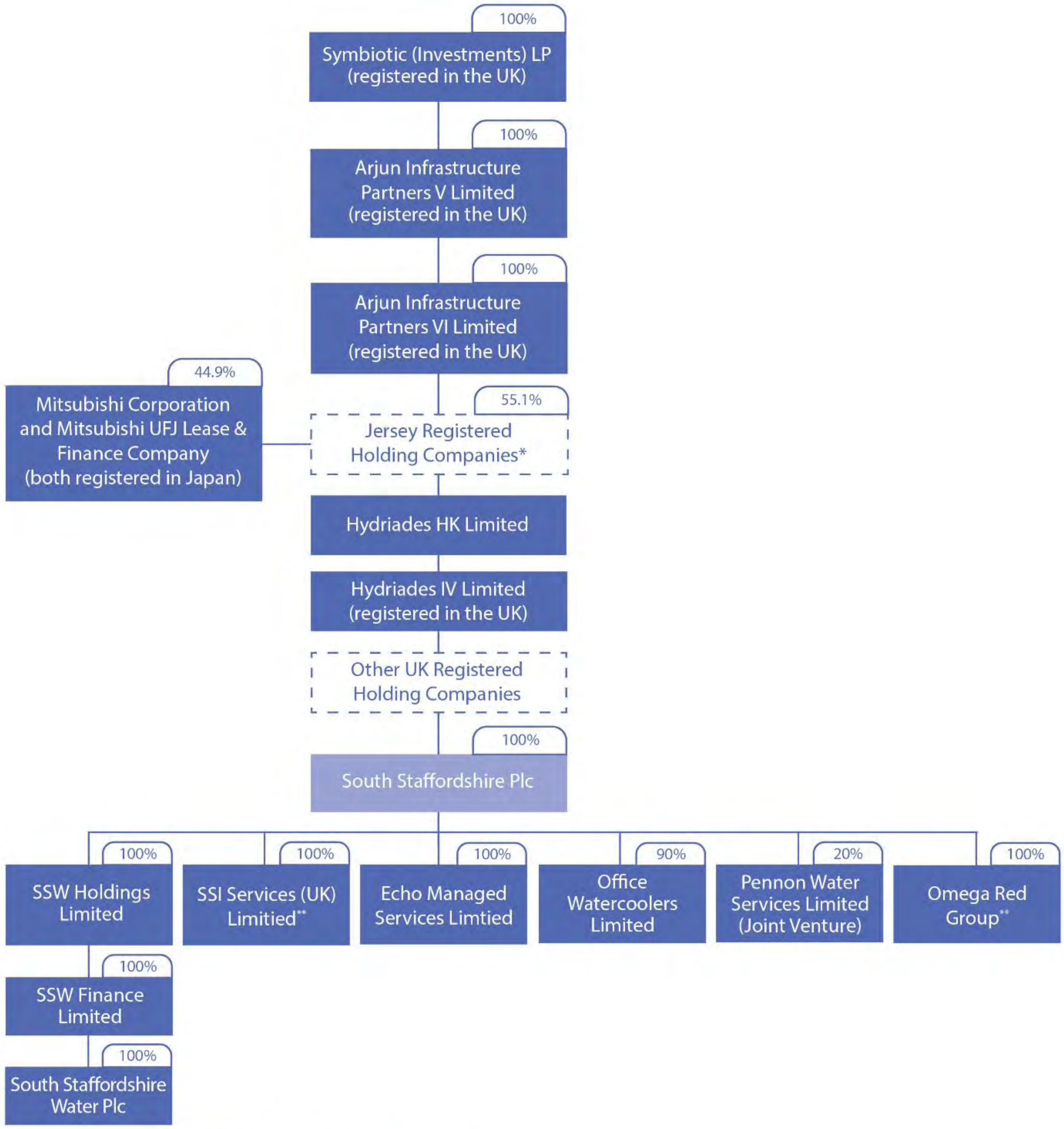
Details of the company's borrowings are provided in the accompanying reported financial statements and the financial performance section of the strategic report. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own annual report and accounts. Details of the Group structure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

Who are our investors?



Long-term pension scheme and institutional investors, advised by Arjun Infrastructure Partners, which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018



* Jersey registered holding companies are UK resident for tax purposes.
** Omega Red Group is managed within the SSI Services division.
% represents economic equity interest held.

Relations with investors and the immediate holding companies

During the reporting year there were two UK registered intermediate holding companies above South Staffordshire Water and a number of 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 are resident in the UK for tax purposes, and one intermediate holding company, which is registered in Hong Kong. There are a number of UK registered entities above the companies registered in Jersey and the ultimate controlling party is Arjun Infrastructure Partners Limited, a company registered in the UK.

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

Arjun Infrastructure Partners Limited, AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure Partners Limited) and Mitsubishi Corporation 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;

ii) refrain from taking any action which might cause the company to breach any of its obligations; and
iii) 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 that 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 three Board sub-committees.

The Board of Directors

The 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 (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.

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

Insurance and indemnities

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

Board membership

A full list of Board members can be found on pages 58 to 60.

Peter Antolik is a Director of all of the UK and Hong Kong holding companies above South Staffordshire Plc in the Group structure as at 31 March 2022.

Keita Saito was appointed as a Non-executive Director and Mitsubishi's Corporation Representative on 29 June 2020 and resigned 31 March 2022.

Stephen Kay resigned as an Independent Non-executive Director on 25 March 2022.

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

Ken Kagaya was appointed as a Non-executive Director and Mitsubishi Corporation Representative on 12 April 2022.

Keith Harris, Philip Newlands and the Rt Hon Lord Smith of Finsbury retired by rotation in accordance with the Articles and were re-elected at the AGM that was held on 5 July 2021.

Andrew McGeoghan resigned as Company Secretary on 2 February 2022 and was replaced by Caroline Stretton.

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:

- customers;
- the environment;
- the business;
- employees;
- investors; and
- other stakeholders.

The Board should also be in a position to make well-informed, high-quality and sustainable decisions, which are in the company's best interests, 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 as a whole by monitoring reports received directly from Directors 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 Assurance 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 Directors and Executive team carry out site visits to maintain familiarity with the company's operations and to refresh their skills and knowledge. The Directors also keep up to date with legal and regulatory changes and developments by receiving written and verbal updates from both internal and external advisers and regulators.

The Directors are supported by the Executive team and by other senior managers, who are responsible for assisting them in developing and achieving the company's strategy, and in reviewing its financial and operational performance. Along with the Directors, 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 page 60.

A formal evaluation of Board and individual members' performance is carried out by reviewing the effectiveness of the Board as a whole and of the individual members of the Board. Earlier this year, the Chair carried out an appraisal process for all Board members, reviewing their contribution and performance. The Chair will undergo an appraisal this year, which will be led by the Senior Independent Non-executive Director. More information on the effectiveness of the Board can be found on page 83.

Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on the Institute of Chartered Secretaries and Administrators (ICSA) best practice. 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.
- 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 a Committee, 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 2022, there were ten Board meetings.

All Directors are provided with sufficient information before a Board meeting to allow appropriate preparation to ensure they can properly discharge their duties.

The attendance by individual Directors at scheduled meetings of the Board during the year, is shown in the table in the Directors' report on page 62.

Organisational structure

A defined organisational structure exists for the company, with clear lines of responsibility, accountability, and appropriate division of duties.

The Directors set an overall strategy for the business. They have 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. In addition, formal Treasury policies are in place. Where appropriate, commercial, and financial responsibility is clearly delegated to the Executive team and supported by the Directors.

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 Audit and Risk Assurance 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 Assurance Committee.

Further details of risk management and key risks are set out on pages 35 to 45 of the strategic report.

Employee engagement

The company uses a range of communication channels and activities to engage with its people. During the reporting year this included carrying out a number of surveys – for example, around COVID-19 and hybrid working, mental wellbeing, and field worker safety and wellbeing. The company delayed its Investors in People (IIP) engagement survey to participate in a planned Group-wide engagement survey, which took place just outside the reporting year. The feedback from this survey is helping the company to shape actions, particularly around:

- maintaining flexible hybrid working arrangements;
- improving communications in the field;
- creating support groups; and
- recruiting mental health first aiders.

Further details are set out on pages 31 to 33 of the strategic report.

Diversity and inclusion

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

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

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

Regulatory reporting

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 Independent Non-executive Directors, are involved in the approval process for key regulatory information. This process supports the:

- the governance in place;
- the review of information by an independent technical auditor (Jacobs);
- the audit work; and
- certain agreed-upon procedures in respect of the extraction of specific information performed by the external independent auditor (Deloitte LLP).

Where identified as necessary by the company's assurance framework, the Group Internal Audit function will review processes and data to provide appropriate assurance.

The company places great emphasis on regulatory reporting to ensure it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat, other regulators and stakeholders. It is important to the company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business and make appropriate decisions with reference to this data.

The company's regulatory accounts are set out in the annual performance report on pages 58 to 70.

Going concern and basis for assumption

The Directors consider that it is appropriate to prepare the financial statements on a going concern basis. This view is based on a review of the company's budget for the year ending 31 March 2022, the longer-term plan and financial forecasts to 31 March 2025, and the related stress testing performed on this plan as detailed in the long-term viability statement on pages 46 to 51.

This assertion is also based on:

- the company's investment programme;
- the final determination for the five years from 2020 to 2025 and the company's plan in relation to it;
- the committed borrowing facilities available to the company together with cash balances, actual and forecast compliance with borrowing covenants and other important financial metrics and ratios; and
- its access to capital markets to fund operations in the future in relation to the impact of the COVID-19 pandemic.

The company is confident it has sufficient access to capital markets, and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and financial statements. 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.

A private placement loan with Pricoa has been secured and funds have been drawn down in two tranches: with the first £20m drawn in June 2021 and the second tranche of £40m drawn post-year end in June 2022. An outstanding intercompany loan of £25m has been repaid to the company during the reporting year.

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 10 to 56. The company's financial position, its liquidity position and available borrowing facilities are set out on the balance sheet on page 87 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 company has borrowing facilities, as well as its cash balances and has headroom in respect of all of its borrowing covenants, both on a historic and forward-looking basis.

