Annual Performance Report

Regulatory reporting 2023–24

from Southern Water

Contents

Regulatory information and annual performance report

Introduction

Our Annual Performance Report sets out the performance in 2023–24 of Southern Water's regulated business, as defined under our Licence[1], in financial terms and against our business outcome and performance commitments.

This Annual Performance Report comprises four sections:

1. Regulatory financial reporting
2. Price control and additional segmental reporting
3. Performance summary
4. Additional regulatory information – service level.

The additional information required under RAG 3.14, including a copy of all the data tables, has been published alongside this document as an appendix to the Annual Performance Report and can be found at southernwater.co.uk/about-us/our-annual-reporting.

This Annual Performance Report also includes:

- a Board statement of company direction and performance
- a compliance statement in relation to our compliance with relevant statutory, licence and regulatory obligations and how we are taking appropriate steps to manage and/or mitigate any risks we face
- a Board assurance statement on the accuracy and completeness of data and information
- Board assurance statement on Condition P (ring fence certificate).

These are supported by the publication of a data assurance summary on our website – southernwater.co.uk/about-us/our-annual-reporting. This sets out the results of the data assurance undertaken on our reporting and other key activities for 2023–24.

Board Statement of Company Direction and Performance

In the sections below we, as the Board of Southern Water, describe how we set the direction of the company and ensure it is delivering performance that meets customers' and stakeholders' expectations. In particular, we describe how the company developed the longer-term vision and Business Plan for the period 2020–25 and how it has continued to engage with customers in the delivery phase of the plan. We describe our initial planning for the next regulatory period, 2025–30 and beyond.

We also describe how we, the Board, monitor performance and risk, how we have performed against our business plan objectives during 2023–24 and how performance affects the returns to shareholders and the pay of our executive team.

Our vision and Business Plan 2020–25

The purpose of Southern Water is to provide water for life to:

- enhance health and wellbeing,
- protect and improve the environment,
- sustain the economy.

To deliver that purpose, we have set out an ambitious vision to create a resilient water future for customers in the South East.

Our vision and purpose reflect careful consideration and analysis of the key influences on our sector and within our region including:

- future challenges facing our sector, our region and society
- the future direction of regulation and government policy
- the views of our stakeholders and customers.

Our stakeholders and customers played a key role in shaping our vision and our business plan for the period 2020–25. We carried out over 42,000 direct interviews with customers and other stakeholders to inform our strategy and develop our business plan. In the development of our business plan for 2020–25, our customers told us that as well as thinking about the challenges of the future, they have an expectation that we will continue to deliver on the basics – clean, high quality drinking water and effective wastewater systems. These twin goals of delivering the basics brilliantly and planning for the future are reflected in our plan which is built around five service-based outcomes and five transformational programmes, as shown on page 4.

As we deliver our plan we continue to engage with and capture insight from our customers every day. We do this through our formal structures, such as our Water Futures 2050 and Water Futures 2030 customer panels, through focused research on specific issues and through our normal customer contact channels, social media and stakeholder discussions. (For more details of how we engage with our customers see section on Customer Expectations on page 9).

[1] We operate in accordance with an Instrument of Appointment (our 'Licence') issued, by the Secretary of State, to us as a water and sewerage undertaker under the Water Industry Act 1991. The Water Services Regulation Authority (Ofwat) has a duty under the Water Industry Act 1991 to ensure compliance with the conditions of this Licence.

Planning for the future

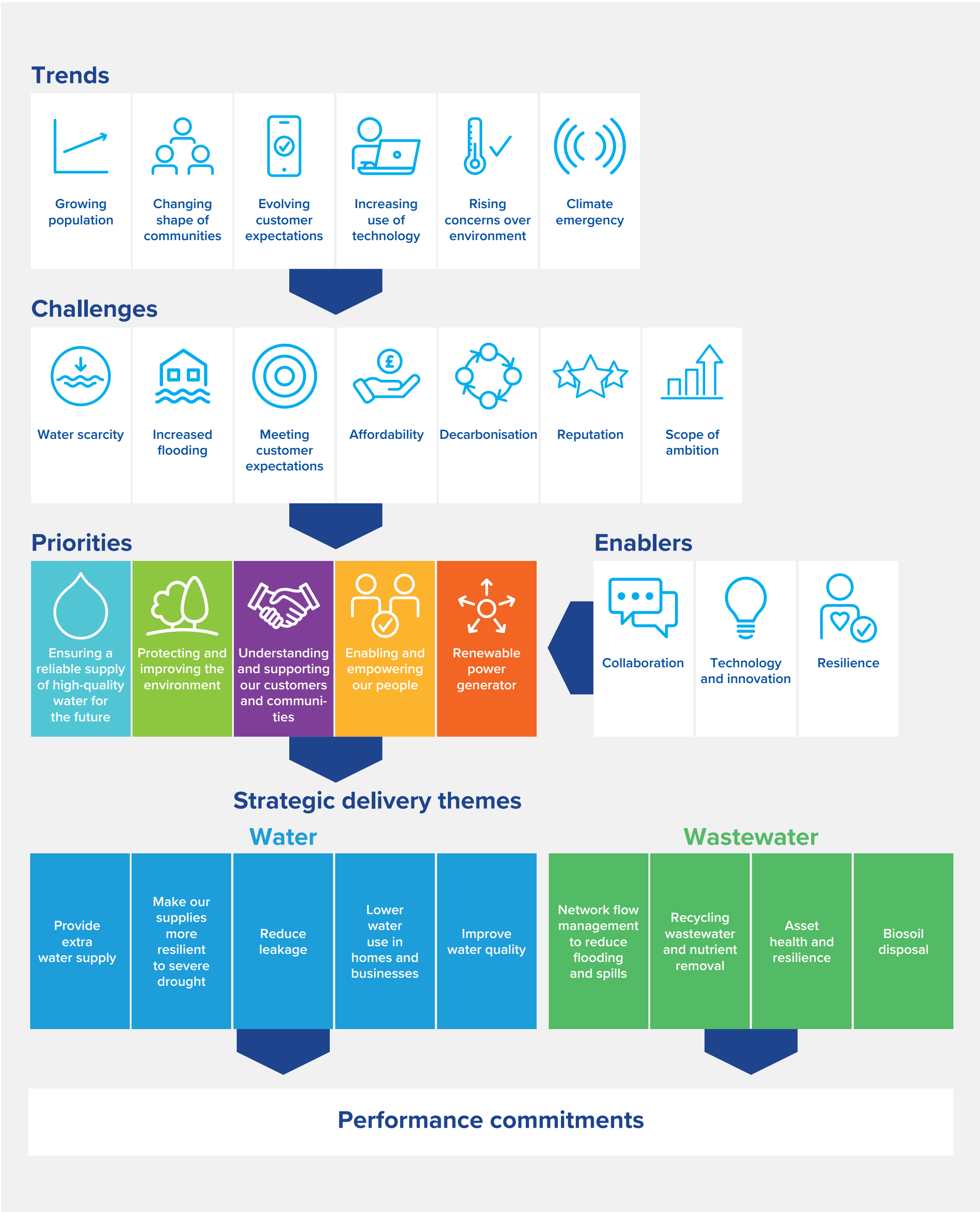
In the next 25 years climate change and population growth is likely to radically alter the world we live in. Water and wastewater services need to be in the vanguard to adapt and to ensure that these essential services continue to deliver for our customers and environment.

The investments we will make will ensure we meet the short-term challenges and allow us to modify our approach, via alternative 'adaptive pathways' should we need to, in response to changing expectations or needs from the environment, stakeholders or our customers.

The next five-year regulatory period, which runs from 2025-30, begins next year. We have submitted our five-year business plan and Ofwat have recently published their draft determination of this plan and we will be providing our representations to this determination within the agreed timescales as defined by Ofwat.

Our plan is a long-term, adaptive plan extending to 2050. In following our core pathway between 2025 and 2050, we are proposing to invest £15.5 billion on low or no-regret activities to enhance our services and protect and improve our environment.

Figure 1. Our priorities for 2050



We have also identified up to £11.5 billion of additional investment we might need, depending on which of our adaptive pathways we may need to adopt. Our plans are based on our customers' and communities' expectations.

Customers want us to be ambitious, show leadership and make the right investments for the future. They want us to invest in nature-based solutions first wherever possible, focus on delivering their priorities and support phasing investment to deliver the biggest benefits first while protecting the most vulnerable.

Alongside our Business Plan, we publish an annual Pollution Incident Reduction Plan, Bathing Water Report and bi-annual Clean Rivers and Seas Task Force update, together with an annual update of our environmental performance data online. We also publish our progress against our Turnaround Plan and send this to customers twice a year.

In 2022 we published our draft Water Resources Management Plan (dWRMP), which sets out how we will balance supply and demand for water over the next 80 years and are in the process of confirming our final WRMP. We published our first ever Drainage & Wastewater Management Plan (DWMP) which analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years. These detailed technical plans set out how we will deliver our long-term priorities and ambitions.

Our Water Resources Management Plan has been developed in conjunction with the six other water suppliers operating in the South East of England, via the Water Resource South East group, ensuring our plan provides the best value for customers across the region and the best outcomes for the environment. The plan was published for consultation in November 2022, with comments from customers, stakeholders and other interested parties being received by February 2023. The level of engagement with our draft plan is greater than ever, with 3000 customers and stakeholders engaged with in the preparation of the plan, and 591 responses to the consultation received. This level of engagement ensures that our plan genuinely reflects the priorities of our customers and stakeholders. Our Statement of Response, setting out how we have responded to the feedback received, and our updated revised draft plan were submitted to Defra on 31 August 2023.

Our Drainage & Wastewater Management plan was published in March 2023 following extensive engagement with customers and stakeholders via 33 stakeholder workshops (three in each of our 11 river basin catchments), five sets of regional webinars including one on water company funding, run jointly with the Environment Agency, and 41 wastewater system-based meetings to discuss specific risks and agree potential solutions. In developing the plan, we worked with over 75 other organisations across the South East who also have responsibilities for water management, planning and the environment, ensuring the plan was fully integrated.

In addition to these published long-term plans, over the last 12 months we also worked with the Environment Agency to develop the programme of environmental improvements, known as the WINEP (Water Industry National Environment Programme) for our 2025–30 delivery period. The WINEP sets out the specific steps we must take to ensure that we meet the statutory and non-statutory environmental requirements that apply to water companies in England. The WINEP is closely aligned with the Government's 25-year Environment Plan as well as river basin management plans, the WRMP and DWMP.

What is noticeably clear as we look across the WINEP, WRMP and DWMP, as well as the requirements of the Drinking Water Inspectorate is that a very significant increase in the level of investment in our infrastructure is required to meet the expectations of our customers, stakeholders and regulators. Our current five-year plan includes investment of £3.9 billion in the operation, maintenance and improvement of our assets. In the next five year period our investment required is significantly larger, if not double this, to meet all the requirements of our long-term plans.

That level of investment will require significant increases in customer bills up to 2030. We are working closely with our customers and regulators to ensure that investment is appropriately prioritised between the 2025-30 regulatory period and subsequent periods. We are also exploring innovative ways in which we can work with third parties to deliver some of the investment in a way that provides greater value and reduces the immediate impact on bills.

To ensure bills remain affordable, for the most vulnerable of our customers, we will also need to enhance the level of support that we provide and we are examining how more sophisticated pricing might help ensure bills remain affordable for all.

