

Annual Performance Report 2019-20

Part 2 – Price control and other segmental reporting





Index	Page
2A Segmental income statement	2
2B Totex analysis – wholesale water and wastewater	3
2C Operating cost analysis – retail	4
2D Historic cost analysis of tangible fixed assets – wholesale and retail	5
2E Analysis of ‘grants and contributions’ and land sales – wholesale	6
2F Household – revenues by customer type	7
2G Non-household water – revenues by tariff type	8
2H Non-household wastewater – revenues by tariff type	9
2I Revenue analysis	10
2J Infrastructure network reinforcement costs	13
2K Infrastructure charges reconciliation	14

This part disaggregates revenue and costs further than Part 1, to allow stakeholders to review our performance against Ofwat’s Final Determination.



2A – Segmental income statement for the year ended 31 March 2020

	Ref	Retail		Water resources £m	Water network+ £m	Wholesale		Sludge £m	Wastewater total £m	Total £m
		Household £m	Non-household £m			Water total £m	Wastewater network+ £m			
Revenue - price control		47.140	8.275		300.179	300.179	394.076		394.076	749.670
Revenue - non price control		-	-		18.523	18.523	0.048		0.048	18.571
		47.140	8.275		318.702	318.702	394.124		394.124	768.241
Operating expenditure	2B/2C	(53.695)	(4.999)	(42.285)	(181.045)	(223.330)	(132.161)	(17.358)	(149.519)	(431.543)
Depreciation - tangible fixed assets	2D	(0.269)	(0.037)	(8.211)	(121.832)	(130.043)	(143.399)	(17.316)	(160.715)	(291.064)
Amortisation - intangible fixed assets		(6.183)	(0.589)	(0.751)	(11.771)	(12.522)	(6.897)	(2.322)	(9.219)	(28.513)
Other operating income		-	-	-	0.158	0.158	0.193	-	0.193	0.351
Operating (loss)/profit before recharges		(13.007)	2.650			(47.035)			74.864	17.472
Recharges in respect of 'principal use' assets										
Recharges from other segments		(0.375)	(0.026)	(0.390)	(1.477)	(1.867)	(3.766)	(0.881)	(4.647)	(6.915)
Recharges to other segments		0.039	0.002	-	6.461	6.461	0.413	-	0.413	6.915
Operating (loss)/profit		(13.343)	2.626			(42.441)			70.630	17.472
Surface water drainage rebates										0.129

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.07 - Guideline for classification of costs across the price controls.

The tables presented in Parts 2 and 4 of this Annual Performance Report have been prepared in accordance with our Accounting Methodology Statement which can be found at www.dwrcymru.com. The Accounting Methodology Statement explains the bases for the allocation of operating and capital expenditure, and has been updated to reflect the latest Regulatory Accounting Guidelines. Wherever possible, direct costs and assets have been attributed directly to price controls. Where this has not been possible, appropriate cost allocation drivers have been applied as described in the Accounting Methodology Statement. Any material changes to our approach compared to the previous year are documented in the Accounting Methodology Statement.

The Company has applied IFRS 16 - Leases in the year to 31 March 2020. This has resulted in the recognition of a £1.4m right-of-use asset (included in property, plant and equipment) and associated lease liability (included in other financial liabilities: borrowings) where previously under IAS 17 there were none, along with a small reduction in operating costs and increase in depreciation in the income statement (£0.2m). Further details are provided in the accounting policies section of Part 4.



2B – Totex analysis for the year ended 31 March 2020 – wholesale water and wastewater

	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	Total £m
Operating expenditure					
Power	6.538	21.968	29.881	2.032	60.419
Income treated as negative expenditure	(4.458)	(3.156)	(2.012)	(3.927)	(13.553)
Abstraction charges/discharge consents	9.094	0.252	4.872	-	14.218
Bulk supply/bulk discharge	0.100	0.731	-	-	0.831
Other operating expenditure – renewals expensed in year	17.626	50.335	34.347	-	102.308
Other operating expenditure – excluding renewals	7.101	93.260	57.309	18.877	176.547
Local authority and Cumulo rates	0.802	15.002	6.124	0.376	22.304
Total operating expenditure excluding third party services	36.803	178.392	130.521	17.358	363.074
Third party services	5.482	2.653	1.640	-	9.775
Total operating expenditure¹	42.285	181.045	132.161	17.358	372.849
Capital expenditure					
Maintaining the long term capability of the assets - infra	1.185	15.807	10.873	-	27.865
Maintaining the long term capability of the assets – non infra	5.309	64.315	75.319	42.018	186.961
Other capital expenditure – infra	16.807	15.064	37.997	-	69.868
Other capital expenditure – non infra	10.207	6.545	56.570	4.836	78.158
Infrastructure network reinforcement	-	0.244	2.149	-	2.393
Total gross capital expenditure excluding third party services	33.508	101.975	182.908	46.854	365.245
Third party services	3.002	0.645	0.383	-	4.030
Total gross capital expenditure	36.510	102.620	183.291	46.854	369.275
Grants and contributions	3.037	14.282	12.713	-	30.032
Totex	75.758	269.383	302.739	64.212	712.092
Cash expenditure					
Pension deficit recovery payments	0.357	5.831	3.808	0.714	10.710
Totex including cash items	76.115	275.214	306.547	64.926	722.802

