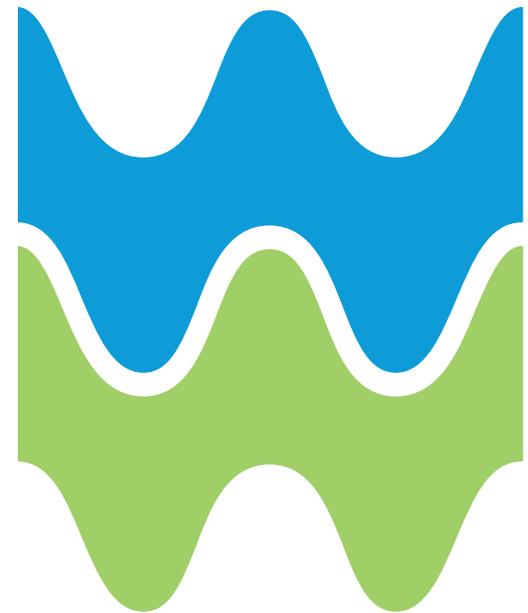




# Annual Performance Report 2018-19

## Overview

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## 1. Introduction

This document contains information that allows customers and stakeholders to review our 2018/19 performance and to make comparisons with other companies in the sector. It also provides specific information on the progress we have made on the delivery of customer outcomes and service levels and on our financial performance (including detailed revenue and cost information).

We are required to publish a single Annual Performance Report in a format prescribed by Ofwat and which contains the following four parts:

Part	Content	Link to full document
1. 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.	<a href="#">Part 1 - Regulatory financial reporting</a>
2. Price Control and Additional Segmental Reporting	Further disaggregation of revenue and costs to allow stakeholders to review companies' performance against final determinations.	<a href="#">Part 2 - Price control and additional segmental reporting</a>
3. 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.	<a href="#">Part 3 - Performance summary</a>
4. Additional Regulatory Information	Additional financial and non-financial information, including (but not limited to), additional accounting policies, financeability statement, current cost reporting, totex analysis.	<a href="#">Part 4 - Additional regulatory information</a>

In addition to setting out directors' responsibilities and an executive summary of performance, we have (for ease of reference) included here the following key documents:

- Summary of Performance (which can also be found in Part 3 of the report); and
- Income Statement (which can also be found in Part 1 of this report).

We have also prepared a "Data Assurance Summary" of the results of the data assurance the company has carried out to evidence that the information provided is complete and accurate [Link to Data Assurance Summary](#).

Our Risk and Compliance Statement is included as Part 5 of the Annual Performance Report [Link to Risk and Compliance Statement](#).

Finally, to help customers and stakeholders navigate this and other published documents, we append an 'at a glance' schedule stating where documents addressing individual statutory, licence and regulatory requirements can be found.



## 2. Board Assurance Statement

In the course of the preparation of this Annual Performance Report, the Board received reports and updates from management, the Reporter and the independent financial auditor on the implementation and review of the processes followed in compiling this Annual Performance Report, which had previously been reviewed by the Audit Committee.

The Board reviewed the Annual Performance Report at its meeting held on 4 July 2019. The matter had previously been considered at the Audit Committee meeting on 30 January 2019 (when processes were reviewed and approved) and on 5 June 2019 (when updates were provided by the Reporter and the independent financial auditor). At each of these meetings appropriate enquiries were made of the Executive team and the relevant experienced colleagues involved, in particular the Director of Strategy and Regulation and also the Reporter and the independent financial auditor.

The Company is required by the terms of the Instrument of Appointment to prepare regulatory accounts for each financial year in accordance with Condition F of the Instrument of Appointment and the Regulatory Accounting Guidelines. In preparing the regulatory accounts, the Board ensures that appropriate accounting policies have been adopted and applied consistently, that applicable standards have been followed and that reasonable and prudent judgements and estimates have been made.

It is the Board's responsibility to ensure that appropriate systems are in place to maintain adequate accounting records, and to institute and maintain systems and controls designed to safeguard the assets of the Company and to take reasonable steps for the prevention and detection of fraud and other irregularities.

Having made reasonable and relevant enquiries, the Board considers that the Company has in place an assurance framework and adequate systems of control as appropriate for a Water and Sewerage Undertaker acting diligently, to allow it to discharge its responsibility for the quality and transparency of the information contained within the Annual Performance Report.

Signed by the Chair on behalf of the Board of Dŵr Cymru Cyfyngedig.

Alastair Lyons

4 July 2019



## 3. Overview of the year

Our vision is “to earn the trust of our customers every day”.

Welsh Water’s purpose is to provide high quality and better value drinking water and environmental services, so as to enhance the well-being of our customers and the communities we serve, both now and for generations to come.

We know that customers rely on us to deliver high-quality, safe and reliable services every day, no matter what is thrown at us by the weather or other operational challenges. They also need to be able to trust us to be planning well ahead, to ensure those services are sustainable and resilient over many decades to come. To achieve this, we will need ever greater efficiency and innovation, so that our major long-term programme of investment in our assets can be balanced with keeping bills affordable for all.

### **High Quality Drinking Water**

For our customers, being able to rely on the quality of the water we supply to their homes and businesses is their highest priority and expectation of our service.

