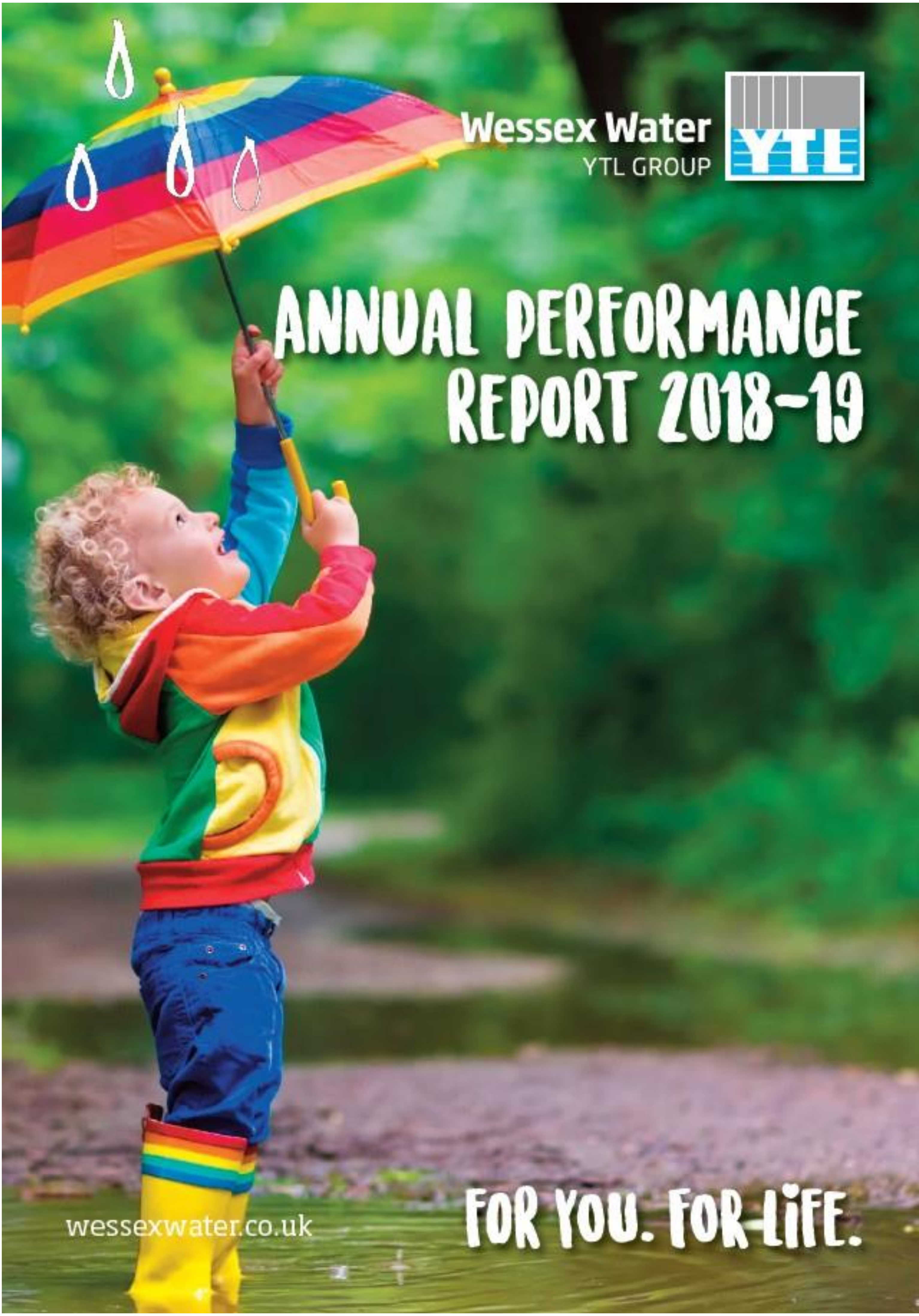
ANNUAL PERFORMANCE REPORT 2018-19



Contents

Introduction

The board of Wessex Water is accountable for the quality and transparency of the information we provide to our customers and other stakeholders. This annual performance report (APR) provides information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance for the year ended 31 March 2019. The APR is prepared in accordance with Ofwat's requirements.

The APR includes a statement explaining the company direction and performance and a summary of the results of the data assurance that we have a carried out to evidence that the information provided is accurate. A risk and compliance statement is contained within the **Annual Report and Accounts** [add link].

The report includes the following sections:

Regulatory financial reporting	A baseline level of historical cost financial information aligned to the way in which price controls (and associated regulatory performance commitments and incentives) have been set.
Price control and additional segmental reporting	Further disaggregation of revenue and costs, to allow stakeholders to review companies' performance against final determinations.
Performance summary	A high-level report of the performance of the appointed business, including outcome delivery and the regulatory financial results of the regulated business. As a minimum it will include reporting on outcomes and delivery service levels and cost performance.
Additional regulatory information	Additional financial and non-financial information, including (but not limited to), additional accounting policies, financeability statement, current cost reporting, totex analysis.

In each section we have included the data tables and a narrative to identify and explain any anomalies such as significant year on year variances in performance and to highlight any assumptions.

Statement of Company Direction and Performance

This statement sets out how the Board sets the long-term ambitions of the company and how we are delivering today, planning for tomorrow and adapting for the future.

It also explains how customers' and stakeholders' views are a key part of setting these ambitions and how we reflect them in our planning process from the highest-level strategic direction statement to detailed annual target setting and the review process.

Finally, it states how the company has performed against these ambitions.

In each area, it directs the reader to documents that provide further detail and information.

The Board has full responsibility for all aspects of the Company's business, including for the long-term, and is responsible for establishing the purpose, strategy, values and culture of the company. Further details on how the Board does this can be seen in the Board governance section of the Annual Report and Accounts.

Our planning cycle
Like all good businesses, we set an overall strategy at a high level and develop more detailed proposals to deliver our ambitions on a more regular basis.

See page 7 of our Annual report and Accounts for more detail on our governance structures and how the Board operates to continuously drive performance and set ambitious goals.

Our 25-year strategic direction statement is available here.

Our business plan to 2025 is available here.

Customers and stakeholders drive these decisions
We engage regularly with our customers and stakeholders via focus groups, surveys and expert panel discussions, and continuously by capturing customers' views as they interact with us.

Section 1 of our business plan sets out the customer research and continuous surveys we carry out with all our customers and stakeholders.

Our annual review summary document explains the catchment and community partnerships we have made as well as those with groups such as debt advice agencies, the Environment Agency, Drinking Water Inspectorate and our own Wessex Water Partnership

We have also introduced the Wessex Water Marketplace to engage on a continuous basis with customers, stakeholders, suppliers and anyone else who might help us deliver our aims.

How the company has performed
We regularly review our performance and have performed well this year, with some minor exceptions.

More information is available in the Managing Director's statement of our summary document, as well as in the performance commitment narrative in the annual performance report.

Our summary document shows how we've delivered for employees and our shareholder, whilst our annual report and accounts set out our financial information.

Our current performance is available on our website here, and we talk in detail about our future performance here.

Data assurance summary

In this section we explain the data assurance carried out to evidence that the information included in our annual review (annual performance report, annual review summary and annual report and accounts) is accurate and the results of the assurance.

The company monitoring framework is a tool that Ofwat uses to encourage water companies to deliver high quality assurance of the information they provide. As part of the framework, we are required to publish details of our assurance processes, including a risks, strengths and weaknesses statement and a draft and final assurance plan. These documents are published on our website **here**.

The risks, strengths and weaknesses statement considers both data assurance and how we provide assurance to customers and other stakeholders more generally. It explains how we have updated our risk assessment; provides an update on progress against our target areas for assurance; and identifies new areas to target.

Our assurance plan for 2018 identified the following eight target areas:

- Responding to customer needs
- Website improvements
- Asset data quality
- Improving how we serve customers in vulnerable circumstances
- Price review: submission
- Price review: allocating our capital value
- Regulatory accounting
- Reporting process documentation

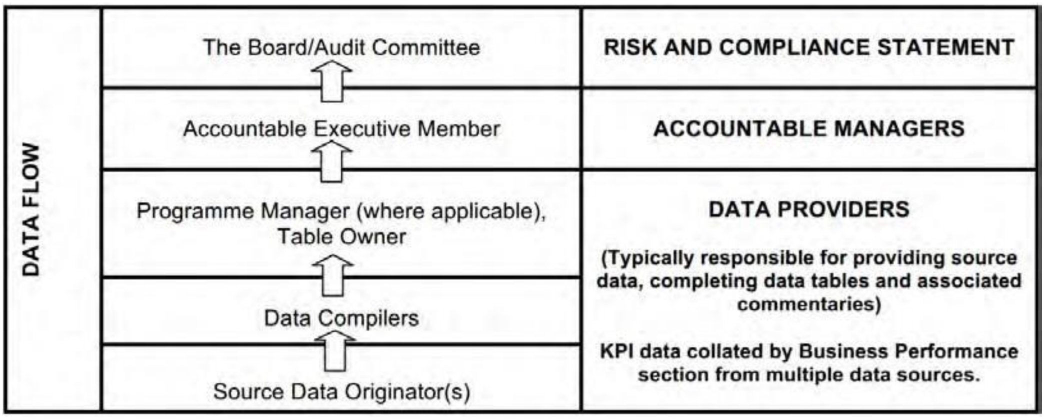
Our risks, strengths and weaknesses statement published in November 2018 concluded that we had completed the actions identified in relation to the target areas.

In April 2019 we published our final assurance plan for 2019. We will report progress against the actions for our current target areas when we publish our next risks, strengths and weaknesses statement in the autumn of 2019.

Our approach

Our board is accountable for the quality and transparency of the information we provide on our performance. We provide customers and other stakeholders with a wide range of data and information. We maintain a **Regulatory Assurance Manual (RAM),** which is agreed by the Audit Committee, to help ensure we apply the appropriate level of assurance to the information we provide to customers and other stakeholders. The RAM details the overall assurance process and the roles and responsibilities, both internal and external. The RAM is published on our website **here**.

The following table outlines the overall reporting structure:



Our internal assurance processes include the identification of a data compiler, data owner and reviewer for all data provided as part of the APR. Each is required to certify that the information represents a true and fair view of transactions/performance of the company; that any estimates/ projections are made in good faith on reasonable assumptions; and that reasonable steps have been taken to ensure that the content is not false or misleading in any material particular.

All data entry points in the annual review are within the scope of our ISO9001 Quality Management certification. This is externally verified annually by Lloyds Register. Internal Audit carry out a risk based programme of internal audits that include performance commitment data. The programme is overseen by the Audit Committee.

The data provided in the annual review is also subject to external financial and technical assurance. Mott MacDonald, our current technical assurance providers were appointed in 2016. They independently check and assure all our regulatory submissions. The external technical assurance ensures we follow due process in reporting our data on performance commitments, follows up on actions proposed in the previous year and makes recommendations for improvements in the future.

Our financial auditors, Ernst & Young LLP, perform a separate and well-established audit of the financial and regulatory accounts. These audits confirm that our financial data is consistent with the definitions set out in Ofwat's regulatory accounting guidelines, accounting standards and our own accounting policies.

Ofwat has noted that the standard materiality threshold used by statutory financial auditors would be unlikely to give it sufficient confidence in the accuracy of the costs shown for the retail price control units. We have amended our certification process so that compilers and owners of the relevant information have certified that they have taken all reasonable steps to ensure the accuracy within a materiality threshold of £30,000.

Each of our external auditors follow a detailed assurance process, culminating in the production of an audit statement. The Audit Committee receive the assurance reports, including where appropriate specific recommendations for improvement, from the external auditors. The audit committee considers these external assurance reports and the results of our own internal assurance process before making a recommendation to the board to endorse the Annual Performance Report.

Assurance reports

A summary of the results of the technical assurance for the APR is provided below. Pages 22 to 25 provide the Independent Auditor's Report.

Our customer challenge group, the Wessex Water Partnership, reviewed and challenged the performance commitment information provided in this Annual Performance Report and reported their conclusions to the board, having separately had access to the work undertaken by the technical auditor. The Wessex Water Partnership Report is published separately on the company website **here**.

Results of technical assurance

Mott MacDonald report to Wessex Water

This note summarises our technical review of your performance commitments and some of the costs reported in your Annual Performance Report.
We audited your reporting of performance commitments, shadow 'common measures', cost data tables for 2018-19 and PR14 reconciliation information, at your head office, Bath, during May 2019. We also reviewed customer service data reported by Pelican (BWBSL) and your application of the guaranteed standards scheme (GSS). We reported our findings to your audit and risk committee on 21 June.

We agreed upon the audit procedures listed below:

Data	Calculations and results	Governance	PR14 PCs and ODIs	PR19 PCs and current shadow reporting
2.1. Data collection (data entry) is part of a quality-controlled process, subject to regular audit.	3.1. The calculations can be replicated (error-free; appropriate confidence grade).	5.1. The calculation and results have been checked and authorised/signed off.	4.1. PCs - Reported performance has been correctly calculated according to the PR14 FD methodology.	Does the method statement explain fully the reporting process so that someone else is able to carry out the process with little experience?
2.2. Key data integrity steps are embedded in corporate systems, with adequate change control.	3.2. The calculations follow the business process/method statement.	5.2. The commentary fully explains the results and has evidence of governance/sign-off.	4.2. ODIs - The ODI value has been correctly calculated according to the PR14 FD methodology.	Are the trends and predicted performance figures following historic data, if not can the step-changes be explained and with evidence?
2.3. Data reporting is robust and repeatable (error-free; appropriate confidence grade).				

1.1 Standard tests

We applied the following tests, agreed upon at the outset of the audit:

Test	Test procedure The auditors tested the following assertions
Method statement	The method statement explains full the reporting process so that someone else, with limited experience, is able to carry out the process.
Data	Data collection (data entry) is part of a quality-controlled process, subject to regular audit.
	Key data integrity steps are embedded in corporate systems, with adequate change control.
	Data reporting is robust and repeatable (error-free; appropriate confidence grade).

Test	Test procedure The auditors tested the following assertions
Calculations and results	The calculations can be replicated (error-free; appropriate confidence grade).
	The calculations follow the business process/method statement.
	PCs – Reported performance has been correctly calculated according to the PR14 FD methodology.
	ODIs – The ODI value has been correctly calculated according to the PR14 FD methodology.
	Any trends and predicted performance figures are in line with historic data, OR step-changes can be explained and with evidence.
Governance	The calculation and results have been checked and authorised/signed off.
	The commentary fully explains the results and has evidence of governance/sign-off.

1.2 Follow up on recommendations from APR 2018

We followed-up on progress since our 2018 report in which we recommended specific actions on:

	• **Leakage (shadow reporting)**	• **Supply Interruptions (shadow reporting)**	• **GSS**
Area of focus	• Progress with developing the methodology to report leakage	• Assurance of the process and table compilation.	• Record keeping and reporting.
Findings	• You have made good progress towards implementing the technical actions and plans in place to ensure that the approach is finalised and the data collected in robust and fully compliant with the Ofwat requirements	• You have introduced a new cross-checking process which ensures that all three operational regions report in the same way.	• The reporting process has been improved in Wessex Water. • At Pelican there are discrepancies between teams in the way appointments are counted, with some counting 'rescheduled' appointments in addition to the original. We understand this has been noted previously.
Recommendations	• We **recommend** you continue to prioritise shadow leakage reporting, in time for implementation in April 2020.	• No further recommendations.	• We **recommend** Pelican employs a consistent counting method across the business, for implementation in AMP7 (if a step-change in 2019-20, AMP6 year 5, is to be avoided).

1.3 Company explanation of performance

We read your draft explanation of performance to check that it was consistent with your underlying data.

1.4 Limitations to our scope

- Our technical assurance is based on a sample of data from the reporting year. Some reported values depend on the categorisation of the activity or cost at the time the work was carried out.

2 Findings and recommendations

Our overall conclusions support your reported performance.

Based on and to the extent disclosed by sampling carried out as described in this report:

- **We agreed with your assessment of performance for all the measures reported.**
  Based on the results of the sampling conducted during our audits, we found no significant issues with your reported performance. We made some suggestions for continuous improvement, discussed in our recommendations below.
- **Minor corrections were addressed within the audit cycle**.
  None of the corrections resulted in a material change to the reported performance.