We submitted our business plan in October 2023 and this summarises our long term plans in all areas, we received draft decisions from Ofwat on 11 July 2024, with final decisions coming from Ofwat in December 2024. Our 2025-30 plan continues to develop as we work closely with our customers and stakeholders, as well as our independent Customer and Communities Challenge Group. More details on how we work with customers, to ensure we are meeting their needs, both in our plans and through the delivery of our services are provided in the section on Customer Expectations on page 9.

Delivering for our customers

We are now four years into the delivery of our business plan for the 2020-25 period. These four years have been extraordinarily challenging for us and our customers. Having emerged from the COVID-19 pandemic which dominated all our lives for the first two years, we have subsequently been faced with a cost-of-living crisis, caused by the rapidly escalating cost of energy, food and other household goods.

We know how tough things have been for many of our customers during this period. In December 2022 as part of a £98 million package of measures, we increased the minimum level of discount we provide to customers on our Essentials tariff from an average of 20% to at least 45% (with up to a 90% reduction for those most in need) and committed to increasing the number of customers we support via the discounted tariff from 104,000 to 125,000.

Our business plan for 2025–30 has committed to keep the minimum discount to at least 45% and we are aiming to support 182,000 customers through our Essentials tariff by 2030. We also introduced a Hardship fund which we can use to help customers in several ways, for example, to pay up to 50% of a customer's bills for up to a year if they are in temporary financial difficulty. We have also supported 1,100 customers with payments through our Hardship fund of £900,000.

Our business plan for 2020–25 includes some ambitious targets to improve the service that we provide to customers by 2025. These include:

- A 15% reduction in leakage and a 23% reduction in water supply interruptions
- A 20% reduction in both internal and external sewer flooding incidents and an 80% reduction in the number of pollution incidents
- Generating 24% of our energy from renewable sources
- Further increasing the number of beaches achieving Good and Excellent water quality status
- Improving the health of the rivers in our region.

Details of our performance against our targets for the fourth year of this business plan period, 2023–24, are provided in the Strategic Report section of our Annual Report and Financial Statements. In addition, details of our performance against our commitments are set out in Tables 3A-E on pages 61 to 66.

During the past year we started to see the impact of the Turnaround Plan on our operational performance through significant improvements in many of our performance commitments. For example:

- external sewer flooding, which reduced by 13% over the year
- water and wastewater treatment works compliance, where the number of works not meeting their discharge permit requirements reduced from six to two
- pollution incidents, which fell by a further 35% in the year, having reduced in each of the previous years in the AMP too
- unplanned water outages reduced from 6.44% to 5.68%
- mains repairs performance improved by 21%, and
- the compliance risk index, our water quality index score, improved significantly by 52% to 3.07.

However, there were setbacks in respect of internal sewer flooding which increased by 6% and our customer measure of experience which worsened by 4%.

Overall, our performance has fallen short of the particularly challenging performance targets that Ofwat set within its final determination (the basis on which our plan for 2020-25 was approved), and as a result we have incurred significant penalties under Ofwat's Outcome Delivery Incentive (ODI) regime. Penalties for missing performance targets in this fourth year totalled £33.5 million[1],[2], which will be reflected in customer bills in 2025–26. This is lower than the 2022–23 total of £44 million, reflecting the improved performance mentioned above.

We know that despite the improvements seen in a number of areas, our performance is not good enough and the rate of improvement not fast enough. This is why, in April 2023 we published our Turnaround Plan for the last two years of this regulatory period 2023-25[3]. We have recently published an annual update to our Turnaround Plan[4] and our Service Commitment Plan[5]. These plans are based on detailed analysis of the root cause of our performance challenges and sets out four clear outcomes that we are promising to deliver, each with a set of associated performance measures. Our most recent publication explains how we have performed over the past years and the progress we have made against these plans and the impacts they have on our performance.

[1] Including estimated penalties for C-MeX and D-MeX comparative measures

[2] All ODI penalties are expressed in 2017–18 prices, consistent with the basis of Ofwat's final determination

[3] Turnaround Plan 2023–25

[4] Turnaround Plan Update May 2024

[5] Our Service Commitment Plan May 2024

The plans underline our commitment to doing better for our customers and the environment and means that stakeholders and customers can hold us to account for delivery against our promises.

The Board closely monitors the delivery of operational improvements and tracks the performance against our regulatory commitments through a performance dashboard, which is focused on those performance measures that have the greatest customer, stakeholder and environmental impact. The Board is supported by the Executive Committee, which focuses on tracking performance through leading indicators, identifying corrective actions where necessary and driving our focused performance improvement plans.

Aligning performance and rewards

Ofwat has put in place mechanisms that provide financial and reputational incentives for us to deliver more of what our customers want for less.

We have 47 performance commitments, agreed as part of the price review process, that we report on annually (see Section 3 of this report). Reporting our performance in this way to stakeholders provides a reputational incentive to meet our commitments.

In addition, 31 of our performance commitments include financial penalties and rewards associated with delivering for our customers. If we achieve our targets, delivering more of what customers want, we can earn rewards, which means shareholders enjoy higher returns. If we fail to meet our performance targets we can incur penalties, meaning shareholders receive a return below market rates. These incentive mechanisms provide a strong alignment between the interests of our shareholders and our customers. As noted, for the 2023–24 reporting year we have incurred total penalties of £33 million.

We are also strongly incentivised to deliver efficiently. At each price review Ofwat assesses the efficient costs for delivering our business plan. If we are able to beat these, we share the benefits of that outperformance with our customers. Between 2020 and 2025, for every pound that we save, around 64 pence is returned to customers via lower bills, while 36 pence is retained by the company. If we overspend, we must bear 64% of the cost, while customers share 36%.

During the year our employees were incentivised to deliver for customers through a company-wide bonus scheme, 'yourBonus'. The bonus scheme is based on company performance against seven metrics, five of which related to delivering excellent service to our customers and improving our environmental performance. The remaining two measures are based on the efficient delivery of our services and the delivery of our health and safety transformation plan. The bonus earned by each employee was dependent on the delivery of these company-wide objectives as well as their individual performance rating. The scheme aims to align the incentives for all employees with the interests of our customers.

We are committed to fully complying with Ofwat's code of practice for executive remuneration. Our executive remuneration policy closely links executive remuneration with overall company performance for customers, stakeholders and communities. For 2023–24, 60% of the measures used to determine variable annual pay were directly linked to customer outcomes, based on performance against four of our ODIs - pollution, leakage, internal sewer flooding and C-MeX. The remaining four measures focus on health, safety and wellbeing, specific water quality improvements, efficient operating expenditure and personal objectives.

Long term incentive plan objectives also focus on delivery for our customers and the environment, being based on ODI performance, environmental performance (two measures), financial performance and outcomes related to the next price review, PR24.

Full details of our executive remuneration policy and details of its application in respect of 2023–24 are set out in our annual report: southernwater.co.uk/about-us/our-annual-reporting.

As well as ensuring the right incentives are in place, it is important that we strike the right balance between providing a fair return to shareholders and investing for customers. Our dividend policy for the 2020–25 period incorporates a wide range of measures, including financial and customer performance measures. It also explicitly considers the financial resilience of the company and whether any financial outperformance should be re-invested to benefit our customers.

To assist in financing of planned expenditure the company received £375 million of new equity in October 2023.

In addition, following the announcement by Fitch on 7 July 2023 to downgrade the Class A Unwrapped Debt of the company to BBB (negative outlook) which resulted in a credit ratings Trigger Event, the company is unable to make dividend payments until it comes out of Trigger. We expect to remain in Trigger until the end of this regulatory period at March 2025.

Ofwat board leadership, governance and transparency principles

In 2019 Ofwat published its Board leadership, transparency and governance principles ('Ofwat Principles'), which represented a major update of the principles published in 2014 and these incorporate many of the principles and provisions of the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in July 2018. In addition, since July 2019, meeting the objectives of the Ofwat Principles has been a requirement under Southern Water's licence. Accordingly, we seek to apply both the Ofwat Principles and the relevant principles and provisions of the UK Corporate Governance Code.

In addition, we continue the work we do to satisfy Condition P of our Licence. This requires us to demonstrate that the Board has made appropriate diligent enquiry into the activities of the business and can evidence that the company will have sufficient financial resources and facilities, management resources and methods of planning and control in place to meet our statutory duties. The Condition P requirements are also a key part of our Section 19 Undertakings to Ofwat in connection with our historic misreporting (see page 10) and was subject to external assurance from our external auditors (Deloitte LLP).

During 2023–24, our licence has been modified to include a new customer focused licence condition, Condition G: Principles for Customer Care in water companies' instruments of appointment.

The guidance provides examples and expectations of how water companies can meet the principles of customer care. It further protects the interests of consumers, and ensures that companies properly carry out their functions with regard to the principles of best regulatory practice, including proportionality. The modifications will establish a new regulatory basis for how companies treat their customers, including customers in vulnerable circumstances.

Annual risk and compliance statement

The annual risk and compliance statement describes the steps we have taken to understand and meet our customers' expectations and to ensure we meet our statutory and regulatory obligations, as well as the expectations of our key regulators, Ofwat, the Environment Agency and the Drinking Water Inspectorate. It also sets out how we manage and mitigate any compliance risks identified.

Customer expectations

Our Business Plan for the period 2020–25 was based on the results of engagement with more customers than ever before (over 42,000 direct interviews). To drive a deeper understanding of customers we used innovative techniques such as ethnographic mobile apps and integrated 'willingness to pay' surveys to provide a single triangulated view of our customers' preferences.

Listening to our customers is part of what we do every day. This includes activities such as customer research, analysis of data (e.g. contact data, complaints, social media monitoring), sharing insight with other companies as well as tracking our customers' priorities and their expectations. Our insight work allows us to have a deep understanding of what our customers want and helps to drive improvements in what we deliver.

In 2023–24 we engaged with over 35,000 customers for direct feedback and views on our service and future plans, representing over 8,000 hours of engagement. Our Water Futures 2030 (household customers) consumer group continues to be central to our engagement with customers. While our Customer and Communities Challenge Group, made up of experts, helped review, challenge and improve our plans. The groups follow best practice guidance, as set out by the Consumer Council for Water (CCW), to provide a continuous dialogue on both our current delivery and future planning.

Increased public scrutiny of the water sector and increasing investment plans for the future have placed greater emphasis on our need for continued engagement. We track major events, media impact and the importance of priorities. We also run social listening and analyse consumer trends. As we enter 2024–25, recent data is showing the impact of the 'cost-of-living' being less about a concern of high prices, but now more about costs not meeting household income. Customers are needing to make tough decisions about where, when and how to spend their money. With such rich and detailed insight, our focus for the next year is more around the accessibility and agility of insight so we can quickly adapt to our customer expectations.

Statutory and regulatory obligations

Our purpose is to deliver water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy. In order to achieve this, we must deliver on our customers' expectations. As a regulated service provider, our primary obligations and duties are set out in the Water Industry Act 1991, the Drinking Water Regulations and our Instrument of Appointment (the Licence). These set the standards under which we must provide our services.