Safety in Drinking Water - To protect water quality, we invested £180 million in our water services in 2018-19. Our water quality remains excellent, but in the year we had 45 regulatory sample failures out of 247,528 tests taken, compared to 46 failures last year (224,032 tests) - which resulted in us just missing our 100% target for the performance measure (Mean Zonal Compliance) which governs the safety of drinking water.

Customer Acceptability - The number of contacts we receive from customers about the appearance, taste and odour of their water again slipped this year to 2.98 contacts per 1,000 customers, compared to 2.79 last year. While usually harmless, appearance, taste and odour issues can be off-putting for our customers, such issues are often caused by changes in the velocity of water flows (for example, due to burst water mains or increased customer demand during hot weather), which can loosen iron sediments from within the pipes resulting in discoloured water. We managed these issues well during the year, despite significant operational challenges particularly with the most prolonged hot weather in Wales in decades leading to significantly increased customer demand, with June registering as the hottest June since records began in 1910, whilst July was the third hottest ever. We continued to address the number of complaints about discolouration, by accelerating our pipe cleaning and replacement programme and targeting those communities most affected by this problem.

Reliability of Supply - Reliability of supply is important for our customers. We manage our network every day to try to ensure any operational challenges we encounter do not impact customers’ supply. However, sometimes circumstances outside our control do impact on customer supply, particularly in difficult weather conditions. We have encountered a number of operational incidents in 2018-19 which have impacted on customer service. These incidents included significant bursts next to the A4077 road in Crickhowell in August, which affected the nearby Green Man festival, a burst in Kinmel Park in November and a challenging repair near Cwmtillery in February. We also had a significant challenge in repairing a burst main in the Radyr area of Cardiff in January, which was



caused by damage from a third-party utilities contractor. We have introduced a new “Plan and Protect” scheme, which will aim to reduce damage to our assets by third parties through the creation of a dedicated team of colleagues to deal with enquiries from customers and contractors who want to work close to our network or who need help to identify where these assets are. The weather conditions during the period of very low rainfall in the summer and Storms Bronagh and Callum in the autumn also had an effect on ground conditions leading to increases in burst mains. These weather conditions also had an impact on efforts to continue our progress in reducing the “customer minutes lost” over the year. As a result we did not meet our target of 12 minutes lost per customer during 2018-19 – actual performance was 16 minutes lost per customer, which was still a significant improvement on the 43 minutes lost per customer we reported in 2017-18. This measure is highly weather-dependent, but as we continue to invest in mains rehabilitation and replacement we should be better able to control the impact of the weather on these assets.

## **Protecting the Environment**

We are working to ensure that the beautiful environment around us is protected for future generations.

Treating wastewater - Despite extremely challenging weather conditions over the past year, our environmental performance in treating wastewater to the required standards improved throughout the year, and we have achieved our best ever wastewater test compliance result for returning wastewater safely to the environment at 99.64% (2017: 98.21%), surpassing our previous best performance of 99.47% in 2016. We achieved our best ever wastewater treatment works compliance performance, with just two failures across the year (2017: 10).

Preventing Pollution – The total number of category 3 pollution incidents (low impact) in 2018 showed an increase to 118 from 112 in the previous year. We have continued to work with customers on our Let’s Stop the Block campaign to raise awareness and improve education on only disposing of appropriate material into the sewer network to reduce blockages. Of the total number of pollution incidents reported either to, or by us, a significant majority were from our sewerage system (73) rather than from our wastewater treatment works, demonstrating the impact of greater compliance at the works.

## **Responding to Climate Change**

Climate change remains one of the biggest challenges facing society — and as a country with a large coastline and higher levels of deprivation than the average for the UK, our communities are more vulnerable than most to its effects. As a result, we are determined to help in the global effort to not only reduce the negative impacts on our planet’s climate by reducing our own carbon emissions, but also to protect our customers and network from the effects of extreme weather events.

Responding to Climate Change – A key measure of how we are performing in our obligations to tackle climate change is the amount of surface water that is entering our sewers and particularly how much water we are diverting from the sewer networks. This is particularly evident in our RainScape Sustainable Urban Drainage systems (SUDs), which we’ve installed in Llanelli and in the Grangetown area of Cardiff. These systems retain or divert surface water in the landscape



that would ordinarily enter the sewer network. In 2018-19, we have continued our progress in these areas, removing rainfall run-off draining from an area equivalent to 15,967 roof area equivalent from the sewer system, up from the 15,097 roof area equivalent removed by 2017-18. With RainScape now becoming an integral part of our development plans across the business, we intend to maintain and accelerate this rate of improvement in coming years to protect more customers from the effects of surface water flooding.

Carbon footprint – Our commitment to cleaner, greener ways of working has meant we have achieved a total 85GWh of renewable generation (in comparison to our renewable generation of 98GWh in 2017-18). On the wastewater side of the business we missed our target (52.43GWh against a target of 69.89GWh). The construction and commissioning of Five Fords advanced digestion combined heat and power and the gas to grid plant led to an eight month shut down on site causing a 15 GWh reduction from target.

## **Customer Service**

Our Customer-led Success approach places the needs of our customers at the heart of everything we do. We take a lot of pride in shaping our services around the needs of our customers — and delivering the best service possible is our top priority.