On AMP6 (FD14) performance commitments and statutory measures:

	Overall findings	Pollution: self reporting	Sewer length refurbished
Area of focus	The overall nature of findings from agreed tests.	Considered with the PC B1: environmental performance.	Overall approach.
Findings	Following your in-house campaign, a significant improvement preparedness for audit, with a large number of 'no issues found'. Actions mostly on method statements and learning how to use the new sign-off process. Relatively few minor actions and corrections to calculations. Several actions at Pelican, mostly without material impact.	A reduction in self-reporting, together with more incidents, has led to a downgrade of Wessex' performance this year. It may be that self-reporting was too slow on at least one occasion. You explained that you already monitor incidents to check for trends and lessons to learn.	We noticed that when a sewer is repaired, a whole section (typically between access points, average 20m) is marked as 'refurbished' but actual reactive repair length is much shorter. We challenged whether, over time, this will give the impression that the sewer network is in better condition than it really is. It may also give the impression that repair is cheaper per metre than you actually experience.
Recommendations	We **recommend** continuing the pre-audit preparedness campaign. We **recommend** paying close attention to regulatory reporting needs during implementation of the new CRM at Pelican.	We **recommend** a 're-cap' staff awareness campaign on pollution and reporting. We **recommend** reviewing the pollution self-reporting process, to check that it easy for staff to use, and works very fast.	We **suggest** reviewing the method of reporting sewer refurbishment, to be confident that it is appropriate to your needs, and supported by adequate post-rehabilitation survey.

On AMP7 (PR19) draft performance commitments:

	Overall readiness	A2 successful applications for assistance by funded agencies
Area of focus	Readiness to report on the PR19 performance commitments.	Readiness to report on the performance commitment

Findings	There is good readiness to report on PR19 measures, with data gathering and reporting processes in place. Some method statements need finalising. Some data flow, such as for the new leakage measure, is being improved.	It is proving difficult to track the exact number of applications because of the way some agencies work and record their actions. This results in confidence grade B2 (±5%) which may surprise onlookers.
Recommendations	We **recommend** finalising method statements for the PR19 PCs.	We **recommend** a final review of the approach to data collection, intent on closing data gaps. It may be that agencies could further improve their case reporting, or Pelican could ask applicants if they used an agency.

The 'Outcomes, Performance Commitments and Delivery Incentives' commentary in your Annual Performance Report is appropriate.

We read your draft commentary to Table 3A.

We found that the explanations for performance reported in Table 3A were consistent with our knowledge gained during the audits, and adequately reflected the level of performance reported.

The calculation of outcome delivery incentives appears to be correct.

We agreed with your calculation of incentive rewards and penalties.

PR14 reconciliation tables

Ofwat requires company PR19 business plans to reconcile PR14 outturn with the its PR14 final determination, and you have updated your tables to reflect the 2018-19 outturn.

We visited your offices in June to review your updated PR14 reconciliation tables.

Based on and to the extent disclosed by sampling carried out and as described above:

- Wessex Water has followed Ofwat guidance in completing the PR14 totex reconciliation tables.
- Wessex Water has checked that its Totex reconciliation reflects data reported elsewhere in its PR19 tables.

We remain impressed by your progress.
Yours sincerely,

Andrew Heather

Technical assurer

T 01223 463498

andrew.heather@mottmac.com

Assurance statement

To: Wessex Water audit and risk committee

I refer to my review of technical aspects of Wessex Water's annual performance report, which have been audited under my direction. We were given free access to people and information as necessary to complete our work. Performance of Pelican, Wessex Water's retail joint venture, has been assured by Bristol Water and reported separately.

In my professional opinion, based on and to the extent disclosed by sampling carried out and as described in my report to Wessex Water dated 21 June 2019:

1. The performance commitment data have been compiled appropriately.
2. Minor errors and omissions were corrected as a result of our audits.

Dr Andrew Heather
Mott MacDonald Ltd

21 June 2019

Regulatory Accounts Introduction

The Company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the Company by the Secretary of State for the Environment the Company is obliged to provide the Water Services Regulation Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 11 to 77.

Ring fencing

Under the conditions of its Licence, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 2019. In the opinion of the Directors:

a. The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);

b. the Company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the Directors made reference to the detailed budget produced for the year to March 2020, the business plan model through to March 2025 and the viability statement through to March 2030. The Directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Transactions with associates

In the opinion of the Directors, the Company has complied with the objectives and principles of RAG 5.07, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

Methodology Statement

For the year to March 2019, the methodology statement is available as a separate link on our corporate website.

Directors

The Directors are listed in the Annual Review Summary.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of Company law, the Directors are required to prepare accounting statements that comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This requires the Directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months;
- confirm that, in their opinion, the Company has sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company;
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F and RAG 5.07.

These responsibilities are additional to those already set out in the non-statutory accounts.

Directorships

The following Directors of the Company are also Directors of the following parent companies in the Group:

Colin Skellett, Mark Watts and David Barclay are Directors of Wessex Water Ltd. Colin Skellett and Mark Watts are Directors of YTL Utilities (UK) Ltd.

Francis Yeoh, Hong Yeoh and Mark Yeoh are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Utilities Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hann Yeoh is a Director of YTL Utilities Holdings Ltd.

Long-term viability statement

The Directors' have made a long-term viability statement in the non-statutory Annual Report & Accounts covering the period to 31 March 2030.

The Company undertook analysis to 31 March 2030 by reference to a number of scenarios developed from the company corporate risk register, company financial projections and the impact of the regulatory regime. The Company's analysis included scenarios incorporating the published Principal Risks. It also considered the impact of low probability and high impact events as well as the impact of adverse scenarios occurring concurrently.

Following these assessments together with feedback from our financial auditors, and subject to the appropriate performance of Ofwat's statutory duties, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2030.

Directors' remuneration

Details of the Directors remuneration are included in the Remuneration Committee Report in the Annual Report and Accounts. This includes disclosure of the link between pay and performance.

Disclosure of information to auditor

The Directors who held office at the date of approval of the Annual Performance Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Regulatory Disclosures

1) Accounting policies

These regulatory accounts on pages 26 to 33 do not constitute the Company's statutory accounts for the years ended 31 March 2019 or 2018. 31 March 2019 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2018 and 2017. Both these statutory accounts have been delivered to the registrar of companies. The external auditor has reported on both these statutory accounts; the reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the Company will be prepared for the year ending 30 June 2019.

In accordance with Condition F of the Instrument of Appointment, financial statements have been prepared for the appointed and non-appointed business to show the profit and loss account, balance sheet and cash flow statements. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The differences between the treatment of items in the statutory accounts and these regulatory accounts are shown in paragraph 8 below.

2) Dividend policy

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business.

Dividend payments are reviewed and approved on a quarterly basis by the board after taking into account both current and projected business performance.

In particular the board takes into account:

- the company's current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
- that the company is delivering the required quality and environmental outputs and making sufficient investment in its infrastructure to maintain and, where necessary, increase resilience
- that appropriate payments have been made and can continue to be made into the company's final salary pension scheme as agreed with the scheme's trustees
- that the correct amount of tax has been paid
- that the company has met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge.

The board will only agree to the resultant distribution of the dividend if, on a forward-looking basis, it is satisfied that regulatory gearing will not exceed 70%. The company will maintain a solid investment grade credit rating at all times.

The Company declared dividends of £91.0m (2018 - £92.0m) to its immediate parent company during the year.

3) Price control segments

The company has published on our website a statement of the basis of allocation of operating costs and assets to the price control segments (known as the accounting separation methodology).

4) Revenue recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover from contracts with customers is recognised when control of these goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

There is one difference in turnover recognition between the statutory and regulatory accounts which relates to the adoption of IFRS15 whereby turnover has been de-recognised where the occupier has consistently not settled their account for a period of 4 years or more. There are no further adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of the premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised. Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges. We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

The principles laid out above apply to both new and existing premises.

5) Expected Credit Loss policy

Expected credit loss policy

There have been no changes in expected credit loss policy. The value of debt written off in the year was £14.7m compared with £7.4m in the previous year when there was a technical problem in writing off debt.

Debt is written off for one of four reasons;

- It is considered or known to be uncollectible
- It is considered uneconomic to collect
- Older debt is written off by agreement with the customer in return for the receipt of monthly payments to pay-off current year debt as part of our “Restart” and “Restart Plus” policies
- Write off is ordered by the County Court. In these case’s the Court may set payment at a proportion of the outstanding debt. When this level of payment is reached the Court will instruct that the rest is to be written off.

Expected credit loss provision policy

The expected credit loss provision for tariff income at 31 March 2019 was £39.6m compared with £42.4m the previous year-end, the reduction being due the increase in debt written off in the year.

Under newly adopted IFRS 9 expected credit loss provision is forward looking. To estimate expected credit loss various categories are selected, such as are direct debit, instalments and standing orders and other. Long-term historical collectability profile is used to assess an appropriate level of provision based on these factors and any expected general economic effects.

Trade debtor balance

There has been a decrease in the trade debtor balance from the prior year. The trade debtor at 31 March 2019 was £94.4m, compared with £95.5m the previous year.

6) Capitalisation policy

Our capitalisation policy is unchanged from previous years. The capitalisation policy document is owned and published internally by the Group Financial Controller and forms part of our governance process and procedures. It includes a significant level of detail and includes the following principles: Assets are taken to be fixed assets if they are intended for use on a continuing basis over at least 3 years (or 2 years in the case of internal software developments). Any assets not intended for such use are to be charged to revenue budgets.

Capital expenditure shall be determined as follows:

- The price paid for the asset together with any costs incidental to the acquisition e.g. identification of options and appraisal costs. This may include site preparation, which could encompass demolition work
- The cost of raw materials, consumables, salaries and wages (together with other costs) directly attributable to the creation of that asset
- In addition, the cost of an asset may include a reasonable proportion of costs indirectly attributable to the creation of the asset
- Interest paid, for example on contractors' claims or delayed payment of certificates, may be capitalised. Notional interest on capital expenditure during the course of construction is not charged to capital.

7) Taxation strategy

Wessex Water Services Limited is one of the leading water and sewerage companies in England and Wales. The company ensures that all its activities are of the highest legal and ethical standards.

Attitude towards UK tax planning

The company's approach to tax is fully aligned with the company's overall objectives. The company seeks to comply with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances to which it is entitled. The company will consider reasonable tax planning opportunities which are in line with its risk appetite. As a general rule, the company does not enter into complicated structures nor engage in any aggressive or artificial tax planning, as it does not believe it is the correct thing to do.

Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise. Consistent with other business areas, the company will seek external advice when required.

Approach to risk management and governance arrangements in relation to UK tax

The finance director is ultimately responsible for the tax strategy and engages with relevant individuals within the company to ensure the tax strategy is implemented and monitored. The board reviews and approves all significant decisions relating to tax and is regularly updated regarding any significant matters relating to tax. The Audit Committee considers significant tax related matters as part of its review of the financial reports of the company.

As a UK regulated business with a significant capital programme, the company considers obtaining tax relief on capital expenditure as being a key factor affecting its tax liability.

Other factors such as changes in tax legislation or changes in interpretations may also affect the amount of tax due, compared with what has been allowed as part of the regulatory final determination.

The level of risk in relation to UK tax the company is prepared to accept

As documented in the company's finance policy, the company adopts a risk averse and cautious approach to tax. In addition, tax is included as part of the company's risk assessment framework. The overall risk framework is monitored by the company with regular updates provided to the board.

Approach towards its dealing with HMRC

The company has an open, regular and professional dialogue with HMRC. As part of its Business Risk Reviews, HMRC have always regarded the company as being low risk. The company is keen to maintain this low risk status in the long term. The company believes that its approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating.

The company will also engage with HMRC on industry-wide matters through its membership of Water UK.

This Tax Strategy is provided in compliance with the requirements of paragraphs 16(2) and 19(2), Schedule 19 Finance Act 2016.

The company's tax contribution

The corporation tax charge in relation to the current year was £17.4m. This is lower than the statutory rate of corporation tax of 19% due to the availability of tax relief on capital expenditure. There is also a £0.3m prior year charge for corporation tax.

The company paid £21.6m in corporation tax in the period. In addition to corporation tax paid, the company is also liable to several other taxes which represent a cost to the business. These taxes include, employers National Insurance contributions of £10.5m, business rates of £26.6m, Carbon Reduction Commitment payments of £1.1m, Climate Change Levy costs of £1.6m and Insurance Premium Tax of £0.2m.

8) Differences between non-statutory and RAG definitions

The differences between the non-statutory accounts and the regulatory accounts are detailed below;

Table 1A – Income Statement

Positive numbers represent increased profit in the Regulatory Accounts	£m
Revenue	
New Connections income to be re-classified as Other Income in the Regulatory Accounts	(2.0)
Non-payers excluded from Revenue in accordance with IFRS 15	1.2
	(0.8)
Operating costs	
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	0.7
Bad-debt provision on revenue treated as non-payers under IFRS 15 excluded from operating costs	(0.7)
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. In the Regulatory Accounts capitalisation of interest is not allowed	0.1
Other operating income shown separately in the Regulatory accounts	(4.4)
Other income shown separately in the Regulatory accounts	(3.2)
Depreciation arising on conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	6.4
	(1.1)
Other operating income	
Other operating income shown separately in the Regulatory Accounts	4.4
	4.4
Other income	
New Connections income to be re-classified as Other Income in the Regulatory Accounts	2.0
Other income shown on a separate line in the Regulatory Accounts	3.2
	5.2
Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	4.0
Capitalisation of interest: excluded from Regulatory accounts	(1.8)
	2.2
Other Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	(4.0)
	(4.0)
Deferred tax	
Deferred tax at 17% on the net adjustments described above	(0.9)
	(0.9)
Total differences	**5.0**

8) Differences between non-statutory and RAG definitions (continued)

Table 1B – Statement of Financial Position

	£m
Fixed assets	
Infrastructure asset revaluation on adoption of IFRS accounting, after depreciation. This amount is excluded from the Regulatory accounts.	(666.4)
Customer pipe repairs, after depreciation, are excluded from the Regulatory accounts	(36.8)
Interest capitalised on asset construction, after depreciation on completed assets. This amount is excluded from the Regulatory accounts.	(9.9)
	(713.1)
Trade and other receivables	
Non-payers adjustment which is excluded from the Regulatory accounts.	**1.2**
	1.2
Trade and other payables	
To be shown under Capex Creditor	28.2
	28.2
Capex creditor	
From Trade and other payables	(28.2)
	(28.2)
Deferred income - G&C's	
Deferred income on adopted assets to be shown separately	84.2
	84.2
Deferred income - adopted assets	
Deferred income on adopted assets to be shown separately	(84.2)
	(84.2)
Deferred tax	
Deferred tax at 17% on fixed asset differences described above	121.0
	121.0
Total differences	**(590.9)**

9) Disclosure of transactions with associates

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2018-19 Value £m
Wessex Water Enterprises Ltd	Transport, accommodation, insurance, laboratory, central services (no individual transaction more than 0.5% of turnover)	31.494	No market – actual costs recharged	3.052
Wessex Water Enterprises Ltd	Treatment of imported organic waste	31.494	Negotiated price	4.272
Wessex Water Enterprises Ltd	Sale of sewage gas	31.494	Negotiated price	2.276
GENeco Ltd	Access to sludge digestion process	2.915	Negotiated price	0.460
Enterprise Laundry Services Ltd	Accounting, legal and information systems	0.873	No market – actual costs recharged	0.042
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs	13.216	No market – actual costs recharged	1.139
Wessex Water Ltd	Corporate charges	4.781	No market – costs allocated by time	4.523
Gainsborough Hotel (Bath) Ltd	Information systems, equipment maintenance, bottled water	7.523	No market – actual costs recharged	0.012
Wessex Engineering & Construction Services Ltd	Project management and engineering support	0.990	No market – costs allocated by time allocation	1.642
Wessex Utility Solutions Ltd	Project Management	0.364	No market – actual costs recharged	0.049
Albion Water Ltd	Accounting, legal and information systems services	0.814	No market – actual costs recharged	0.127
Flipper Ltd	Accounting, legal and information systems services	0.153	No market – actual costs recharged	0.097
Water 2 Business Ltd	Legal, insurance, transport and information systems services	145.162	No market – actual costs recharged	0.401
Thermae Development Company Ltd	Information systems	11.280	No market – actual costs recharged	0.051
YTL Developments (UK) Ltd	Project management, environmental investigations, management and engineering and back office support	0.489	No market – actual costs recharged	0.299

Services provided to appointee by associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2018-19 Value £m
Bristol Wessex Billing Services Ltd	Billing services	13.216	Competitive letting	10.591
Wessex Water Enterprises Ltd	Supply of electricity	31.494	Other market testing	3.233
Xchanging Malaysia Sdn Bhd	IT services from an Offshore Development Centre	7.745	Competitive letting and market testing	2.050
YTL Communications Sdn Bhd	IT services from an Offshore Development Centre	130.494	Competitive letting and market testing	0.340

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 11 to the Annual Report and Accounts.

The appointee paid £81.9m (2018 - £73.4m) of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 17 to the Annual Report and Accounts.

The appointee acquired assets of £0.6m (2018 - £0.9m) on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Wessex Water Services Limited

Opinion

We have audited sections 1 and 2 within Wessex Water Services Limited's Annual Performance Report for the year ended 31 March 2019 ("the Regulatory Accounting Statements") which comprise:

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

We have not audited the Outcome performance table (tables 3A to 3S) or the additional regulatory information in tables 4A to 4W.