¹Reconciliation of total wholesale operating expenditure to Table 2A:

	£m
Opex – water	223.330
Opex – wastewater	149.519
	372.849

A comparison of wholesale totex against Ofwat's Final Determination is reported in Table 4B, which is located in Part 4.

Significant year-on-year totex movements are as follows:

Water resources: £7m increase (10%); £4m in capex and renewals expensed in the year (infrastructure) relates to work on our dam safety programme², £2m increase in power and £1m increase in third party costs partially offset by higher income relating to hydro generation³.
Water network+: £15m decrease (5%); £5m lower capital spend including infrastructure renewal expenditure and atypical weather costs £17m lower are partially offset by restructuring charges (£4m), increased power costs (£1m) and higher pension deficit recovery payments (£3m).
Waste network+: £28m increase (10%); increase of £21m in capital and infrastructure renewal expenditure (net of capital contributions) of which part relates to the Loughor transition scheme, atypical weather costs following Storms Dennis and Ciara (£1m), restructuring charges (£3m), higher pension deficit recovery payments (£2m) and power (£3m, net of income) - offset in part by lower other operating expenditure (£2m).
Sludge: £12m decrease (15%); £10m lower capex as last year saw an increase reflecting the delivery of our sludge strategy for AMP6, lower other operating expenditure of £1m and £1m increase in power income. Further details can be found in the Accounting Methodology statement section 2.4.

²This is linked to Part 3 MOS A3 Reliability of supply, F3 Asset resilience and G1 Health and Safety

³This is linked to Part 3 MOS C2 Carbon Footprint.

The documents referred to above are available on our website at www.dwrcymru.com.



2C – Operating cost analysis for the year ended 31 March 2020 – retail

	Ref	Household £m	Non- household £m	Total £m
Operating expenditure				
Customer services	4F	12.497	1.735	14.232
Debt management	4F	5.478	0.749	6.227
Doubtful debts	4F	22.038	0.662	22.700
Meter reading	4F	1.965	0.537	2.502
Services to developers		-	0.296	0.296
Other operating expenditure	4F	11.717	1.020	12.737
Total operating expenditure excluding third party services		53.695	4.999	58.694
Third party services operating expenditure	4F	-	-	-
Total operating expenditure		53.695	4.999	58.694
Depreciation – tangible fixed assets	4F	0.269	0.037	0.306
Amortisation – intangible fixed assets	4F	6.183	0.589	6.772
Total operating costs		60.147	5.625	65.772
Debt written off		19.932	1.291	21.223

The differences between the values reported for total operating costs and the allowed retail cost to serve in price limits are as follows:

	Household £m	Non- household £m	Total £m
Final determination	46.6	6.2	52.8
Actual operating costs	60.2	5.6	65.8
Difference ¹	13.6	(0.6)	13.0

¹ including pre AMP5 depreciation and amortisation

PR14 FD targeted a reduction in total operating costs of 0.2%. In 2019/20, total operating costs for retail activities were £65.8m, 6% higher than last year. Household (HH) costs increased by 7%, with non-household (NHH) costs falling by 4%. Movements are described below: HH increase of £3.8m related to one-off adjustments (£5.8m) offset in part by core HH cost reductions (£2.0m); material reductions in both customer service (£0.9m) and total debt costs (£2.9m) were offset by increases in meter reading costs (£0.1m), other operating expenditure (£0.9m) and depreciation/amortisation (£0.9m). The one-off adjustments related to a higher level of doubtful debt provision (£3.6m) which is reflected in the bad debt charge. This additional provision was based upon an assessment of the impact of the COVID-19 pandemic on customers' future ability to pay charges raised in the year. We continue to monitor this impact closely and will make future adjustments as the requirement arises. A further adjustment was made to other operating expenditure, of £2.2m, relating to anticipated restructuring in AMP7.