Customer Satisfaction - Our primary indicator of customer satisfaction in 2018-19 was the Service Incentive Mechanism (SIM), a quarterly survey by Ofwat to measure how customers feel about our service when they've had to contact us. This involves interviewing both customers who have contacted us when something has gone wrong with their service and customers who have contacted us for other reasons. Our qualitative SIM performance this year saw the Company ranked in 3rd place overall among the 11 water and wastewater companies in England and Wales with a score of 4.55 compared to an average of 4.39 for all water and wastewater companies. This compares to 5th place in 2017-18 with a score of 4.47 against an average of 4.40 for all water and wastewater companies.

At-Risk Customer Service - We place huge importance on providing the best possible service all the time. But we know that we aren't always successful in this, and that some customers have experienced interruptions to their services or unacceptable failures of our service. Tackling these types of failures is among our most important responsibilities – and we invest a great deal in our water and wastewater services to help achieve this.

It is disappointing that we have seen an increase this year in the number of customers “at risk” of suffering from repeat problems such as interruptions to water supply, discolouration, odour issues, or sewer flooding – to 641 (2017-18: 613 at risk). The increase is largely due to the hot weather we experienced during the summer months.

Flooding - Sewage flooding into customers' properties is the worst service failure that can happen – and we are committed to doing everything we can to prevent it happening. Due to several incidents of bad weather across the year, particularly the periods of heavy rainfall from Storms Callum and Bronagh in autumn 2018, we did not achieve the reduction in flooding incidents we were anticipating, so that over the year we had 221 incidents, the same number as in 2017-18.



Non-household Customer Satisfaction - Welsh Water provides services to more than 100,000 business customers in Wales and adjoining parts of England. Our priority has been to improve our performance and reduce costs to our business customers. The level of satisfaction with our service amongst business customers was 88%, improving from our performance of 87% in 2017-18.

## **Affordable Bills**

We have a responsibility to balance investment to improve our services with keeping bills to an affordable level to ensure that they are fair for customers. We also focus on supporting those in genuine financial need while pursuing those who can pay their water bill, but choose not to do so.

Affordable Bills – In 2014, we pledged that by 2020 we would have achieved a decade of average annual household bill rises that were at, or below, the Rate of Retail Price Index (RPI) inflation. This would ensure that even when times are tough, customers know that their water bills are affordable and as low as possible. We are delighted that in 2018-19 we have achieved nine consecutive years of below RPI inflation average household bill rises.

Help for Disadvantaged Customers – Our record in supporting customers who genuinely need help paying their bills is unmatched in the sector, providing financial help to more people than any other water company. We are also one of the few companies that puts our own profits into funding social tariffs – and we have far outstripped our own 2020 target of supporting 100,000 customers with such tariffs. At the end of the reporting year for 2018/19 we were supporting 125,152 customers with our range of assistance tariffs.

## **Looking after our Assets**

With more than 27,500km of water mains, over 36,000km of sewers, and hundreds of water and wastewater treatment works, our network is extensive and includes challenging mountainous terrain, sparsely populated rural communities and urban centres. The network requires a huge amount of investment to maintain. If we replaced all of our infrastructure at once, it would cost around £23 billion. Our capital investment totals more than £1.2 million a day, and our capital investment for 2018-19 is a record high at more than £452 million (2017-18: £430 million). Maintaining our assets for future generations is a critical part of our responsibility to customers — and one we take seriously.

Asset serviceability – This area is assessed by a number of key measures through which Ofwat monitors how we are investing in our assets. For 2018-19, we have reported our position as “stable” across all measures – which remains unchanged from 2017-18.

Leakage - We are committed to significantly reducing the amount of water lost from our network each year – and have invested £20.5m to ensure that leakage is minimised as far as possible as this is important to our customers. However, the volatile weather in 2018 meant that our ability to build on the previous progress we have made in reducing leakage from our network was hampered by the effects of the dry weather and complicated by the amount of water needing to be added to the network to maintain supplies, making it more difficult to identify leakage. Thanks to a strong effort from teams across the business, and from our



customers in responding to our requests to use water more efficiently during the summer months, we again reduced our level of leakage to 169.5 mega litres per day (from 172.9 last year).

Asset Resilience (Water) - The long-term resilience of our assets is measured against a set of criteria which shows how they are performing and providing service to our customers. As a company, we invest significantly in our Water Services assets to ensure long-term resilience and service performance particularly in our water treatment works and other assets. This is a particularly important part of our Welsh Water 2050 long-term vision which aims to strengthen the resilience of our assets to improve services to customers in the future. As such, we are encouraged that our water assets resilience score has largely remained stable this year at 90.2 out of 100, from 90.4 the previous year.

Asset Resilience (Wastewater) - With over 36,000km of sewers across our operating area and 835 wastewater treatment works, our wastewater services network is vast and of huge strategic importance. We measure the performance and resilience of a snapshot of this network against a set of criteria to monitor whether they are delivering reliable services for customers. We are pleased to report that we have improved the score to 79.0 out of 100, from 77.5 the previous year.

## **Developing and Protecting our People**

We are committed to retaining and developing the best talent for the future – in a culture that keeps our people safe, healthy and happy.