In our opinion, the company's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2), set out on page 14.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standards as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement, as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 26 to 33 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within Section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or
- the Directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express an form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities, set out on pages 12 and 13, the Directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's accounting methodology statement, as defined in RAG 3.11, appendix 2).

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory accounting statements within the Annual Performance Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this Annual Performance Report.

A further description of our responsibilities for the audit of the Regulatory accounting statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsiblities. This description forms part of our auditor's report.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 3 and its accounting methodology statement published on the Company's website on 28 June 2019. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the non-statutory financial statements of the Company for the year ended 31 March 2019 on which we reported on 1 July 2019, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the Company (our "non-statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our non-statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Paul Mapleston
For and on behalf of
Ernst & Young LLP
Chartered Accountants
The Paragon
Counterslip
Bristol BS1 6BX
1 July 2019

Section 1: Regulatory Financial Reporting

Financial performance for the 12 months ended 31 March 2019

Current year

Income statement	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	547.7	(0.8)	(9.2)	(10.0)	537.7
Operating costs	(319.3)	(1.1)	9.2	8.1	(311.2)
Other operating income	-	4.4	-	4.4	4.4
Operating profit	228.4	2.5	-	2.5	230.9
Other income	-	5.2	-	5.2	5.2
Interest income	0.1	-	-	-	0.1
Interest expense	(93.8)	2.2	-	2.2	(91.6)
Other interest expense	-	(4.0)	-	(4.0)	(4.0)
Profit before tax and fair value movements	134.7	5.9	-	5.9	140.6
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	134.7	5.9	-	5.9	140.6
UK Corporation tax	(17.7)	-	-	-	(17.7)
Deferred tax	(6.8)	(0.9)	-	(0.9)	(7.7)
Profit for the year	110.2	5.0	-	5.0	115.2
Dividends	(91.0)	-	-	-	(91.0)

Tax analysis					
Current year	(17.4)	-	-	-	(17.4)
Adjustments in respect of prior years	(0.3)	-	-	-	(0.3)
UK Corporation tax	(17.7)	-	-	-	(17.7)

An explanation of the differences column can be found in paragraph 8 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2019

Table 1A (continued)

Analysis of non-appointed revenue	Current year non-appointed
Imported sludge	-
Tankered waste	-
Other non-appointed income	9.2
Revenue	9.2

Statement of Comprehensive Income Table 1B	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	110.2	5.0	-	5.0	115.2
Actuarial gains/(losses) on post-employment plans	4.4	-	-	-	4.4
Other comprehensive income	-	-	-	-	-
Total Comprehensive income for the year	114.6	5.0	-	5.0	119.6

An explanation of the differences column can be found in paragraph 8 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2019

Statement of Financial Position Table 1C	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	3,676.0	(713.1)	-	(713.1)	2,962.9
Investments - other	-	-	-	-	-
Total	3,676.0	(713.1)	-	(713.1)	2,962.9
Current assets					
Inventories	5.0	-	-	-	5.0
Trade & other receivables	183.9	1.2	-	1.2	185.1
Cash & cash equivalents	-	-	-	-	-
Total	188.9	1.2	-	1.2	190.1
Current liabilities					
Trade & other payables	(162.7)	28.2	-	28.2	(134.5)
Capex creditor	-	(28.2)	-	(28.2)	(28.2)
Borrowings	(51.8)	-	-	-	(51.8)
Current tax liabilities	(11.9)	-	-	-	(11.9)
Total	(226.4)	-	-	-	(226.4)
Net Current assets/(liabilities)	(37.5)	1.2	-	1.2	(36.3)
Non-current liabilities					
Trade & other payables	(6.3)	-	-	-	(6.3)
Borrowings	(2,039.6)	-	-	-	(2,039.6)
Retirement benefit obligations	(140.6)	-	-	-	(140.6)
Provisions	(1.2)	-	-	-	(1.2)
Deferred income - G&C's	(269.3)	84.2	-	84.2	(185.1)
Deferred income - adopted assets	-	(84.2)	-	(84.2)	(84.2)
Preference share capital	-	-	-	-	-
Deferred tax	(356.6)	121.0	-	121.0	(235.6)
Total	(2,813.6)	121.0	-	121.0	(2,692.6)
Net assets	824.9	(590.9)	-	(590.9)	234.0
Equity					
Called up share capital	-	-	-	-	-
Retained earnings & other reserves	824.9	(590.9)	-	(590.9)	234.0
Total Equity	824.9	(590.9)	-	(590.9)	234.0

An explanation of the differences column can be found in paragraph 8 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2019

Current year		Adjustments			
Statement of Cash Flows Table 1D	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating profit	228.4	2.5	-	2.5	230.9
Other income	-	5.2	-	5.2	5.2
Depreciation	106.1	(0.1)	-	(0.1)	106.0
Amortisation - G&C's	-	(2.7)	-	(2.7)	(2.7)
Changes in working capital	(16.9)	10.1	-	10.1	(6.8)
Pension contributions	-	(11.4)	-	(11.4)	(11.4)
Movement in provisions	-	0.8	-	0.8	0.8
Loss/(Profit) on sale of fixed assets	-	(4.4)	-	(4.4)	(4.4)
Cash generated from operations	317.6	-	-	-	317.6
Net interest paid	(63.4)	0.1	-	0.1	(63.3)
Tax paid	(21.6)	-	-	-	(21.6)
Net cash generated from operating activities	232.6	0.1	-	0.1	232.7
Investing activities					
Capital expenditure	(236.4)	-	-	-	(236.4)
Grants & Contributions	10.8	-	-	-	10.8
Disposal of fixed assets	2.2	-	-	-	2.2
Other	0.1	(0.1)	-	(0.1)	-
Net cash used in investing activities	(223.3)	(0.1)	-	(0.1)	(223.4)
Net cash generated before financing activities	9.3	-	-	-	9.3
Cashflows from financing activities					
Equity dividends paid	(90.0)	-	-	-	(90.0)
Net loans received	24.5	-	-	-	24.5
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(65.5)	-	-	-	(65.5)
Increase (decrease) in net cash	(56.2)	-	-	-	(56.2)

Net Debt Analysis at 31 March 2019

Table 1E	Interest rate risk profile: Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding preference shares)	946.6	365.5	779.3	2,091.4
Preference share capital				-
Total borrowings				2,091.4
Cash				-
Short term deposits				-
Net Debt				2,091.4
Gearing				64.7%
Adjusted Gearing				64.7%
Full year equivalent nominal interest cost	45.0	5.9	32.1	83.0
Full year equivalent cash interest payment	45.0	5.9	20.6	71.5
Indicative interest rates				
Indicative weighted average nominal interest rate	4.73%	1.72%	4.13%	3.99%
Indicative weighted average cash interest rate	4.73%	1.72%	2.64%	3.43%
Weighted average years to maturity	8.18	4.70	30.89	16.15

Financial Flows
Table 1F

	12 Months ended 31 March 2019					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	5.63%	5.36%	5.63%	58.171	55.417	55.417
Actual performance adjustment 2010-15	0.07%	0.06%	0.07%	0.692	0.659	0.659
Adjusted Return on regulatory equity	5.70%	5.43%	5.70%	58.863	56.077	56.077
Regulatory equity	1033.224	1033.224	984.318			
Gearing	0.00%	0.18%	0.19%	0.000	1.843	1.843
Variance in corporation tax	0.00%	(0.59%)	(0.62%)	0.000	(6.071)	(6.071)
Group relief	0.00%	0.00%	0.00%	0.000	0.000	0.000
Cost of debt	0.00%	1.78%	1.87%	0.000	18.411	18.411
Hedging instruments	0.00%	0.00%	0.00%	0.000	0.000	0.000
Financing total	5.70%	6.80%	7.14%	58.863	70.260	70.260
Totex out (under) performance	0.00%	2.85%	2.99%	0.000	29.457	29.457
ODI out/ (under) performance	0.00%	0.22%	0.24%	0.000	2.315	2.315
Retail out (under) performance	0.00%	-0.11%	-0.12%	0.000	-1.172	-1.172
Other exceptional items	0.00%	0.00%	0.00%	0.000	0.000	0.000
Operational performance total	0.00%	2.96%	3.11%	0.000	30.600	30.600
Total earnings	5.70%	9.76%	10.25%	58.863	100.860	100.860
RCV growth from RPI inflation	3.06%	3.06%	3.06%	31.617	31.617	30.120
Total shareholder return	8.76%	12.82%	13.31%	90.479	132.476	130.980
Net dividend	4.00%	7.61%	7.98%	41.329	78.591	78.591
Retained value	4.76%	5.22%	5.32%	49.150	53.885	52.389
Gross dividends	4.00%	7.61%	7.98%	41.329	78.591	78.591
Interest received on intercompany loans	0.00%	0.00%	0.00%	0.000	0.000	0.000
Net dividend	4.00%	7.61%	7.98%	41.329	78.591	78.591

Financial Flows
Table 1F (continued)[1]

	Average 2015-19					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	5.64%	5.33%	5.64%	56.655	53.506	53.506
Actual performance adjustment 2010-15	0.87%	0.82%	0.87%	8.699	8.216	8.216
Adjusted Return on regulatory equity	6.51%	6.14%	6.51%	65.354	61.722	61.722
Regulatory equity	1004.521	1004.521	948.695			
Gearing	0.00%	0.19%	0.20%	0.000	1.927	1.927
Variance in corporation tax	0.00%	-0.90%	-0.95%	0.000	-9.049	-9.049
Group relief	0.00%	0.04%	0.04%	0.000	0.398	0.398
Cost of debt	0.00%	1.72%	1.82%	0.000	17.243	17.243
Hedging instruments	0.00%	0.00%	0.00%	0.000	0.000	0.000
Financing total	6.51%	7.19%	7.61%	65.354	72.241	72.241
Totex out (under) performance	0.00%	1.59%	1.68%	0.000	15.949	15.949
ODI out/ (under) performance	0.00%	0.49%	0.52%	0.000	4.924	4.924
Retail out (under) performance	0.00%	0.09%	0.09%	0.000	0.862	0.862
Other exceptional items	0.00%	0.11%	0.12%	0.000	1.113	1.113
Operational performance total	0.00%	2.27%	2.41%	0.000	22.848	22.848
Total earnings	6.51%	9.47%	10.02%	65.354	95.089	95.089
RCV growth from RPI inflation	2.50%	2.50%	2.50%	25.113	25.113	23.717
Total shareholder return	9.01%	11.97%	12.52%	90.467	120.202	118.806
Net dividend	4.00%	8.22%	8.71%	40.181	82.612	82.612
Retained value	5.01%	3.74%	3.82%	50.286	37.590	36.194
Gross dividends	4.00%	8.22%	8.71%	40.181	82.612	82.612
Interest received on intercompany loans	0.00%	0.00%	0.00%	0.000	0.000	0.000
Net dividend	4.00%	8.22%	8.71%	40.181	82.612	82.612

[1] *Updated in November 2019 for 2018-19 APR data changes - resubmission and republication. The change has been subject to the auditor requirements as set out in the Regulatory Accounting Guidelines*

Narrative

<u>Current tax reconciliation</u>

a) UK corporation tax on Table 1A is £17.7m comprising current year tax of £17.4m plus £0.3m of adjustments relating to prior years.

Profit before tax was £140.6m which at the standard tax rate of 19% is £26.7m. The tax charge of £17.7m is £9.0m lower than £26.7m. The main reconciling items are explained as follows:

-£8.1m capital allowances in excess of depreciation
-£1.9m pension tax relief in excess of accounting charge
£0.6m permanent disallowable expenditure
£0.3m prior year adjustment
£0.1m other items

£9.0m

b) The corporation tax charge of £17.7m comprises a current year current tax charge of £17.4m plus a prior year charge of £0.3m. The current year current tax charge of 17.4m is £5.5m higher than the £11.9m tax charge allowed in price limits.

+£7.7m additional profit before tax of £40.8m at 19%
-£3.2m lower add back for depreciation
-£1.2m higher tax relief on pension payments
+£0.6m no debt gearing adjustment
-£0.4m higher capital allowances deduction
+£2.0m other adjustments

+£5.5m

Section 2: Price Review and Other Segmental Reporting

To make it easier for stakeholders to read this document, we have published tables 2G and 2H (revenues by tariff type) on our website at www.wessexwater.co.uk/annualresults.

Segmental Income Statement for the 12 months ended 31 March 2019

Current year

	Retail		Wholesale						Total
Table 2A	Household	Non-household	Water Resources	Water Networks+	Water Total	Wastewater Networks+	Sludge	Wastewater Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue - price control	37.5	0.2		181.8	181.8	314.9		314.9	534.4
Revenue - non-price control	-	-		1.3	1.3	2.0		2.0	3.3
Operating expenditure	(33.3)	-	(9.5)	(68.8)	(78.3)	(73.8)	(19.8)	(93.6)	(205.2)
Depreciation - tangible assets	(0.7)	-	(3.2)	(32.5)	(35.7)	(61.9)	(7.7)	(69.6)	(106.0)
Amortisation - intangible assets	-	-	-	-	-	-	-	-	-
Other operating income	-	-	0.1	5.1	5.2	(0.8)	-	(0.8)	4.4
Operating profit before recharges	3.5	0.2			74.3			152.9	230.9
Recharges from other segments	(0.6)	-	(0.2)	(1.4)	(1.6)	(0.4)	(0.3)	(0.7)	(2.9)
Recharges to other segments	-	-	0.1	0.6	0.7	2.2	-	2.2	2.9
Operating profit	2.9	0.2			73.4			154.4	230.9
Surface water drainage rebates									0.2

[Type here]

Totex analysis for the 12 months ended 31 March 2019 – Wholesale Business

Table 2B	Current year Water Resources	Water Networks+	Wastewater Networks+	Sludge	Total
	£m	£m	£m	£m	£m
Operating expenditure					
Power	2.5	7.5	16.0	0.5	26.5
Income treated as negative expenditure	-	-	-	-	-
Service charges/ discharge consents	2.3	0.1	4.1	-	6.5
Bulk supply/ Bulk discharge	-	1.9	0.1	-	2.0
Other operating expenditure					
- Renewals expenditure in year (infrastructure)	-	8.1	9.9	-	18.0
- Renewals expenditure in year (non-infrastructure)	-	-	-	-	-
- Other operating expenditure excluding renewals	3.4	34.3	36.3	17.6	91.6
Local authority and Cumulo rates	0.8	16.5	7.3	1.7	26.3
Total operating expenditure excluding third party services	9.0	68.4	73.7	19.8	170.9
Third party services	0.5	0.4	0.1	-	1.0
Total operating expenditure	9.5	68.8	73.8	19.8	171.9
Capital expenditure					
Maintaining the long term capability of the assets - infra	0.2	21.7	12.2	-	34.1
Maintaining the long term capability of the assets - non-infra	1.7	34.4	54.0	13.9	104.0
Other capital expenditure - infra	0.3	11.2	14.8	-	26.3
Other capital expenditure - non-infra	0.8	4.8	37.0	6.6	49.2
Infrastructure network reinforcement	-	0.4	5.1	-	5.5
Total gross capital expenditure (excluding third party)	3.0	72.5	123.1	20.5	219.1
Third Party Services	-	-	-	-	-
Total gross capital expenditure	3.0	72.5	123.1	20.5	219.1
Grants and contributions (price control)	-	(0.4)	(5.6)	-	(6.0)
Totex	12.5	140.9	191.3	40.3	385.0
Cash expenditure					
Pension deficit recovery payments	0.7	3.6	5.4	1.1	10.8
Other cash items	-	-	-	-	-
Totex including cash items	13.2	144.5	196.7	41.4	395.8

Operating cost analysis for the 12 months ended 31 March 2019 – Retail

Table 2C	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	7.5	-	7.5
Debt management	1.8	-	1.8
Doubtful debts	12.6	-	12.6
Meter reading	1.2	-	1.2
Services to developers		-	-
Other operating expenditure	10.2	-	10.2
Total operating expenditure excluding third party services	33.3	-	33.3
Third party services operating expenditure	-	-	-
Total operating expenditure	33.3	-	33.3
Depreciation - tangible assets	0.7	-	0.7
Amortisation - intangible assets	-	-	-
Total operating costs	34.0	-	34.0
Debt written off	14.7	-	14.7