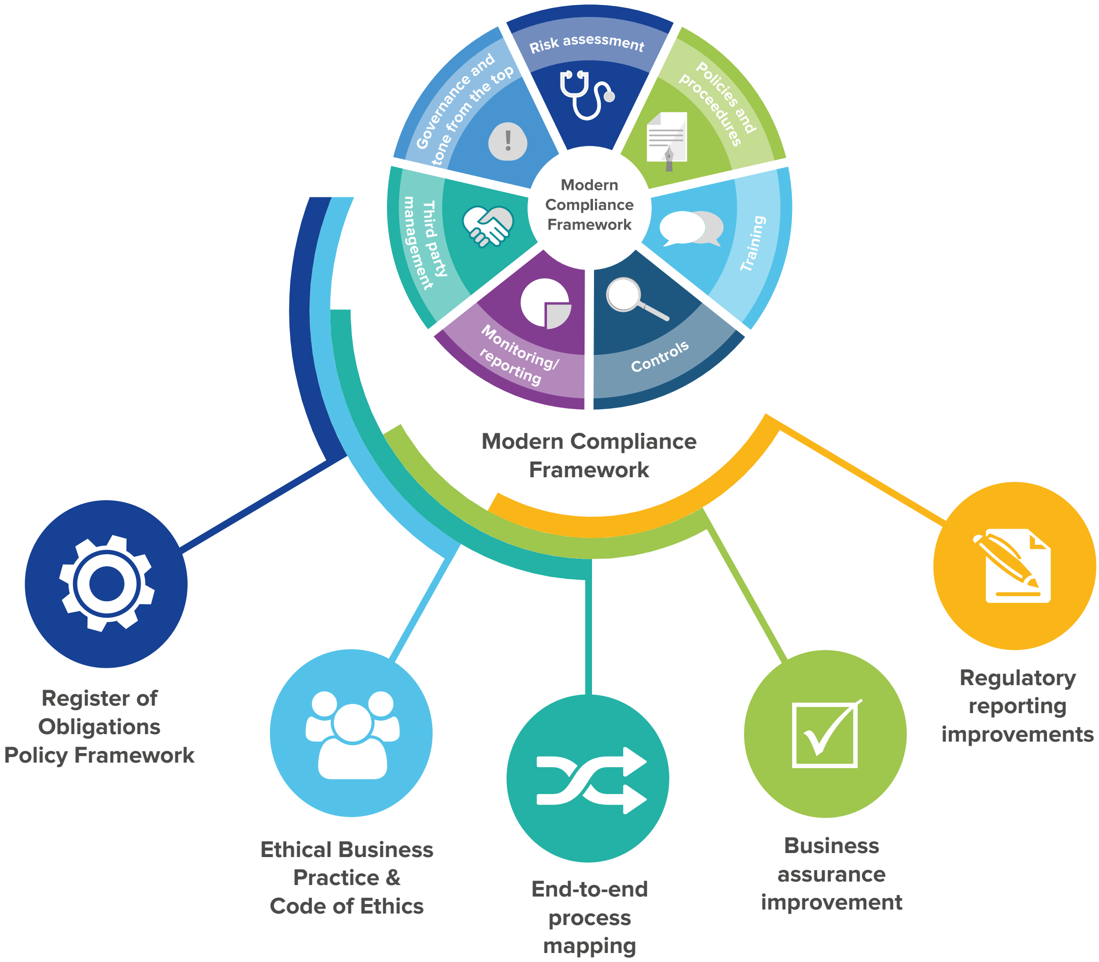
Southern Water is committed to driving structural and cultural change to support the development of a transparent and ethical compliance framework. We operate our Modern Compliance Framework (MCF) which was introduced seven years ago and has become our 'Business as Usual' approach to managing compliance. The framework brings together key elements of our approach to risk and compliance (see Figure 1) including in relation to our regulatory obligations, our policy framework, ethical business practice and work to manage the quality and transparency of our regulatory reporting. The work is supported by strong governance in key areas of our operation (most notably in our monitoring and reporting programmes) backed up with strong training programmes to ensure good practice is embedded in all areas of the company.

Our dedicated Risk and Assurance, Water Quality and Environment Quality teams have a clear role and responsibility to provide a separation of duties in monitoring key performance metrics of drinking water quality and wastewater performance. These teams also provide 'second-line' internal assurance of our front-line teams and also manage key "third-line" internal audit and external assurance of key aspects of our front-line performance.

In the past the company has not met its own high expectations, and our performance has not been as good as our peers in the industry or as good as our customers might expect. We continue to work with our regulators, Ofwat, the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) to implement improvements to our performance and reporting and to fully embed these changes.

As explained below, Ofwat and the Environment Agency continue to scrutinise our response to their joint sector-wide investigation into the management and operation of wastewater treatment works.

Figure 1. Modern Compliance Framework



Ofwat

As reported previously, Ofwat undertook an investigation into our wastewater reporting that led to a decision to impose a financial penalty of £3 million. In addition, we agreed to make significant customer bill rebates, totalling £122.9 million (in 2017–18 prices), between 2020 and 2025. On 8 October 2019 we signed formal Undertakings pursuant to Section 19 of the Water Industry Act 1991 relating to the numerous changes we have put in place, and are putting in place, to ensure that the issues identified in the investigation have been stopped and cannot be repeated.

The Undertakings contain a wide range of corrective actions and interventions across seven themes:

A. Customer redress measures;

B. Technical review of Wastewater Treatment Works;

C. Organisational compliance process measures;

D. Organisational cultural change measures;

E. Ensuring Transparency;

F. Condition P Certificate Assurance Undertaking; and

G. Reporting on Compliance with the Undertakings.

We continue to make progress on all the Undertakings, with most of them now substantially complete. Our focus now moves to embedding the improvements and monitoring the effectiveness of that embedment.

Compliance with the Section 19 Undertakings is subject to a formal assurance regime which is reported to our Board and then to Ofwat on a regular basis. In our March 2024 update to Ofwat we were able to report that the actions arising to ensure compliance are complete or are on track to be complete by the end of the five-year period of the undertakings on 9 October 2024.

In addition, the Section 19 Undertakings require us to provide additional assurance on Board compliance with Condition P of our Ofwat licence (please refer to page 17 for more detail).

The Environment Agency (EA)

The Environment Agency (EA) is expected to publish its 'Water and sewerage companies in England: environmental performance report for 2023' towards the end of July which will confirm Southern Water's Environmental Performance Assessment (EPA) rating for 2023. Until this is published, we are unable to confirm our performance on EPA ratings but have instead presented a forecast of our position.

Our end of year forecast is that we will have maintained our EPA rating of two star in 2023. As a company committed to protecting the environment and serving our customers we will continue to work hard to drive improvements, with the expectation that this will contribute to an improved star rating in future years.

The forecast two-star rating includes the EA's assessment on the number of total pollution incidents (category 1-3) and the number of serious (category 1 and 2) pollution incidents, both of which have been assessed as red EPA status, as they were in 2022. While the total number of pollution incidents remained at red status in 2023, there was a circa overall 35% reduction in the number of these incidents driven by extensive improvements in the way we operate. However, although the total number of pollution incidents decreased in 2023, the number of serious pollution incidents increased. To reduce the number and severity of serious pollutions, we have used insights analysing the root causes to shape our plans, as part of a specific focus in our 2024 Pollution Incident Reduction Plan (PIRP).

Our 2024 Pollution Incident Reduction Plan (PIRP) is forecasting the delivery of a reduction of 37 to 66 pollutions in 2024, and with further benefits flowing through, the plan forecasts an estimated benefit of 65 to 94 pollutions in total. The plan provides a comprehensive overview of our 2023 pollution performance and an in-depth analysis of root causes for the performance described. It looks ahead to year five of the plan's delivery, showing the actions scheduled for a continued reduction in pollutions, divided into three areas: prevention, detection, and incident response, and human factors, with workstreams for catastrophic and chronic pollutions.

The 2024 PIRP builds on the work done in 2023 when we increased our ability to focus on sustaining and embedding previous PIRP initiatives that had proven benefits, including the wet well cleaning and blackstart programmes, and compliance programme assessment checks (CPAC). In 2023 we also completed our sewer network cleaning programme on 700km of sewers and targeted installation of the Auto-Reset System at 850 wastewater pumping stations and 20 wastewater treatment works on three to five different process areas.

In 2022 we had a green EPA status for the Self-Reported Pollution Incidents metric and were seen as industry leading. Unfortunately, performance in 2023 has not matched that in 2022 and for 2023 we are forecasting an amber EPA status. To increase self-reporting by our customers, in May 2024 we streamlined our self-reporting processes, making it easier for people to report a pollution. At the same time, we began an awareness campaign to encourage people to report a suspected pollution.

In relation to the Discharge Numeric Permit Compliance measure, in 2022 six failed works represented 98.2% compliance and amber EPA status. In 2023, we are forecasting two failed works, which equates to 99.4% compliance and a forecast green EPA status, representing a significant improvement on 2022 performance.

In terms of Satisfactory Sludge Use and Disposal we are forecasting to achieve green EPA status as we did in 2022.

The assessment of the Supply Demand Balance Index (SDBI) water supply resilience measure is forecast as green EPA status for 2023-24, continuing the good performance against this measure in 2022.

Delivery of the Water Industry National Environment Programme is forecast to be green for the 2023-2024 financial year.

We are fully aligned with the ambition set out by the government and Ofwat; that our impact on the environment requires sustained focus and that the reduction in the use of storm overflows is at the heart of that ambition. We remain fully supportive of the expectations set out in the Environment Act, the Strategic Policy Statement, and the Storm Overflow Discharge Reduction Plan. We continue to focus our effort on reducing the impact our operations might have on the environment, not only in terms of pollutions but also for storm overflow reduction. The Clean Rivers and Seas Task Force, established in November 2021, remains a dedicated team responsible for driving our ambitious targets. The task force has already delivered several Pathfinder schemes, piloting initiatives across the region to find the most effective ways to reduce storm overflows in each individual area. We have collaborated with several partners across the region including action groups and local councils, to help promote and scale our initiatives.

As well as improving our assets and storage capacity, we are optimising existing assets (both publicly and privately owned), finding and fixing illegal connections in the community where rainwater is entering the wastewater network, installing nature-based solutions such as wetlands, raingardens and trees as well as greening our high streets to separate surface water or divert water back to the environment, and trialing rain harvesting devices to slow the flow of water in towns and cities.

Some key highlights so far of action taken:

- Provided nearly 100 schools with sustainable drainage systems to manage impermeable areas like playgrounds and large roofs. Removing well over 20 football pitches worth of hard surface run-off each time it rains.
- Installed over 3500 slow-drain water butts to manage surface water. In one village on the Isle of Wight, the installation of water butts reduced water released from the local pumping station by 70%.
- Reconfigured the storage capacity at Swalecliffe Wastewater Treatment Works, in agreement with the Environment Agency. The changes have reduced storm releases on site by roughly 30%.
- Installed over 250 rain garden planters in the community to manage surface water.
- Sealed 200 pipe joints and 1.2km of private pipework to prevent groundwater infiltration. In the Pan Parishes, this has resulted in tankers being stood down completely, having previously needed up to 30 to manage the excess water.
- Constructed a wetland at Lavant treatment works to naturally treat stormwater.
- Deployed two water quality buoys to test the water every 15 minutes. This is a pilot project with one buoy off Hayling Island. We hope to share the results later this year. We also have five citizen science projects across the south which are ongoing, one on the Isle of Wight.
- Identified over 150 private misconnections to the surface water sewer.
- Provided over 40 site tours to offer an understanding of the wastewater treatment process and answer customer questions.
- Investigating 34 highway SuDS schemes to manage surface water from roads.

We are not just focusing on the here and now; we're looking ahead to ensure we're taking the best steps for future water resilience. Between 2025-2030, we plan to invest at least £700m on storm overflow reduction, which forms part of the business plan we recently submitted to Ofwat.