Health and Safety – Our people are our greatest assets — and our greatest ambassadors. So we prize the health and safety of our colleagues above all else and make sure that, whatever they do, they go home safely at the end of the day. As a result, we have focused on building a culture where health and safety is paramount for every job we do. Our operational teams regularly hold “safety days” throughout the year to review best practice and to improve the procedures in each team. This year, we achieved our best ever performance in terms of RIDDOR injuries (Reporting of Injuries, Diseases and Dangerous Occurrences) — with 8 such incidents during the year affecting Welsh Water colleagues and members of our extensive supply chain. We remain focused on positive intervention and preventing injuries over the coming year.

Competence in role - We are also committed to helping all of our people grow and thrive in their careers at Welsh Water. This is particularly important as we have an ageing workforce. We therefore carry out regular reviews across the business to see whether the teams have the right skills to meet the challenges they will face. Our current score for competence in role has seen an encouraging increase this year to 88%, improving on the score from 2017-18 of 82%, reflecting the training and upskilling of colleagues new to their roles progressing to full competence.



## **An Efficient Business**

We continue to invest to maintain and improve the essential services we provide for the future. In 2018-19, this amounted to more than £452 million in capital investment — our largest ever annual investment in our assets and infrastructure and in line with our £1.7 billion investment agreement with our regulator, Ofwat, for the 2015-2020 period. This year has delivered a financial performance which is in line with our expectations – and balances our priority to invest in our network with keeping bills affordable for customers.

Financing Efficiency - Since 2001 when Glas Cymru acquired Welsh Water, we have reduced our gearing from 93% to 58%, consistent with the Board's policy of maintaining gearing at or below 60% to maintain our access to low-cost borrowing and our financial resilience. Our industry leading credit ratings from the rating agencies – at the year-end these were: Standard & Poor's (Aneg), Moody's (A2neg) and Fitch (A) ensures that we can obtain funds for investment at sector leading interest rates, keeping customer bills as low as possible, as with no shareholders all the benefit goes to customers.

## **Ongoing Engagement with Customers**

We are committed to an ongoing programme of customer involvement on a wide range of issues, such as how we can best support customers in vulnerable circumstances, and also how we invest millions of pounds each year that in other companies would go to shareholders, so as to improve the service and value for money that we can deliver for customers in the future.

## **External stakeholder engagement**

The Customer Challenge Group (CCG) is an independent panel of people from across the area that we serve who bring with them knowledge and experience from a variety of backgrounds. As well as providing independent challenge to us, they also provide assurance to one of our regulators, Ofwat. Members include organisations representing vulnerable and older people, the Welsh Local Government Association and other business and regulatory bodies. The CCG provides independent challenge, scrutiny and advice to ensure that current and future customers are at the heart of the way we operate.

## **Resilience**

Corporate and financial resilience are key to maintaining a truly resilient business in the long-term. Although Welsh Water is not a public sector body and does not fall within the scope of the Well-being of Future Generations (Wales) Act 2015, we have developed our approach in Welsh Water 2050 in close alignment with the seven wellbeing goals which are at the heart of the Act, which we consider are equally as desirable for our customers in England as those in Wales.

Welsh Water aims to play a significant role in achieving these goals with which we have, therefore, aligned our own 2050 planning.

We are pleased that our strong financial position, built up over many years, means that we have the highest credit rating of all the utility companies in the UK, enabling us to continue to access low-cost borrowing. Such efficient financing plays a key part in enabling us to invest in our water and water services — with a



record £452 million invested in our capital programme over the past 12 months, whilst keeping down price increases to customers which rose on average by less than RPI inflation for the ninth year in a row.

## **Innovation**

We continue to embrace innovation across the company and believe that this will help make our future services better, faster and cheaper.

A big part of our forward planning has been embedding innovation into everything that we do, and ensuring innovation extends to all areas of the Company. This is intended to ensure that our customers will benefit from the widest range of ideas possible, and that we find newer and better ways of delivering services which improve our customers' experience and help us to control or reduce costs. There was a range of innovations on display at our annual Innovation Conference in April 2018, showcasing areas such as Augmented Reality, our first-ever bilingual chatbot as part of our Have Your Say consultation, and our pioneering use of drone technology to assist in maintaining the resilience and safety of our assets. Use of such innovative technological solutions needs to be regularly embedded into our way of working to ensure we meet the ambitious targets we have for the next investment period. Our Technology Committee was established by the Board in autumn 2018 to allow detailed consideration of the development and subsequent implementation of the Group's Digital Strategy to support its ambition to provide better customer service at lower costs.

## **Welsh Water People**

We can only hope to earn the trust of our customers through the extraordinary efforts and commitment of all our colleagues in Welsh Water and our wider network of contractors and partners. The challenging year behind us had our people across the business working around the clock to ensure our customers' services remained uninterrupted, despite the sustained dry weather in the summer, significant trunk main bursts on our network, major repairs on our waste network, and volatile weather events like Storm Callum. Their dedication has contributed directly to the high level of trust our customers show in us as their water and sewerage company – thank you.

A handwritten signature in black ink, appearing to read 'C.A. Jones'.