Historic Cost Analysis of Fixed Assets at 31 March 2019 – Wholesale & Retail

Table 2D	Wholesale				Retail		
	Water Resources	Water Networks+	Wastewater Networks+	Sludge	House-hold	Non-house-hold	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 April 2018	100.3	1,276.2	2,477.6	236.4	20.2	2.0	4,112.7
Disposals	(1.3)	(1.5)	(11.7)	(0.8)	(0.1)	(0.1)	(15.5)
Additions	4.1	77.9	116.5	20.6	2.0	-	221.1
Adjustments	-	-	-	-	1.7	(1.7)	-
Assets adopted at nil cost	-	-	8.6	-	-	-	8.6
At 31 March 2019	103.1	1,352.6	2,591.0	256.2	23.8	0.2	4,326.9
Depreciation							
At 1 April 2018	(44.4)	(316.8)	(793.2)	(107.3)	(13.8)	(0.2)	(1,275.7)
Disposals	1.2	6.1	9.6	0.7	0.1	-	17.7
Adjustments	-	-	-	-	-	-	-
Charge for year	(3.2)	(32.5)	(61.9)	(7.7)	(0.7)	-	(106.0)
At 31 March 2019	(46.4)	(343.2)	(845.5)	(114.3)	(14.4)	(0.2)	(1,364.0)
Net book amount at 31 March 2019	56.7	1,009.4	1,745.5	141.9	9.4	-	2,962.9
Net book amount at 1 April 2018	55.9	959.4	1,684.4	129.1	6.4	1.8	2,837.0

Depreciation charge for year							
Principal services	(3.2)	(32.5)	(61.9)	(7.7)	(0.7)	-	(106.0)
Third party services	-	-	-	-	-	-	-
Total	(3.2)	(32.5)	(61.9)	(7.7)	(0.7)	-	(106.0)

The net book value includes £413.6m in respect of assets in the course of construction

Analysis of Capital Contributions and Land Sales for the 12 Months ended 31 March 2019 – Wholesale

Table 2E	Current year			
	Fully recognised in income statement	Capitalised and amortised against depreciation	Fully netted off capex	Total
	£m	£m	£m	£m
Grants and contributions - water				
Connection charges	2.0	-	-	2.0
Infrastructure charge receipts	-	1.7	-	1.7
Requisitioned mains	-	(2.2)	-	(2.2)
Other Contributions (price control)	-	(0.1)	-	(0.1)
Diversions	0.1	-	-	0.1
Other Contributions (non-price control)	-	(1.1)	-	(1.1)
Total	2.1	(1.7)	-	0.4
Value of adopted assets		-		-
Grants and contributions - wastewater				
Infrastructure charge receipts	-	2.9	-	2.9
Requisitioned sewers	-	2.5	-	2.5
Other Contributions (price control)	-	-	-	-
Diversions	0.1	-	-	0.1
Other Contributions (non-price control)	-	0.1	-	0.1
Total	0.1	5.5	-	5.6
Value of adopted assets		8.6		8.6

Analysis of Capital Contributions and Land Sales for the 12 Months ended 31 March 2019 – Wholesale *(continued)*

Movements in capitalised grants and contributions	Current year		
	Water	Waste water	Total
Brought forward	63.2	120.0	183.2
Capitalised in year	(1.7)	5.5	3.8
Amortisation (in income statement)	(0.5)	(1.4)	(1.9)
Carried forward	61.0	124.1	185.1

Land sales - Proceeds from disposals of protected land	0.3	0.2	0.5

Household – Revenues by Customer Type for the 12 months ended 31 March 2019

Table 2F	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000s	£
Customer Type					
Unmeasured water only customer	5.641	0.404	6.045	19.828	20
Unmeasured wastewater customer only	67.683	4.454	72.137	266.839	17
Unmeasured water & wastewater customer	89.984	6.206	96.190	169.954	37
Measured water only customer	4.077	0.486	4.563	20.479	24
Measured wastewater only customer	73.394	9.226	82.620	375.847	25
Measured water & wastewater customer	136.469	16.714	153.183	345.610	48
Total	377.248	37.490	414.738	1,198.557	31

Numbers in the table above may be subject to rounding differences.

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2019

Table 2I	**Current year**		
	Household	Non-household	Total
	£m	£m	£m
Wholesale charge - water			
Unmeasured	54.0	1.8	55.8
Measured	72.9	53.1	126.0
Third Party Revenue	-	-	-
	126.9	54.9	181.8
Wholesale charge - wastewater			
Unmeasured	109.3	2.2	111.5
Measured	141.1	61.7	202.8
Third Party Revenue	-	0.6	0.6
	250.4	64.5	314.9
Wholesale Total	377.3	119.4	496.7
Retail revenue			
Unmeasured	11.1	-	11.1
Measured	26.4	-	26.4
Other third party revenue	-	0.2	0.2
Retail Total	37.5	0.2	37.7
Third party revenue - non-price control			
Bulk supplies - water			0.4
Bulk supplies - wastewater			0.5
Other third party revenue			2.2
Principle services - non-price control			
Other appointed revenue			0.2
Total appointed revenue			537.7

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2019 *(continued)*

Table 2I (continued)	Current year		
	Water	Waste-water	Total
Wholesale revenue governed by price control	181.8	314.9	496.7
Grants & contributions	1.4	5.4	6.8
Total revenue governed by wholesale price control	183.2	320.3	503.5
Amount assumed in wholesale determination	185.0	323.2	508.2
Adjustment for in-period ODI revenue	-	-	-
Adjustment for WRFIM	(0.4)	(4.4)	(4.8)
Total assumed revenue	184.6	318.8	503.4
Difference	(1.4)	1.5	0.1

Narrative

Wholesale Revenues reconciliation against Final Determination

In 2018-19 we recovered £503.5m of wholesale revenue against a final determination allowance of £508.2m.

Increasing demand in the prior three years has meant we have consistently over-recovered the price review revenue allowances over this time. It is likely that some of this demand growth has been due to progressively hotter and drier summer weather over the period.

We agreed an approach to returning over-recovered revenues to customers with our Customer Challenge Group (the Wessex Water Partnership) which sought to avoid a rollercoaster in price changes. Our charges were set in 2018-19 with the aim of recovering £498.7m.

The very hot and dry summer of 2018 has however meant we have once again collected more revenue than our charges would have collected in a normal weather year, driven primarily by a further increase in demand.

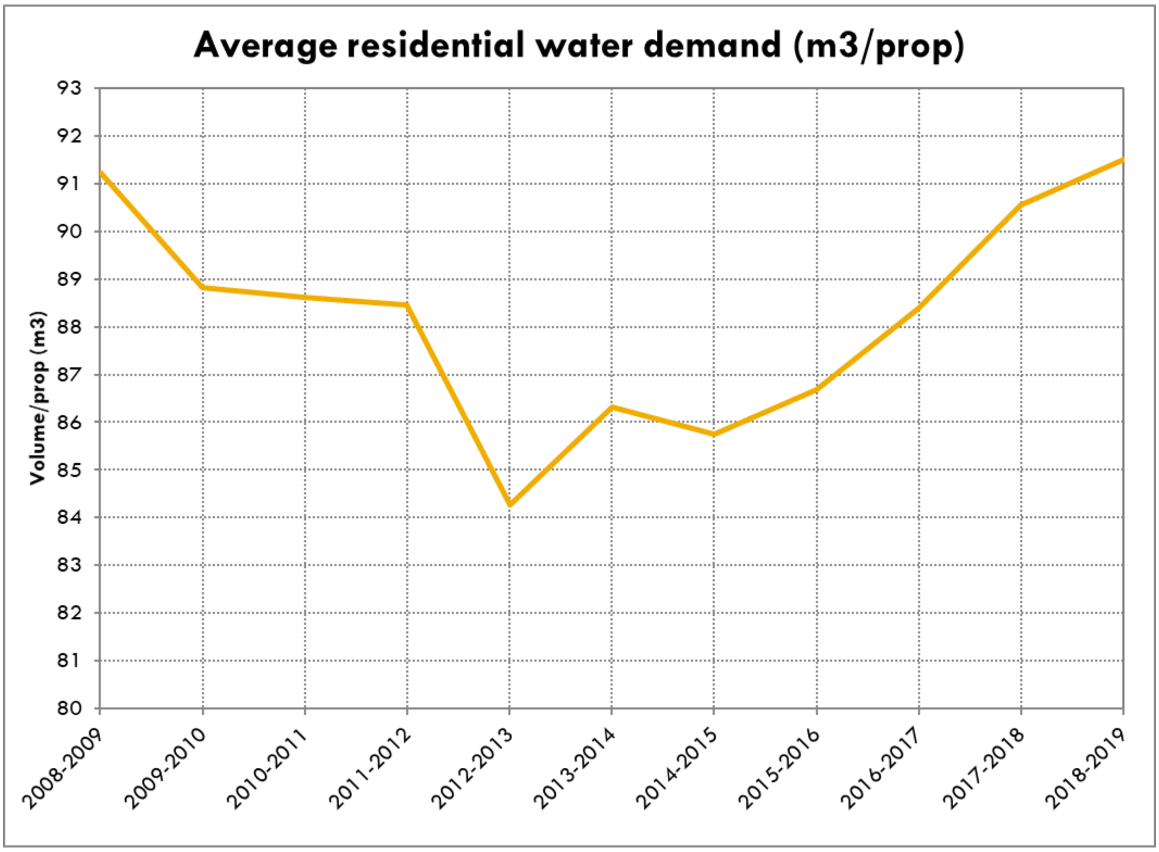
A breakdown of the variance against our budget assumptions is shown in the table below.

£m	Water	Sewerage	Total	Note
Agreed revenue to be recovered through charges	181.8	316.9	498.7	
Change to residential demand	+3.4	+3.8	+7.2	1
Change to commercial demand	+1.8	-2.0	-0.2	2
New customers and tariff switching	+0.0	+0.3	+0.3	3
Increased developer services income	+0.6	+1.0	+1.6	4
Amendment of Hinkley Point contributions	-4.2		-4.2	5
Other factors	-0.2	+0.4	+0.2	
2018/19 recovered revenue	183.2	320.4	503.5	

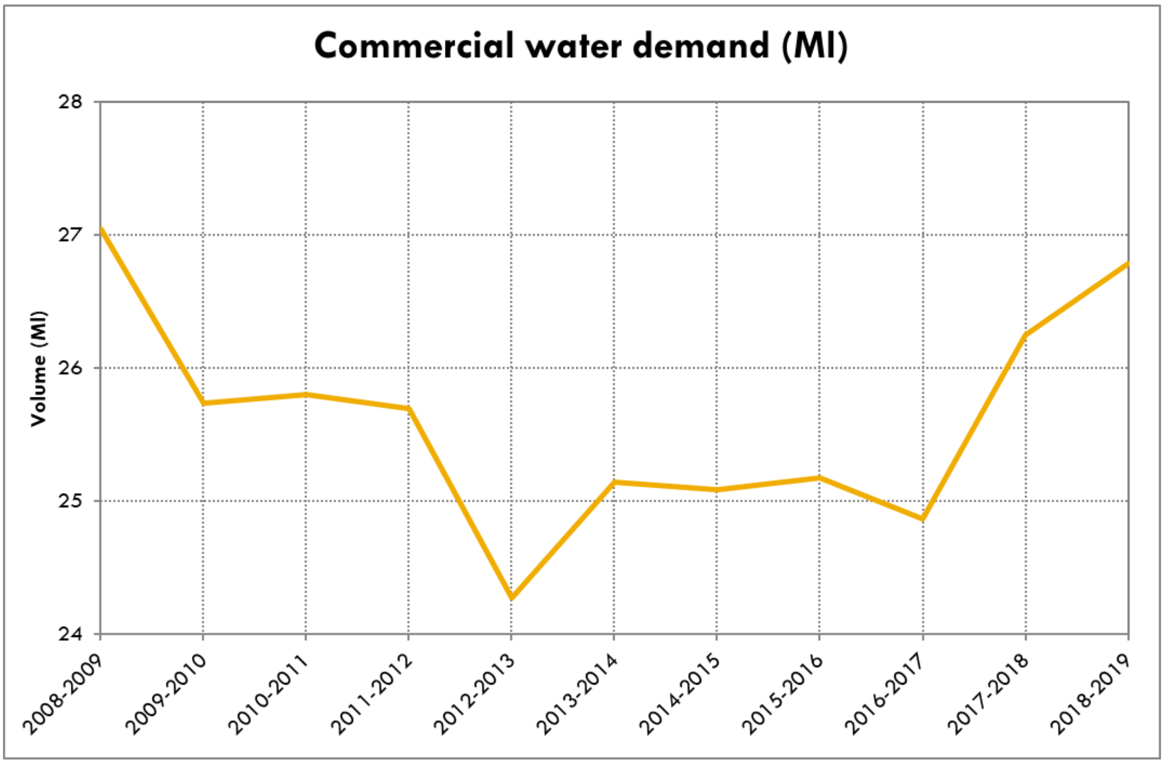
Charges for 2019-20 have already been set so this over-recovery of revenues will be returned to customers as part of the PR19 final determination.

Notes

1: Change to residential demand
We continued to experience increased residential demand over 2018-19, primarily due to our region experiencing an exceptional weather year, with higher temperatures and lower rainfall than the historical trend. Residential demand has therefore out-turned at a level above our forecast when we set charges. The graph below shows the trend of historical annual domestic demand per customer.



2: Change to commercial demand
We also experienced some growth in commercial demand over 2018-19. The graph below shows recent historical commercial water demand.



There was a reduction in waste volumes as a result of the loss of some major trade effluent customers.

3: New customers and tariff switching
Overall, the number of new customers was broadly similar to that assumed in the charge-setting process. However, demand for metering continued to fall over 2018-19, particularly in our supply area; we installed 2,700 fewer meters in the supply area than expected.

4: Increased developer services income

There was a small increase in developer services income compared to that assumed in the charge-setting process. This was in part due to a larger proportion of infrastructure charge income received on the more expensive 2017-18 charges than anticipated.

5: Amendment of Hinkley Point contributions

We initially accounted for the income on the Hinkley project as a capital contribution from NNB and declared it through table 2E. This year we agreed with our auditors that this should be referenced as a 15-year deposit, rather than a capital contribution. Each year we are to offset our wholesale water charges to NNB against a nominal interest charge on the deposit. The net of these two will be added to the balance on the investment. Therefore, the contribution has been reversed from table 4E and transferred to long-term creditors.

Infrastructure network reinforcement costs for the 12 months ended 31 March 2019

Table 2J	Network reinforcement capex	On site / site specific capex (memo only)
	£m	£m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.4	7.2
Pumping and storage facilities	-	0.4
Other	-	-
Total	0.4	7.6
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	4.4	4.8
Surface water only systems	-	0.4
Pumping and storage facilities	0.7	2.5
Other	-	-
Total	5.1	7.7

Infrastructure charges reconciliation for the 12 months ended 31 March 2019

Table 2K	Water	Wastewater	Total
	£m	£m	£m
Impact of infrastructure charge discounts			
Infrastructure charges	1.7	2.9	4.6
Discounts applied to infrastructure charges	-	-	-
Gross infrastructure charges	1.7	2.9	4.6
Comparison of revenue and costs			
Variance brought forward	-	-	-
Revenue	1.7	2.9	4.6
Costs	(0.4)	(5.1)	(5.5)
Variance carried forward	1.3	(2.2)	(0.9)

Section 3: Performance Summary

To make it easier for stakeholders to read this document, we have published tables 3S (PR19 performance commitments shadow reporting) on our website at www.wessexwater.co.uk/annualresults.