Audit and Risk Assurance Committee

Membership for the year ended 31 March 2022

Alice Cummings (Chair)

Catherine May

Stephen Kay

Keith Harris

Keita Saito

Director	Role	Meeting attendances
Alice Cummings	Member and Chair	3/3
Catherine May	Member	3/3
Stephen Kay (resigned 25/03/2022)	Member	3/3
Keith Harris	Member	3/3
Keita Saito (resigned 31/03/2022)	Member	3/3
Professor Ian Barker (appointed 20/06/2022)[1]	Member	–
Ken Kagaya (appointed 20/06/2022)[1]	Member	–

1. Professor Ian Barker and Ken Kagaya have attended all meetings since their appointments.

A review of the terms of reference for the committee was completed last year, including membership of the Committee. Alice Cummings was appointed to the Audit and Risk Assurance Committee on 14 May 2020 and was made Chair in September 2020.

Audit and Risk Assurance Committee meetings are also regularly attended by:

- Deloitte LLP, the company's external independent auditor;
- the Finance Director;
- the Company Secretary;
- the Director of Regulation;
- the Financial Controller;
- the Group Chief Financial Officer; and
- the Group Internal Audit Manager.

Roles and responsibilities

In the prior year, following the review of the Board effectiveness the terms of reference for the Committee was expanded to document the inclusion of risk assurance. The Audit and Risk Assurance Committee focuses on the company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical and regulatory requirements, and on aspects of financial reporting. This includes:

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

Key terms of reference

- Reviewing and appraising the work of the external auditor by meeting with the auditor, reviewing the results of its work, discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the nature of non-audit services provided, and reviewing the auditor's own assessment of its independence.

- Monitoring, reviewing and challenging, when necessary, the integrity of the company's financial statements, including its annual report and financial statements, interim accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain.

- Reviewing and challenging, when necessary, key regulatory submissions and publications, including the annual performance report, 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 of Directors 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.

Audit and Risk Assurance Committee activities

In the year ended 31 March 2022, the Committee focused on the key business risks as set out on pages 36 to 45 of the strategic report. It also focused on the areas of significant judgement and estimate as identified by the external auditor.

Primarily, these are:

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

Individual business departments are responsible for identifying, quantifying, reporting and controlling risks relevant to their activities. Risk reports are produced and reviewed by the Audit and Risk Assurance Committee twice a year.

The risk associated with business planning reflects the risks associated with delivering the company's business plan commitments. Resilience to the COVID-19 pandemic, our financial resilience and customer engagement risks have all reduced through mitigating controls being in place. Affordability, supply chain cost pressure and resilience, resource attrition and state sponsored cyber risk have all increased under the current climate.

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

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

In reviewing the significant financial reporting risks surrounding revenue recognition, recoverability of receivables and capitalisation of fixed assets, the Committee worked with senior management to ensure that these risks were mitigated and that the company's practices are in line with applicable accounting regulations, and satisfied the requirements of our external auditors.

Alongside this, the Committee reviews and challenges:

- papers and feedback from senior management;
- external auditors' reports;
- reports from the Group Internal Audit 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 Assurance Committee, recognises the need to present a 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 Assurance 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 Assurance 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 Assurance Committee is closely involved in challenging the company's processes for identifying, evaluating and managing significant risks. A detailed review of the current assessment of these can be found on pages 36 to 45 of the strategic report.

Internal audit

The company benefits from independent reviews of performance by an Internal Audit function operated by its intermediate parent company. 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 Assurance Committee each year; this is subject to challenge and approval. 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 Assurance Committee monitors progress against the plan through the reporting of findings and recommendations at each meeting.

During the reporting year, the Group Internal Audit function continued to be involved in ensuring compliance with the Information Security 27001 standard. This work provided the business with assurance around the IT services provided by Group Services.

In addition, the Group Internal Audit function has been involved in payroll governance and controls, and in formalising internal controls within the business. It also provided independent assurance around the Group business risk register, the effectiveness around internal controls and year-end audit planning.

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

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

External independent auditor

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

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

In 2020/21 we carried out a full tender process to ensure the quality and effectiveness of the external auditor was in line with market best practice and delivered value for money.

Following an evaluation of the submitted bids by key finance leaders in the organisation and presentations from the two highest rated firms to a panel that included the Chair of the Audit and Risk Assurance Committee, where quality measures scored a higher proportion of the overall score than pure cost measures, Ernst & Young LLP was selected as our new external auditor. Ernst & Young LLP will take up its appointment for the 2022/23 audit. The current external auditor, Deloitte LLP, has been our auditor since 2003, with a change in the audit partner taking place every five years. Therefore, this is Deloitte's last year as auditor, with the current audit partner completing their five-year term.

Environmental, Social and Governance Committee

Membership for the year ended 31 March 2022


Lord Smith of Finsbury (Chair)


Catherine May


Peter Antolik


Keita Saito

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	1/1
Catherine May	Member	1/1
Keita Saito (resigned 31/03/2022)	Member	1/1
Peter Antolik	Member	1/1
Professor Ian Barker (appointed 20/06/2022)	Member	–

Roles and responsibilities

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

Key terms of reference

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

ESG Committee activities

The Committee met once during the year ended 31 March 2022. It considered the key ESG metrics for the company to report against, in the areas of:

- assessing environmental and climate risks;
- assessing opportunities;
- social concerns and engagement; and
- reviewing governance arrangements.

The Committee also considered how best to report on these metrics on a regular basis, as well as how they contribute to delivering Water UK's Public Interest Commitment – in particular, the water sector's commitment to achieve net zero carbon emissions by 2030.

Nomination and Remuneration Committee

Membership for the year ended 31 March 2022


Lord Smith of Finsbury (Chair)


Catherine May


Stephen Kay


Keith Harris


Keita Saito

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	2/2
Catherine May	Member	2/2
Stephen Kay (resigned 25/03/2022)	Member	2/2
Keith Harris	Member	2/2
Keita Saito (resigned 31/03/2022)	Member	1/2
Alice Cummings (appointed 20/06/2022)[1]	Member	–
Ken Kagaya (appointed 20/06/2022)[1]	Member	–

1. Alice Cummings and Ken Kagaya have attended all meetings since their appointments.

The Nomination and Remuneration Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair.

Keita Saito resigned from the Board – and the Nomination and Remuneration Committee – on 31 March 2022.

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 and governance. The Committee has overseen this and has tracked the company's performance in this area.

Roles and responsibilities

The Committee focuses on the company's processes for:

- the appointment of Board members, Executive Directors and Executive team members; and
- setting the remuneration packages for the Board, Executive Directors and the Executive team.

Key terms of reference

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

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

Executive Directors remuneration policy

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

The 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 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 stretch objects. This has been developed in part with the Group and with investors.

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

Board and Executive terms of engagement

Ken Kagaya was appointed to the Board as a representative of the Mitsubishi Corporation, replacing Keita Saito, who resigned on 31 March 2022. His appointments has no fixed term and he does not receive any remuneration for this service from South Staffordshire Water.

The Rt Hon Lord Smith of Finsbury, Stephen Kay (resigned 31 March 2022), Catherine May, Alice Cummings and Professor Ian Barker (appointed 12 April 2022) as Independent Non-executive Directors are appointed to Board for fixed terms of three years. They can be re-appointed for up to a further two periods before being required to stand down after a maximum of nine years' service. 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 contacts of no fixed term, with notice periods of either six or three months. They are entitled to:

- basic pay;
- private medical insurance;
- a company car or car allowance;
- fuel allowance; and
- payments made to a Group money purchase pension scheme.

As noted, the Nomination and Remuneration Committee recognises the need to attract and retain high-performing individuals. Base salary and allowances are set reflecting the market value of the role and with consideration of the respective Director's skills, experience and performance.

The Committee believes it is important that, for Executive Directors and senior management, a proportion of the remuneration package should be performance related.

This corporate governance report was approved at a meeting of Directors held on 30 June 2022 and duly signed on its behalf.

Andy Willicott
Managing Director
30 June 2022

Remuneration report

On behalf of the Board, I am pleased to provide the Directors' remuneration report for the year ended 31 March 2022. The report summarises our key objectives, our remuneration policy, the key linkages between Directors' pay and the performance of the company, in addition to the level of the Directors' emoluments for the year

We aim to ensure that executive pay is aligned with South Staffordshire Water's business strategy and that remuneration reflects the company's performance against clear operational and financial measures, as well as individual performance objectives.

We strive to ensure that we link executive pay to successful business performance, which is in turn linked to demonstrable customer benefits. We set out below how we have achieved this during what has been a very challenging year.

Composition of the Nomination and Remuneration Committee

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

Remuneration policy

Alignment with the business plan and customer expectations

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

We agreed that in relation to performance-related pay, that there should be an appropriate balance between financial metrics and those that more directly benefit customers.

We proposed to continue our structure that apportions variable pay to customer service, outcome delivery incentive performance and financial performance (including totex and cost efficiency), respectively.

We also recognise that from time to time, personal objectives may also be appropriate where they are of strategic importance to our business and our customers.

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

Approach to stretch in variable pay

Our business plan is already stretching. In all respects; it pushes performance ahead of where we are currently.

We confirmed that the Board's broader objective is for the level of performance being proposed to place us in the upper quartiles of performers in the sector.

That said, we confirmed that we still consider it appropriate that maximum levels of executive variable pay should only be achieved in response to outperformance of our targets that could be described as 'exceptional'. In most cases, we would define exceptional as being outperformance against a regulatory/customer commitment. But in some cases, it may be the delivery of the commitment itself.

Short-term Incentive Plan (STIP)

STIP arrangements for financial year end operate for executives, and senior managers and specialists. The incentive considers performance across customer focused commitments, financial performance and personal objectives.

For certain executives, the STIP bonus is in addition to the Long-term Incentive Plan (LTIP), which we describe in more detail below.

Actual bonus profiles are set at varying levels, ranging up to 75% of 10% of salary.