Chris Jones

Chief Executive

4 July 2019



## 4. Performance Summary

2018/19 Annual Performance <small>(c) Calendar year measure – all others are financial year measures</small>	2018/19 Outturn	2017/18 Outturn	2018/19 Vs Previous Year	FD Target <small>(Final Determination)</small>	2018/19 Vs FD Target <small>(Final Determination)</small>	RAG Vs Sector
<b>A1(a): % Sample Compliance (c)</b>	99.98%	99.98%	✓	n/a	n/a	
<b>A1(b): Mean Zonal Compliance (c)</b>	99.97%	99.96%	✓	100%	x	
<b>A2(a): Customer Acceptability (c)</b> <small>(excluding private contacts)</small>	2.98	2.79	x	n/a	n/a	n/a
<b>A2(b): Customer Acceptability (c)</b>	3.28*1	3.19*1	x	1.23	x	
<b>A3: Reliability of Supply</b>	16.0 mins	43.3 mins	✓	12 mins	x	
<b>B1: Abstraction for Water</b>	100%	100%	✓	100%	✓	
<b>B2: Treating used water (c)</b>	99.64%	98.21%	✓	100%	x	
<b>B3: Pollution Incidents (c)</b>	118	112	x	131	✓	*2
<b>C1: Responding to Climate Change</b>	15,967	15,097	✓	20,000	x	n/a
<b>C2: Carbon Footprint-Water</b>	32.59 GWh	42.38 GWh	x	15.11 GWh	✓	n/a
<b>C2: Carbon Footprint-Wastewater</b>	52.43 GWh	55.51 GWh	x	69.89 GWh	x	n/a
<b>D1: SIM</b>	87	85	✓	Top Quartile	*3	*4
<b>D2: At Risk – Customer Service</b>	641	613	x	550	x	n/a
<b>D3: Properties flooded in the year</b>	221	221	✓	282	✓	
<b>D4: Business Customer Satisfaction</b>	88%	87%	✓	90%	x	n/a
<b>D5: Earning the Trust of Customers</b>	85%	84%	✓	71%	✓	n/a
<b>E1: Affordable Bills</b>	-2%	-2%	✓	-1%	✓	n/a
<small>*1 This figure includes contacts relating to issues arising from customers' own private plumbing. If contacts resulting from issues with the customer's own internal pipes are excluded, the 2018 number is 2.98 contacts per 1,000 customers (2017: 2.79).                      *2 Performance for Wastewater is upper quartile when taking into account the total number of assets.                      *3 Performance against FD target (i.e. upper quartile) will not be known until all companies publish their Annual Performance Reports in July 2019.                      *4 In terms of the RAG comparison against the sector, the green assessment is based on the qualitative element of SIM only.</small>						
Red/Amber/Green (RAG) *Industry comparison against the other water and sewerage companies		Upper quartile Performance		Average Performance		Lower quartile Performance

# Annual Performance Report 2018/19



2018/19 Annual Performance	2018/19 Outturn	2017/18 Outturn	2018/19 Vs Previous Year	FD Target (Final Determination)	2018/19 Vs FD Target (Final Determination)	RAG Vs Sector
<small>(c) Calendar year measure – all others are financial year measures</small>						
<b>E2: Help for Disadvantaged Customers</b>	120,783 * <sub>5</sub>	100,999	✓	85,000	✓	n/a
<b>F1: Asset Serviceability</b>	Stable x 4	Stable x 4	✓	Stable x 4	✓	n/a
<b>F2: Leakage MI/d</b>	169.54	172.85	✓	171	✓	
<b>F3: Asset Resilience - Water</b>	90.2% * <sub>6</sub>	90.4% * <sub>6</sub>	x	85%	✓	n/a
<b>F3: Asset Resilience - Wastewater</b>	79.0% * <sub>6</sub>	77.5% * <sub>6</sub>	✓	76%	✓	n/a
<b>G1: Health and Safety</b>	8	14	✓	n/a	n/a	n/a
<b>G2: Competency for role</b>	88%	82%	✓	n/a	n/a	n/a
<b>H2: Financing Efficiency</b>	ANeg/A2Neg/A	A/A2/A	x	n/a	n/a	
<b>Net Promoter Score</b>	61.2	63.0	x	n/a	n/a	n/a
<b>Written Complaints</b>	3,491	3,862	✓	n/a	n/a	
<b>Bad Debt</b>	£21.0m	£22.1m	✓	n/a	n/a	n/a
<b>UKCSI</b>	77.9	76.8	✓	n/a	n/a	n/a
<b>Unwanted Calls</b>	128,603	138,193	✓	n/a	n/a	n/a
<b>Process Control Index</b>	99.99%	99.99%	✓	n/a	n/a	
<b>Disinfection Index</b>	99.99%	99.99%	✓	n/a	n/a	
<b>Reservoir Integrity Index</b>	99.99%	99.99%	✓	n/a	n/a	
<small>*<sub>5</sub> Both 2017/18 and 2018/19 outturn figure exclude those customers who benefit from our 'Water Collect' scheme. If 'Water Collect' customers benefitting from a social tariff/means of assistance are included, the 2018/19 number is 125,152.</small>						
<small>*<sub>6</sub> Both 2017/18 and 2018/19 outturn figures are based on the strategically important assets listed at the time of the 2014 FD. In addition, to reporting against this FD measure, we assess performance against the most up to date list of strategically important assets. We set out details of performance against both measures in Part 3 of the Annual Performance Report.</small>						
Red/Amber/Green (RAG) *Industry comparison against the other water and sewerage companies		Upper quartile Performance		Average Performance		Lower quartile Performance