We have almost 1,000 storm overflows in our region and 50% of these are already hitting the government's new 2050 target, for example releasing 10 times or less a year. Our new Clean Rivers and Seas Plan sets out how we'll tackle the remaining storm overflows that need attention in our region.

Our plan includes a record investment of £1.5 billion between 2025 and 2035, focusing on delivering long-term solutions that get to the root cause of storm overflows. We will introduce nature-based solutions in our communities to prevent and slow the volume of rainwater overwhelming the network, combined with making infrastructure improvements to increase our capacity and using wetlands to act as natural wastewater treatment solutions.

Event Duration Monitors (EDMs) remain an important part of monitoring the quality of our waters and providing accurate information on storm overflow discharges. They are used as part of the data validation process for Beachbuoy, our interactive, near real-time storm overflow reporting service.

Beachbuoy is a critical part of our dedication to transparency, and we regularly ask for feedback from our Beachbuoy User Group which includes councils, campaign groups and bathing water users to ensure the best possible service.

Following feedback from our working group, customers, and an independent review, we have been working hard to develop a new and improved version of Beachbuoy, called Rivers and Seas Watch, was launched in June 2024.

We now have EDM coverage across 100% of our storm overflow outfalls, including inland outfalls. This will allow us to display inland outfall data as well as coastal outfall data on Rivers and Seas Watch, alongside a host of improvements to usability, data processing, informational, content and email notifications.

Like other wastewater operators, in the normal course of operations we occasionally face investigations by the Environment Agency (EA) following incidents. We continue to deliver change programmes to address these historic failures, and these have been supported by our work on the Ofwat S19 undertakings mentioned above.

In July 2019 there was a pollution event at the Little Bull Lane Wastewater Pumping Station which impacted the local watercourse. A Guilty plea was entered and at a Sentencing hearing on 27 February 2024 the Court issued a Fine for £330,000 plus costs.

On 18 November 2021 the EA and Ofwat announced that they had launched investigations into the operation of wastewater treatment works across the industry. We will continue to be open and transparent and are committed to working with the EA and Ofwat constructively throughout the course of the investigations.

The EA continues to investigate the failures covered by the Ofwat investigation referred to above and is conducting a sector-wide investigation into flow compliance. We are committed to assisting the EA with its investigation into sampling compliance and reporting issues between 2013 and 2017 (inclusive). As the investigation is ongoing, we are not able to say any more about it at this time.

The Drinking Water Inspectorate (DWI)

We continue to progress the transformation of our drinking water quality performance. Our Compliance Risk Index (CRI) improved in 2023 and was better than the industry average score. Our provisional Event Risk Index (ERI) metric was significantly better than last year and around average for the industry. Two events at treatment works, one in Andover and one in Pulborough, accounted for half of the score, neither of these impacted customers.

We continue to work closely with the DWI on our transformation programme, holding regular liaison meetings to review progress on improvement schemes as well as ad hoc communications. In August we gave an Undertaking to the DWI to improve our water quality customer contact response over the subsequent 18 months.

After a significant review of the company's approach to the potential for discolouration of drinking water at the customers tap we submitted a discolouration reduction strategy to the DWI which has resulted in a Notice from the DWI to enact the strategy and reduce the risk of customers receiving discoloured water.

As part of our price review enhancement schemes were submitted to the DWI for support. As a result, five nitrate schemes and two disinfection resilience schemes Notices and Undertakings for lead pipe replacement and PFAS strategy were issued.

Our treated water reservoir programme has continued to work towards a maximum ten-year inspection frequency by the end of the AMP. A number of specific sites have been identified as needing to have capital works completed in order for the reservoir to be drained and inspected without interrupting supply and site-specific Notices have been issued.

Reporting our performance

We provide a significant amount of data to the Environment Agency and Ofwat about the performance of our assets, and any wastewater or sewage discharges we make into the 'water environment' such as rivers, streams and coastal waters. We are committed to transparent reporting of high-quality data that can be trusted by our customers, stakeholders and regulators.

Following historic failings in the quality of our reporting to our regulators, we continue to embed our programme of improvements to ensure our regulators and other stakeholders can trust the data that we report. These improvements have been led by our Risk Audit and Assurance, Water Quality and Environment teams to ensure compliance reporting to our regulators is subject to sustained internal review and assurance.

We continue to embed our programme of improvements to ensure our regulators and other stakeholders can trust the data that we report. These improvements have been led by our Risk Audit and Assurance team which is ensuring compliance reporting to our regulators is subject to sustained internal review and assurance.

In our 2024–25 Final Assurance Plan published in March 2024, we detailed our approach to assurance in relation to our performance information and acknowledged the importance of accurate information in building trust and confidence.

At Southern Water we have adopted the 'three lines of defence' framework for our reporting governance and assurance activity. This helps to assure performance information by applying multiple levels of control. We apply internal controls and have improved processes in place to mitigate the risk of supplying incorrect or inaccurate information on all our non-financial regulatory reporting. Ultimately, all assurance activity has oversight from the Board and Audit Committee.

The assurance plans are approved by the Audit Committee, which is responsible for overseeing and challenging the effectiveness of our approach. Further information on this programme can be found in our Data Assurance Summary 2023–24, which is available at: southernwater.co.uk/about-us/our-annual-reporting.

We regularly review performance information against a wide range of measures. Reporting to the Board and the Executive Committee (ExCom) focuses on delivery of our regulatory and statutory obligations. For the business plan period 2020–25, this information is provided to the Board by way of a detailed performance dashboard, including a selection of our business plan performance commitments and additional regulatory targets.

The Audit Committee has monitored the completion of a risk-based programme of assurance activities during the year, covering the practices, procedures and systems used to secure compliance with our statutory obligations. This included a review of our compliance with our Instrument of Appointment which was presented to the Audit Committee in March 2024.

In response to new guidance from Ofwat in November 2020 we published, as part of our Annual Performance Report, a board assurance statement, stating that the data and information provided is accurate and complete and setting out any exceptions to this. This continues to be embedded in our approach and our latest statement is included on page 21.

Each year we engage with our customers,

employees and stakeholders to help us identify any risks, strengths and weaknesses associated with our reporting. We published the findings of this exercise in November 2023, with an invitation to stakeholders to comment on the findings. The publication sets out how we would respond to stakeholders' feedback and detailed how our corporate assurance practices would meet our reporting compliance obligations. Our Final Assurance Plan was published on 31 March 2024. It set out how we planned to assure the financial and non-financial information that we publish in our Annual Performance Report.

In line with the Final Assurance Plan, KPMG LLP, as our independent non-financial data assurer, completed the limited assurance under ISAE (UK) 3000 of selected Performance Commitments and Outcome Delivery Incentives (ODIs). KPMG LLP provided Southern Water with an unqualified ISAE (UK) 3000 report for 2023–24 over the selected Performance Commitments reported in Section 3 of the Annual Performance Report marked with the symbol Δ for the calendar year ended 31 December 2023 and the information marked with the symbol * for the financial year ended 31 March 2024. This is the fourth year that KPMG LLP has issued an unqualified ISAE (UK) 3000 report over certain Performance Commitments and ODIs, reflecting their fourth year as our non-financial assurance partner.

Senior managers and ELT members are accountable for the provision and sign-off of non-financial information from their business areas. This includes ensuring adequate procedures and processes are in place for data collection and reporting. Data providers are accountable for submitting accurate data to set timescales. Subject matter experts within the relevant business areas are accountable for ensuring that this data, and the processes and procedures used in collating it, comply with Ofwat's reporting requirements. This process is managed through our Ofwat Compliance Framework (OCF) which is a system of controls that has been rolled out for data capture, collation and reporting within the business to make sure information used to measure compliance is complete, accurate and reliable. The OCF is in its fourth year of existence and is in place for business plan period (2020–25). Details of the assurance undertaken on our non-financial reporting by KPMG LLP are provided in their limited assurance report on page 74.

We have seen continued improvements in quality of our reporting to the DWI, the EA and Ofwat. These improvements are part of an on-going programme of improvements that will continue through the current business plan period and beyond.

All members of the Executive team are required, every six months, to provide a declaration that they and their teams are fully compliant with our procedures and controls for areas of the business for which they are accountable. An action plan is required to address any areas of non-compliance. We have made improvements to this 'Statement of Compliance' process during the year, including launching an on-line version. This has made the process much more efficient and user friendly and has helped increase the quality of returns from the Executive teams.

The updated process includes additional internal assurance and co-ordination of resulting action plans and provides a compliance maturity assessment of each directorate. The Statement of Compliance is now in its 12th edition and is a key input into our reporting and control improvement plans.

As required by Ofwat, an audit was also performed on sections 1 and 2 of the Annual Performance Report, (excluding elements of table 1F as set out in the audit opinion on page 57) by our auditor, Deloitte LLP together with agreed upon procedures in relation to sections 4 to 9.

In approving the Annual Report and Financial Statements, each director has confirmed that he or she has taken all the steps that he or she ought to have taken as a director in order to be aware of any relevant audit information and to establish that our auditor is aware of the information. So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware.

Managing risks

The Board confirms that the company has appropriate systems and processes in place to identify, manage and mitigate its material risks.

Risk management is a core component of our wider governance and internal control framework, which provides the overarching structure through which the company conducts its business.

Risk is inherent in our business and we face a diverse range of risks and uncertainties that cannot be completely eliminated. The purpose of our approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on our company and our ability to deliver on our strategic objectives are our Principal Risks. Our risk governance model ensures that we can manage, monitor and report on our Principal Risks to maintain a resilient business.

Southern Water's approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations, to executive management and to the Southern Water Board.

The framework seeks to promote better decision making, avoid incidents and encourage the best outcome for the company and our customers by allowing us to:

1. understand the risk environment, identify the specific risks we face and assess the potential exposure for Southern Water.
2. determine how best to manage identified risks to balance overall potential exposure.
3. take action to manage the risks we are exposed to, ensuring our resources are effectively and efficiently prioritised and used.
4. report to the Audit Committee and to the Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.
5. use our analysis to help the Board to define the company's appetite for the range of risks and monitor and report risks against the desired risk appetite.

Across the company our risk management approach is embedded within the business units and their business processes. We have established a risk management approach that provides a consistent basis for measuring risk to:

- establish a common understanding of risks on a like-for-like basis, considering potential impact and likelihood;
- report risks and their management to the appropriate levels of the company; and
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review significant risks and business processes to help inform and enable risk-based decision making. As part of Southern Water's annual planning process, the Executive Leadership Team and Board review the business' principal risks, emerging risks and high impact low likelihood events.

Southern Water's approach to risk management adopts the 'three lines of defence' model in which risk ownership responsibilities are functionally independent from oversight and assurance.

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all staff throughout Southern Water is to ensure they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to Southern Water's material risks.
- Independent external assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.

Risk oversight and governance

To successfully embed risk management across Southern Water, the risk management process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability risk management but discharges this role through the Audit Committee, who oversee and advise on enterprise and corporate risks, and the Health and Safety and Operational Risk Committee who oversee and advise on operational risk.

Role of the Board

The role of the Board is to promote the long-term sustainability of Southern Water and its responsibilities to its shareholders, customers, employees, and the communities in which it operates and it has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring Southern Water's approach to risk culture and conduct
- forming a view on Southern Water's risk culture and the extent to which it supports the ability of Southern Water to operate consistently within its risk appetite.

The Board defines our Risk Appetite, enabling us, in both quantitative and qualitative terms, to judge the level of risk we are prepared to take in achieving our overall objectives.