Long-term Incentive Plan (LTIP)

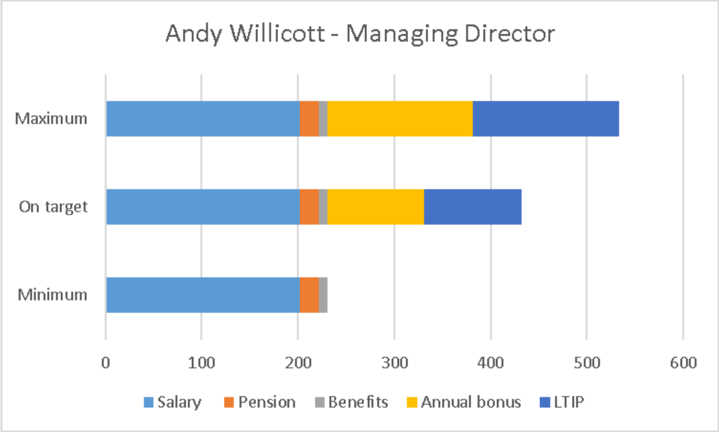
We introduced an LTIP during 2020. This incentive plan aligns the long-term interests of shareholders and the Executive team, retains and rewards executive management of certain calibres, as well as rewards for the performance over the 2020/25 regulatory period (AMP7). Performance is assessed annually. Each cycle within the bonus plan effectively covers four performance years with four annual payments being awarded, of which half is paid as a STIP bonus, in year, and half is deferred or banked to LTIP. The LTIP profiles are set at varying levels to be banked, set at ranging from up to 75% of 25% of salary.

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

Performance target	Target	Performance	Outcome	Maximum bonus percentage	Achieved percentage	Bonus percentage	Bonus[3] Value £'000
Efficient delivery and costs control							
Net wholesale totex[1]	£114.6m budget	£121.0m	Partially Achieved	13.3%	47.0%	6.3%	£9.50
Net botex wholesale	£91.2m budget	£91.1m	Partially Achieved	13.3%	60.0%	8.0%	£12.10
Cash flow before interest and tax	£(11.5)m	£(4.2)m	Achieved	13.3%	100.0%	13.3%	£20.20
Customer strategic objective							
ODI performance[2]	Upper quartile performance across common ODIs	Achieved an improved position compared with 2020/21, with upper quartile performance across common ODIs. Small penalties expected on D-MeX and education	Mostly Achieved	25.0%	88.0%	22.0%	£33.30
Great customer service to our household customers – C-MeX	Improve performance compared with 2020/21 with trajectory towards upper quartile	Exceeded and achieved upper quartile. Significant improvement achieved	Mostly Achieved	15.0%	90.0%	13.5%	£20.50
Personal							
Reducing our bad debt so customers do not pay more than they need to	Achieve cash collections targets (budget)	Performance against cash collections targets exceeded in year one, with aged collections being marginally behind budget	Mostly Achieved	5%	86.0%	4.3%	£6.50
Delivering upgraded water treatment works (Hampton Loade and Seedy Mill)	Deliver against key milestones and secure support for green recovery funding	Green recovery funding achieved. Recovered supply chain following administration of main contractor	Mostly Achieved	10%	67.0%	6.7%	£10.00
Environmental, social and governance (ESG) activity	Drive the company's ESG agenda	ESG Board sub-group established	Achieved	5%	99.0%	4.95%	£7.50
Total bonus							**£119.6**

1. Totex to be adjusted for acceleration and slippage to identify actual outperformance of allowances with agreed output delivery.
2. Operational performance against our targets can be found on pages 14 and 15.
3. The figures above show STIP and Andy Willicott will earn the equivalent value on LTIP, which has been accrued at this level.

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



The chart has been based on the following assumptions.

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

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

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

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

Board £'000																
Name	Basic salary		Bonus[1]		LTIP[2]		Other benefits and pay[3]		Fees		Total emoluments		Pension contributions[4]		Total remuneration	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
The Rt Hon Lord Smith of Finsbury									60	42	60	42			60	42
Andy Willicott[5]	202	179	120	149			9	16			331	344	20	15	351	359
Phil Newland[6]		17						1				18		1		19
Catherine May									37	30	37	30			37	30
Alice Cummings									38	26	38	26			38	26
Professor Ian Barker																
Keith Harris[7]																
Peter Antolik[7]																
Ken Kagaya[7]																
Stephen Kay									34	30	34	30			34	30
Keita Saito[7]																
Total	202	196	120	149			9	17	169	128	500	490	20	16	520	506

Executive team £'000																
	Basic salary		Bonus[8]		LTIP[9]		Other benefits and pay[3]		Fees		Total emoluments		Pension contributions[4]		Total remuneration	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Total	522	582	67	156			44	45			633	783	33	41	666	824
Average	77	83	13	22			9	8			99	113	4	6	103	119

Notes:

1. For 2021/22 the bonus includes bonus approved and accrued.
2. LTIP is remunerated by the intermediate parent company, South Staffordshire Plc.
3. 'Other benefits and payments' combines company car benefit in kind, car cash and benefit allowances, fuel allowances, the taxable value of private medical insurance provision and relocation expenses.
4. Pension contributions are payments by the company in respect of money purchase pension schemes.
5. Basic Salary has been pro rata from employment commencing.
6. These Directors were remunerated either by the intermediate parent company, South Staffordshire Plc, or received no remuneration for their employment during the year.
7. These Directors were remunerated either by the intermediate parent company South Staffordshire Plc or received no remuneration for their services during the year.
8. Bonus figures include any deferred amounts paid in the year and approved figures in respect of the year ended 31 March 2022.
9. LTIP is remunerated by the intermediate parent company, South Staffordshire Plc, and cross charged.

Bonus awards

The Nomination and Remuneration Committee awarded the Managing Director of South Staffordshire Water a STIP bonus of £119,609, which was 78.95% of his maximum award. An equivalent amount has been added to his LTIP.

The Nomination and Remuneration Committee awarded the Executive team on average a STIP bonus of 20% (£14,935), which was 81% of their maximum award. A number of the Executive team are entitled to LTIP awards. The average award was 20% and this has been accrued to the LTIP bank.

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

Executive pay ratio

In line with new reporting requirements, we have 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 occupying the 25th, 50th and 75th percentile. In line with the majority of companies reporting this data, we have chosen Option A under the regulations, which takes account of the full-time equivalent basis for our employees. The Managing Director pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive-based pay earned by the Managing Director, compared with other employees. The figures show the relevant ratios, excluding LTIP (not due to be paid out for five years).

The company is committed to paying the foundation Living Wage to employees. Based on a 37-hour a week contract at £9.90 an hour (2021: £9.50) rate for outside London, this would give an annual salary of £19,048. All our people, with the exception of our apprentices, are paid at or higher than the foundation rate. In comparison with our Managing Director, the highest paid directly employed Board member, this gives a ratio of 11:1 against basic salary and 18:1 against total remuneration, both of which sit within the 20:1 ratio.

We implemented a negotiated annual increase for all staff of 5% on all base rates and certain allowances. This was effective from 1 April 2022. The annual increase for April 2021 was a negotiated increase of 1% and a one-off bonus of £500.

Board effectiveness

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

Two years ago, following a detailed discussion between the Chair, all Board members, and senior members of the Executive team, a number of major changes were implemented to improve the governance structures and performance of the company. These included:

- improvements to the ways meetings are conducted and minuted;
- the structure and recording of sub-committees;
- the establishment of a new ESG Board sub-committee to consider compliance with key environmental, social and governance metrics; and
- the provision for regular appraisal of Board members.

The Chair recently conducted appraisals for all Board members, reviewing their contribution and performance, and establishing themes for Board development in the year ahead. An appraisal process will shortly be taking place for the Chair himself, led by the Senior Independent Non-executive Director.

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

- The range of skills and backgrounds represented on the Board, and how these can be further diversified.
- The opportunity for the Board to meet more members of staff and different teams across the company.
- The challenge of meeting our net zero ambitions.
- The sustainability of water supplies.
- The importance of full transparency in any contracts between the company and parts of the broader Group.
- The major themes that are emerging in our preparations for the PR24 price review.
- The degree of ambition we have to be in the top quartile of water company performance for both service to our customers and for cost effectiveness.

Further progress against delivering these actions will be reported in next year's annual report and financial statements.

The Chair will continue to review any other measures of Board effectiveness as appropriate to ensure continued compliance with Ofwat's principles of Board leadership, transparency and governance.

Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, as set out on pages 113 to 124, 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 the Environment, as a water undertaker under the Water Industry Act 1991, to prepare an annual report and financial statements for each financial year, which give a true and fair view of the state of affairs of the company at the end of the financial year, and of the profit or loss for the financial year.

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

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

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

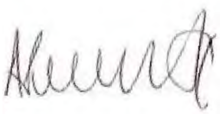
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

This Directors' responsibilities statement was approved at a meeting of Directors held on 30 June 2022 and duly signed on its behalf by:



Andy Willicott
Managing Director
30 June 2022












Financial statements

Financial statements

Profit and loss account – for the 12 months ended 31 March 2022

	Note	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Turnover	2	140,108	130,289
Operating costs	3	(114,400)	(108,064)
Other operating income	6	7,485	5,956
Operating profit		**33,193**	**28,181**
Finance costs (net)	7	(17,640)	(10,201)
Profit before taxation		**15,553**	**17,980**
Tax on profit	8	(18,344)	(3,029)
Profit/(loss) for financial year attributable to the equity shareholders of the Company		**(2,791)**	**14,951**
Earnings per share			
Basic	10	(131.5p)	704.2p
Diluted	10	(131.5p)	704.2p

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 2022

	Note	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Fixed Assets			
Tangible assets	11	597,728	569,088
Current Assets			
Stocks	14	3,072	2,978
Debtors - amounts recoverable within one year	15	36,438	31,233
Debtors - amounts recoverable in more than one year	15	2,654	27,857
Investments	16	2	2
Cash at bank and in hand		50,135	4,306
		92,301	66,376
Other creditors - amounts falling due within one year	17	(79,083)	(65,568)
Net current assets/(liabilities)		**13,218**	**808**
Total assets less current liabilities		**610,946**	**569,896**
Borrowings - amounts falling due after more than one year	18	(292,672)	(262,650)
Other creditors - amounts falling due after more than one year	18	(10,322)	(13,027)
Accruals and deferred income - falling due after more than one year	13	(168,703)	(163,332)
Provisions for liabilities - falling due after more than one year	20	(65,707)	(46,118)
Net Assets		**73,542**	**84,769**
Capital and reserves			
Called up share capital	21	2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Revaluation reserve		30,587	33,494
Profit and loss account		39,712	50,271
Hedging reserve		(3,825)	(6,064)
Shareholders' Funds		**73,542**	**84,769**

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 15 July 2022.