## 5. Income Statement

	Ref	Statutory £m	Adjustments			Total appointed activities £m
			RAG differences <sup>1</sup> £m	Non- appointed <sup>2</sup> £m	Total adjustments £m	
Revenue	2A	779.803	(0.904)	5.346	(6.250)	773.553
Operating costs	2A	(709.290)	(8.846)	(5.865)	(2.981)	(712.271)
Other operating income		0.234	-	-	-	0.234
<b>Operating profit</b>	2A	<b>70.747</b>	<b>(9.750)</b>	<b>(0.519)</b>	<b>(9.231)</b>	<b>61.516</b>
Other income		-	15.996	-	15.996	15.996
Interest income		4.910	-	0.325	(0.325)	4.585
Interest expense		(173.363)	(13.862)	-	(13.862)	(187.225)
Other interest expense		-	(2.038)	-	(2.038)	(2.038)
<b>Loss before tax and fair value movements</b>		<b>(97.706)</b>	<b>(9.654)</b>	<b>(0.194)</b>	<b>(9.460)</b>	<b>(107.166)</b>
Fair value losses on financial instruments		(17.422)	-	-	-	(17.422)
<b>Loss before tax</b>		<b>(115.128)</b>	<b>(9.654)</b>	<b>(0.194)</b>	<b>(9.460)</b>	<b>(124.588)</b>
UK corporation tax		(0.125)	-	-	-	(0.125)
Deferred tax		17.925	0.974	0.033	0.941	18.866
<b>Loss for the year</b>	1B	<b>(97.328)</b>	<b>(8.680)</b>	<b>(0.161)</b>	<b>(8.519)</b>	<b>(105.847)</b>
<b>Dividends</b>		-	-	-	-	-

<sup>1</sup> Differences arising from statutory IFRS and Regulatory Accounting Guidelines (RAG) definitions are shown in the table on page 17 in APR Part 1.

<sup>2</sup> See accounting policies note in Part 4 (appointed and non-appointed business) for a description of the company's non-appointed activities.



## 6. Data Assurance Processes

The Board is committed to providing information to customers and stakeholders that is customer-led, accessible, clear, accurate, transparent and timely and we were pleased to be recognised as a “self-assurance” company by Ofwat in their Company Monitoring Framework (CMF) assessment in 2019. Our ongoing objective therefore, is to make available information that meets stakeholders’ needs, is easy to understand and navigate and which enables them to understand how we are performing. We also recognise that providing information to a consistently high standard helps build trust and confidence in everything we do. Ofwat has concluded in their CMF assessment report that we are able to deliver accurate and reliable information that gives stakeholders trust and confidence. Our aspiration is to retain the self-assurance status.

Our customers drive our thinking and our plans and we welcome the important contribution made by our independent Customer Challenge Group in challenging our customer engagement and research programme to ensure that we plan to deliver the best possible outcomes for customers. We have shared with the Chair of the Customer Challenge Group the content of this Annual Performance Report and his comments were positive and supportive and stated “The APR provides a detailed and transparent report with performance clearly benchmarked for customers who want to know how their company is performing. The challenge is to improve customer engagement with this information and for the report to enable a more informed and involved customer base”.

We produce extensive company information obtained from measuring and recording what we do. Much of this is provided to our regulatory stakeholders and other stakeholder groups or published in our Annual Performance Report and on our website.

The Board has put in place an audit and assurance framework designed to allow the systematic monitoring and evaluation of the various aspects of our performance to ensure that standards of quality are being met. This involves having appropriate governance arrangements, close involvement by our Board in the assurance process, and the right level of independence in the process to provide third party review and challenge. This provides assurance to our Board, stakeholders and customers and gives legitimacy and certainty on the level of performance and service that we are delivering. This means that our statutory and regulatory reporting requirements are met in full with a high level of assurance.

We have prepared a stand-alone [Data Assurance Summary](#) which details the assurance activities relevant to this Annual Performance Report and other publications. This can be found at [Data Assurance Summary](#).



## Appendix – ‘At a Glance’ – Schedule documenting where individual elements of this report can be found.

Individual elements of this report.	Annual Performance Report (APR)	Risk & Compliance Statement	Annual Report & Accounts	Data Assurance Summary	Accounting Methodology Statement
Please click on relevant Hyperlinks to open document.	Hyper link	Hyper link	Hyper link	Hyper link	Hyper link
<b>Annual Performance Report – Parts 1, 2, 3 and 4.</b> A report which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance.	<a href="#">√</a>			<a href="#">√</a>	
<b>A Data Assurance Summary.</b> A standalone report that highlights the results of the data assurance that we have carried out to evidence that the information provided is accurate.				<a href="#">√</a>	
<b>A Risk and Compliance Statement.</b> – Which confirms that the Board has: <ul style="list-style-type: none"> <li>a full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;</li> <li>satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and</li> <li>appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.</li> </ul>		<a href="#">√</a>			
<b>Company direction and performance</b> A short annual statement explaining how we are delivering for everybody who depends on our services and how we have set our aspirations.	<a href="#">√</a>		<a href="#">√</a> <a href="#">[Page 54]</a>		
<b>Board leadership and governance principles</b> A demonstration through our annual reporting on how we are meeting our Board leadership and governance principles.			<a href="#">√</a> <a href="#">[Page 56]</a>	<a href="#">√</a>	
Confirmation that we have sufficient financial and management resources (licence condition I17).	<a href="#">√</a> <a href="#">[Part 1, page 4]</a>	<a href="#">√</a> <a href="#">[Page 12]</a>			