Our Risk Appetite is directly aligned to our Principal Risks. The Risk Appetite for each of our Principal Risks, underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of Principal Risks with Risk Appetite allows for an informed analysis and discussion of our risk position and has provided the Board risk insight to key decisions.

The Board ensures the oversight and monitoring of our risk culture, risk appetite and risk management activities through the Audit Committee.

The Audit Committee is responsible for the review of our internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. They advise the Board on the company's overall risk appetite, tolerance culture and strategy, considering the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on the current risk exposure of the company and longer-term strategic risks to determine our future risk strategy. The Audit Committee has a key role in risk assessment, including:

- reviewing the company's overall risk assessment processes for the company's enterprise and corporate risks that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed corrective actions.

The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies, processes and controls, operational risk management, and compliance with relevant legal and regulatory requirements. The Board retains overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk and whether the executive is managing these risks effectively, including via the supply chain;
- reviewing the company's health, safety and wellbeing performance;
- reviewing operational risk and risk management of information security, information governance, water, wastewater and customer services;
- reviewing the scope, and results of any health, safety, wellbeing, information security, information governance, water, wastewater and customer operational risk audits; and
- considering the findings of internal and external investigations and executives' response.

Board risk and compliance statement

In making the risk and compliance statement, the Board confirms that the company:

- considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate, and review its risks.

Signed on behalf of the Board

Stuart Ledger
Chief Financial Officer

8 July 2024

Regulatory matters

The following regulatory accounting statements and required regulatory information are provided to comply with Condition F of our Licence, which requires that regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat.

There are differences between statutory accounting reporting frameworks, International Financial Reporting Standards and the Regulatory Accounting Guidelines. Where different treatments are specified under each, the Regulatory Accounting Guidelines take precedence.

A particular point of definition is worth noting. Southern Water Services Limited is appointed by the Secretary of State to be a water and wastewater undertaker – the activities covered by the appointment are the 'Appointed Business'. Southern Water Services Limited has other functions and activities which are not covered by the appointment as a water and wastewater undertaker. These activities are termed the 'Non-Appointed Business'.

Assets, rights and resources (Condition P14)

Under paragraph 14 of Condition P of the Licence, the company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the company would have available to it sufficient rights and resources (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company. In the opinion of the directors, the company was in compliance with that requirement as at 31 March 2024.

Ring-fencing Certificate and statement (Condition P30)

In order to meet the Licence Condition P Certificate requirements as supplemented by the Ofwat Section 19 Undertakings, the Board needs to be able to clearly evidence the level of diligent enquiry that it has undertaken. To support this process the Southern Water Board signs off Condition P Assurance Statements demonstrating it has discharged its responsibilities and takes accountability for its diligent enquiry into the principal risks facing the business, and most importantly in the context of the Section 19 Undertakings, the wastewater business.

These statements were signed off by the Board as part of approval process for the Annual Performance Report to Ofwat, and are subject to external assurance from external auditor (a report of which) will be made available to Ofwat to support our S19 obligations.

To provide the Ring-fencing Certificate required by Licence Condition P30 and meet the Ofwat Section 19 undertakings the Southern Water Board needs to be able to clearly evidence the level of diligent enquiry that the Board has undertaken. This is outlined in detail in the Board Assurance statement (see below).

In the Board Assurance Statement, the directors declare that, in their opinion:

i) The company will have available to it sufficient financial resources and facilities to enable it to carry out its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments)

ii) The company will have available to it:

a) financial resources and facilities

b) management resources; and

c) methods of planning and internal control

which are sufficient to enable it to carry out those functions for a period of at least twelve months.

A specific paper on the Condition P statement is presented for sign off by the Southern Water Board and includes the finalised Board Assurance Statements as detailed below. The Board Assurance Statement is subject to external assurance from our auditor, Deloitte. As part of our Section 19 commitments, their report will be provided separately to Ofwat. This sign-off process happens in parallel with the Board sign-off of an assurance statement on the accuracy and completeness of the data and information (financial and non-financial) submitted to Ofwat as part of our Annual Report and Annual Performance Report submission (see Appendix 3).

Condition P – Ring-fencing Certificate – Board assurance statement

The Board is pleased to provide the following Board Statements:

We, the Board of Southern Water, have carefully considered the requirements of the Condition P Certificates and have undertaken reasonable diligent enquiry and challenge to confirm the statements made below. The Board considers that these arrangements are in place for the at least the next 12 months.

In doing so, the Board provides the following Statements:

The Board wish to make it clear that these statements are made ahead of the receipt of the Ofwat Draft Determination.

Financial resources and facilities:

- In October 2023, funds managed by Macquarie Asset Management invested an additional £550 million of equity funding into the group, of which £375 million was injected into the operating company (SWS) in order to support our Turnaround Plan and manage the impact of a high inflation and interest rate environment on operating, maintenance, and funding costs. It will also support our capital investment for the regulatory period (2020–25).
- Following the equity injection, we have successfully issued new bonds, totalling £1,088.0 million and made loan repayments of £420.7 million as part of our overall financing to plan to support our capital investment programme for this regulatory period.
- The Board reviewed the going concern for at least 12 months from signing the accounts and the long-term viability assessment (LTVA) to March 2030 in July 2024. This included the company's liquidity position, headroom against the financial covenants, credit ratings and financial risk assessment against a number of downside scenarios.
- The Board reviewed the assurance outputs regarding the financial performance and prospects, reported in the 2023–24 Annual Performance Report, from Deloitte relating to the statutory and regulatory accounts which included the LTVA. Deloitte presented their views on the progress of the financial audit to the Audit Committee on 19 June 2024 and provided an updated report for the final sign-off meeting in July 2024.
- The Board reviewed and endorsed the plans that were presented to them in the updated SWS Execution Plan (EP24) for the period up to the end of this business plan period and concluded that they are aligned to meeting the needs of our customers and stakeholders and are in line with the final determination that has been agreed with Ofwat.
- The Board is confident that EP24 delivers our statutory and regulatory obligations and allows us to demonstrate compliance with Condition P of the Licence of Appointment for at least the next 12 months.
- The Board receives updates on the financial status of the company including cash flow forecasts and monitoring. The Board also receives updates on the company's credit ratings and meetings with the credit rating agencies.
- The Board is regularly updated and aware of potential litigation in relation to investigations by the Environment Agency and has approved related financial disclosures within the financial accounts.

The Board wish to reiterate that these statements have been made on the basis of the Business Plan we submitted to Ofwat in October 2023 and subsequent updates and are made ahead of the receipt of the Ofwat Draft Determination.

Management resources:

- The Board continues to strongly support the executive management, who have continued to work to ensure previous improvements are embedded into the way the company carries out its business (an example of this has been the regular updates the Audit Committee receives on our audit and assurance programmes, and our compliance activities).
- The company has continued to evolve its management structure in the financial year, bringing in key resource at executive level to support the further development of the company. This includes making a number of key appointments to the Executive including a new Chief Digital and Transformation Officer in August 2023, a new Director of Corporate Affairs in December 2023, a new Managing Director – Wastewater in February 2024, and a new Transition Director in June 2024, the latter two being interim appointments.
- The General Counsel and his wider team have acted as the second and third line team and provide the check and challenge on the rest of the company. It delivers a compliance and risk-based programme (structured around our obligations) to ensure that the company is meeting its regulatory and statutory obligations.
- The Board also carries out reviews of its own capability through Board evaluation reviews. An internal assessment was undertaken in 2023–24.
- The Board also looks to ensure that its membership has the appropriate balance of skills and a diversity of perspectives to enable it to discharge it duties. The Nomination Committee had committed to review this area and has seen the diversity of the Board increase with recent appointments.

The Board therefore confirms that the company has sufficient management resources.

Systems of planning and internal control:

- SWS has adopted the 'three lines of defence' framework for reporting governance and assurance activity. In relation to non-financial reporting, this has been in place since 2017 and has supported the continued maturity of the internal system of control and helps to assure performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual plan (both of which are signed off by the Audit Committee).

- The Audit Committee has monitored the completion of a risk-based programme of audit and assurance activities during the year and Deloitte reports to the on the control environment as part of the financial statement audit.
- The Board and Audit Committee regularly receives and reviews information and reports on non-financial performance that support the efficient delivery of services to our customers and other stakeholders. This includes progress of non-financial reporting, thematic assurance and the Ofwat Section 19 undertakings. The Board reviewed the assurance outputs regarding the non-financial performance, reported in the 2023/24 Annual Performance Report from KPMG. KPMG presented their views to the Audit Committee at the meeting on 19 June 2024.
- The Board reviews the monthly KPI reports, including performance against budgets. This also includes updates on performance in regard to Performance Commitments, Outcome Delivery Incentives, and our Turnaround Plan.
- The Board, through its Audit Committee, has received an internal assurance report in March 2024 (produced by the Risk Audit and Assurance Team), which reviewed Southern Water compliance with its Licence of Appointment.
- The Board has visibility of the high-level financial governance and controls that are in place around our financial reporting, including reports from the external audit and internal audit reports looking at financial controls and updates on the implementation of new accounting standards. There is a Schedule of Matters Reserved to the Board.
- The Board has overall responsibility for risk management and is supported in this role by the Audit Committee (which monitors Enterprise Risk) and the Health and Safety and Operational Risk Committee. Both committees are a key element of the Risk Management process.
- The Board, via the Audit Committee and the Health and Safety and Operational Risk Committee, reviews key areas of risk for the company in regular reports and "deep-dive reviews".
- The Board is involved in the approval of key milestones on our work on Water for Life Hampshire and our submissions to RAPID.
- The Board is actively involved in supporting the development of the PR24 submission to Ofwat. The Board has a key role in the PR24 process. The PR24 Board Assurance Process includes the development of oversight structures and a detailed programme of board assurance, which has covered all areas of the plan and included specific arrangements for approving and assuring the WRMP, WINEP and DWMP submissions. This will be reflected in our upcoming Draft Determination response.
- The Board has approved updates in the Annual Report, Interim Accounts, Annual Performance Report and Data Assurance Summary that detail improvements in governance and controls.

The Board has been fully aware of previous issues with the control environment of the company and has over the last seven years worked with executive management to rebuild capability in this area. This work is continuous and the investment in time and effort by the company over a sustained period of time is bearing fruit, with sustained capability in place to support the control environment of the company.

The Board therefore confirms that the company has appropriate governance policies and procedures in place to maintain an effective control environment.

Resources other than financial or management resources:

- In agreeing EP24 the Board have considered the non-financial resources required to deliver the plans implicit in the annual budget. This includes ensuring we have the right people resources in place to support the delivery of our plans.
- One of the Board members has a role as lead for Employee Engagement, regularly meeting with the wider Southern Water employee base.
- The ESG Committee carried out an update on the company's ED&I initiatives and employee engagement.
- The ESG Committee also looked at the Net Zero Plans.
- The Board has continued to support the embedment of the Southern Water values. The company values developed in 2019 continue to be embedded and the Board continues to support and sign up to the Code of Ethics. This includes a refresh to our company values and the addition of a new "Working with Care" value.
- The company has strengthened its focus on Health and Safety with a number of new appointments in the team. This has been actively supported and challenged by the work of the Health and Safety and Operational Risk Committee.

- The Board has visibility and has taken part in the extensive staff training on Health and Safety that underpins the 'Working with Care' value.
- The Board were presented and approved the Code of Ethics in November 2023. The company's Speak Up procedures continue to be monitored and reviewed, and an annual review of Speak Up was presented to the Audit Committee in March 2024.
- The Audit Committee receives regular detailed reports on Speak Up cases and discusses progress on resolution.