Andy Willicott
Managing Director
30 June 2022

Statement of comprehensive income – for the 12 months ended 31 March 2022

	31 Mar 22	Restated 31 Mar 21
	£'000	£'000
Profit after taxation	(2,791)	14,951
Movement in hedging reserve (gross of deferred tax)	2,387	778
Deferred tax impact of movement in hedging reserve	(597)	(148)
Deferred tax rate move impact in year	449	-
Total comprehensive income	**(552)**	**15,581**

Statement of changes in equity – as at 31 March 2022

	Note	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Restated Profit and Loss Account £'000	Hedging Reserve £'000	Restated Total £'000
Balance at 1 April 2020 previously stated		2,123	495	4,450	33,954	34,999	(6,694)	69,327
Changes due to restatement of prior year						6,039		6,039
Balance at 1 April 2020 restated		2,123	495	4,450	33,954	41,038	(6,694)	75,366
Profit for financial period		-	-	-	-	14,951	-	14,951
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)		-	-	-	-	-	604	604
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	(115)	(115)
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	174	174
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(33)	(33)
Deferred tax rate move		-	-	-	-	-	-	-
Amounts transferred to profit and loss		-	-	-	(460)	460	-	-
Total comprehensive income/(expense)		2,123	495	4,450	33,494	56,449	(6,064)	90,947
Dividends	9	-	-	-	-	(6,178)	-	(6,178)
Balance at 31 March 2021		**2,123**	**495**	**4,450**	**33,494**	**50,271**	**(6,064)**	**84,769**

Statement of changes in equity – as at 31 March 2022 (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 2021 restated		2,123	495	4,450	33,494	50,271	(6,064)	84,769
Loss for financial period		-	-	-	-	(2,791)	-	(2,791)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)		-	-	-	-	-	2,215	2,215
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	(554)	(554)
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	172	172
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(43)	(43)
Deferred tax rate move		-	-	-	-	-	449	449
Amounts transferred to profit and loss		-	-	-	(2,907)	2,907	-	-
Total comprehensive income/(expense)		2,123	495	4,450	30,587	50,387	(3,825)	84,217
Dividends	9	-	-	-	-	(10,675)	-	(10,675)
Balance at 31 March 2022		**2,123**	**495**	**4,450**	**30,587**	**39,712**	**(3,825)**	**73,542**

Called up Share Capital

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

Share Premium Account

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

Capital redemption reserve

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

Revaluation reserve

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

Profit and Loss account

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

Hedging reserve

The company has entered into derivative financial instruments to hedge exposure to floating interest rates. Further information on the hedging policy is set out on page 96.

Cash flow statement – as at 31 March 2022

	Note	31 Mar 22 £'000	31 Mar 22 £'000	Restated 31 Mar 21 £'000	Restated 31 Mar 21 £'000
Cash inflow from operating activities			**65,485**		**59,512**
Corporation tax paid			**600**		**(1,791)**
Net cash inflow from operating activities	(a)		**66,085**		**57,721**
Cash flows from investing activities					
Purchase of tangible fixed assets		(46,945)		(41,862)	
Proceeds from sale of tangible fixed assets		223		45	
Repayment of long-term balance with group undertaking		25,000		-	
Interest received		1,797		2,654	
Net cash outflow from investing activities			**(19,925)**		**(39,163)**
Cash flows from financing activities					
Interest paid		(9,614)		(9,309)	
Equity dividends paid		(10,675)		(6,178)	
Repayment of bank loans		-		(55,000)	
Draw down of RCF		-		30,000	
Additions to Private placement loans (cash)		20,000		-	
Bank term loan issue costs paid		-		(190)	
Private placement loan issue costs paid		(42)		-	
Net cash outflow from financing activities			**(331)**		**(40,677)**
Increase/(Decrease) in cash	(b)		**45,829**		**(22,119)**
Cash and cash equivalents at the beginning of the year			**4,306**		**26,425**
Cash and cash equivalents at the end of the year			**50,135**		**4,306**

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid, £46,945,000, and additions reported in the fixed asset note 11 of £54,190,000 is due to an increase in year of creditors relating to capital purchases of £7,245,000.

Notes to the cash flow statement

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

	31 Mar 22		Restated 31 Mar 21	
	£'000	£'000	£'000	£'000
Total operating profit		33,193		28,181
Depreciation	25,475		26,661	
Amortisation of capital contributions	(3,356)		(3,228)	
Profit on disposal of tangible fixed assets	(149)		(4)	
Contributions and grants received	8,727		7,232	
		30,697		30,661
Decrease/(Increase) in stocks	(94)		(491)	
(Increase)/Decrease in debtors	(5,180)		(1,755)	
Decrease/(Increase) in creditors	6,869		2,915	
Cash inflow from operating activities		1,595		670
Corporation tax paid		600		(1,791)
Net cash inflow from operating activities		66,085		57,721

(b) Reconciliation in movement in net debt

	31 Mar 22	Restated 31 Mar 21
	£'000	£'000
Increase/(Decrease) in cash	45,829	(22,119)
Draw down of RCF	-	25,190
Bank term issue cost amortisation (non-cash)	(110)	(88)
Private placement loan (cash)	(20,000)	-
Private placement issue cost amortisation (cash)	42	-
Movement on index-linked debt (non-cash)	(9,952)	(3,014)
Decrease/(Increase) in net debt in period	15,809	(31)
Net debt brought forward	(258,344)	(258,313)
Net debt carried forward	(242,535)	(258,344)

Notes to the cash flow statement (continued)

	Restated Balance at 31 Mar 2021	Cash Flow	Non-Cash Movements	Balance at 31 March 2022
	£'000	£'000	£'000	£'000
Cash at bank and in hand	4,306	45,829	-	50,135
	4,306	45,829	-	50,135
Irredeemable debenture stock	(1,652)	-	-	(1,652)
Bank loans (net of issue costs)	(29,797)	-	(110)	(29,909)
Private placement loans (net of issue costs)	-	(19,958)	-	(19,958)
Index-linked debt (net of issue costs and including premium)	(231,199)	-	(9,952)	(241,151)
Net debt	(258,344)	25,871	(10,062)	(242,535)

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 22	Restated 31 Mar 21
	£'000	£'000
Book net debt (as reported above)	(242,535)	(258,344)
Exclude book premium on issue of index linked debt	12,803	13,165
Difference between long-term RPI assumption and actual RPI inflation	0	0
Exclude unamortised issue costs	(1,418)	(1,494)
Exclude accrued interest	152	266
Net debt reported for borrowing covenants	(230,998)	(246,407)
Regulatory Capital Value	449,556	403,203
Covenant Net Debt/Regulatory Capital Value	51.4%	61.1%

Notes to the financial statements

1. Statement of accounting policies

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

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its related parties, financial instruments and remuneration of key management personnel. South Staffordshire Water is consolidated in the financial statements of its ultimate holding company in the UK, Hydriades IV Limited, which may be obtained from Companies House in the UK. The holding 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 71, under the historical cost convention, as modified by the revaluation of land and buildings, and certain financial assets and liabilities measured at fair value through profit or loss, and in accordance with FRS 102 issued by the Financial Reporting Council. The functional currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which it operates.

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

a) General information and basis of accounting

Although South Staffordshire Water is not publicly listed, its Board of Directors recognises that because of public interest in how the company performs and the regulated environment in which it operates, it should act as if it were. It is incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is Green Lane, Walsall, West Midlands, WS2 7PD. The nature of the company's operations and its principal activities are set out in the strategic report on pages 10 to 56.

b) Turnover

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

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.

Rental income is recognised over the term of the lease.

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

c) Tangible fixed assets and depreciation

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); and
- other assets.

The values of fixed assets are reviewed annually to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist, it is treated as an impairment loss and charged to the Income Statement.

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.

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. In accordance with FRS 102, new infrastructure assets are depreciated over their useful economic life of 100 years.

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

Operational structures and other fixed assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. Assets in course of construction are not depreciated until commissioned. The estimated useful lives of the assets are as follows.

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

Opex v capex

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

d) Capital contributions

Capital contributions, received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to turnover over the useful economic life of those non-current assets.

e) 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.

f) SaaS agreements

The company has changed its accounting policy related to the capitalisation of certain software costs; this change follows the IFRIC Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under 'Software as a Service' ('SaaS') arrangements.

The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of SaaS arrangements as an asset in the balance sheet, irrespective of whether the services were performed by the SaaS supplier or third party. Following the adoption of the above IFRIC guidance, current SaaS arrangements were identified and assessed to determine if the company has control of the software. For the arrangements where we do not have control of the developed software, to the extent that the services were performed by third parties, the company derecognised the intangible asset previously held as works in progress (WIP). This change in accounting policy led to the costs for the new billing system being expensed in the year; there is no prior year adjustment.

g) 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.

h) 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, the immediate holding company.

i) Research and development

Research and development is charged to the profit and loss account in the year in which it is incurred.

j) Taxation

Current tax is charged on estimated taxable profits at the current rate.

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 changing rates enacted or substantively enacted at the balance sheet date.

k) Financial instruments

Financial assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Financial liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. The 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 (net) in the profit and loss account.

The amendments issued by the FRC enable the company to reflect the effects of transitioning from LIBOR to SONIA without giving rise to accounting impacts that would not provide useful information to users of financial statements. The company is exposed to LIBOR in its floating rate bank loans and its LIBOR linked interest rate swaps which are designated in a cash flow hedge and a fair value hedge respectively. Further information on the effects of interest rate benchmark reform can be found in note 23 on page 106.

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.

l) 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 are recorded in the profit and loss account except where the company has adopted hedge accounting.

The company designates certain hedging instruments as 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 deferred in equity in a hedging reserve net of deferred tax. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. Hedge accounting is discontinued when:

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

Amounts deferred 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.

m) 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.

n) Exceptional items

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

Judgement is required to determine whether costs incurred when work is carried out on company assets are capital or revenue in nature. This work includes:

- repairs;
- like-for-like replacement;
- new assets; or
- replacement of assets with an element of asset enhancement or increased capacity.