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Please click on relevant Hyperlinks to open document.	Hyper link	Hyper link	Hyper link	Hyper link	Hyper link
Confirmation that there are sufficient rights and assets available to enable a special administrator to run the business (licence condition K).	<a href="#">√</a> <a href="#">[Part 1, page 4]</a>	<a href="#">√</a> <a href="#">[Page 11]</a>			
Ensuring that trade with associates is at arm's length (licence condition I4 also condition F to comply with RAG5).	<a href="#">√</a> <a href="#">[Part 1, page 7]</a> <a href="#">√</a> <a href="#">[Part 4, page 87]</a>	<a href="#">√</a> <a href="#">[Page 13]</a>			
Maintaining an investment grade credit rating (licence condition I30).	<a href="#">√</a> <a href="#">[Part 1, page 6]</a>	<a href="#">√</a> <a href="#">[Page 13]</a>		<a href="#">√</a> <a href="#">[Page 33]</a>	
A statement explaining any links between Directors' pay and standards of performance (Section 35A Water Industry Act 1991).	<a href="#">√</a> <a href="#">[Part 1, page 3]</a> <a href="#">√</a> <a href="#">[Part 4, page 113]</a>	<a href="#">√</a> <a href="#">[Page 11]</a>	<a href="#">√</a> <a href="#">[Page 91]</a>		
Reporting <u>by exception</u> if delivery of outputs is materially different to our Final Determination (FD). This only applies to outputs not covered by the key indicators (for example, requirements to deliver specific schemes). ** We have no material differences to our FD on non-financial outputs.	<a href="#">√</a> <a href="#">[Part 2]</a> **				
<b>Accounting Disclosures</b>					
<ul style="list-style-type: none"> <li>a statement which describes the link between directors' pay and standards of performance (as required by section 35A of the Water Industry Act 1991 <i>(inserted into that Act by section 50 of the Water Act 2003) (RAG 3.11-section3.2)</i>)</li> </ul>	<a href="#">√</a> <a href="#">[Part 1, page3]</a> <a href="#">√</a> <a href="#">[Part 4, page106]</a>	<a href="#">√</a> <a href="#">[Page 11]</a>	<a href="#">√</a> <a href="#">[Page 91]</a>		
<ul style="list-style-type: none"> <li>a statement as to disclosure of information to auditors (RAG 3.11 section 3.3)</li> </ul>	<a href="#">√</a> <a href="#">[Part 1, page 3]</a>	<a href="#">√</a> <a href="#">[Page 11]</a>	<a href="#">√</a> <a href="#">[Page 118]</a>		



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Please click on relevant Hyperlinks to open document.	Hyper link	Hyper link	Hyper link	Hyper link	Hyper link
<ul style="list-style-type: none"> <li>a statement on dividend policy for the appointed business (RAG 3.11 section 3.4)</li> </ul>	<a href="#">√ [Part 1, page 3]</a>	<a href="#">√ [Page 11]</a>	<a href="#">√ [Page 107]</a>		
<ul style="list-style-type: none"> <li>an accounting policy note for price control units (RAG 3.11 section 3.5)</li> </ul>	<a href="#">√ [Part 2, page 1]</a>		<a href="#">√ [Page 135]</a>		
<ul style="list-style-type: none"> <li>a note on revenue recognition (RAG 3.11 section 3.6)</li> </ul>	<a href="#">√ [Part 4, page 70]</a>		<a href="#">√ [Page 136]</a>		
<ul style="list-style-type: none"> <li>a note on capitalisation policy (RAG 3.11 section 3.7)</li> </ul>	<a href="#">√ [Part 4, page 75]</a>				
<ul style="list-style-type: none"> <li>a note on bad debt policy (RAG 3.11 section 3.8)</li> </ul>	<a href="#">√ [Part 4, page 72]</a>				
<ul style="list-style-type: none"> <li>a statement on sufficiency of non-financial resources (RAG 3.11 section 3.9)</li> </ul>	<a href="#">√ [Part 1, page 4]</a>	<a href="#">√ [Page 11]</a>			
<ul style="list-style-type: none"> <li>a statement on sufficiency of financial resources and facilities (RAG 3.11 section 3.10)</li> </ul>	<a href="#">√ [Part 1, page 4]</a>	<a href="#">√ [Page 12]</a>	<a href="#">√ [Page 52]</a>		
<ul style="list-style-type: none"> <li>the tax strategy for the appointed business (RAG 3.11 section 3.11)</li> </ul>	<a href="#">√ [Part 4, page 99]</a>		<a href="#">√ [Page 105]</a>		
<ul style="list-style-type: none"> <li>a statement on differences between statutory and RAG definitions (RAG 3.11 section 3.12)</li> </ul>	<a href="#">√ [Part 4, page 83]</a>				
<ul style="list-style-type: none"> <li>a long term viability statement (RAG 3.11 section 3.13)</li> </ul>	<a href="#">√ [Part 4, page 102]</a>	<a href="#">√ [Page 13]</a>	<a href="#">√ [Page 52]</a>		
<ul style="list-style-type: none"> <li>a statement explaining out/under performance of the return on regulatory equity (RORE) (RAG 3.11 section 3.14).</li> </ul>	<a href="#">√ [Part 4, page 93]</a>				
<b>Narrative disclosures</b>					
<ul style="list-style-type: none"> <li><u>Outcomes</u> - narrative disclosures on performance (RAG 3.11 section 4.1)</li> </ul>	<a href="#">√ [Part 3]</a>				