NHH retail costs have reduced by £0.2m: a £0.6m decrease in customer services costs and a £0.2m drop in doubtful debts are offset by increases in other operating expenditure (£0.3m), depreciation/amortisation (£0.1m) and services to developers and debt management costs. NHH costs were also impacted by one-off adjustments; additional doubtful debt charges relating to COVID-19 risk (£0.1m) and AMP7 restructuring costs (£0.2m). Underlying non-household costs for 2019/20 (after adjusting for the one-off items) were £5.3m, £0.5m lower than last year. In 2019/20 the cost of operating the retail price control was £13.0m greater than the FD allowance; £6.9m higher excluding the £6.1m one-off adjustments detailed in the narrative above. The remaining differences are due to:

- Investments in system advances to our front-line agents and automation of back office processes to offer industry-leading customer service required investment over and above the costs allowed in the FD;
- Costs associated with metering have increased by £0.2m (8%); 55% increase in customer meter query jobs such as checking high meter readings for bursts or leaks. In 2020/21 we will be delivering new capabilities which will mitigate a portion of the variable costs associated with metering;
- In 2019/20 we have increased the number of customers on our priority services to a record 55,000. We are supporting a further 119,000 customers with help in paying their bill, via our social tariffs, HelpU and WaterSure Wales. The costs associated with identifying and engaging with these customers (£0.9m) continue to be funded from company reserves as directed by the Board. These costs were not included in our allowed revenues at PR14;
- Whilst underlying debt performance has improved again in 2019/20, resulting in an underlying doubtful debt improvement of £2m (from a charge of £21m in 2018/19 to £19m in 2019/20), our customer base is over-represented in low income groups with high levels of personal debt, which is amplified in the current economic climate. This requires significant effort in terms of recovery activity, above that allowed in the FD; and
- Finally, our retail costs include depreciation totalling £2.5m on assets acquired before 1 April 2015. These costs are included in the wholesale RCV and were not part of the PR14 cost base.



2D – Historic cost analysis of tangible fixed assets for the year ended 31 March 2020 – wholesale and retail

	Wholesale				Retail		Total £m
	Water resources £m	Water network+ £m	Wastewater network+ £m	Sludge £m	Household £m	Non- household £m	
Cost or valuation							
At 1 April 2019	219.035	3,046.830	3,312.892	383.990	57.064	8.524	7,028.335
Disposals	(0.060)	(0.619)	(1.322)	(0.578)	(0.015)	-	(2.594)
Additions	34.651	82.536	158.158	41.749	0.080	0.005	317.179
Adjustments - revaluation ¹	-	-	-	-	-	-	-
Assets adopted at nil cost	-	-	58.214	-	-	-	58.214
At 31 March 2020	253.626	3,128.747	3,527.942	425.161	57.129	8.529	7,401.134
Depreciation							
At 1 April 2019	(32.176)	(792.438)	(609.640)	(124.672)	(12.814)	(2.007)	(1,573.747)
Disposals	0.060	0.579	1.206	0.576	0.013	-	2.434
Adjustments - revaluation ¹	2.549	54.705	70.951	3.795	-	-	132.000
Charge for year	(8.211)	(121.832)	(143.399)	(17.316)	(0.269)	(0.037)	(291.064)
At 31 March 2020	(37.778)	(858.986)	(680.882)	(137.617)	(13.070)	(2.044)	(1,730.377)
Net book values²							
At 31 March 2020	215.848	2,269.761	2,847.060	287.544	44.059	6.485	5,670.757
At 1 April 2019	186.859	2,254.392	2,703.252	259.318	44.250	6.517	5,454.588
Depreciation charge for year							
Principal services	(8.023)	(121.812)	(143.399)	(17.316)	(0.269)	(0.037)	(290.856)
Third party services	(0.188)	(0.020)	-	-	-	-	(0.208)
Total	(8.211)	(121.832)	(143.399)	(17.316)	(0.269)	(0.037)	(291.064)

¹Adjustments: the Company has revalued its asset base as at 31 March 2020; for further details see 'Property, plant and equipment' in the accounting policies section of Part 4 (Notes to the regulatory accounts).

The revaluation in the year amounts to £132.0m and is included in table 2D as follows:

	£m
Cost or valuation	
Adjustments - revaluation	-
Depreciation	
Adjustments - revaluation	<u>132.000</u>
	132.000

²The net book value at 31 March 2020 includes £263.6m in respect of assets in the course of construction, £321.6m adopted assets and £1,484m revaluation.