Identifying which element of expenditure represents capital expenditure rather than revenue expenditure may include judgement that the company's two regional infrastructure networks each represent single infrastructure assets. In order to apply the appropriate accounting, a judgement is made as to whether it is probable that the expenditure will generate future economic benefits and also if the costs can be measured reliably.

The key accounting estimates were as follows:

Accrued income

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 2022 was £13,558,000 (2021: £12,707,000). A 1% movement in consumption equates to a £109,000 movement. Other accrued income totalled £5,064,000 (2021: £3,596,000).

Amortised cost of index-linked borrowings

In order to record the company's index-linked borrowings at amortised cost the actual inflation rate (Retail Price Index – or RPI) per annum is assessed. The net book value of index-linked borrowings as at 31 March 2022 was £241,153,000 (2021: £231,201,000 restated). Further detail can be found on page 93.

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 £33,319,000 as at 31 March 2022 (2021: £29,177,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by approximately £1,000,000.

Tangible fixed assets – assessment of useful economic lives

There is a requirement to estimate the useful economic lives of the company's tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the company's forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of asset lives. The total net book value of tangible fixed assets as at 31 March 2022 was £597,728,000 (2021: £569,088,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be approximately £3,000,000.

2. Segmental information

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

	31 Mar 22 £'000	31 Mar 21 £'000
Appointed turnover		
Household - measured	50,062	48,153
Household - unmeasured	54,234	53,884
Non-household - measured	23,564	19,064
Non-household – unmeasured	998	967
Third party services	2,729	2,783
	131,587	124,851
Non-appointed turnover		
Aqua Direct spring water business	4,962	4,179
Other Non Appointed	444	470
Commissions	3,115	789
	8,521	5,438
	140,108	**130,289**

Appointed income is that earned under South Staffordshire Water's licence to supply water. Non-appointed income 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 earned under its agreement to identify to sell insurance policies. Previously this was shown net. Total commissions for these services for 2021 were £2,448,000. The costs are included in operating costs.

3. Operating costs

	31 Mar 22 £'000	31 Mar 21 £'000
Operating costs were as follows:		
Raw materials and consumables	7,196	5,824
Staff costs (see note 4)	20,563	19,818
Own work capitalised	(8,584)	(8,943)
Depreciation : non-infrastructure assets	21,670	22,606
Depreciation : infrastructure assets	3,805	4,055
Infrastructure renewals expenditure	12,845	12,418
Rates	5,384	5,381
Abstraction charges	3,132	3,071
Commissions	2,316	-
Provision for doubtful debts	3,613	3,329
Other operating costs	42,460	40,505
	114,400	108,064

Commissions are paid for the collection of amounts billed for other water companies for sewerage services they provide to customers and earned under its agreement to identify to sell insurance policies. Previously this was shown net. Total commission costs for these services were £2,316,000 (2021:£2,359,000).

Software as a Service ('SaaS') costs included within operating costs amounts to £1,800,000 (2021: £nil).

Operating costs (continued)

Auditor remuneration is analysed as follows.

	31 Mar 22 £'000	31 Mar 21 £'000
Audit of the Company's annual accounts	183	149
Total audit fees	**183**	**149**
Audit related assurance services	102	84
Other assurance services	-	14
Total non audit fees	**102**	**98**
	285	**247**

There are £102,000 of non-audit services payable in the year (2021: £98,000). Non-audit services include agreed upon procedures work for the annual performance report sections 1 and 4. Other assurance services in 2021 included the new customer billing system RAG 5.07 assessment of Aptumo.

4. Staff costs

	31 Mar 22 £'000	31 Mar 21 £'000
Wages and salaries	18,021	17,323
Social security costs	1,740	1,704
Pension costs (see note 22)	802	791
	20,563	19,818

	31 Mar 22 Number	31 Mar 21 Number
Monthly average number of direct employees	367	365
Monthly average number of administration and support functions employees	67	67
Monthly average number of employees	434	432

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 22 £'000	31 Mar 21 £'000
Emoluments	619	490
Pensions	20	16
	639	506

The highest paid directly-employed Director received emoluments of £330,000 (2021: £344,000) and received a contribution of £20,000 (2021: £15,000) paid by the company in respect of defined contribution pension schemes during the year.

During the year and the prior year, specific Directors received no emoluments as Directors of the company. These Directors were remunerated by the intermediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £474,000 (2021: 437,000). Contributions in respect of money purchase pension schemes for these Directors was £21,000 (2021: £18,000).

No Directors (2021: 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 (2021: two) were contributing members under a money purchase scheme.

The remuneration report on pages 78 to 82 gives further detail around the remuneration of the Directors and Executive team.

6. Other operating income

	Note	31 Mar 22 £'000	31 Mar 21 £'000
Profit on disposal of fixed assets		149	4
Rental income		462	420
Grants and Contributions	13	3,356	3,228
Infrastructure renewals contributions		3,518	2,304
		7,485	**5,956**

Significant rentals included in rental income include the following.

- Fulbourn Road lease from 6 March 2020, expires 5 March 2022; rent is fixed at £186,000 per annum, excluding service charges, for the term of the lease for part occupation of the property, rent is payable quarterly in advance. This agreement ended on 6 March 2022.
- Fradley land, tenancy with rent £30,000 per annum paid annually in advance; hence this is an annual tenancy running year to year.
- Infrastructure renewals contributions are for mains diversionary works.

7. Finance costs (net)

	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Interest payable and similar charges:		
Index-linked debt (cash)	7,981	7,399
Index-linked debt (non-cash)	9,952	3,014
Bank loan and other interest	965	1,313
Private Placement Interest	299	-
Debenture interest	68	69
	19,265	11,795
Interest receivable and similar income:		
Loans to parent undertakings	(1,476)	(1,768)
Bank loan and other interest	(321)	-
	(1,797)	(1,768)
Other finance charges:		
Amounts recycled from hedging reserve	172	174
	17,640	10,201

Index-linked debt (non-cash) for March 2021 has been restated. The prior period restatement note on page 110 gives further detail around the restatement.

8. Tax on profit

	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Current tax:		
UK corporation tax at 19% (2021: 19%)	(1,543)	2,811
Adjustments in respect of prior periods	445	(1,207)
Total current tax charge	(1,098)	1,604
Deferred tax:		
Origination and reversal of timing differences	4,920	576
Impact of changes in future tax rates	15,012	-
Adjustments in respect of prior periods	(490)	849
Total deferred tax charge	19,442	1,425
Total tax charge	**18,344**	**3,029**

Tax included in statement of comprehensive income		
Deferred tax:		
Movement in hedging reserve	148	148
Total tax charge	148	148

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are reconciled below.

	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Profit on ordinary activities before tax	15,553	17,980
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2021: 19%)	2,955	3,417
Expenses not deductible for tax purposes (net)	(759)	(29)
Benefit of capital allowances super-deduction 30% element	1,181	-
Effect of changes in deferred tax rate	15,012	-
Adjustments in respect of prior years	(45)	(359)
Total tax charge	**18,344**	**3,029**

An increase in the future UK corporation tax rate from 19% to 25% with effect from 1 April 2023 was substantively enacted in the Finance Act 2021 on 24 May 2021; therefore, its effects have been included in these financial statements.

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 (2021: £2,077,000).

Profit on ordinary activities multiplied by standard for March 2021 has been restated. The prior period restatement note on page 110 gives further detail around the restatement.

9. Dividends paid

	31 Mar 22 £'000	31 Mar 21 £'000
Equity Interests		
Ordinary Dividends paid of 502.78p (2021: 290.97p) per share	10,675	6,178

In 2022, the dividend comprised:

- £7,560,000 from the appointed business (2021: £2,869,000);
- £1,639,000 from the non-appointed business (2021: £1,541,000); and
- £1,476,000 from intra-group interest to be paid back to the company (2021: £1,768,000).

Further details of the dividend paid in the year are provided on page 12 of the strategic report.

10. Earnings per share

	31 Mar 22 £'000	Restated 31 Mar 21 £'000
(Loss)/profit on ordinary activities after taxation and profit for earnings per share	(2,791)	14,951

	31 Mar 22 Number of Shares	31 Mar 21 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	2,123,210	2,123,210

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

Profit on ordinary activities after taxation and profit for earnings per share for March 2021 has been restated. The prior period restatement note on page 110 gives further detail around the restatement.

11. Tangible fixed assets

	Specialised Operational Assets £'000	Non Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
Cost					
At 1 April 2021	256,637	21,314	507,579	261,243	**1,046,773**
Additions	12,718	1,941	12,259	27,272	**54,190**
Disposals	-	-	-	(8,082)	**(8,082)**
As at 31 March 2022	**269,355**	**23,255**	**519,838**	**280,433**	**1,092,881**
Depreciation					
At 1 April 2021	123,843	8,462	193,574	151,806	**477,685**
Charge for the year	8,071	353	3,805	13,246	**25,475**
Disposals	-	-	-	(8,007)	**(8,007)**
As at 31 March 2022	**131,914**	**8,815**	**197,379**	**157,045**	**495,153**
Net Book Value					
Owned	137,138	14,440	322,459	123,361	**597,398**
Leased	303	-	-	27	**330**
As at 31 March 2022	137,441	14,440	322,459	123,388	**597,728**
Net Book Value					
Owned	132,484	12,853	314,005	109,164	**568,506**
Leased	309	-	-	273	**582**
At 31 March 2021	**132,793**	**12,853**	**314,005**	**109,437**	**569,088**

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,045,000 (2021: £7,292,000) less accumulated depreciation of £6,715,000 (2021: £6,710,000). Tangible fixed assets include freehold land of £2,337,000 (2021: £2,337,000), which is not subject to depreciation.

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £45,825,000 at 31 March 2022 (2021: £28,900,000). The significant increase relates to the major upgrade of our two largest treatment works.

Intangible fixed assets included in the above table had additions in the year of £1,923,000 (2021: £870,000).

12. Commitments

Capital commitments outstanding at 31 March 2022 were £74,160,000 (2021: £25,607,000). Payments due not later than one year were £43,689,000 (2021: £17,562,000). The significant increase relates to the major upgrade of our two largest treatment works.