The Board therefore confirms that the company has sufficient programmes on culture and employee engagement to support non-financial resources and facilities.

Contracting:

- The Board has reviewed the AMP8 professional services framework – one of our critical frameworks to support the AMP8 delivery.
- The company does have active Associated Companies, but these are used for financing purposes and do not have any operational contracts or transactions with the operating company.

The Board therefore confirms that the company has adequate contractual relationships in place and is active in its review of key contracts. The Board also confirms that whilst it does have Associated Companies in place it can confirm that these do not have any operational contracts or transactions with the Operating Company.

Material issues or circumstances

The Board has considered the following material issues or circumstances that meet our Condition P Certificate in relation to the operation of our wastewater business (as detailed in our S19 undertakings with Ofwat):

- The Board has reviewed the financial resources and facilities related to our wastewater business as part of the EP24 approval process including the budget and confirms that they are sufficient resources in relation to our wastewater operations over the next twelve months.
- The Board has previously considered the organisational structures and governance within our wastewater business and confirms that the company is able to deliver services to its customers and stakeholders and meet its statutory and regulatory requirements in this area - the Board originally approved changes to company's organisational structure that took place in 2017, and included work on the separation of duties in the Wastewater Directorate and the establishment of an effective "Three Lines of Defence" model of compliance. The Board is confident that these changes have been embedded in the company and are a key element of improvements and transformation of the company. These arrangements are subject to detailed external assurance as part of our S19 Undertakings to ensure they remain in place and are embedded in the way the company carries out its duties.
- The Board acknowledges that whilst the company comes towards the end of the period of the S19 undertakings, it still requires and receives regular update on these matters.
- The Board confirms that is aware of the material risks faced by the wastewater business and the company has undertaken appropriate investigations to ensure all significant risks are identified, together with the monitoring of key risk mitigation actions.
- The Board received updates on its wider duties in regard to the running of a wastewater business. This includes an update on current policy changes in relating to our Water Industry Act Section 94 duties and our obligations as part of the Urban Wastewater Treatment Regulations (UWWTR). Both are key inputs into our work on the Company's S19 undertakings with Ofwat.
- The Board has considered the specific operational plans relating to our wastewater business, as part of our review of the updated EP24 including the budget and confirm they are aligned to meeting the needs of our customers and stakeholders and are aligned with the final determination and Undertakings that have been agreed with Ofwat.
- The Board, via its Audit Committee, has been provided regular updates on the progress of the S19 Undertakings and has provided robust check and challenge on the process over the year.
- In addition, the Board has considered its wider Water Resources and Section 20 obligations. The Board has been provided regular updates on these matters and is engaged in supporting the company to meet its obligations in this area.

The Board therefore confirms that it has considered the material issues facing the business (as detailed in our S19 undertakings with Ofwat), and that the company has sufficient financial, non-financial resources and facilities.

Stuart Ledger	**Keith Lough**
Chief Financial Officer	**Chair**

8 July 2024

Directors' responsibilities for the preparation of the supplementary regulatory accounting statements and disclosure of information to auditors

In addition to their responsibilities to prepare accounts in accordance with the Companies Act 2006 and to disclose all relevant information to the auditor, described in the Corporate Governance section of the statutory accounts, the directors are also responsible under Condition F of the Licence for:

a) ensuring that proper accounting records are maintained by the company to enable compliance with the requirements of Condition F
b) preparing a set of regulatory accounting statements, in respect of the twelve- month period ending on 31 March in each year, which are in accordance with the Regulatory Accounting Guidelines published by Ofwat
c) complying with all other requirements that are set out in the Regulatory Accounting Guidelines published by Ofwat.

The directors approved the regulatory accounting statements (on pages 23 to 90) on 8 July 2024.

Board statement on accuracy and completeness of data and information

The Board confirms that the data and information provided to Ofwat during the reporting year, or published by the company in its role as a water and sewerage undertaker, was accurate and complete and is reflected in our Board Assurance Statement (see appendix 3).

The assurance statement includes a description of the activities which the Board has carried out to allow it to make the statement. The Board believe that our stakeholders deserve to have trust and confidence in the integrity of the information we provide in our annual reports. In order to achieve this, our performance reporting is subject to a system of checks to ensure that we meet the highest quality of reported information.

The Board has been fully aware of the issues with the non-financial control environment of the company and has over the last six years worked with the executive management team to rebuild capability in this area. This work continues to be embedded and is becoming part of our Business-as-Usual way of working.

The Board has actively engaged and challenged the assurance processes that have been adopted by the company. This covers assurance on both the financial and non-financial reporting. The Board has, over recent years, taken action to ensure that exceptions and weaknesses identified in the non-financial assurance have been addressed. The Board is satisfied that the assurance approaches have appropriately identified and addressed the risks to the provision of accurate and complete data and information. This has been discharged through the Southern Water Services Board and its relevant committees (most notably the Audit Committee).

The Board Assurance Statement does not identify any specific exceptions.

Section 35A of the Water Industry Act 1991

The company is required under section 35A of the Water Industry Act 1991 to provide a statement that the remuneration paid to executive directors is linked to standards of performance. This statement is provided within the Directors' Remuneration Report section of the Annual Report and Financial Statements.

Long-term viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Board has assessed the prospects of the business over a longer period than the 12 months required by the 'Going Concern' provision.

The Board has elected to conduct this review to 31 March 2030 and full details of the assessment and the viability statement are set out within the Strategic Report section on page 126 of the Annual Report and Financial Statements.

This included the company's liquidity position, headroom against the financial covenants, credit ratings and financial risk assessment against a number of downside scenarios.

Statement of disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware
2) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Board statement

Save for those matters mentioned above where the company has identified shortcomings or potential shortcomings and where the company has set out the steps it is taking or will take to manage, mitigate and/or improve those), the Board confirms, that having taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information, the company has:

1) a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations
2) sufficient processes and internal systems of control to fully meet its obligations
3) appropriate systems and processes in place to allow it to identify, manage and review its risks.

KG Lough

Stuart Ledger

Chief Financial Officer

Keith Lough

Chair

8 July 2024

Regulatory financial reporting

1A – Income statement for the 12 months ended 31 March 2024

	Note	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Revenue		886.512	(58.452)	10.135	(68.587)	**817.925**
Operating costs		(961.196)	21.307	(8.210)	29.517	**(931.679)**
Other operating income		0.547	27.090	–	27.090	**27.637**
Operating (loss)/profit		**(74.137)**	**(10.055)**	**1.925**	**(11.980)**	**(86.117)**
Other income		1.809	24.750	–	24.750	**26.559**
Interest income	3	4.149	–	–	–	**4.149**
Interest expense	3	(224.109)	(61.856)	–	(61.856)	**(285.965)**
Other interest expense	3	(3.400)	–	–	–	**(3.400)**
(Loss)/profit before tax and fair value movements		**(295.688)**	**(47.161)**	**1.925**	**(49.086)**	**(344.774)**
Fair value gains on derivative financial instruments		88.132	–	–	–	**88.132**
(Loss)profit before tax		**(207.556)**	**(47.161)**	**1.925**	**(49.086)**	**(256.642)**
UK Corporation tax	4	–	–	–	–	–
Deferred tax		(3.301)	11.790	–	11.790	**8.489**
(Loss)/profit for the year		**(210.857)**	**(35.371)**	**1.925**	**(37.296)**	**(248.153)**
Dividends		–	–	–	–	–
Tax analysis						
Current year		–	–	–	–	–
Adjustments in respect of prior years		–	–	–	–	–
UK Corporation Tax		**–**	**–**	**–**	**–**	**–**

Analysis of non-appointed revenue	
Imported sludge	–
Tankered waste	6.762
Other non-appointed revenue	3.373
Revenue	**10.135**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

Note: The signage convention for presentation of this table follows Ofwat guidance. Total adjustments comprise the difference between statutory and regulatory accounting definitions less the non-appointed activity.

As reported in our Annual Report and Financial Statements, the Income Statement for March 2023 has been restated for a change to deferred tax. The restated table is presented in Appendix 4.

1B – Statement of comprehensive income for the 12 months ended 31 March 2024

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
(Loss)/profit for the year	(210.857)	(35.371)	1.925	(37.296)	**(248.153)**
Actuarial losses on post-employment plans	(1.600)	–	–	–	**(1.600)**
Other comprehensive income	0.400	–	–	–	**0.400**
Total comprehensive (loss)/income for the year	**(212.057)**	**(35.371)**	**1.925**	**(37.296)**	**(249.353)**

1C – Statement of financial position for the 12 months ended 31 March 2024

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	7,570.039	(307.046)	(0.035)	(307.011)	**7,263.028**
Intangible assets	97.965	(2.427)	–	(2.427)	**95.538**
Investments – loans to group companies	10.025	–	–	–	**10.025**
Investments – other	0.174	–	–	–	**0.174**
Financial Instruments	104.780	–	–	–	**104.780**
Total non-current assets	7,782.983	(309.473)	(0.035)	(309.438)	**7,473.545**
Current assets					
Inventories	13.566	–	–	–	**13.566**
Trade and other receivables	448.000	(100.000)	5.655	(105.655)	**342.345**
Cash and cash equivalents	413.503	100.000	–	100.000	**513.503**
Total current assets	875.069	–	5.655	(5.655)	**869.414**
Current liabilities					
Trade and other payables	(311.984)	8.811	–	8.811	**(303.173)**
Capex creditor	(222.770)	–	–	–	**(222.770)**
Borrowings	(36.941)	–	–	–	**(36.941)**
Current tax liabilities	(15.045)	–	–	–	**(15.045)**
Provisions	(30.298)	–	–	–	**(30.298)**
Total current liabilities	(617.038)	8.811	–	8.811	**(608.227)**
Net current assets	**258.031**	**8.811**	**5.655**	**3.156**	**261.187**
Non-current liabilities					
Trade and other payables	(11.601)	–	–	–	**(11.601)**
Borrowings	(4,868.787)	–	–	–	**(4,868.787)**
Financial instruments	(1,673.637)	–	–	–	**(1,673.637)**
Retirement benefit obligations	(78.000)	–	–	–	**(78.000)**
Provisions	(3.097)	–	–	–	**(3.097)**
Deferred income – grants and contributions	(32.075)	(4.191)	–	(4.191)	**(36.266)**
Preference share capital	(64.665)	–	–	–	**(64.665)**
Deferred tax	(370.330)	76.213	–	76.213	**(294.117)**
Total non-current liabilities	(7,102.192)	72.022	–	72.022	**(7,030.170)**
Net assets	**938.822**	**(228.640)**	**5.620**	**(234.260)**	**704.562**
Equity					
Called up share capital	37.612	–	–	–	**37.612**
Retained earnings and other reserves	901.210	(228.640)	5.620	(234.260)	**666.950**
Total equity	**938.822**	**(228.640)**	**5.620**	**(234.260)**	**704.562**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

As reported in our Annual Report and Financial Statements, the Income Statement for March 2023 has been restated for a change to deferred tax. The restated table is presented in Appendix 4.