This table excludes intangible assets with a total net book value of £183.6m.



2E – Analysis of ‘grants and contributions’ and land sales for the year ended 31 March 2020 – wholesale

¹ Movements in capitalised grants and contributions do not include assets adopted at nil cost.

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
Grants and contributions – water				
Connection charges	4.828	-	0.945	5.773
Infrastructure charge receipts	-	-	4.547	4.547
Requisitioned mains	-	-	1.412	1.412
Other contributions (price control)	-	-	0.219	0.219
Diversions	2.355	-	-	2.355
Other contributions (non-price control)	2.508	-	0.505	3.013
Total	9.691	-	7.628	17.319
Value of adopted assets	-	-	-	-
Grants and contributions - wastewater				
Infrastructure charge receipts	-	-	4.331	4.331
Requisitioned sewers	-	-	4.264	4.264
Other contributions (price control)	0.575	-	1.185	1.760
Diversions	2.023	-	-	2.023
Other contributions (non-price control)	-	-	0.335	0.335
Total	2.598	-	10.115	12.713
Value of adopted assets	-	58.214	-	58.214
Movements in capitalised grants and contributions¹				
		Water £m	Wastewater £m	Total £m
Brought forward	-	-	(0.018)	(0.018)
Capitalised in the year	-	-	-	-
Amortisation (in income statement)	-	-	0.001	0.001
Carried forward (Table 1C)	-	-	(0.017)	(0.017)
Land sales				
		Water £m	Wastewater £m	Total £m
Proceeds from disposals of protected land	-	0.053	0.001	0.054



2F – Household revenues by customer type for the year ended 31 March 2020

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of customers (000s)	Average household retail revenue per customer £
Unmeasured water-only customer	10.919	0.664	11.583	52.357	13
Unmeasured wastewater-only customer	14.719	0.522	15.241	49.843	10
Unmeasured water and wastewater customer	328.224	15.082	343.306	651.405	23
Measured water-only customer	3.746	0.742	4.488	30.029	25
Measured wastewater-only customer	14.372	2.106	16.478	79.825	26
Measured water and wastewater customer	167.188	28.024	195.212	548.516	51
Total	539.168	47.140	586.308	1,411.975	33

¹The retail revenue recovered in the year was below that allowed in the Revenue Control reflecting revenue reductions associated with the provision of affordability tariffs and prior year adjustments.



Annual Performance Report 2019/20

2G – Non-household water revenues by tariff type for the year ended 31 March 2020

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of connections (000s)	Average non-household retail revenue per connection £
Non-default tariffs					
Total non-default tariffs	21.488	0.244	21.732	0.111	2,198
Default tariffs					
Water suppliers under 50 MI	59.743	3.799	63.542	99.686	38
Water supplies 50 MI and over	-	-	-	-	-
Total default tariffs	59.743	3.799	63.542	99.686	38
Total	81.231	4.043	85.274	99.797	41
				Number of customers (000s)	Average non-household retail revenue per customer £
Revenue per customer				99.797	41



Annual Performance Report 2019/20

2H – Non-household wastewater revenues by tariff type for the year ended 31 March 2020

	Wholesale charges revenue £m	Retail revenue £m	Total revenue £m	Number of connections (000s)	Average non-household retail revenue per connection £
Non-default tariffs					
Total non-default tariffs	-	-	-	-	-
Default tariffs					
Sewerage	73.856	4.175	78.031	72.661	57
Total default tariffs	73.856	4.175	78.031	72.661	57
Total	73.856	4.175	78.031	72.661	57

	Number of customers (000s)	Average non-household retail revenue per customer £
Revenue per customer	72.661	57



2I – Revenue analysis for the year ended 31 March 2020

	Household	Non-household	Total
	£m	£m	£m
Wholesale charge – water			
Unmeasured	146.773	1.962	148.735
Measured	72.175	73.930	146.105
Third party revenue	-	5.339	5.339
Total	218.948	81.231	300.179
2A			
Wholesale charge – wastewater			
Unmeasured	207.089	3.587	210.676
Measured	113.131	70.269	183.400
Third party revenue	-	-	-
Total	320.220	73.856	394.076
2A			
Wholesale total¹	539.168	155.087	694.255
Retail revenue			
Unmeasured	16.268	0.691	16.959
Measured	30.872	7.527	38.399
Other third party revenue	-	0.057	0.057
Retail total^{1,2}	47.140	8.275	55.415
2A			
Third party revenue – non-price control			
Bulk supplies - water			16.051
Bulk supplies - wastewater			0.048
Other third party revenue			0.627
Principal services – non price control			
Other appointed revenue			1.845
Total appointed revenue			768.241
1A			