13. Capital contributions – accruals and deferred income

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2021	149,237	14,095	**163,332**
Capital contributions received	6,293	2,434	**8,727**
Amortised in year	(1,894)	(1,462)	**(3,356)**
Balance at 31 March 2022	**153,636**	**15,067**	**168,703**

Capital contributions are expected to be amortised over the life of the asset.

14. Stocks

	31 Mar 22	31 Mar 21
	£'000	£'000
Raw materials and consumables	3,072	2,978

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.

15. Debtors

	31 Mar 22 £'000	31 Mar 21 £'000
Amounts recoverable within one year:		
Trade debtors	10,981	10,209
Other debtors	201	2,242
Amounts due from other group undertakings	1,534	84
Amounts due from parent undertakings	4,599	2,052
Prepayments	501	343
Accrued income	18,622	16,303
	36,438	31,233
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	-	25,000
Other amounts due from parent undertakings	2,654	2,857
	2,654	27,857
	39,092	**59,090**

Amounts due from parent undertakings of £4,599,000 (2021: £2,052,000) 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 £2,654,000 (2021: £2,857,000) are trade balances receivable in more than one year.

Amounts due from parent undertakings includes an amount for corporation tax receivable of £1,681,000 (2021: £1,810,000), which is due from parent undertakings.

Detail of provision against bad debt are shown in note 23 on page 106.

16. Investments

	31 Mar 22 £'000	31 Mar 21 £'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.

17. Creditors – amount falling due within one year

	31 Mar 22	Restated 31 Mar 21
	£'000	£'000
Payments on account	26,372	24,383
Trade creditors	34,478	24,123
Other creditors	9,031	8,163
Amounts owed to other group undertakings	6,997	6,075
Corporation tax payable	1,378	2,005
Other taxation and social security	827	820
Total creditors amounts falling due within one year	**79,083**	**65,569**

Amounts owed to other group undertakings, which are fellow group subsidiaries, £6,997,000 (2021: £6,075,000) are trade balances payable on demand.

Corporation tax payable has been restated. The prior period restatement note on page 110 gives further detail around the restatement.

18. Creditors – amount falling due after more than one year

	31 Mar 22	Restated 31 Mar 21
	£'000	£'000
Irredeemable debenture stock (unsecured) (note 19)	1,633	1,633
Perpetual debenture stock (unsecured)	19	19
Bank loans (unsecured and net of issue costs):		
payable between two and five years	29,909	29,797
Private Placement loans (unsecured and net of issue costs):		
more than five years	19,958	-
Retail Price Index-linked debt (unsecured)	241,153	231,201
Borrowings	292,672	262,650
Payments on account	2,966	2,900
Other creditors	7,299	7,856
Derivative financial liabilities	57	2,271
Creditors	10,322	13,027
Total creditors amounts falling due after more than one year	302,994	275,677

The gross bank loans (unsecured) of £30,000,000 (2021: £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 (2021: £30,000,000).

Derivative financial liabilities represent the market value (obtained from a third party) of floating to fixed rate interest rate swaps designated as cash flow hedges. Detail of derivative financial liabilities are shown in note 23 on page 106. This movement has been recorded in the statement of changes in equity for the change in value of hedging instruments – cash flow hedges (gross of deferred tax).

Private placement loans £20,000,000 (2021: £nil) included in amounts falling due after more than five years, net of fees.

The book value index-linked debt of £241,153,000 (2021 restated: £231,201,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £229,614,000 (2021 restated: £219,264,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 23 on page 106. Retail Price Index-linked debt (unsecured) has been restated. The prior period restatement note on page 110 gives further detail around the restatement.

19. Irredeemable debenture stock

	31 Mar 22	31 Mar 21
	£'000	£'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

20. Provisions for liabilities

	Deferred Taxation £'000
At 1 April 2021	46,118
Charged to profit and loss account	19,442
Credit to other comprehensive income	147
At 31 March 2022	65,707

Analysis of deferred tax	31 Mar 22 £'000	31 Mar 21 £'000
Accelerated Capital Allowances	67,588	47,722
Timing differences in respect of hedging reserves	(1,275)	(1,423)
Timing differences in respect of finance charges	(225)	(177)
Other timing differences	(381)	(4)
Provision for deferred tax	65,707	46,118

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to taxes levied by the same taxation authority.

21. Share capital

	31 Mar 22 £'000	31 Mar 21 £'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 or ordinary shares.

22. Pension retirement benefits

The company operates a number of funded pension schemes for the benefit of its employees. 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 2022 the funding into the schemes was made indirectly through the intermediate parent company.

The assets and liabilities of the South Staffordshire section of the scheme are accounted for in the accounts of the intermediate parent undertaking, South Staffordshire Plc. The assets and liabilities for the Cambridge section of the scheme are accounted for within Cambridge Water PLC.

In addition, the company participates in a defined contribution Money Purchase Pension Scheme. The assets of all schemes are held separate from those of the company, and are invested by fund managers.

The contributions to the defined contribution scheme is charged against profits as incurred with the amount for the year ended 31 March 2022 being £802,000 (2021: £791,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS 102. The latest valuation of South Staffordshire section of the scheme as at 31 March 2022, 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 £42,531,000 (2021: surplus of £35,288,000). 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 2022 Valuation £'000	Mar 2021 Valuation £'000	Mar 2020 Valuation £'000
Growth assets including equities and diversified growth funds	47,824	15,297	16,625
High yield bonds/gilts and liability driven investments	80,021	203,026	208,039
Buy and maintain credit	80,112	-	-
Liquidity funds	3,313	-	-
Emerging markets multi-asset funds	-	-	-
Cash	1,204	552	954
Market value of assets	212,474	218,875	225,618
Present value of scheme liabilities	(169,943)	(183,587)	(153,475)
Surplus in the scheme before deferred tax	42,531	35,288	72,143
Related deferred tax liability	(10,633)	(6,705)	(13,707)
Surplus after deferred tax	**31,898**	**28,583**	**58,436**

23. Financial assets and financial liabilities

The analysis of the company's financial assets and liabilities includes:

- cash;
- loans receivable;
- borrowings;
- trade creditors; and
- trade debtors.

Borrowings represent:

- bank loans;
- private placement loan notes;
- index-linked borrowings; and
- irredeemable and perpetual debenture stock.

The main purpose of these financial instruments is to finance the company's operations. It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be carried out. The company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both long- and short-term debt while not exposing it to significant risk of market movements (see below). The company is not exposed to any material foreign exchange risk.

Bank loans bear interest that is linked to SONIA plus a bank margin, which is applied to the drawn down element of each loan, some of which are hedged through interest rate swaps.

Fair values have been obtained from the relevant banks and are quoted at the relevant market price.

Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2022 was as follows

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Restated Retail Price Index-Linked debt £'000
31 March 2022	51,519	-	241,153
31 March 2021	31,449	-	231,201

Floating rate loans that are hedged by the floating to fixed interest rate swaps are shown above as fixed rate. The company's cash balances earn interest at floating rates linked to SONIA or the Bank of England base rate. The company's trade debtors and trade creditors are not subject to interest unless considered to be overdue. For all financial assets and liabilities, the book values and fair values are not materially different, except for the RPI-linked loan and the RPI-linked bond shown in the table below.

	31 Mar 22 £'000	Restated 31 Mar 21 £'000
Retail Price Index-Linked Loan		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	177,624	171,054
Book Value	188,871	182,620
Fair Value	412,135	412,135
Retail Price Index-Linked Bond		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	51,990	48,210
Book Value	52,283	48,580
Fair Value	54,950	61,985

Book value has been restated, the prior period restatement note on page 110 gives further detail around the restatement.

Fixed-rate borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2022	3.1	6.6
31 March 2021	3.4	2.3

	31 Mar 22 £'000	31 Mar 21 £'000
Expiring in more than one year but not more than two years	-	10,000
Expiring in more than two years but not more than five years	-	15,000
	-	25,000

In addition to the above, at 31 March 2022 the company had cash balances of £50,135,000 (2021; £4,306,000), increasing liquidity headroom to £50,135,000 (2021: £29,308,000).

The company is confident it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and financial statements.

Financial risks

The company's activities result in it being subject to a limited number of financial risks, principally credit risk as the company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The company has formal principles for overall risk management, as well as specific policies to manage individual risks.

a) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates, including those linked to SONIA and the RPI that expose the company's earnings and cash flows to changes in SONIA and RPI. Risks of increases in SONIA are managed by limiting the value and proportion of the company's borrowings that are linked to this variable and by entering into floating to fixed rate swap contracts. Risks associated with increases in RPI are effectively hedged against the revenues and the RCV of the regulated water business, both of which are also linked to RPI.

b) Credit risk

As is market practice, the company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers.

Full details of the way this risk is managed are provided below. Credit risk also includes the risk of over-recovery of loans receivable. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

c) Liquidity risk

Liquidity risk represents the risk of the company having insufficient liquid resources to meet its obligations as they fall due. The company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and availability of adequate banking facilities, including sufficient headroom. The table above details the undrawn committed borrowing facilities available to the company to manage this risk.

Sensitivity analysis

The following analysis illustrates the sensitivity to reasonably possible movements during the year, in variables affecting financial liabilities, being the long-term forecast for RPI on the company's pre-tax profit and loss account for the year ended 31 March 2022. There is no impact on reserves other than the impact on the profit and loss account after tax.

We have chosen a long-term RPI forecast change of +/- 0.25% as "reasonably possible movements" in the year as a good estimate for possible variations in the long-term forecast RPI over the year based on market data.

The impact on the pre-tax profit and loss account for 2022 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2021 and remained different to the actual variables recorded by the stated amount during the year and with all other variables remaining at the actual amounts. The comparative figures have been calculated using the same methodology assuming the change to the variables occurred on 1 April 2020.

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	
	Mar-22 %	Mar-21 %	Mar-22 £'000	Mar-21 £'000	Mar-22 £'000	Mar-21 £'000
Period to maturity						
5-10 years	2.14	2.14	30,000	30,000	56	2,271

Maturity of financial assets and liabilities

	31 Mar 22 £'000	31 Mar 21 £'000
Borrowings		
In one year or less or on demand	-	-
In more than one year, but not more than two years	30,000	-
In more than two years, but not more than five years	-	30,000
In more than five years	20,000	-
In more than twenty years	231,266	220,916
	281,266	250,916
Other Financial Liabilities		
In one year or less or on demand	77,615	62,744
In more than one year, but not more than two years	1,846	3,059
In more than two years, but not more than five years	4,343	2,391
In more than five years, but not more than twenty years	3,395	7,577
In more than twenty years	-	-
	87,199	75,771
	368,465	326,687

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £229,614,000 (2021: £219,264,000) included in the table above are stated at the principal amount indexed by RPI to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in 2045 is £358,265,000 (2021: £358,265,000) and at redemption in 2051 is £118,379,000 (2021: £118,379,000).