For the 12 months ended 31 March 2019 [2]

Table 3A

				Actuals				Accrued at 31 Mar 2019		31 Mar 2020 forecast	
ID	Performance Commitment	Units	dp	2017-18 performance level	Target	2018-19 performance level	2018-19 target met?	Notional reward / penalty	£m absolute value	Total AMP6 reward / penalty	£m absolute value
F1	Volume of water leaked	Ml/d	1	67.7	67.2	66.4	Yes	Reward deadband		Reward deadband	
F2	Customer reported leaks fixed within a day	%	0	76	80	80	Yes				
G1	Customer contacts about drinking water quality	nr	0	2031	1608	2010	No	Penalty	-0.4000	Penalty	-1.2000
G2	Compliance with drinking water standards (MZC)	%	2	99.96	100.00	99.96	No	Penalty deadband		Penalty deadband	
B4	Compliance with abstraction licences	%	1	100.0	100.0	100.0	Yes				
B5	Abstractions at Mere exported (follows principles of the AIM methodology)	Ml/a	0	30	100	0	Yes			Penalty	-0.0078
B7	Length of rivers with improved flows	km	0	78	99	111	Yes	Reward	0.2280	Reward	1.9380
B6	BAP landholding assessed and managed for biodiversity	%	0	90	90	96	Yes				
D2	Restrictions on water use (hosepipe bans)	nr	0	0	0	0	Yes				
D3	Water supply interruptions (> 3 hours including planned, unplanned and third party interruptions)	Min / prop	1	12.3	12	5.9	Yes	Reward	0.0390	Reward	0.0520
D4	Properties supplied by a single source (including the integrated supply grid)	nr	0	42000	42000	42000	Yes				
D5	Water main bursts	nr	0	1920	<1993	1939	Yes				
A1	Agreed schemes delivered (named outputs with bathing water drivers in the NEP)	%	0	100	100	100	Yes				
A2	Beaches passing EU standards	%	0	96	100	96	No				
B1a	The EA's Environmental Performance Assessment (reward mechanism based on pollution incidents)	standing	na	Leading	Leading	Good	No	Penalty deadband		Reward deadband	
B2	Monitoring CSOs	%	0	60	43	80	Yes				
B3	River water quality improved	nr	0	23	11	38	Yes			Reward	1.2900
C1	Internal flooding incidents	nr/10k props	2	1.21	1.68	1.43	Yes	Reward	2.4480	Reward	23.5260
C2	Risk of flooding from public sewers due to hydraulic inadequacy	Risk score	0	49796	50651	50176	Yes	Reward deadband		Reward deadband	
C3a	North Bristol Sewer Scheme - Frome catchment	milestone	na	-	-	Completed	Yes				
C3b	North Bristol Sewer Scheme - Trym catchment	milestone	na	Interim milestone met	-	-	-				
D1	Collapses and bursts on sewer network	nr	0	264	<300	257	Yes				
E1	Greenhouse gas emissions (annual greenhouse gas emissions from operational services)	ktCO2e	0	122	121	119	Yes				
E2	Proportion of energy self-generated	%	0	26	21	25	Yes				

[2] *Updated in November 2019 for 2018-19 APR data changes - resubmission and republication.*

Table 3A (cont)

				Actuals				Accrued at 31 Mar 2019		31 Mar 2020 forecast	
ID	Performance Commitment	Units	dp	2017-18 performance level	Target	2018-19 performance level	2018-19 target met?	Notional reward / penalty	£m absolute value	Total AMP6 reward / penalty	£m absolute value
A1	SIM service score	score	0	87	>86	87	Yes	Reward	tbc	Reward	tbc
A2	Percentage rating service good/very good	%	0	96	>95	96	Yes				
A3	Percentage rating good value for money	%	0	70	74	69	No				
A4	Percentage rating ease of resolution	%	0	93	Improving trend	92	No				
A5	Accessible communications	text	na	BS18477 & Customer Service Excellence Award	n/a	Best practice Achieved	Yes				
B1a	Volume of water used per person	l / person / d	0	143	132	147	No				
B1b	Volume of water saved by water efficiency promotion	l / person / d	2	2.48	2.59	3.06	Yes				
B2	Bill as a proportion of disposable income	%	1	1.5	Reducing trend	1.4	Yes				

Table 3B - Wessex Water has no sub-measures and so this table is deliberately excluded

Table 3C

Abstraction site	dp	2018-19 AIM performance [Ml]	2018-19 normalised AIM performance	Cumulative AIM performance 2016-17 onwards [Ml]	Cumulative normalised AIM performance 2016-17 onwards (nr)	Contextual information relating to AIM performance
Mere	1	0.1	-1.00	-996.5	-2.41	As per the method statement, the AIM baseline abstraction has changed this year from 380 Ml to 462 Ml, the corresponding average AIM period has changed from 163 to 164 days. Cumulative normalized performance restated as 2017-18 reported cumulative average.

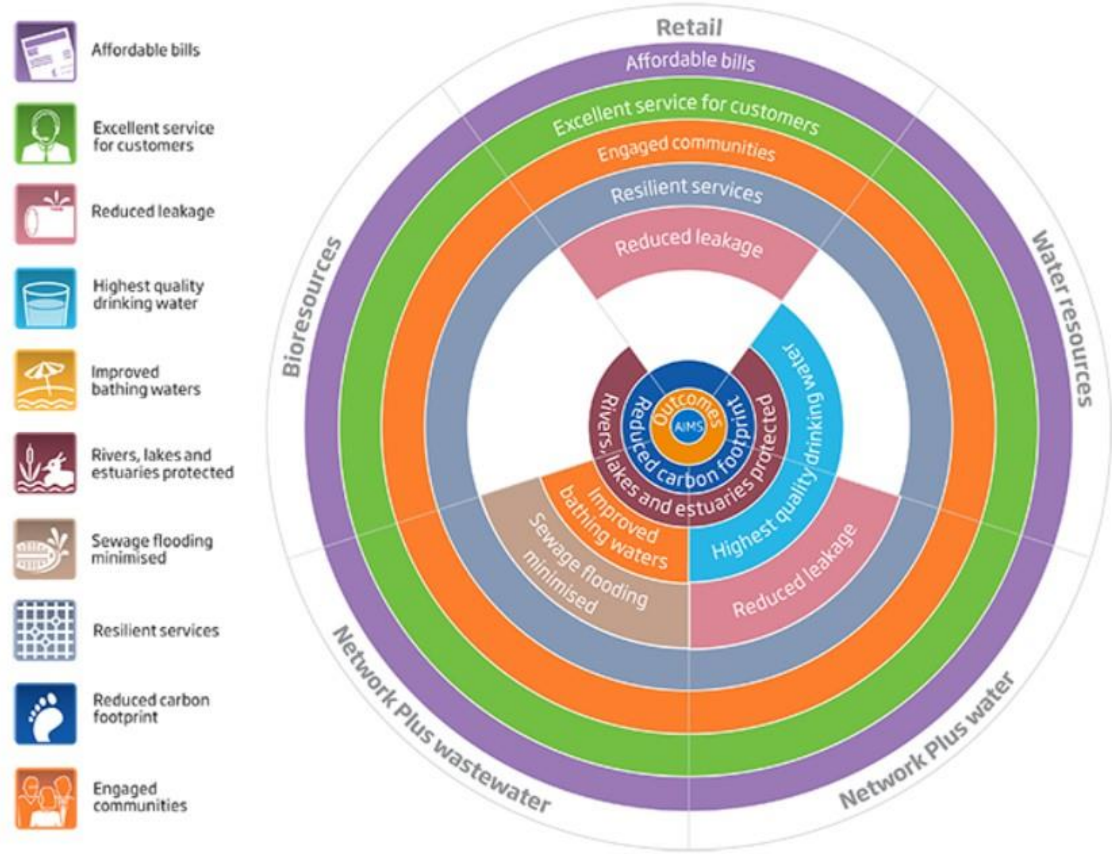
Table 3D

Row	Line description	Units	dp	Score
A	**Qualitative performance**			
1	1st survey score	score	2	4.52
2	2nd survey score	score	2	4.50
3	3rd survey score	score	2	4.57
4	4th survey score	score	2	4.52
5	Qualitative SIM score (out of 75)	score	2	66.14
B	**Quantitative performance**			
6	Quantitative composite score	score	2	78.75
7	Quantitative SIM score (out of 25)	calc	2	21.06
C	**SIM score**			
8	Total annual SIM score (out of 100)	calc	2	87.20

Narrative

Outcomes, Performance Commitments & Delivery Incentives (2015-2020)

As part of our ‘strategic direction statement, Water – the way ahead (2015-2040)’, published in support of our last business plan we defined nine outcomes derived through our customer engagement. In 2017 we updated our strategic direction statement to reflect a greater focus on how we engage with our communities. This is incorporated within the diagram below.



We consulted with our customers and worked with customer stakeholder bodies and our Customer Scrutiny Group to develop specific performance commitments (PCs) focused on areas of activity that are important to our customers. This resulted in 32 performance commitments being agreed with Ofwat in the final determination.

Each of these performance commitments has a target confirmed in Ofwat’s final determination of 2014. For those performance commitments that were most important to our customers or that could have the biggest impact on the environment a financial incentive was applied. We also included a range of performance commitments that were new and are being trialed up to 2020 and several that are not totally under our control to deliver; in these cases, a reputational incentive was applied.

We are committed to making significant improvements to our services and this section of the document provides the detail describing our progress in the fourth year of the current five-year period.

Where appropriate Ofwat incentivised companies by applying outcome delivery incentives (ODIs) designed using customer valuations to create financial incentives so that more of the company’s returns were based on the service they provided to customers. For those performance commitments with a financial incentive, if the company fails to achieve these targets we refund customers; if we beat these targets where customers value the services provided, the company will receive an incentive payment. All refunds and incentive payments will be factored into the AMP7 final determination in 2020.

Where there is uncertainty around performance due possibly to third party factors or variations in the weather then a deadband is applied around the target, within which no incentive payments or customer refunds apply.

Performance Commitment narrative

The following sections support the performance data included in Table 3A and Table 3S and provide an explanation of each performance commitment, an explanation of any over or under performance for the 2018-19 report year and, where appropriate, update our forecast to the end of the 5-year period. This section also explains any financial incentive that applies to each performance commitment.

Whilst these performance commitments focus on Wessex Water's performance, it is important to understand them in a wider context. In our separately published annual review summary, '**Delivering for our customers'** we show how we have performed in our key performance measures over a number of years.

All financial values are stated at 2012-13 prices and will be indexed to outturn prices using RPI by Ofwat when they are applied to our bills in 2020-21. The calculations themselves can be reasonably complex. For clarity in this document we have stated the most likely impact of differing performance levels. However, nothing in this document supersedes the more detailed calculation that was part of our 2014 price determination.

Water Performance Commitments

Rivers, Lakes and Estuaries Protected

Compliance with abstraction licences – All our abstractions of water from the environment are covered by EA permits which specify the maximum volume we are allowed to take in a given day and in the year – some licences can be very complex. This measure records the percentage of total days which are in breach of a licence at any source.

We are targeting 100% compliance in every year.

There is no financial incentive associated with this measure.

In 2018-19 we achieved the 100% target and we forecast that we will continue to do so in the future.

Abstractions at Mere – There are local concerns about the impact of our abstractions at Mere during periods when groundwater levels are low. This performance commitment measures the total amount of water we abstract from the source in a year when groundwater levels are below an agreed trigger level (AIM period).

We have set ourselves a challenging target to significantly reduce our abstraction to a minimal level of 100 Ml or less from Mere during the AIM period. This is a significant reduction from the volume that we have historically abstracted over the same period (462 Ml).

There is a financial penalty attached to this measure, it represents the extra cost of using water abstracted from elsewhere. We will refund customers £25 for each Ml we abstract over the target during periods of low groundwater.

The recent completion of the water supply grid has improved the resilience of our integrated network and should mitigate the risk of needing to use Mere. As a result, we did not abstract any water from Mere during the AIM period. We are not forecasting to exceed the target in 2019-20.

Landholding assessed and managed for biodiversity – The percentage of landholding we own where we have assessed biodiversity. The results of this assessment influence appropriate management actions and contributes to achieving Defra's England biodiversity strategy. The undertaking of the management action is not included within the scope of the measure.

The target for 2015-20 is to increase this from 60% in 2015-16 to 100% for sites larger than 0.5 hectares, adding an additional 10% assessed each year.

If we miss the target, we will refund customers £4k per percentage point.

Historically (2015-16 and 2016-17) we were reporting against landholdings that were larger than 0.05 hectares. This was amended in 2017-18 to landholdings greater than 0.5 hectares which corresponds with the Ofwat definition. Our performance of 96% in 2018-19 has exceeded our target of 90%. We continue to forecast that we will achieve the target in 2019-20.

Improving flows in rivers – This measures the length of river with improved flows as a result of changes in abstraction licences.

The target is 99km in 2018-19 with no improvements due in 2019-20. This is because these improvements relate to specific changes in licence conditions which are due that year.

If we do not deliver these planned changes we will refund customers £19k per kilometre. If we manage to deliver more changes to abstraction licences that improve additional km of river, we can receive an incentive payment of £19k per additional km.

In 2017-18 we agreed licence changes at Nutscale, improving the Nutscale Water and Horner Water, as well as at Compton Durville, improving the Lam Brook and North Mills Brook. These licence changes were not anticipated so were an outperformance of the target by 12km of improved river flow. In 2018-19, we made further licence changes at Malmesbury which was granted by the Environment Agency. The overall length of river with improved flows stands at 111 km which is an overperformance of 12 km against our target of 99km. As these licence changes have now been made, we will achieve 111km in 2019-20 as well.

Resilient Services

Water restrictions – The number of temporary use bans (TUB) imposed (i.e. hosepipe bans).

We have not had to impose a TUB since 1976, and target none up to 2020. If we have to impose a TUB we will refund customers £10.1m for each TUB imposed.

We did not have to impose a TUB in 2018-19 and do not expect to have to do so in 2019-20.

Interruptions to supply – The average minutes of supply lost per property from interruptions that are longer than three hours.

Ofwat has set an industry wide target representing upper quartile performance. In 2015-16, the target was 21.3, it then tightened to the upper quartile of 12 minutes in 2017-18 where it remains.

A deadband applies to this performance commitment such that in any year we exceed the deadband we will refund customers £41.9k per additional minute per property; and if in any year we beat the upper quartile performance of 12 minutes we receive an incentive payment of £6.4k for every additional minute per property.

In 2018-19 we achieved 5.9 minutes, a significant improvement on our past performance that results in an outperformance payment of £255k. Whilst this is a result of continual improvement in our processes and investment in new ways of working, we are conscious that the weather was mild so we did not experience any major incidents. However, the improvements we have made give us confidence we will exceed the target in 2019-20.

Properties supplied by a single source – This is a continuation of a measure developed for 2010-15 relating to delivery of the water supply grid; it measures the number of properties that are solely supplied by one source of drinking water and cannot be fed from an alternative one.

We are targeted with reducing the number of these properties to 78,000 in 2015-16 with a further reduction to 42,000 in 2018-19.

If we were to fail to meet the target in any given year due to delays in delivery of the grid we would refund customers £76.60 per property above target per year. If we de-scope the integrated supply grid and fail to deliver these improvements, we will refund customers £2,445 per property

The implementation of the water supply grid in 2017-18 has meant that the PC target has been met in 2018-19.

Water main bursts – The number of water main bursts in the year.

The target is set at less than 1,993 in each year up to 2020. This represents the level at which, had we exceeded it, we could have incurred an underperformance penalty payment during the period 2010 to 2015, from Ofwat.

For every burst above 1,993 in a given year we will refund customers £4.9k.

In 2018-19 our performance was 1,939 bursts. It is difficult to forecast the future position but overall, assuming a range of weather conditions, we still anticipate achieving the target in 2019-20.

Reduced Leakage

Volume of leakage – The total daily volume of water we lose from our distribution system.

We have targeted a 5% reduction from our 2014-15 performance of 70 Ml/day, applied as a tightening of the target by 0.7 Ml/day each year up to 2020.

This performance commitment has the potential for both customer refunds and incentive payments. If we miss the target we are penalised by £305k for every Ml/day we are over, but if we beat the target by over 1 Ml/day, we can receive an incentive payment of £110k for every additional Ml/day.

In 2018-19, we achieved 66.4 Ml/d, which is under the target of 67.2 Ml/d. This figure is within the outperformance payment deadband so no financial payment applies. We have trialed a number of new technologies this year such as satellite and drone leak detection and are also investing in mobile and fixed acoustic networks to enable quicker detection and repair of leakage. As a response to tightness in the external labour market for skilled leakage staff, we have promoted and developed a significant number of leakage trainees in the last 12 months. We expect our efforts to result in further leakage reduction in following years and will help in delivering the tightening target in 2019-20.

Significant leaks fixed with a day – The number of significant leaks reported by customers that we fix within a day.

This is a new measure and by 2020 we have targeted to fix 90% of the significant leaks reported by customers by the end of the next working day following report to us. The target gradually increases through the AMP from 66% in 2015-16.

Due to limited historic data to support setting an incentive, this PC has no financial impact associated with it.

In 2018-19 we achieved 80% performance, achieving the target for the year. Successful achievement relies on good collaboration between teams in the business and continuous improvement of our processes. Under normal conditions we are confident we can achieve the target for 2019-20.

Highest Quality Drinking Water

Customer contacts about drinking water – The Drinking Water Inspectorate (DWI) annually report the number of contacts a company received about discolouration and taste and odour of drinking water.

In our business plan, we proposed a reduction of 10% over AMP6 from our 2014-15 performance; this was one of the measures where Ofwat set an industry wide target representing its view of the current upper quartile performance. In 2015-16, the target was 2,536 contacts, reducing to 2,072 in 2016-17 then from 2017-18 it reduced to a challenging 1,608 contacts.

If we fail to meet the target, we will refund customers £1,000 per contact and if we exceed the target, we could receive an incentive payment of £175 per contact.

In 2018-19, our contacts reduced from 2,031 to 2,010 contacts. Whilst this is an improvement in performance, it is outside the underperformance cap and results in an underperformance payment of £400,000.

We continue to implement a series of customer relationship management initiatives that will help improve performance in future. Continued investment in further mains rehabilitation programmes is also important. However, there are no major hot spots remaining so further work is rarely justified on cost benefit grounds.

Last year we reported that, there are no clear means by which we can achieve the target for 2018-19 and 2019-20 without investing well above what customers have indicated they are prepared to pay. We are aware that our strategy of making it very easy for customers to contact us does make it more challenging to achieve this measure compared to the rest of the industry. Therefore, we are reporting that, under normal conditions we will miss this target and have included our best estimate of the underperformance penalty we will incur. We remain committed to improving our performance for our customers but we always expected that it would take longer than three years to achieve the improvement and this still looks to be the case. This situation has not changed and therefore as we have always advised, we forecast maximum underperformance penalty payments to the end of the AMP.