Individual elements of this report.	Annual Performance Report (APR)	Risk & Compliance Statement	Annual Report & Accounts	Data Assurance Summary	Accounting Methodology Statement
Please click on relevant Hyperlinks to open document.	Hyper link	Hyper link	Hyper link	Hyper link	Hyper link
<ul style="list-style-type: none"> <li>• <u>Totex</u> - narrative disclosures on any difference between the actual and allowed totex values (RAG 3.11 section 4.2)</li> </ul>	<a href="#">√</a> <a href="#">[Part 2, page 2]</a>				
<ul style="list-style-type: none"> <li>• <u>Retail</u> – Commentary on material differences between values reported in table 2C line 12 (total operating costs) of pro forma 2C and retail revenues allowed in the FD 2015-20. (RAG 3.11 section 4.3)</li> </ul>	<a href="#">√</a> <a href="#">[Part 2, page 3]</a>				
<ul style="list-style-type: none"> <li>• <u>Wholesale revenue control reconciliation</u> – Commentary on differences reported in table 2I line 26 between allowed and actual revenue under the wholesale control. RAG 3.11 section 4.4)</li> </ul>	<a href="#">√</a> <a href="#">[Part 2, page 9]</a>				
<ul style="list-style-type: none"> <li>• <u>Current tax reconciliation</u> - a reconciliation of the appointed current tax charge (RAG 3.11 section 4.5)</li> </ul>	<a href="#">√</a> <a href="#">[Part 4, page 95]</a>				
<ul style="list-style-type: none"> <li>• Financial flows – completion of APR table 1F and supporting commentary (RAG 3.11 section 4.6)</li> </ul>	<a href="#">√</a> <a href="#">[Part 1, pages 25-44]</a>				
<ul style="list-style-type: none"> <li>• New Connections – a statement explaining the variance between revenues and costs (RAG 3.11 section 4.7)</li> </ul>	<a href="#">√</a> <a href="#">[Part 2, page 13]</a>				
<ul style="list-style-type: none"> <li>• an Accounting Methodology Statement (RAG 3.11 appendix 2).</li> </ul>					<a href="#">√</a>
<p><b>Financial metrics</b></p> <p>A set of financial metrics all companies report on and which provides enhanced visibility of company financing and capital structures. Relevant data is set out in APR tables 4H to 4I and can be found in APR part 4.</p>	<a href="#">√</a> <a href="#">[Part 4, pages 15-16]</a>				
<p><b>Transparency of financial flows</b></p> <p>A clear comparison in the APR between the financial flows to investors on the basis of the actual capital structures of water companies and what they would have been under Ofwat’s notional structure</p>	<a href="#">√</a> <a href="#">[Part 1, pages 25-44]</a>				



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Please click on relevant Hyperlinks to open document.	Hyper link	Hyper link	Hyper link	Hyper link	Hyper link
<p><b>Assurance and monitoring</b></p> <p>We have implemented assurance procedures to ensure we meet all of our legal and regulatory obligations.</p> <p>Audit opinion provided which is consistent with the required wording of the audit opinion that Ofwat expects all auditors to provide on the APR for 2018/19.</p>	<p style="text-align: center;"><a href="#">√</a> [Overview, page 16]</p> <p style="text-align: center;"><a href="#">√</a> [Part 3, Appendix]</p> <p style="text-align: center;"><a href="#">√</a> [Part 1, page 9]</p>	<p style="text-align: center;"><a href="#">√</a> [Appendix A]</p>	<p style="text-align: center;"><a href="#">√</a> [Page 122]</p>	<p style="text-align: center;"><a href="#">√</a> [Page 4]</p>	
<b>Bioresource market information.</b>					
Publication of our bioresources market information on our website.	<p style="text-align: center;"><a href="#">Hyperlink to the bioresources market information</a></p>			<p style="text-align: center;"><a href="#">√</a> [Page 19]</p>	
<u>PR14 Reconciliation rulebook</u>	<p style="text-align: center;"><a href="#">Hyperlink to PR14 reconciliation rulebook</a></p>				

Please also see ‘Our Assurance Framework’ webpage where all the Annual Performance Reports for the last three years are listed along with our Final Assurance Plan. [Hyperlink to Our Assurance Framework](#).