- £30,000,000 RCF NatWest has an interest rate of 1.20% plus SONIA and matures in July 2023.
- £111,400,000 Artesian Index-Linked Loan has an interest rate of 3.76% and matures in September 2045.
- £35,000,000 Quoted Index-Linked Bond has an interest rate of 1.84% and matures in June 2051.
- £1,700,000 Irredeemable Debentures has various interest rates. £20,000,000 Pricoa Private Placement loan has an interest rate of 2.57% and matures in September 2036.

Debtors recoverable in more than one year of £2,654,000 (2021: £27,857,000) principally represent loans receivable from the company's parent companies of £nil (2021: £25,000,000) with the £25,000,000 having been repaid in January 2022.

Trade debtors

Provision is made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to March 2022 in respect of such provisions was £3,613,000 (2021: £3,329,000). Total trade debtors as at 31 March 2022 were £10,981,000 (2021: £10,209,000). The total amount of the provision included in the above, as at 31 March 2022, was £33,411,000 (2021: £29,177,000).

In accordance with the market conditions prescribed by MOSL, the wholesale market operator, we hold collateral where required and in line with market rules from retailers that purchase water from the company. This collateral is held in the form of:

- parent company guarantees;
- bank guarantees;
- letter of credits;
- credit insurance; and
- cash collateral balances totalling £189,309 at year end (2021: £194,006).

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value.

An ageing analysis of trade debtors that are invoiced but not impaired is provided below.

Regulated	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	Total £'000
2022	6,771	2,256	531	486	326	185	**10,555**
2021	7,947	1,147	754	468	210	379	**10,905**

Non-Regulated	<1 month £'000	1-2 months £'000	>2 months £'000	>3 months £'000	Total £'000
2022	648	90	8	-	**746**
2021	925	19	24	90	**1,058**

Non-regulated debtors are provided to the value of £10,000 (2021: £71,000) 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
2022	4,438	4,094	4,260	4,623	3,699	12,289	**33,403**
2021	4,151	4,312	4,642	3,713	3,213	9,076	**29,107**

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 15 approximates to their fair value.

24. 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 2022 was £3,018,000 (2021: £3,220,000). 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 £17,771,000 (2021; £15,501,000). In relation to these transactions £17,000 was outstanding at the year-end (2021: £27,000). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2022 an amount of £284,000 was payable to PWSL for cash collected during the year that has not been paid over (2021: £303,000).

25. 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 UK was Hydriades IV Limited, also registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Water at 31 March 2022.

The consolidated accounts for both these companies can be obtained from the company's registered office, Green Lane, Walsall, West Midlands, WS2 7PD. The ultimate controlling party is Arjun Infrastructure Partners 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 South Staffordshire Water and therefore of the Group. This is the registered office for the largest and smallest undertakings of the company.

26. Prior period restatement

Historically the book value (that is, the amortised cost) of the index-linked debt has been determined taking into account expectations of the long-term inflation rate over the contractual life of the loans. The covenant value of the debt is instead calculated taking into account actual rates of inflation experienced between the date of issuance of the debt and the balance sheet date. During the year, in view of the continued gap in the carrying value of the index-linked debt between book value and covenant value, the directors decided to undertake a review of the accounting treatment adopted. While it is an acceptable accounting policy to determine amortised cost taking into account expectations of future inflation, it was determined that the previously reported amounts did not reflect appropriately updated estimates of future cash flows over the entire contractual life of the debt. Having evaluated the requirements of FRS 102, the directors have decided to adopt a more simplified approach to the accounting whereby the amortised cost of the index-linked debt will reflect actual changes in RPI to the relevant balance sheet date and finance costs will be accrued by reference to actual RPI in any given period. The directors also consider that this treatment is more aligned to that applied by comparators.

The effect of this on the profit and loss account is as follows:

		Previously reported £'000	Restated £'000	Restatement £'000
Operating profit		**28,181**	**28,181**	0
Finance costs (net)	7	(13,294)	(10,201)	3,093
Profit before taxation		**14,887**	**17,980**	**3,093**
Tax on profit	8	(2,441)	(3,029)	(588)
Profit for financial year attributable to the equity shareholders of the Company		**12,446**	**14,951**	**2,505**
Earnings per share				
Basic	10	586.2p	704.2p	117.9p
Diluted	10	586.2p	704.2p	117.9p

The effect of this on the balance sheet is as follows.

		Previously reported £'000	Restated £'000	Restatement £'000
Other creditors - amounts falling due within one year	17	(63,564)	(65,568)	(2,004)
Net current assets/(liabilities)		2,812	808	(2,004)
Total assets less current liabilities		571,900	569,896	(2,004)
Borrowings - amounts falling due after more than one year	18	(273,198)	(262,650)	10,548
Net Assets		**76,225**	**84,769**	**8,544**
Capital and reserves				
Profit and loss account		41,727	44,232	2,505
Retained earnings			6,039	6,039
Shareholders' Funds		**76,225**	**84,769**	**8,544**

The effect of this on the cash flow statement is as follows.

	Previously reported £'000	Restated £'000	Restatement £'000
(b) Reconciliation in movement in net debt			
Increase/(Decrease) in cash	(22,119)	(22,119)	-
Draw down of RCF	25,190	25,190	-
Bank term issue cost amortisation (non-cash)	(88)	(88)	-
Movement on index-linked debt (non-cash)	(6,107)	(3,014)	3,093
Decrease/(Increase) in net debt in period	(3,124)	(31)	3,093
Net debt brought forward	(265,770)	(258,313)	7,456
Net debt carried forward	**(268,893)**	**(258,344)**	**10,549**

The effect of this on the net debt is as follows.

	Previously reported £'000	Restated £'000	Restatement £'000
Book net debt (as reported above)	(268,893)	(258,344)	10,549
Exclude book premium on issue of index linked debt	12,774	13,165	391
Difference between long-term RPI assumption and actual RPI inflation	11,083	0	(11,083)
Exclude unamortised issue costs	(1,801)	(1,494)	307
Exclude accrued interest	225	266	41
Net debt reported for borrowing covenants	**(246,612)**	**(246,407)**	**205**
Regulatory Capital Value	403,203	403,203	0
Covenant Net Debt/Regulatory Capital Value	61.2%	61.1%	-0.1%

Independent Auditor's report

The Independent Auditor's report is set out on the following pages.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of South Staffordshire Water Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of comprehensive income;
- the statement of changes in equity;
- the cash flow statement;
- the notes to the cash flow statement; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. 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 Financial Reporting Council's (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. The non-audit services provided to the company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition in relation to unbilled measured water income; • Recoverability of the trade receivables; and • Capitalisation of costs as tangible fixed assets. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £2.7m which was determined on the basis of 5% of EBITDA (Earnings before interest, tax, depreciation and amortisation).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our key audit matters remain consistent from prior year.

4. 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:

- Assessing Management's financing facilities including nature of facilities, repayment terms and covenants;
- Assessing Management's projected cash flow by reviewing past performance and retrospective review of previous assumptions and estimates;
- Assessing the assumptions used in establishing the liquidity position throughout the going concern period, with reference to forecast income and expenses;
- Challenging the headroom on covenants through performing sensitivity analysis; and
- Evaluating the appropriateness of the disclosures in the financial statements.

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 of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, 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 forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Revenue recognition in relation to unbilled measured water income

Key audit matter description	As disclosed by the Directors as a key accounting estimate in note 1 of the financial, statements, the estimate required to determine the valuation of the water, consumption by metered customers that remains unbilled at the end of the year is, significant. Unmeasured water revenue is accrued evenly during the period and, revenue is deferred in respect of bills raised pre year-end relating to post year- end. For measured customers, the revenue recognition methodology is based on, the value of water supplied with estimates made at an individual customer level and based on historical meter reading data. This is used to estimate consumption, since the date of the last invoice (which itself could be estimated), and to determine the unbilled income to be accrued at the year-end date. There is a potential risk of fraud due to the level of estimation involved, therefore we have identified a key audit matter regarding revenue recognition in, relation to the accuracy of the unbilled measured water income. As at 31 March 2022, included within note 15 to the financial statements, the accrued income recognised for metered household customers is £13.6m (31 March 2O21: £12.7m).
How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following audit procedures: • obtaining an understanding of the relevant controls over the recognition of accrued income and general IT controls over the billing system; • assessing the historical accuracy of assumptions related to measured income by performing a retrospective review; • involving data specialists in performing a full re-calculation of the accrued income balance and assessing the difference to the amount recognised in the financial statements; • testing the accuracy and completeness of the source data from which the historical billed consumption data is derived by agreeing to underlying customer bills and meter reads; and • challenging the appropriateness of manual adjustments made by management in finalising the accrued income estimate by developing our own point estimate to consider the reasonableness of management's adjustments.
Key observations	Overall, we concluded that the methodology and estimations used in valuing the,

	revenue recognised in relation to unbilled measured water income are reasonable.