¹ Revenue reconciliation

	Ref	Wholesale £m	Retail £m
Household	2F	539.168	47.140
Non-household water	2G	81.231	4.043
Non-household waste	2H	73.856	4.175
		694.255	55.358
New connections (retail)		-	0.057
		694.255	55.415

² Non-household retail reconciliation

	Ref	Non-household £m
Non-household water	2G	4.043
Non-household waste	2H	4.175
Developer services		0.057
		8.275



2I – Revenue analysis for the year ended 31 March 2020 (continued) – wholesale control reconciliation

	Water £m	Wastewater £m	Total £m
Wholesale revenue governed by price control	300.179	394.076	694.255
Grants and contributions ¹	11.951	10.355	22.306
Total revenue governed by wholesale price control	312.130	404.431	716.561
Amount assumed in wholesale determination	317.010	412.172	729.182
Adjustment for in-period ODI revenue	-	-	-
Adjustment for WRFIM	(5.181)	(8.339)	(13.520)
Total assumed revenue	311.829	403.833	715.662
Difference	0.301	0.598	0.899
	0.1%	0.1%	0.1%

Variance analysis

The difference between the total revenue governed by the revenue control and the total assumed revenue is £0.9m, which is 0.1% of the allowed revenue and so below the +/- 2% WRFIM (wholesale revenue forecasting incentive mechanism) flexibility threshold. This over-recovery will be included in the calculation of the wholesale charges for 2021/22 and will result in a reduction to allowed charges. The table on page 12 shows the wholesale income reconciliation against the forecast budgets.

The over-recovery arises from higher-than-forecast requisition income partially offset by lower demand from non-household customers.

¹ Grants and contributions are revenues from new connections, requisitions and infrastructure charges for properties which have connected in the year.

²This is the difference between total revenue governed by revenue control and the total assumed revenue



2I – Revenue analysis for the year ended 31 March 2020 (continued) – wholesale control reconciliation

Wholesale income reconciliation

Wholesale income reconciliation	Allowance £m	Actual £m	Variance £m	Variance %
HOUSEHOLD				
Wholesale water				
Unmeasured	149	147	(2)	(1%)
Measured	71	72	1	1%
Water sub-total	220	219	(1)	-
Wholesale wastewater				
Unmeasured	207	207	-	-%
Measured	112	113	1	1%
Wastewater sub-total	319	320	1	-
Household total	539	539	-	-
NON-HOUSEHOLD				
Wholesale water <50MI				
Unmeasured	2	2	-	-
Measured	59	58	(1)	(2%)
Water >50MI (inc non-potable)	22	21	(1)	(5%)
Water sub-total	83	81	(2)	(2%)
Wholesale wastewater				
Unmeasured	3	4	1	33%
Measured	72	70	(2)	(3%)
Wastewater sub-total	75	74	(1)	(1%)
Non-household total	158	155	(3)	(2%)
Grants and contributions	18	22	4	22%
Total (as table 2I)	715	716	1	-



2J – Infrastructure network reinforcement costs for the year ended 31 March 2020

	Network reinforcement capex £m	On site/ site-specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.162	0.030
Pumping and storage facilities	0.053	0.037
Other	0.029	-
Total	0.244	0.067
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	0.272	0.009
Surface water only systems	-	-
Pumping and storage facilities	1.582	0.261
Other	0.295	-
Total	2.149	0.270

This table includes costs associated with the network reinforcement of new developments and costs for the onsite/site specific capex.



2K – Infrastructure charges reconciliation for the year ended 31 March 2020

	Water £m	Waste water £m	Total £m
Impact of infrastructure charge discounts			
Infrastructure charges	4.547	4.331	8.878
Discounts applied to infrastructure charges	-	-	-
Gross infrastructure charges	4.547	4.331	8.878
Comparison of revenue and costs			
Variance brought forward			5.393
Revenue	4.547	4.331	8.878
Costs	(0.244)	(2.149)	(2.393)
Total movement for the year	4.303	2.182	6.485
Variance carried forward			11.878

The purpose of this table is to provide evidence for compliance with charging rules for new connections for English Companies. The rules require revenue from infrastructure charges to be aligned to costs over a period of time i.e. the variance reported is expected to be small over the long term. The rules do not apply in Wales where the infrastructure charge is set by Ofwat at Periodic Reviews and is not directly aligned to costs. The variance shown between revenue and costs in the table reflects this.