Compliance with drinking water standards – The DWI annually calculate and report mean zonal compliance (MZC) – it measures performance against 39 parameters representing the quality of potable water supplied to customers. This is measured at customer taps; so failures can be caused by customers plumbing issues.

In our business plan we proposed a target of 99.98% throughout representing our highest ever historic performance. The DWI consider anything other than targeting 100% is inappropriate, so Ofwat have set this as the target from 2017-18 onward.

The target for the whole industry is 100% and we incur an underperformance penalty payment of £770k if in any year performance falls below 99.95%.

In 2018-19 we had 9 sample failures out of the approximately 25,000 tests contributing to mean zonal compliance, giving MZC of 99.96%. Of these sample failures, 9 were attributable to domestic plumbing and service pipe issues and none were found to be associated with Wessex Water assets. We are continuing to work with Water Regulations Advisory Scheme (WRAS), the water fittings agency, to influence domestic plumbing to reduce domestic failures.

We continue to review and modify our company lead pipe replacement strategy. This is a long term issue that is not expected to change headline compliance in the short term. Therefore, we will not achieve 100% compliance in this AMP (2015-2020) but we can expect to always be above the Ofwat deadband target of 99.95%.

A new method of measuring compliance with drinking water standards called ‘Compliance Risk Index’ (CRI) has been introduced by the DWI. This will eventually replace MZC. CRI includes sample failures from reservoirs and treatment works as well as customer taps and the scoring takes into account the type of breach as well as the scale of the potential impact.

Sewerage Performance Commitments

Improved Bathing Waters

Bathing water schemes delivered – The water industry national environment programme (WINEP) phase 4 included 20 named outputs we have to deliver with regulatory dates to improve the bathing water quality at Burnham Jetty or investigation of other bathing waters. Due to a newly designated inland bathing water at Henleaze, Bristol, an additional investigation was added to the phase 5 NEP for year 2 delivery.

There were two outputs to deliver in 2018-19. The target is to deliver 100% of projects each year, on a cumulative basis. This measure is the percentage of these outputs we have achieved. For each % we are short of 100% we will refund customers £9k.

We accelerated a scheme at West Quay, Bridgwater which meant we delivered one of our outputs for this year, a year earlier in 2017-18. The second output at Colley Lane Bridgwater was constructed in April 2018 and approved by the Environment Agency in 2018-19. As we have completed these two schemes, we have delivered 100% of the agreed and met the target.

We have one scheme to deliver in 2019-20 which we are confident we will achieve.

Beaches achieving EU standards – Under the revised bathing water directive (rBWD) beaches are classified as poor, sufficient, good or excellent; classifications are based on the quality of the water over the previous four bathing seasons. If a beach fails to achieve sufficient it is deemed to have not met EU standards.

We are targeting all designated bathing waters in the region to meet EU standards.

As there are many factors that affect the bathing water outside of the company’s control, such as the impact of agriculture, there is no financial ODI associated to this measure.

We currently have 48 designated bathing waters within our operational region. Compliance is monitored by the Environment Agency, in accordance with the Directive, and audited annually by Defra.

In 2018-19, 96% of bathing waters within our region passed the EU ‘sufficient’ standard or higher under the revised Bathing Water Directive. Burnham Jetty North and Weston-super-mare (WSM) Main were the only two bathing waters within the Wessex Water area to fail the required standards in the year. We expect WSM Main to meet the required standards in 2019-20. However, despite the delivery of our investment programme at Burnham Jetty North, other drivers of poor bathing water remain and it is anticipated that this performance commitment will not be achieved.

Rivers, Lakes and Estuaries

The Environment Agency’s (EA’s) Environmental Performance Assessment (EPA) – Since 2012 the EA has published a composite measure of environmental performance, including pollution incidents (classified in categories 1 (being the most severe) through to 3), discharge permit compliance, sludge disposal compliance, pollutions self-reported and NEP outputs delivered. They classify each water company as ‘leading’ (previously ‘industry leading’), ‘good’ (previously ‘above average’), ‘requires improvement’ (previously ‘below average’) or ‘poor’.

We have targeted maintaining our leading position throughout AMP6, which would require meeting six of the following seven parameters: having fewer than or equal to 86 cat 3 pollution incidents per 10,000km of sewers; having fewer than or equal to 1 cat 1 or 2 pollution incidents per 10,000km of sewers; achieving more than 99% STW discharge compliance; achieving 100% sludge disposal compliance; self-reporting more than 75% of pollution incidents,achieving 100% of NEP outputs and achieving 100% on the Security of supply index.

For 2018-19, the Environment Agency has suspended ‘sludge disposal compliance’ as a parameter within this measure. However, we continue to maintain full compliance and internal reporting.

This measure has the potential for a customer refund; if our performance drops to below average we would refund customers £5.9m. There is also the potential for incentive payments if we perform well on the pollutions indicator; if in any year we achieve zero category 1 and 2 pollutions we can receive an incentive payment of £190k for each cat 3 pollution incident less than 67.

In 2018-19 we achieved a ‘good’ rating in the Environment Agency’s Environmental Performance Assessment by meeting four of the six parameters. We had more than one category 1 or category 2 pollution and narrowly missed our self-reporting target, achieving 74% against a target of 75%. We are confident that we will achieve ‘leading’ status in 2019-20.

Monitoring combined sewer overflows (CSOs) – Prior to 2015, we installed monitors on 278 sites. The 2015-20 National Environment Plan (NEP) includes 714 named outputs we have to deliver with regulatory dates, so we will have installed monitors at all environmentally sensitive CSOs by the end of the price control period. This measure is the percentage of these outputs including those prior to 2015 we have achieved.

We were targeted with achieving 43% of the total monitored by the end of 2018-19 and 100% by the end of 2019-20. This measure has the potential for a customer refund; for each 1% we miss the target by we will refund £10k.

There are 714 outputs required in the NEP by March 2020. We met our NEP requirements in 2018-19 by delivering and permitting 193 monitors.

At the end of 2018-19 we are monitoring 80% of the total overflows that have an impact on the environment and we anticipate achieving the remaining programme.

River water quality improved – The number of water bodies (designated by the EA) we have made improvements to by increasing the quality of final effluent we discharge into them, or by making other improvements.

From the draft WINEP we calculated that we would be making improvements to 70 unique water bodies, assuming that the discharge from a STW affects the water body it discharges into and the next one downstream. This is the target for this price control period and any financial incentive will only be applied in the final year.

This measure has the potential for both customer refunds and incentive payments. If we miss the target we will refund customers £1.674m per waterbody; if we exceed the target we can receive an incentive payment of £1.290m for each additional waterbody.

There was a target of 11 waterbodies for 2018-19. We improved 23 waterbodies to date in 2017-18 and have improved a further 15 waterbodies in 2018-19, totaling 38 waterbodies thus far. The remainder of the programme is progressing well to achieve the targets for the rest of the AMP.

This performance commitment was created in recognition of the uncertainty surrounding the development of the WINEP for PR14. Our business plan was submitted in December 2013 based on the requirement of the WINEP Phase 3 which was issued to us in June 2013. The final WINEP (Phase 5) was issued in January 2016 and included a final list of schemes included in the WFD second river basin management plan (RBMP2). The schemes listed in the final WINEP included improvements to 71 water bodies, compared to the 70 listed in the earlier WINEP(3). This results, once delivered, in an outperformance payment in the last year of the AMP.

Sewage Flooding

Internal flooding incidents – The number of internal sewage flooding incidents per 10,000 properties that are caused by events other than insufficient capacity of our sewerage network (we capture issues around insufficient capacity of our system in the next performance commitment). This measure includes flooding incidents caused by blockages and asset failures.

This was one of the measures for which Ofwat set an industry wide target representing current upper quartile performance. As we were already an upper quartile performer our target was set tighter than this level at 1.66 incidents per 10,000 properties in 2019-20; equates to c205 incidents.

As a high customer priority this measure has the potential for both customer refunds and incentive payments. To account for the impact of weather on sewer flooding we have a deadband around the target. This means that we will refund customers if we miss the target by over 0.2 (c25 incidents), and we can claim incentive payments if we beat the target by more than 0.13 (c16 incidents). We will refund £315k for each 0.01 we are over the deadband and we can claim an incentive payment of £204k for each 0.01 we are below the deadband.

In 2018-19 our performance was 1.43 sewer flooding incidents (c179 incidents) per 10,000 properties, resulting in an incentive payment of £2.4m. Whilst this is an outperformance of our target, it is not in line with what we forecast in 2017-18. This is a result of an unusually large increase in incidents in November 2018, from a variety of different causes such as blockages (e.g. from rags, fat and tree roots) and damage to pipework. On review of our performance, our forecast for 2019-20 is an average of our performance from 2015-2019.

Risk of flooding – We measure the total risk of flooding due to lack of capacity by assigning all properties/areas on the flooding risk registers to a risk matrix based on the likelihood of flooding occurring and the impact if it does. We then use this to calculate the aggregate score for the company.

We are targeting a steady risk profile, maintaining an aggregate score of 50,651 despite upwards pressure from climate change and urban creep, over 2015-20.

This is another measure that has the potential for both customer refunds and incentive payments, although as it is a new measure with limited historic data to support it there is a large deadband around the target. If we exceed the target by more than 20% we will refund customers £10.4m; if we beat the target by more than 20% we can claim an incentive payment of £7k for each additional point the aggregate score is reduced by.

In 2018-19 we achieved a risk score of 50,176 which is better than the target. This is within the outperformance deadband so no incentive payment will be claimed.

Our investment programme to address flooding risks is progressing well and we are confident we will achieve the target for 2019-20.

North Bristol Sewer - Frome Valley – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Frome Valley relief sewer.

If the delivery is delayed beyond 2019-20 we will refund customers £1.86m per year. There is a more severe underperformance payment associated with not undertaking the scheme of £24.9m – there is no risk of incurring this as the scheme is underway.

We completed delivery of the North Bristol Sewer – Frome Valley scheme in 2018-19, meeting our performance commitment for the 2015-20 period.

North Bristol Sewer - Trym tunnel – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Trym tunnel.

If we miss the initial milestones due in 2017-18 we refund customers £0.97m per year. There is a more severe underperformance payment associated with not undertaking the scheme of £14.1m – there is no risk of incurring this as the scheme is underway.

In 2017-18 we reached the initial milestone by demonstrating, in line with our delivery plan, that the design, consultation and construction of the Trym scheme has been progressed. There is no target for us to meet in 2018-19 but we are on schedule for delivery of the scheme in March 2023.

Resilient Services

Sewer collapses – Previous reporting in AMP6 has been against our annual performance. However, the performance commitment definition in our final determination requires reporting against a rolling 5-year average. We are therefore restating previous years' figures on this basis, as shown below. The updated figures do not change our reward/penalty position in any year as all remain better than our performance commitment level. Our annual figures have been reported accurately for all years and are not being changed.

	2015-16	2016-17	2017-18
Restated figures (5-year average)	271	276	264
Previously reported figures (in-year)	282	264	223

The reported figure for 2018-19 is 257. The target is set at 300 throughout 2015-20. This represents the level that above which we could have incurred an underperformance penalty payment during the period 2010-15 from Ofwat. For every collapse/burst over 300 in a given year we will refund customers £8.4k.

In 2018-19 we had 248 collapses and bursts, and while weather conditions were favourable in the year we do anticipate achieving the target for 2019-20.

Reduced Carbon Footprint

Greenhouse gas emissions – Our annual net greenhouse gas emissions, in ktCO2e.

We are targeting a reduction from 133 ktCO2e in 2015-16 to 119 ktCO2e in 2019-20 compared to a performance of 148 ktCO2e in 2014-15.

As a large proportion of this is driven by the CO2e emissions from grid electricity a factor that is outside our control there is no financial ODI associated with this measure.

For 2018-19 greenhouse gas emissions were 119 kilotonnes carbon dioxide equivalent, which is better than our target of 121 kilotonnes carbon dioxide equivalent. We are constantly looking for ways to reduce our carbon footprint: key examples in recent years include the preventative aspects of catchment management, extensive energy efficiency work, and investment in food waste digestion which provides electricity consumed by regulated activity.

GENeco has contracted with third parties to sell green gas certificates in association with the export of biomethane.

We are anticipating that we will continue to manage our activities to achieve the 2019-20 target but as our performance will be affected by other influences we cannot guarantee the target will be met.

Energy self-generated – This measures the percentage of our electricity and gas use that is accounted for by our own renewable generation.

We are targeting an increase in the amount we generate over time, although this is mitigated by a heightened demand for power as we deliver other enhancements (e.g. the integrated supply grid). The target profile is 21% in 2015-16 rising to 22% in 2016-17 and 2017-18, before falling to 21% in 2018-19 and rising again to 24% in 2019-20. The profile varies in the 2015-20 period because of the integrated supply grid coming on stream mid AMP and anticipated increases in self-generation from sludge schemes at the end of the price control period.

If we miss the target in any year we will refund customers £99k for every percent we are below this target.

Our renewable electricity generation came to 25%, better than our performance commitment. The renewable energy in this calculation includes:

a. Electricity from combined heat and power fuelled by sewage sludge biogas

b. Exported biomethane expressed as the electricity that it would have produced if the source biogas had been converted into electricity instead

c. Electricity from hydropower installations

d. Renewable electricity from other on-site generation that is consumed by a regulated activity (i.e. water treatment, distribution, sewerage, sewage treatment or sludge treatment). In our case this includes electrical output of food waste digestion and solar power.

The denominator for this performance commitment is total electricity demand. We use electricity as the single common unit to avoid combining electrical and thermal energy output, which could lead to confusion and disparities.

We anticipate delivering the target for 2019-20.

Retail Performance Commitments

Excellent customer service

Service incentive mechanism (SIM) - This is the Ofwat measure of the quality of customer service. There are two elements to the SIM; an independent customer satisfaction survey and a customer contact measure covering written complaints and unwanted contacts. The scores for each of these measures are combined to produce a total score out of 100. Companies are compared with each other in an Ofwat league table.

Our target is a SIM score of >86 in each year of the five years. In 2018-19 we achieved a score of 87 and we anticipate achieving the target for the rest of the AMP.

We have not included any valuation of the financial impact for the SIM as this is determined separately by Ofwat.

Percentage rating our service good or very good - This is the percentage of customers who have contacted us with an operational query/complaint that rate our service as ‘very good’ or ‘good’. The percentage is calculated from the answer to one of the questions in the survey used by our customer care team when they contact customers once their operational contact has been resolved. The survey is undertaken by telephone or by text message.

Our target is >95% rating our service as good or very good in each year of the five years. This is a reputational measure only.

In 2018-19 we achieved 96% rating following assessment by external auditors. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Percentage rating good value for money - This is the percentage of customers in our region rating our overall service as good value for money. The percentage is calculated from the answer to the relevant question in our image tracking survey. This is a telephone survey of a random sample of 1,000 domestic customers in the Wessex Water region. The survey is carried out by an independent market research agency on our behalf.

The survey questions are consistent from year to year. The sample includes both people who have had reason to contact us in the year and those that have not.

We are targeting a 1% increase in value for money each year over AMP6, starting from 71% in 2015-16 to 75% in 2019-20.

This is a reputational measure only.

The result of the independent survey for 2018-19 is 69%, a reduction on the prior year meaning we have not achieved our target. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Customers rating ease of resolution - This is the percentage of customers in our region who said that their contact was easy to resolve measured through our annual image tracking survey of 1,000 randomly selected customers across our region. Having reviewed the sample sizes achieved for the first 3 years of the AMP they have been found to be too small (around 100 contactors) to demonstrate whether any movement year on year in the effort score is statistically significant or not. As a result we have discussed and agreed with the independent Customer Scrutiny Group, Wessex Water Partnership that ease of resolution should now be measured through our SIM replica surveys. Our independent SIM replica surveys achieve a very robust sample size of 2,100 and it is these values that are reported in the table.

As a result of our surveys, the 2018-19 performance is 92%, marginally worse than our previous performance. While the performance has remained high, it does not demonstrate an improving trend meaning that we have not achieved our target.

Accessible communications - This is a measure of how accessible and inclusive our services are to our customers.

This is measured by the achievement of the BS Standard 18477 for inclusive service provision and the Customer Service Excellence award. Both are external accreditations with an annual external assurance process.

This is a reputational measure only. In 2018-19, we maintained this British Standard certification and continue to focus on maintaining it.

Affordable Bills

Volume of water used per person – The average volume of water used by a person per day. This is also referred to as per capita consumption (PCC).