5.2 Recoverability of the trade receivables

Key audit matter description	The key estimate, as noted by the Directors in note 1, relates to the level of bad debt provision recorded against the Company's water debt book. The bad debt provision is calculated by Management with reference to the anticipated amount of cash that they expect will be collected as a percentage of the amount billed per annum. Management monitors the debt collection profile and review the calculation of the bad debt provision each year to ensure the provision continues to be reasonable relative to recent actual collection experience. This also forms the basis for Management's base model to support the bad debt reserve recorded in the financial statements. There is a potential risk of fraud due to the level of estimation involved, therefore we have identified a key audit matter regarding the accuracy of the valuation of the provision for bad and doubtful debts. Included within note 15 to the financial statements, the company holds £42.4m (31 March 2021: £38.2m) of gross trade receivables from customers at 31 March 2022. The total amount of the provision for bad and doubtful debts as at 31 March 2022, was £33.3m (31 March 2021: £29.0m).
How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following audit procedures: • obtaining an understanding of the relevant controls over the calculation of the bad debt provision and general IT controls over the billing systems; • assessing and challenging the method used to calculate the bad debt provision to assess whether it is reasonable by considering the most recent collection experience, consistency of the method with prior years, and any changes in our understanding of the business; • obtaining the year-end bad debt provision calculation and assessing the accuracy of Management's calculation in the context of historical trends and plans for future collection and testing whether it is calculated in line with the company's policy; • testing the accuracy and completeness of the source data from which the cash collection rates are derived by agreeing to underlying invoices and cash receipts; and • obtaining and challenging Management's assessment of the impact of wider economic trends such as inflation and pressure on household income on the expected cash collection rates including, by assessing actual cash collections recognised post year-end and comparing the impact against similar companies in the Water industry.
Key observations	Overall, we are satisfied with management's methodology and assumptions applied to determine the bad debt provision as this reflects reasonable approach.

5.3 Capitalisation of costs as tangible fixed assets

Key audit matter description	Water companies make a significant investment each year in the infrastructure, network and above ground assets, which includes repairs, infrastructure renewals, upgrades on tangible fixed assets and new capital expenditure. Identifying which expenditure represents capital expenditure rather than renewal expenditure may, include high level of judgement and as a result, there is a risk that certain expenditures may be incorrectly accounted for as capital items, rather than being treated as expenses or vice versa. Expenditure in relation to increasing the capacity or enhancing the network is, treated as capital expenditure. Capital projects may contain a combination of enhancement and maintenance activity which are not distinct and therefore there is a risk that tangible fixed assets are valued incorrectly as a result of items of renewal expenditure being misclassified. There is the high level of judgement involved in this area, therefore we have identified a key audit matter regarding the classification of costs between operating and capital expenditure. As disclosed in note 11, Property, plant and equipment ("PPE") additions in the year were £54.2m (31 March 2021: £44.2m).
How the scope of our audit responded to the key audit matter	In response to this matter, we have performed the following audit procedures: • obtaining an understanding of the relevant controls over the over the capitalisation of expenditure; • testing a sample of capital additions and disposals to assess whether they have been through the documented approval process and agreeing amounts capitalised to supporting invoices; • performing an assessment of the process for the capitalisation of internal labour costs and overheads and selecting a sample to test whether they are appropriately capitalised in line with FRS102.17.10; and • obtaining and assessing a sample of infrastructure renewals to assess whether these have been appropriately allocated as expenses.
Key observations	Overall, we concluded that the classification of costs between operating and capital expenditure is appropriate.

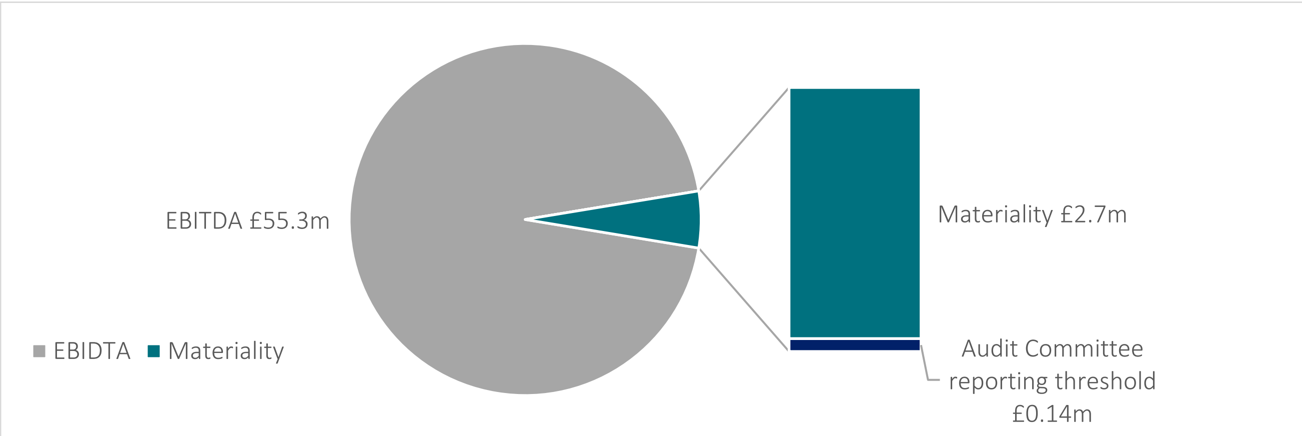
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£2.7m (31 March 2021: £2.5m).
Basis for determining materiality	5% (31 March 2021: 5%) of EBITDA.
Rationale for the benchmark applied	We have used EBITDA as the benchmark for determining materiality among revenue and total assets as this benchmark is, (a) deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements and (b) consistent with our prior year benchmark.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment, and
- the low number of misstatements identified in the previous audit.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £136,000 (2021: £129,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment

The company uses Oracle E Financials as its main general ledger system and various other sub-ledger systems. Scope of our IT testing included general ledger system and relevant sub-ledger systems related to billing and revenue, asset management, management reporting and human resources. Together with our IT specialists we tested general IT controls and obtained an understanding of relevant business cycle controls.

The audit engagement team also obtained an understanding of the relevant manual controls related to the following business cycles: revenue and receivables, financial reporting and fixed assets.

From our walkthroughs and understanding of the entity and the controls within the business cycles listed above, we identified that certain relevant controls required an improvement for us to be able to rely. As a result, we altered nature, timing and extent of our procedures accordingly.

8. 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 within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions, IT, data analytics specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Revenue recognition in relation to unbilled measured water income and recoverability of the trade receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's regulations surrounding pollution of water, the Drinking Water Inspection (DWI), the consumer council for water and the Environment Agency (EA).

11.2 Audit response to risks identified

As a result of performing the above, we identified revenue recognition in relation to unbilled measured water income and recoverability of the trade receivables as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, and reviewing correspondence with OFWAT; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 31 July 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 20 years, covering the years ending 31 March 2003 to 31 March 2022.

14.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15 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.

Scott Bayne FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 July 2022













Appendices

Appendix 1: Information sources – performance against our targets

Information for the content on pages 16 to 33 has come from the following sources. Additional information has also come from the South Staffordshire Water internal communications portal and internal briefings.

Page no.	Story	Source
17	Delivering an enhanced customer experience	News Splash e-newsletter (internal communication) – July 2021
18	Understanding what our customers want	Conduit e-newsletter (forerunner to News Splash) – April 2021 News Splash – September 2021
18	Breaking into television	News Splash – December 2021, January 2022
20	Being at the heart of the communities we serve	Conduit – May 2021, June 2021 News Splash – July 2021, August 2021, September 2021, November 2021
20	H2Online turns two!	Conduit – April 2021, May 2021 News Splash – August 2021, December 2021
21	Christmas tractors take to the road	News Splash – September 2021, December 2021 News stories – 'Festive tractors take to the road in second charity event, 7 December 2021 Festive tractor run (south-staffs-water.co.uk); 'Festive tractors taking to the road for charity, 26 November 2021 https://www.south-staffs-water.co.uk/news/festive-tractors-taking-to-the-road-for-charity
23	Building back better with green recovery funding	News stories – 'MP visits Hampton Loade treatment plant', 8 April 2022 MP visits our Hampton Loade water treatment plant (south-staffs-water.co.uk); 'Innovative investment for water treatment works', 18 August 2021 Innovative investment for water treatment works (south-staffs-water.co.uk); 'Ofwat approve our bid to the Green Recovery Fund', 17 May 2021 Ofwat approves our bid to the Green Recovery Fund (south-staffs-water.co.uk)
23	Construction work at Bourn reservoir	News Splash – January 2022
23	Dealing with service issues	Internal briefing from the Operations Director News story – 'Statement on water quality in Stapleford and Great Shelford', 18 February 2022 https://www.cambridge-water.co.uk/news/statement-on-water-quality-in-stapleford-and-great-shelford
26	Creating a ripple with PEBBLE	News stories – 'Boost for biodiversity and community groups', 16 December 2021 Boost for biodiversity and community groups (cambridge-water.co.uk) and Boost for biodiversity and community groups (south-staffs-water.co.uk)

Page no.	Story	Source
27	Planning resources for the long term	Environment Agency – 'National framework for water resources', March 2020 Meeting our future water needs: a national framework for water resources - GOV.UK (www.gov.uk) News stories – 'Consultation on emerging water resources plan for Eastern England launched, 17 January 2022 Consultation on emerging water resources plan for Eastern England launched (cambridge-water.co.uk); 'Have your say on the future of water in our region, 20 January 2022 https://www.south-staffs-water.co.uk/news/have-your-say-on-the-future-of-water-in-our-region WRMP pre-consultation information – How to use this template (cambridge-water.co.uk); How to use this template (south-staffs-water.co.uk). Water Resources East – Water Resources East - Safeguarding a sustainable supply of water (wre.org.uk) Water Resources West – https://waterresourceswest.co.uk/
27	Being animated about leakage	Conduit – May 2021
29	New Cambridge Water logo launched	News Splash – August 2021, September 2021 News story – 'New logo launched after positive feedback', 23 August 2021 https://www.cambridge-water.co.uk/news/new-logo-launched-following-positive-customer-feedback
29	Focus on apprenticeships	'Making water count' – South Staffordshire Water's business plan for 2020/25 south-staffs-water-final-business-plan-2020-to-2025-for-submission-1-apr-2019.pdf News story – 'Apprentices – building the future', 7 February 2022 Apprentices - building the future (south-staffs-water.co.uk)
30	Preventing illegal water use	News stories – 'Successful prosecution for illegally taking water in Barton-under-Needwood, 30 April 2021 Successful prosecution for taking water in Barton under Needwood (south-staffs-water.co.uk); '… in Alrewas', 13 May 2021 Successful prosecution for taking water in Alrewas (south-staffs-water.co.uk); '…in Tamworth and Drayton in the Clay', 30 June 2021 Successful prosecutions for illegally taking water (south-staffs-water.co.uk); '… in Lichfield', 13 August 2021 Successful prosecutions for illegally taking water (south-staffs-water.co.uk)

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