1D – Statement of cash flows for the 12 months ended 31 March 2024

	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Non-appointed £m	Adjustments: Total adjustments £m	Total appointed activities £m
Operating (Loss)/profit	(74.137)	(10.055)	1.925	(11.980)	**(86.117)**
Other income	1.809	24.750	–	24.750	**26.559**
Depreciation	362.870	(14.641)	0.012	(14.653)	**348.217**
Amortisation – grants and contributions	3.759	(5.359)	–	(5.359)	**(1.600)**
Changes in working capital	(10.929)	(0.054)	(2.369)	2.315	**(8.614)**
Pension contributions	–	–	–	–	**–**
Movement in provisions	(35.260)	–	–	–	**(35.260)**
Profit on sale of fixed assets	(0.547)	–	–	–	**(0.547)**
Cash generated from operations	**247.565**	**(5.359)**	**(0.432)**	**(4.927)**	**242.638**
Net interest paid	(77.866)	–	–	–	**(77.866)**
Tax paid	–	–	–	–	**–**
Net cash generated from operating activities	**169.699**	**(5.359)**	**(0.432)**	**(4.927)**	**164.772**
Investing activities					
Capital expenditure	(732.169)	–	0.432	(0.432)	**(732.601)**
Grants and contributions	–	5.359	–	5.359	**5.359**
Disposal of fixed assets	0.138	–	–	–	**0.138**
Other	(172.464)	100.000	–	100.000	**(72.464)**
Net cash used in investing activities	**(904.495)**	**105.359**	**0.432**	**104.927**	**(799.568)**
Net cash used before financing activities	**(734.796)**	**100.000**	**(0.000)**	**100.000**	**(634.796)**
Cash flows from financing activities					
Equity dividends paid	–	–	–	–	**–**
Net loans received	663.270	–	–	–	**663.270**
Cash inflow from equity financing	369.182	–	–	–	**369.182**
Net cash used in financing activities	**1,032.452**	**–**	**–**	**–**	**1,032.452**
Increase					
Decrease in net cash	**297.656**	**100.000**	**(0.000)**	**100.000**	**397.656**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

1E – Net debt analysis at 31 March 2024

	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index linked RPI £m	Total £m
Borrowings (excluding preference shares)	1,355.788	12.976	3,938.364	**5,307.128**
Preference share capital	64.665			**64.665**
Total borrowings	**1,420.453**	**12.976**	**3,938.364**	**5,371.793**
Cash				**(413.503)**
Short term deposits				**(100.000)**
Net debt				**4,858.290**
Gearing				**71.58%**
Adjusted gearing				**69.20%**
Full year equivalent nominal interest cost	63.292	0.837	250.666	**314.795**
Full year equivalent cash interest payment	63.292	0.837	81.205	**145.334**
Indicative interest rates				
Indicative weighted average nominal interest rate	4.456%	6.450%	6.365%	**5.860%**
Indicative weighted average cash interest rate	4.456%	6.450%	2.062%	**2.706%**
Weighted average years to maturity	12.542	1.000	9.583	**11.804**

Adjusted gearing excludes preference shares and includes debt at nominal values along with any unpaid accretion and the accrued accretion on our financial instruments.

The borrowings and full year equivalent interest cost reflect the impact of our financial derivatives, excluding fair value movements.

The calculation of the weighted average years to maturity is based on the designation of the underlying debt instruments and excludes the impact of swaps that we have in place.

A reconciliation between the borrowings reported in tables 1C and 1E is shown below, along with a reconciliation to the principal sum outstanding reported in table 4B, which is published separately alongside this report.

Reconciliation of borrowings between table 1C and tables 1E and 4B

	£m
1C – Current liabilities borrowings	36.941
1C – Non-current liabilities borrowings	4,868.787
Total Borrowings (table 1C)	**4,905.728**
Debt issue costs	5.595
Bond premium deferred	(5.575)
Bond discount deferred	7.138
Deferred gilt lock proceeds	(4.138)
Accrued swap accretion	398.380
Borrowings (table 1E)	**5,307.128**
Preference shares	64.665
Difference between amortised cost and nominal value	36.081
Principal sum outstanding (table 4B)	**5,407.874**

The debt issue costs, bond premium, deferred gilt lock proceeds and deferred proceeds are amortised to the income statement and details are presented in note 20 to our statutory accounts.

The accrued swap accretion is an increase in the liability of the swap financial instruments which is presented within the financial instruments balance for statutory accounting purposes but included in borrowings as per table 1E guidance. This figure is also shown in table 4I.

1F – Financial flows for the 12 months ended 31 March 2024 and for the price review to date (2017–18 financial year average CPIH)

	12 months ended 31 March 2024					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity						
Regulatory equity				2,140.641	2,140.641	1,567.351
Return on regulatory equity						
Return on regulatory equity	3.88%	2.84%	3.88%	83.057	60.813	60.813
Financing						
Impact of movement from notional gearing		1.04%	0.61%		22.244	9.507
Gearing benefits sharing		-0.04%	-0.06%		-0.949	-0.949
Variance in corporation tax		0.00%	0.00%		–	–
Group relief		0.00%	0.00%		–	–
Cost of debt		4.21%	6.19%		90.091	96.999
Hedging instruments		-2.40%	-3.28%		-51.398	-51.398
Return on regulatory equity including Financing adjustments	**3.88%**	**5.64%**	**7.34%**	**83.057**	**120.801**	**114.972**
Operational performance						
Totex out/(under) performance		-11.42%	-15.60%		-244.435	-244.435
ODI out/(under) performance		-1.00%	-1.37%		-21.500	-21.500
C-MeX out/(under) performance		-0.17%	-0.23%		-3.657	-3.657
D-MeX out/(under) performance		-0.08%	-0.12%		-1.817	-1.817
Retail out/(under) performance		-0.60%	-0.83%		-12.938	-12.938
Other exceptional items		-0.76%	-1.04%		-16.331	-16.331
Operational performance total		**-14.05%**	**-19.18%**		**-300.678**	**-300.678**
RoRE (return on regulatory equity)	**3.88%**	**-8.40%**	**-11.85%**	**83.057**	**-179.877**	**-185.706**
RCV growth	**4.57%**	**4.57%**	**4.57%**	**97.827**	**97.827**	**71.628**
Voluntary sharing arrangements		0.00%	0.00%		–	–
Total shareholder return	**8.45%**	**-3.83%**	**-7.28%**	**180.884**	**-82.050**	**-114.078**
Dividends						
Gross dividend	1.41%	0.00%	0.00%	30.183	-	-
Interest receivable on Intercompany loans		0.00%	0.00%		-	-
Retained value	**7.04%**	**-3.83%**	**-7.28%**	**150.701**	**-82.050**	**-114.078**
Cash impact of 2015–20 performance adjustments						
Totex out/(under) performance		-0.03%	-0.05%		-0.730	-0.730
ODI out/(under) performance		0.02%	0.03%		0.459	0.459
Total out/(under) performance		-0.01%	-0.02%		-0.271	-0.271

The figures presented above may not cast due to rounding issues.

1F – Financial flows for the 12 months ended 31 March 2024 and for the price review to date (2017–18 financial year average CPIH)

	Average 2020–24					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity						
Regulatory equity				2,036.061	2,036.061	1,545.580
Return on regulatory equity						
Return on regulatory equity	3.90%	2.96%	3.90%	79.406	60.278	60.278
Financing						
Impact of movement from notional gearing		0.94%	0.51%		19.129	7.806
Gearing benefits sharing		-0.01%	-0.02%		-0.237	-0.237
Variance in corporation tax		0.00%	0.00%		–	–
Group relief		0.00%	0.00%		–	–
Cost of debt		2.13%	2.79%		43.283	43.046
Hedging instruments		-2.35%	-3.10%		-47.919	-47.919
Return on regulatory equity including Financing adjustments	**3.90%**	**3.66%**	**4.07%**	**79.406**	**74.533**	**62.974**
Operational performance						
Totex out/(under) performance		-6.85%	-9.03%		-139.526	-139.526
ODI out/(under) performance		-1.72%	-2.27%		-35.071	-35.071
C-MeX out/(under) performance		-0.16%	-0.21%		-3.179	-3.179
D-MeX out/(under) performance		-0.05%	-0.06%		-0.947	-0.947
Retail out/(under) performance		-0.87%	-1.15%		-17.741	-17.741
Other exceptional items		-1.32%	-1.74%		-26.821	-26.821
Operational performance total		**-10.97%**	**-14.45%**		**-223.285**	**-223.285**
RoRE (return on regulatory equity)	**3.90%**	**-7.31%**	**-10.37%**	**79.406**	**-148.752**	**-160.311**
RCV growth	**4.30%**	**4.30%**	**4.30%**	**87.551**	**87.551**	**66.460**
Voluntary sharing arrangements		0.00%	0.00%		–	–
Total shareholder return	**8.20%**	**-3.01%**	**-6.07%**	**166.957**	**61.201**	**93.851**
Dividends						
Gross dividend	1.40%	0.05%	0.06%	28.505	0.948	0.948
Interest receivable on Intercompany loans		-0.05%	-0.06%		-0.948	-0.948
Retained value	**6.80%**	**-3.01%**	**-6.07%**	**138.452**	**-61.201**	**-93.851**
Cash impact of 2015–20 performance adjustments						
Totex out/(under) performance		-0.04%	-0.05%		-0.730	-0.730
ODI out/(under) performance		0.02%	0.03%		0.459	0.459
Total out/(under) performance		-0.01%	-0.02%		-0.271	-0.271

The figures presented above may not cast due to rounding issues.

Commentary regarding table 1F – Financial Flows

Table 1F Financial Flows aims to improve transparency and explain the elements that have the most significance on the financial flows to investors. As the analysis is designed to estimate the impact on equity return due to actual performance and capital structure, it includes some high-level approaches to estimate the impact of regulatory mechanisms. This results in regulatory rewards and penalties, earned in the current price review period 2020–25 but not realised by shareholders until the next price review period 2025–30, being included in the table. A simplified approach is also adopted for the cost of debt and replicated in hedging instruments in order to ensure consistency of approach.

The above table provides information in a three-column format:

- 'notional returns and notional regulatory equity' (column 1) – equivalent to our allowance in the Final Determination for 2020–25.
- 'actual returns and notional regulatory equity' (column 2 – provides a representation of the variance in financial performance between the return allowed in the PR19 Final Determination and actual results.
- 'actual returns and actual regulatory equity' (column 3) – an extension of column 2, designed to show the impact on shareholder returns where their investment in the company is smaller or larger than the regulatory assumption (with debt being correspondingly larger or smaller, respectively).

Base return:

The base return on regulatory equity of 3.88%, plus inflation of 4.57% on the regulated equity, results in a total shareholder return of 8.45%. This is based on Ofwat's price review approach to determining returns, reflecting an efficient company with the regulatory notional gearing of 60.00%. The equivalent actual total shareholder return, reflecting our average gearing in 2023–24 of 70.71% and actual performance, was -7.28%.

Our actual return of -7.28% differed from the notional return of 8.45% due to financing out-performance of 3.46% and operational under-performance of 19.18%.

Financing performance:

Our average actual gearing of 70.71% is higher than the regulatory assumption of 60.00%, and has the effect of amplifying percentage returns to shareholders. This is partly because the same value of return is applied to a smaller shareholder equity base, representing a greater proportion. This increases the volatility of returns, in both out-performance and under-performance scenarios, with the risk being borne entirely by shareholders.

The price setting process also allows us a return on equity between the notional gearing of 60.00% and our actual average gearing of 70.71%, rather than the lower cost of debt. The impact of this relative cost of debt versus equity is estimated in the 'Impact of movement from notional gearing' returns adjustment of 0.61%.

Our 'Comparison between tax charge and allowance in price limits' (see page 40) provides a detailed narrative on our corporation tax charge. In summary, our PR19 determination includes no funding from customers for corporation tax and we incurred no current tax charge in 2023–24. The net impact on shareholder returns of corporation tax and group relief is 0.0%.