We are targeting a reduction in PCC over 2015-20, from 135 litres/head/day (l/h/d) in 2015-16 reducing by 1 l/h/d annually to 131 l/h/d in 2019-20. PCC is largely driven by external factors outside of the company's control and so no financial ODI is attached to this performance commitment.

In 2018-19 the PCC was 147 l/h/d, 15 l/h/d higher than the target of 132 l/h/d. We attribute this to an extended period of hot and dry weather in summer 2018 and a lower number of water meter installations than forecast. Due to the impact of external factors it is difficult to forecast or manage the delivery of this measure, other than to reflect the actual performance each year

Volume of water saved by water efficiency promotion - We are committed to helping customers reduce their water use as part of our efforts to operate a sustainable water supply and waste water business.

Between 2010 and 2015 we met the target set by Ofwat of achieving savings of 0.55 Ml/d (or ~0.44 l/h/d) each year. We are now committed to achieve a saving of 3.26 l/h/d by 2020.

The savings delivered cumulatively to 2018-19 have exceeded our performance commitment target. We are currently reporting cumulative savings of 3.06 l/h/d against a target of 2.59 l/h/d. If we miss the target in any given year, we will refund customers £1.89m for each l/p/day.

This remains a challenging target overall and we are working hard to ensure we continue to perform well.

Bill as a proportion of disposable income - This compares our average household bill with average household disposable income. To calculate the latter we use the equivalised disposable income statistics, published by ONS in their report titled "The effects of taxes and benefits on household income".

This data is published two years in arrears and we uprate it by the most recent forecasts of household disposable income from the Office for Budget Responsibility (OBR), taking into account the overall change in households using the ONS Families and Households publication. This gives us the final denominator to calculate the bill as a proportion of disposable income.

We are targeting a reducing trend over the five years.

Based on the latest ONS and OBR data our 2018-19 bill was 1.4% of disposable income. This compares with the position in 2014-15 when the bill was 1.6%, our 2015-16 and 2017-18 bill which was 1.5% and our 2016-17 bill which was 1.4% of disposable income; this meets the reducing trend target.

Table 3S - Shadow reporting

We have been working together with other water companies to develop consistent definitions and reporting guidance for eleven metrics to help inform the setting of the outcome performance commitments from 2020 onwards. This work has been coordinated by Water UK and supported by Ofwat.

Some of these metrics are new whilst others are existing performance commitments that have a revised definition.

Leakage – Reducing the amount of water that leaks from pipes in our region.

Leakage is a current performance commitment (volume of water leaked) but the methodology used for the current and future measure is different.

Due to improved data availability in 2018-19 in comparison to 2017-18 and 2016-17, the reported figures are not comparable. It is expected that 2017-18 and 2018-19 numbers will be restated in 2019-20 based on further methodology changes.

Supply interruptions – Minimising interruptions to customers water supply.

The measure is the average minutes of supply lost per property from interruptions that are longer than three hours including planned, unplanned and third party interruptions.

We have a performance commitment for supply interruptions in 2015-20. The methodology for 2020-25 is marginally different.

The decrease is supply interruptions to customers is a result of continual improvement in our processes and investment in new ways of working. However, we are conscious that the weather was mild so we did not experience any major incidents.

Mains bursts – The number of water main bursts in the year.

The methodology we have used in 2015-20 is the same as the industry methodology for 2020-25. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

Whilst there has been a slight increase in mains bursts, we have committed to maintain stable asset health at <165. Our performance in 2017-18 and 2018-19 fulfils this commitment.

Unplanned outage – How often our water treatment works have to be taken out of service unexpectedly.

This is a new performance commitment for 2020-25. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

The increase in 2018-19 in comparison to 2017-18 is a result of:

- Recording of planned outages which result from unplanned events (previously recorded as planned events
- Two water treatment work which has extended unplanned outages in 2018-19.

Per capita consumption (PCC) – Reducing the average amount of water used by each person in a day.

Per capital consumption is a current performance commitment (volume of water used per person) but the methodology used for the current and future measure is different. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

We attribute the increase from 2017-18 to 2018-19 to an extended period of hot and dry weather in summer 2018 and a lower number of water meter installations than forecast.

Risk of severe restrictions in a drought – Ensuring that people don't experience severe water supply restrictions (e.g. standpipes) in extreme droughts (1-in-200 year drought).

This is a new performance commitment for 2020-25. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

We continue to report that 0.0% of our customers are at risk of restrictions in a drought.

Internal sewer flooding incidents – Minimising the number of times sewage floods into customers' homes.

Internal sewer flooding is a current performance commitment (internal flooding incidents) but the methodology used for the current and future measure is different. Reporting guidance for the 2015-20 performance commitment allows for incidents to be discounted due to severe weather. The methodology for the 2020-25 performance commitment in Table 3S includes internal flooding from severe weather incidents.

Whilst our performance in 2018-19 is still very good, the number of incidents has increased in comparison to previous years. This is a result of an unusually large increase in incidents in November 2018, from a variety of different causes such as blockages (e.g. from rags, fat and tree roots) and damage to pipework.

External sewer flooding incidents – Minimising the number of times sewage floods outside customers' homes (e.g. gardens).

This is a new performance commitment for 2020-25.

The decrease in external sewer flooding incidents is a result of continual improvement in our processes, continued investment and benign weather.

Sewer collapses – How often we have to repair a sewer because it has collapsed.

Sewer collapses is a current performance commitment (collapses and bursts on sewer network) but the methodology used for the current and future measure is different. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

The decrease in sewer collapses reported in 2017-18 and 2018-19 is due to a change to the methodology.

Risk of sewer flooding in a storm – Ensuring people do not get flooded by sewage in serious storms (1-in-50 year storm).

This is a new performance commitment for 2020-25. It was confirmed as a common performance commitment in December 2017 so has not been reported in previous submissions of Table 3S.

The increase from 2017-18 to 2018-19 is a result of a change in the methodology.

Vulnerability – Identifying more customers in vulnerable circumstances and understanding their needs.

To identify customers in vulnerable circumstance and understand their needs we have the Priority Services Register (PSR) which is a register that identifies customers who are classified as requiring additional assistance. This includes customers:

- who require a password to prevent bogus callers,
- with a disability or medical condition we need to be aware of, or
- who have additional communication need

The measure has two aspects to it:
PSR Reach - The percentage of households that the company supplies with water and/or wastewater services which have at least one individual registered on the company's PSR.

PSR data checking – the percentage of distinct households with individuals on the company's PSR that have been contacted at least once over the previous two years to ensure they are still receiving the right support.

Whilst we currently support our customers through the Priority Services register, PSR is not a performance commitment in 2015-20.

We have reported our performance for the 'PSR data checking' element as 0.0%. Whilst we update the records of our customers on the PSR, we do not currently have the reporting capability to identify which records have been updated. We are undertaking work on our reporting capabilities so that we are able report this number when this performance commitment begins in 2020-21.

This performance commitment became a common measure in January 2019 so has not been reported in previous submissions of Table 3S.

Terminology and Acronyms

PC – performance commitment, the level of performance that the company is targeting

CPL – committed performance level, same as PC

MoS – measure of success, the definition of what we will be measuring

ODI – outcome delivery incentive, the incentive attached to a given performance commitment be it reputational or financial

Example – Volume of water leaked is the measure of success, the target of 69.3 in 2015-16 is the performance commitment (or committed performance level) and the financial outperformance or underperformance payment we will in incur based on actual performance is the outcome delivery incentive.

FBP – final business plan

FD – final determination

ONS – Office for National Statistics

OBR – Office of Budget Responsibility (department within the Treasury)

SIM – service incentive mechanism, composite measure of customer service calculated by Ofwat

CSO – combined sewer overflow

EA – Environment Agency

DWI – Drinking Water Inspectorate

NEP – national environment programme

rBWD – revised bathing water directive

TUB – temporary use ban

AIM – abstraction incentive mechanism

PCC – per capita consumption

EPA – environmental performance assessment, composite measure of environmental performance calculated by the EA

MZC – mean zonal compliance, composite measure calculated by the DWI of the quality of drinking water supplied to customers

Deadbands – a range around the target within which no financial incentive is applied to account for uncertain factors that can affect performance

Caps/Collars – the performance level beyond which no financial incentive applies

Section 4: Additional Regulatory Information

Non-financial Information for the 12 Months ended 31 March 2019

To make it easier for stakeholders to read this document, our cost assessment data is published on our website in tables 4J to 4W at www.wessexwater.co.uk/annualresults. These tables have been prepared in accordance with the RAGs and we have applied the same high-quality assurance.

Table 4A **Retail - household**	Current year Unmeasured	 Measured
Number of void households ('000s)	12.168	18.177
Per capita consumption (excluding supply pipe leakage) l/h/d	158.630	137.910

Wholesale	Water	Wastewater
Volume (Ml/d)		
Bulk supply export	1.204	0
Bulk supply import	11.075	0.732
Distribution input	348.524	0

Wholesale Totex Analysis for the 12 Months ended 31 March 2019

Table 4B	Current year		Cumulative 2015 – 2020	
	Water	Wastewater	Water	Wastewater
	£m	£m	£m	£m
Actual totex				
Menu totex	157.7	238.1	602.7	819.6
Items excluded from the menu				
Third party costs	1.0	0.1	4.3	0.9
Pension deficit recovery payments	4.3	6.5	14.1	22.2
Other 'Rule book' adjustments	(1.1)	(1.6)	(12.8)	(22.8)
Total costs excluded from the menu	4.2	5.0	5.6	0.3
Transition expenditure	-	-	0.5	4.7
Adjusted Actual totex	153.5	233.1	597.6	824.0
Actual totex – base year prices	132.6	201.3	541.0	742.3

Allowed totex based on final menu choice - base year prices	124.1	232.8	567.1	858.5

Impact of AMP performance to date on RCV

Table 4C	Water	Wastewater
	£m	£m
Cumulative totex over/underspend so far in the price control period	(28.2)	(128.4)
Customer share of cumulative totex over/underspend	(14.3)	(64.9)
RCV element of customer share of cumulative totex over/underspend	(13.1)	(59.4)
Adjustment for ODI rewards or penalties	1.1	-
RCV determined at FD at 31 March	1,158.7	2,074.1
Projected 'shadow' RCV	1,146.7	2,014.7

Totex Analysis for the 12 Months ended 31 March 2019 – Wholesale Water

Table 4D	Water resources		Network+				Total
	Abstract-ion licences	Raw water abstract-ion	Raw water transport	Raw water storage	Water treatment	Treated water distrib-ution	
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	2.5	-	-	5.6	1.9	10.0
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges/discharge consents	2.3	-	-	-	0.1	-	2.4
Bulk supply	-	-	-	-	1.9	-	1.9
Other operating expenditure:							
- Renewals expenditure (infrastructure)	-	-	-	-	-	8.1	8.1
- Renewals expenditure (non-infrastructure)	-	-	-	-	-	-	-
- Other operating expenditure excluding renewals	-	3.4	-	-	11.4	22.9	37.7
Local authority and cumulo rates	-	0.8	-	-	1.6	14.9	17.3
Total operating expenditure excluding third party services	2.3	6.7	-	-	20.6	47.8	77.4
Third party services	-	0.6	-	-	-	0.3	0.9
Total operating expenditure	2.3	7.3	-	-	20.6	48.1	78.3
Capital expenditure							
Maintaining the long-term capability of the assets – infra	-	0.2	-	-	-	21.6	21.8
Maintaining the long-term capability of the assets - non-infra	-	1.7	-	-	23.1	11.3	36.1
Other capital expenditure - infra	-	0.3	-	-	-	11.2	11.5
Other capital expenditure - non-infra	-	0.8	-	-	2.3	2.6	5.7
Infrastructure network reinforcement	-	-	-	-	-	0.4	0.4
Total gross capital expenditure (excluding third party services)	-	3.0	-	-	25.4	47.1	75.5
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	-	3.0	-	-	25.4	47.1	75.5
Grants and contributions	-	-	-	-	-	(0.4)	(0.4)
Totex	2.3	10.3	-	-	46.0	94.8	153.4
Cash expenditure							
Pension deficit recovery costs	-	0.6	-	-	1.4	2.3	4.3
Other cash items	-	-	-	-	-	-	-
Totex including cash items	2.3	10.9	-	-	47.4	97.1	157.7

Totex Analysis for the 12 Months ended 31 March 2019 - Wholesale Water (continued)

Unit cost information (operating expenditure) – Wholesale Water

	Water resources		Network+			
Table 4D (continued)	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Licenced volume available – Ml	248,796					
Volume abstracted – Ml		138,734				
Volume transported			0.498			
Average volume stored				7,879		
Distribution input volume – m3					123,608	
Distribution input volume – m3						127,211
Unit cost - £/Ml	9.300	52.297	-	-	167.373	377.869
Population 000s	1,327.626	1,327.626	1,327.626	1,327.626	1,327.626	1,327.626
Unit cost - £/pop	1.743	5.465	0.000	-	15.583	36.207

Numbers in the table above may be subject to rounding differences.

Totex Analysis for the 12 months ended 31 March 2019 - Wholesale Wastewater

Table 4E	Sewage collection			Sewage treatment		Sludge treatment			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating expenditure									
Power	2.2	0.8	0.8	10.9	1.2	-	0.5	-	16.4
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-
Discharge consents	0.7	0.3	0.3	2.7	0.1	-	-	-	4.1
Bulk discharge	-	-	-	0.1	-	-	-	-	0.1
Other operating expenditure:									
-Renewals expenditure (infrastructure)	8.3	1.6	-	-	-	-	-	-	9.9
-Renewals expenditure (non-infrastructure)	-	-	-	-	-	-	-	-	-
-Other operating expenditure excluding renewals	9.3	3.4	3.4	19.7	0.6	5.5	6.5	5.6	54.0
Local authority rates	-	-	-	6.9	0.4	-	1.7	-	9.0
Total operating expenditure excluding third party services	20.5	6.1	4.5	40.3	2.3	5.5	8.7	5.6	93.5
Third party services	0.1	-	-	-	-	-	-	-	0.1
Total operating expenditure	20.6	6.1	4.5	40.3	2.3	5.5	8.7	5.6	93.6
Capital expenditure									
Maintaining long term capability of assets - infra	10.5	1.7	-	-	-	-	-	-	12.2
Maintaining long term capability of assets - non-infra	7.4	0.6	-	45.9	0.1	0.1	13.5	0.3	67.9
Other capital expenditure - infra	13.3	0.7	-	0.8	-	-	-	-	14.8
Other capital expenditure - non-infra	3.9	-	-	33.1	-	-	6.6	-	43.6
Infrastructure network reinforcement	5.1	-	-	-	-	-	-	-	5.1
Total gross capital expenditure (excluding third party services)	40.2	3.0	-	79.8	0.1	0.1	20.1	0.3	143.6
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	40.2	3.0	-	79.8	0.1	0.1	20.1	0.3	143.6
Grants and contributions	(3.8)	(0.9)	(0.9)	-	-	-	-	-	(5.6)
Totex	57.0	8.2	3.6	120.1	2.4	5.6	28.8	5.9	231.6
Cash expenditure									
Pension deficit recovery costs	1.3	0.5	0.5	2.9	0.2	1.0	0.1	-	6.5
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	58.3	8.7	4.1	123.0	2.6	6.6	28.9	5.9	238.1

Totex Analysis for the 12 months ended 31 March 2019 - Wholesale Wastewater (continued)

Unit cost information (operating expenditure)

Table 4E (continued)	Sewage collection			Sewage treatment		Sludge		
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal
Volume collected foul – Ml	178,419							
Volume collected surface water drainage - Ml		84,645						
Volume collected highway drainage - ML			84,645					
Biochemical Oxygen Demand (BOD) sewage - tonnes				63,198				
Biochemical Oxygen Demand (BOD) sludge liquor - tonnes					6,191			
Sludge volume transported – m3						1,035,609		
Sludge treatment dried solid mass treated - ttds							70.055	
Sludge treatment dried solid mass disposed - ttds								52.443
Unit cost - £/Ml	115.360	71.834	53.298	638.176	365.973	5.308	123,603.13	107,675.42
Population (000s)	2,823.287	2,823.287	2,823.287	2,823.287	2,823.287	2,823.287	2,823.287	2,823.287
Unit cost - £/pop	7.290	2.154	1.598	14.285	0.803	1.947	3.067	2.000

Numbers in the table above may be subject to rounding differences.

Operating Cost Analysis for the 12 Months ended 31 March 2019 - Household Retail

Table 4F (1 of 3)	Household Unmeasured			
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m
Operating expenditure				
Customer services	0.087	1.505	0.996	2.588
Debt management	0.007	0.325	0.419	0.751
Doubtful debts	0.281	3.786	2.412	6.479
Meter reading				
Other operating expenditure	0.272	1.110	2.333	3.715
Total operating expenditure excluding third party services	0.647	6.726	6.160	13.533
Third party services operating expenditure	-	-	-	-
Total operating expenditure	0.647	6.726	6.160	13.533
Depreciation - tangible fixed assets				
-On assets existing at 31 March 2015	0.005	0.066	0.042	0.113
-On assets acquired since 1 April 2015	0.005	0.067	0.043	0.115
Amortisation - intangible fixed assets				
-On assets existing at 31 March 2015	-	-	-	-
-On assets acquired since 1 April 2015	-	-	-	-
Total operating costs	0.657	6.859	6.245	13.761
Capital expenditure	0.032	0.425	0.271	0.728

Operating Cost Analysis for the 12 Months ended 31 March 2019 - Household Retail

Table 4F (2 of 3)	Household Measured			
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m
Operating expenditure				
Customer services	0.101	2.482	2.325	4.908
Debt management	0.006	0.387	0.644	1.037
Doubtful debts	0.170	3.124	2.873	6.167
Meter reading	0.027	0.305	0.839	1.171
Other operating expenditure	0.277	1.492	4.678	6.447
Total operating expenditure excluding third party services	0.581	7.790	11.359	19.730
Third party services operating expenditure	-	-	-	-
Total operating expenditure	0.581	7.790	11.359	19.730
Depreciation - tangible fixed assets				
-On assets existing at 31 March 2015	0.006	0.117	0.108	0.231
-On assets acquired since 1 April 2015	0.007	0.119	0.110	0.236
Amortisation - intangible fixed assets				
-On assets existing at 31 March 2015	-	-	-	-
-On assets acquired since 1 April 2015	-	-	-	-
Total operating costs	**0.594**	**8.026**	**11.577**	**20.197**
Capital expenditure	**0.037**	**0.685**	**0.630**	**1.352**

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale

Table 4F (3 of 3)

Household	£m
Demand-side water efficiency - gross expenditure	0.235
Demand-side water efficiency - expenditure funded by wholesale	-
Demand-side water efficiency - net retail expenditure	0.235
Customer-side leak repairs - gross expenditure	5.317
Customer-side leak repairs - expenditure funded by wholesale	(5.317)
Customer-side leak repairs - net retail expenditure	-

Wholesale Current Cost Financial Performance for the 12 Months ended 31 March 2019

Table 4G	Water	Wastewater	Total
	£m	£m	£m
Revenue	183.1	316.9	500.0
Operating expenditure	(78.3)	(93.6)	(171.9)
Capital maintenance charges	(52.1)	(101.3)	(153.4)
Other operating income	5.2	(0.8)	4.4
Current cost operating profit	57.9	121.2	179.1
Other income	2.7	2.5	5.2
Interest income	-	0.1	0.1
Interest expense	(29.5)	(62.1)	(91.6)
Other interest expense	(1.6)	(2.4)	(4.0)
Current Profit before tax and fair value movements	29.5	59.3	88.8
Fair value gains/(losses) on financial instruments	-	-	-
Current Profit before tax	29.5	59.3	88.8

Financial Metrics for the 12 Months ended 31 March 2019

Table 4H[3]	Current Year	AMP to Date
Net debt	£2,091.4m	
Regulated equity	£1,141.4m	
Regulated gearing	64.69%	
Post tax return on regulated equity	10.85%	
RORE (return on regulated equity)	9.71%	9.33%
Dividend yield	7.97%	
Retail profit margin - Household	0.85%	
Retail profit margin - Non-household	0.19%	
Credit rating	BBB+	
Return on RCV	6.89%	
Dividend cover	1.27	
Funds from operations (FFO)	£239.5m	
Interest cover (cash)	4.78	
Adjusted interest cover (cash)	2.59	
FFO / Debt	0.11	
Effective tax rate	12.38%	
Free cash flow (RCF)	£149.5m	
RCF / capex	0.63	

Revenue and earnings	£m
Revenue (actual)	534.4
EBITDA (actual)	329.2

Movements in RORE	Current Year	AMP to Date
Base Return	5.64%	5.64%
Totex out / (under) performance	2.31%	1.42%
Retail cost out / (under) performance	(0.09%)	0.07%
ODI out / (under) performance	0.22%	0.49%
Financing out / (under) performance	1.72%	1.66%
Other factors	(0.09%)	0.05%
Regulatory return for the year	9.71%	9.33%

[3] *Updated in November 2019 and January 2021 for 2018-19 APR data changes - resubmission and republication and 2019-20 APR data changes – resubmission and republication respectively.*

Borrowings (Current year)	%
Proportion of borrowings which are fixed rate	46.26
Proportion of borrowings which are floating rate	17.48
Proportion of borrowings which are index linked	37.26
Proportion of borrowings due within 1 year or less	2.48
Proportion of borrowings due in more than 1 year but no more than 2 years	0.26
Proportion of borrowings due in more than 2 years but no more than 5 years	30.59
Proportion of borrowings due in more than 5 years but no more than 20 years	33.22
Proportion of borrowings due in more than 20 years	33.45

Financial Derivatives for the 12 Months ended 31 March 2019

Table 4I	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	
	£m	£m	£m	£m	£m	£m
Interest rate swap (sterling)						
Floating to / from fixed rate	-	-	-	-	-	-
Floating to / from index linked	-	-	-	-	-	-
Fixed to / from index-linked	-	-	-	-	-	-
Total	-	-	-	-	-	-
Foreign Exchange						
Cross currency swap USD	-	-	-	-	-	-
Cross currency swap EUR	-	-	-	-	-	-
Cross currency swap YEN	-	-	-	-	-	-
Cross currency swap Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Currency interest rate						
Currency interest rate swaps USD	-	-	-	-	-	-
Currency interest rate swaps EUR	-	-	-	-	-	-
Currency interest rate swaps YEN	-	-	-	-	-	-
Currency interest rate swaps Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Forward currency contracts						
Forward currency contracts USD	-	-	-	-	-	-
Forward currency contracts EUR	-	-	-	-	-	-
Forward currency contracts YEN	-	-	-	-	-	-
Forward currency contracts Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Other financial derivatives	-	-	-	-	-	-
Total financial derivatives	-	-	-	-	-	-

The Company has no interest rate or foreign currency swaps.

Financial Derivatives for the 12 Months ended 31 March 2019 (continued)

Table 4I (continued)	Interest rate (weighted average for 12 months to 31 March 2017)	
	Payable	Receivable
	%	%
Interest rate swap (sterling)		
Floating to / from fixed rate	-	-
Floating to / from index linked	-	-
Fixed to / from index-linked	-	-
Foreign Exchange		
Cross currency swap USD	-	-
Cross currency swap EUR	-	-
Cross currency swap YEN	-	-
Cross currency swap Other	-	-
Currency interest rate		
Currency interest rate swaps USD	-	-
Currency interest rate swaps EUR	-	-
Currency interest rate swaps YEN	-	-
Currency interest rate swaps Other	-	-
Forward currency contracts		
Forward currency contracts USD	-	-
Forward currency contracts EUR	-	-
Forward currency contracts YEN	-	-
Forward currency contracts Other	-	-
Other financial derivatives	-	-

The Company has no interest rate or foreign currency swaps.

Bidding activity: Bioresources market

	Units	Current year
Summary of market activity		
Total number of contracts held with a third party at end of the financial year	nr	0
Total amount paid on contracts during the financial year	£000	0
Number of different suppliers at the year end	nr	0
Number of contracts ended during the year	nr	0
Number of contracts renewed during the year	nr	0
Number of new contracts that have been agreed during the year	nr	0
Formal tender process		
Number of formal tenders you issued during the year	nr	0
Total number of bids received on all your tenders	nr	0
Number of tenders you awarded during the year	nr	0
Informal bidding process		
Number of offers made by a third party outside the formal tender process during the financial year	nr	0
Number of successful offers	nr	0
Treatment of sludge		
Total quantity of sludge produced in performance of the company’s functions as a sewerage undertaker	ttds/yr	70.06
Quantity of sludge treated in-house	ttds/yr	70.06
Quantity of sludge treated by a third party	nr	0
Number of contracts to provide sludge treatment	nr	0
Number of suppliers with contracts for sludge treatment	nr	0
Sludge transported		
Total quantity of sludge transported by road	ttds/yr	83.14
Quantity of sludge transported by road in-house by your own bioresources service	ttds/yr	83.14
Quantity of sludge transported by road by a third party	nr	0
Number of contracts to provide sludge transport services	nr	0
Number of suppliers with contracts for sludge transportation	nr	0
Sludge recycled or disposed		
Total quantity of sludge recycled or disposed	ttds/yr	52.44
Quantity of sludge recycled or disposed in-house by your own bioresources service	ttds/yr	52.44
Quantity of sludge recycled or disposed by a third party	nr	0
Number of contracts to provide sludge recycling or disposal services	nr	0
Number of suppliers with contracts for sludge recycling or disposal	nr	0

Please see the associated commentary on our website for further details.

Narrative

Retail: Actual Expenditure v 2014 Final Determination (FD)

The following table provides a comparison of retail operating costs against those assumed in Ofwat's Final Determination in 2014.

	Actual (2C.12) (£m)	FD Allowance (£m)
Household	34.0	32.6

Notes:
– *FD excludes net margin*
– *Non-household is zero as we have exited the non-household retail market*

Retail: Household

Our household retail costs have exceeded that assumed in the final determination primarily due to an increase in customer-side leaks, increasing costs by ~£2.5m compared to the previous year. Aside from this, our household retail costs have been minimised due to continued tight cost control both within our billing provider (Pelican) and within our operational customer services teams.

Our service has still been amongst the best in the industry, although we have experienced a small increase in unwanted telephone contacts and written complaints.

- The Consumer Council for Water (CCWater) published data for the 2017-18 reporting year showing that we continue to receive the lowest number of written complaints (per 10,000 connected properties) of any water and sewerage company. We are also better than the industry average in terms of both number of unwanted telephone contacts and percentage of written complaints resolved at the first stage of procedures.
- We remain one of the best performers in the industry service incentive measure (for water and sewerage companies)
- We have performed well against our suite of retail performance commitments.

Our operations customer service team has retained the institute for customer service (ICS) service mark with distinction award, one of only 10 companies in the UK to be awarded this.

The total number of customers remains broadly in line with what was assumed at the final determination, although the uptake of water meters has been lower than expected. Allowed costs would have been ~£0.3m lower if assessed against our actual charging base.

	Actual ('000)	FD assumption ('000)	Variance
Unmetered	456.6	352.4	+104.2
Metered	741.9	834.3	-92.4

Retail: Non-household

We no longer operate in the retail non-household market.

Wholesale: Actual Expenditure v Final Determination (FD)

The following table provides a comparison of the actual expenditure to FD. The comparison is based on the net PAYG FD value at outturn prices, so excludes any pension deficit repair allowance.

Across the wholesale business the total variance is £27.0m or 7% of FD for the year.

Variance between FD and Actual	£m	£m	£m
@18/19 Prices	Water	Sewerage	Total
Totex FD	144.8	269.9	414.7
Actual Totex	154.5	233.2	387.7
PAYG Variance	-9.7	36.7	27.0

Wholesale: Water

The totex expenditure for Wholesale Water if the impact of the pension credit is excluded shows a £9.7m overspend against the FD in the year.

As we stated in 2015-16 our representations at the time stressed that the FD allowance was challenging for us with a rural network and a large number of small water resource and production sites. Therefore, we anticipate our base expenditure will remain close to the FD allowance even after efficiency plans are implemented. This continues to be the case in 2018-19.

The overspend in the year reflects three main factors:

- Increased expenditure on leakage of £5m.
- The dry weather combined with complex schemes to meet quality objectives resulted in additional maintenance expenditure of £4m.
- Capital expenditure on New Development was £1m over the FD allowance; as this is market driven it is more difficult to programme. Grants & Contributions are lower this year as a result of an income correction. This relates to the water supply contract at Hinkley Point C (NNB Generation Co Ltd) having been wrongly shown as capital contributions in previous years. The correct treatment of the contract was in reality a deposit scheme with additional tariff revenue and interest costs. The correction has the effect of reducing grants and contributions by £5.4m.

All major capital project outputs are on-track for delivery in the AMP.

Wholesale: Sewerage

The totex expenditure for Wholesale Wastewater if the impact of the pension credit is excluded shows a £36.7m underspend against the FD in the year.

The underspend is due to the following main factors:

- Significant reduction in operating costs (power) resulting from prolonged dry weather (£12m).
- The dry weather conditions have resulted in lower than expected asset failures and reduced reactive maintenance costs of £12m. These conditions also resulted in fewer service failures through sewer flooding, resulting in an underspend of £6m.
- The Frome Valley Relief Sewer, part of the North Bristol Strategic Sewer programme, has been delivered with an in-year saving of £7m.

All regulatory outputs were delivered in the year and the future programme is on-track to 2020.

Cumulatively in the AMP the variance is £161.7m on an outturn basis, excluding the one-off impact of the pension credit, or 10% of the FD.

Atypical expenditure: Pension credit

During the year we made changes to our defined benefit pension scheme rules which have been calculated to reduce the overall liability by £2.7m. As in previous years our auditors have confirmed that adjustments such as these should be accounted for as a one-off credit to opex in the accounting year in which they are made. A reduction in the pension liability does not relate to any outperformance of the expenditure allowance in the PR14 determination.

Differences in pension deficit contributions to the values set-out in IN 13/17 are excluded from the PR14 totex reconciliation mechanism and we therefore expect these credits also to be excluded. For clarity we have split this credit out in tables 4J & 4K as an exceptional item and will be excluding it from our PR14 reconciliation submission.

Commentary regarding cumulative Totex savings v FD

1) Assessment process

Assessing the variance between actual expenditure and the final determination at any point during a price control period requires some logic and assumptions to be applied so that the reporting is consistent and minimises any judgement.

Any variation will be made up of a mix of horizontal (advancement or slippage) and vertical (overspend or saving) movements. Table 1F requires the assessment of the savings which has been assumed to be net savings (ie. savings v overspends) but excludes slippage or advancement.

The following logic is applied to identify the savings:

- All opex variance in each year is savings
- Having set the 19-20 budget we assume the following on the basis that we expect to deliver the projects budgeted for the year.
    - all variance AMP to date on enhancement programmes is savings
    - All variance AMP to date on maintenance is slippage

2) Explanation of cumulative savings

The cumulative savings to the end of 2018-19 are £160.55m, made up of £15.8m opex and £144.73m capital.

The savings reported in prior years amount to £91.44m and those additional savings identified cumulative to 2018-19 are £69.11m. These savings are a combination of savings on schemes completed in the year and conversion of slippage identified in previous years that is now recognisable as saving having agreed the 2019-20 budget.

The net opex saving has been delivered through a combination of

- Early procurement of power contracts
- In-house provision of key activities
- Early migration to CPI indexation (business rates)
- Optimisation of chemical processes
- Operational staff efficiencies
- Rationalisation of overhead departments (i.e. absorbing group activities and recharging to other companies)
- Consortium equipment/material procurement

The net capital saving has been delivered through a combination of

- Delivery of named regulatory quality projects through in-house management on time and under budget
- Introduction of catchment management and catchment nutrient balancing solutions in place of asset solutions
- In-house management and delivery of network improvements
- Completion of phase 1 of the multi-AMP Bristol sewerage strategy (the Frome Valley Relief sewer) early and under budget
- Completion of the integrated water supply grid (an 8-year programme of works) on time and under budget

The cumulative savings have been delivered while maintaining the acceptable level of risk determined by the board and while achieving consistently industry leading / upper quartile performance.

Return on Regulated Equity (RORE)

We are reporting a cumulative RORE of 8.82% compared to a central case in the final determination of 5.6%. We have calculated the constituent parts in a consistent way with table 1F then adjusted for tax.

Our overall RoRE is driven by strong operational and financial performance, it has increased from last year after the realisation of substantial totex savings on completed programs of works

It is made up of:

	RORE	**Note**
Equity return from FD	5.64%	
Totex outperformance (including RCV run off)	+1.42%	[1]
Retail outperformance	+0.07%	[2]
Customer Service (ODI) outperformance	+0.49%	[3]
Financing outperformance	+1.38%	[4]
Exceptional Items	+0.05%	[5]
Reported RORE (2015-16 to 2018-19)	**9.05 %**	

1 – Totex outperformance
See narrative on previous page.

2 – Retail outperformance
We have included the net retail savings (Household + Non-household up to March 2017) outlined in the retail vs FD narrative included in our annual performance report.

3 – Customer service (ODI) outperformance
We have included the net reward position notionally accrued to date, we have made no allowance for potential rewards and penalties incurred over the remainder of the price control period. Due to the uncertainty around the exact SIM reward this is also excluded.

4 – Financing outperformance
We continue to see strong financing outperformance, driven by high inflation with limited exposure to inflation linked debt and recent access to EIB funding. We discuss this in more detail in our narrative to table 1F.

5 – Exceptional Items
This relates to the net position of the sale our non household retail customer book in 17-18 and the reduction in returns based on no longer being in the market (and hence loosing the non-houshold retail margin).