Our cost of debt (excluding the impact of swap instruments), measured by reference to an implied real rate of interest, was lower than the amount allowed in our PR19 determination (updated for the cost of debt reconciliation mechanism) increasing returns by 6.19%. This is driven by the high inflation experienced this year, and the impact it has when deflating to the implied real rate of interest. The 6.61% actual cost of debt, when deflated by inflation of 5.55%, gives an implied real rate of 1.01% – comparing favourably with the 2.22% allowed real cost of debt.

We have a portfolio of inflation linked swaps that match the cost we pay under our debt instruments to the cash flow we receive from customer bills. We have calculated the impact of these hedging instruments in a manner consistent with the prescribed calculation for cost of debt, by deflating to an implied real rate of net interest. This creates a negative impact for the year of 3.28%, driven by the annual inflation charge for those swap instruments which are index-linked to RPI and the impact of the high inflation when converting the swap interest receivable to an implied real rate, in a similar manner as outlined above for the cost of debt adjustment. This is offset by benefits to our interest cashflows from the capital restructuring carried out in 2018.

Operational performance:

For AMP7 we will retain approximately 64% of wholesale totex overspends, but only 36% of wholesale totex cost savings, with the remainder being returned to customers. Some types of wholesale totex are not subject to customer sharing, with any out-performance or under-performance remaining entirely with the company. To account for any timing differences in our totex delivery, such as slippage or acceleration in our capital programme, we adjust for this in Table 4C. In 2023–24, we experienced a retained overspend of £244.4 million, equivalent to a decrease of 15.60% in returns.

The company share of retail cost under-performance represents the amount by which we are overspending against the PR19 price determination. There is no sharing with customers of the retail expenditure variance, with the result that the £12.9 million over-spend for 2023–24 reduces returns by 0.83%.

The impact of our performance on Outcome Delivery Incentives (ODIs) is £21.5 million for 2023–24, decreasing returns by 1.37%. Penalties or rewards are included even if they are not payable or receivable until later in the current AMP or the next AMP. Tables 3A and 3B provide further details. Following updated guidance from Ofwat, we now include the impact of the Per Capita Consumption ODI, which previously did not meet the definitions for this table.

We report a £3.7 million penalty for the Customer Measure of Experience (C-MeX) ODI in our Retail business, and a £1.8 million penalty for the Developer Measure of Experience (D-MeX) ODI in Developer Services. These are equivalent to a 0.23% and 0.12% reduction to returns, respectively.

The exceptional item entry of £16.3 million, equivalent to a 1.04% decrease in returns comprises the costs classified as disallowable in Table 4C (discussed on page 84) offset by the company share of land sales. The items are not reported as exceptional items elsewhere in the financial statements.

Other:

The inflationary RCV return of 4.57% is long-term in nature and cannot be immediately realised.

No ordinary dividends were paid in 2023–24.

AMP7 annual average returns

We have restated a number of entries for previous periods, the overall impact of which is reflected in the 'Average 2020-24' cumulative AMP-to-date table. The changes, and impact on returns, are summarised below.

We have revised our interpretation of the definition for the 'Other exceptional items' entry in this table. The totex performance line excludes costs which are considered disallowable for customer sharing and therefore omits these costs, which are entirely borne by shareholders, when assessing equity returns. Costs treated as disallowable are in line with the Table 1F definition 'items that are outside the normal operating activities' including the examples of 'regulatory fines or legal penalties'. We continue to include the company share of land sales as exceptional. The impact of changes in prior years was a reduction in shareholder return of 0.35%.

Totex for 2022–23 was amended as part of the Ofwat query process, to correct an entry relating to the Innovation Fund, reducing returns by 0.05%.

In 2022–23 we revised our calculation for hedging instruments to include the impact of the inflation on our index-linked swap instruments. As part of the Ofwat query process we submitted an updated Table 1F to correct the calculation of this adjusted entry. This reduced returns by 4.92%, comprising -2.04% cost of debt and -2.88% hedging instruments.

Historically we have not included the Per Capita Consumption (PCC) ODI in this table as it is an end-of-AMP ODI and did not meet existing table definitions. In response to previous queries, and updated table guidance for 2023–24 which specifically identifies PCC, we now include a cumulative share of the forecast penalty/reward for the full AMP. The impact on returns from the adjustments in previous periods was a reduction of 0.09% which reversed out in the current year as the forecast for PCC was revised to zero.

No adjustments have been required to align our previously-reported ODI performance with Ofwat's in-period ODI determinations, and consequently there is no impact on average shareholder returns.

Over the first four years of the AMP7 regulatory period, and including the 4.30% average annual inflationary growth of the RCV, the total shareholder return averages -6.07%. Excluding the inflationary RCV return, which is long-term in nature and cannot be immediately realised, the average annual return potentially available to shareholders is -10.37%, 14.27% lower than the 3.90% return allowed by Ofwat in the price determination.

The main driver of the shortfall on returns is our operational performance, which reduces returns by 14.45%. Our wholesale business comprises 13.03% of this difference, with 9.03% relating to cost overruns, 2.27% to our performance against Performance Commitments and resulting ODI penalties, and 1.74% to the exceptional item – mainly comprising the fine and costs of the Environment Agency prosecution. It should be noted that the EA prosecution, while being recognised in 2021–22, related to historical performance over a number of years between 2010 and 2015. The remaining 1.41% of our operational performance mainly relates to cost overruns and C-Mex performance in the Retail business.

The 0.17% increase to returns due to our financing performance partially offsets the impact of our operational performance.

During AMP7 we have retained shareholder value in the business and made no dividends.

Cash impact of 2015–20 performance adjustments

The impact of 2015–20 performance adjustments has been removed from the main calculation of shareholder return. The cash impact is now reported as a memo note at the foot of the table and, consistent with Ofwat table guidance, we show the impact for wholesale totex and wholesale ODIs.

Other adjustments relating to 2015-20 performance are no longer reported. The most material of these are the regulatory settlement following the Ofwat investigation into our wastewater treatment compliance (discussed on page 10) and the Service Incentive Mechanism (SIM) in the Retail business, which was the AMP6 equivalent of C-MeX. For 2023–24 these penalties reduce returns by £24.2 million (1.55%) and £5.8 million (0.37%) respectively.

Note:
We believe that our RCV for 2023–24 published by Ofwat is understated by approximately £3.3 million, due to the approach taken to convert from year-average prices to March 2024 prices for the proportion of our RCV which remains linked to RPI. This difference has fallen considerably since last year (£38.3 million) as inflation falls and the wedge between CPIH and RPI narrows. For our reporting we have used the value published by Ofwat, which translates to a lower regulatory equity value, amplifying the impact of out-performance and under-performance in the Financial Flows table. We are engaging with Ofwat to determine the correct treatment.

Notes to the regulatory financial statements For the year ended 31 March 2024

1 Accounting policies

a) Basis of preparation

The regulatory accounting statements have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines (RAGs) published by Ofwat, the accounting policies set out in the statement of accounting policies and under the historical cost convention.

The accounting policies used in the regulatory accounting statements are the same as those adopted in the statutory financial statements, except as set out below.

The regulatory accounting statements are separate from the statutory financial statements of the company. The statutory financial statements are prepared under FRS 101 'Reduced Disclosure Framework'. There are differences between International Financial Reporting Standards under FRS 101 and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in respect of:

- revenue recognition
- capitalisation of borrowing costs.

Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require the company's statutory accounting framework to be followed. Financial information other than that prepared wholly on the basis of IFRS, FRS 101 or FRS 102 may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

b) Fixed assets

Interest – To meet the requirements of RAG 1.09 the interest capitalised within the statutory accounts under IAS 23 'Borrowing Costs' has been reversed and charged through the income statement.

Capitalisation policy – Costs that are either directly attributable to bringing an asset into working condition or subsequent expenditure that provides an enhancement of the economic benefits of a fixed asset are treated as capital expenditure. In order to aid classification of expenditure the following rules are applied:

Non-infrastructure assets

- Expenditure on a single item of equipment, including installation costs, exceeding £3,000 is treated as capital expenditure. Individual items purchased for less than £3,000 are charged to operating costs unless they form part of a capital scheme.
- All repairs, replacements and improvements to non-infrastructure fixed assets costing in excess of £3,000 and which extend the life of the asset are charged to capital.

Infrastructure assets

- All repairs and maintenance to infrastructure assets will generally be treated as operating expenditure.
- Large repairs, involving the replacement of a significant length of pipe, are treated as capital expenditure after review with the Finance Team.
- Planned renewals to replace significant lengths of pipe in relation to a specific asset are treated as capital expenditure.

Private sewers – The ownership of and responsibility for private sewers in Southern Water's region were transferred to the company on 1 October 2011.

Following the adoption of FRS 101, expenditure in relation to private sewers has been treated as an expense and charged to the income statement.

c) Revenue recognition

Revenue represents the income receivable in the ordinary course of business (excluding value added tax) for goods and services provided in the year by the regulated activities of the business.

Revenue relates to charges due in the year and includes charges billed to customers for water and sewerage services, which are recognised in the period in which they are earned, and an accrual in respect of unbilled charges. Revenue excludes payments received in advance which are recorded as deferred revenue.

Unmetered bills for water and wastewater services are based on either the rateable value of the property, an assessed volume of water supplied or on a Fixed Licence Fee.

Metered bills for water and wastewater services are based on actual or estimated water consumption. Metered revenue is dependent upon the volumes supplied and includes an estimate of the consumption between the date of the last meter reading and the period end.

Meters are read on a cyclical basis and the company recognises revenue for unbilled amounts based on estimated usage from the last meter reading date through to the end of the reporting period. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. Where there is insufficient historical information, estimation is based on average consumption for defined levels of occupancy.

Within the accrual, adjustments to billing are made for changes to occupancy dates and where consumption levels are in excess of certain tolerances. No other amendments are made between revenue and billing.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

In the statutory accounts, reported under IFRS 15 – 'Revenue from Contracts with Customers', revenue is only recognised when it is probable that economic benefits will result to the company. RAG 1.09 requires that no judgment is applied to the probability of collection. Following a review of the collectability of revenue for the bad debt provision charge for 2019–20, revenue has been recognised in full in the statutory accounts and therefore there is no difference this year between the revenues reported for statutory and regulatory purposes.

Charging policy

Water and sewerage charges fall into the following three categories:

1) Charges which are payable in full

2) Charges which are payable in part

3) Not chargeable (void properties).

The circumstances in which each of the above applies are set out below. All of the charges covered in categories one and two are included in revenue.

Charges payable in full

Charges are payable in full in the following circumstances:

i) Occupied and furnished

Water (and sewerage) charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

ii) Unoccupied and furnished

Water (and sewerage) charges are payable in full on unoccupied, furnished premises. These include properties:

- left with bedding, a desk or other furniture
- used for multiple occupation with shared facilities
- used as holiday, student, hostel or other accommodation
- used for short-term occupation or letting where the occupation or terms of tenancy is less than six months.

Exceptions to this, where water (and sewerage) charges are not payable, include where the customer is:

- in a care home
- in long-term hospitalisation
- in prison
- overseas long term
- deceased.

iii) Unoccupied and unfurnished

Water (and sewerage) charges are payable in full on unoccupied, unfurnished premises where water is being consumed. This includes:

- premises where renovation, redecoration or building work is being undertaken
- premises being used as storage
- premises not normally regarded as being occupied such as cattle troughs and car parks
- non-household agricultural properties.

Charges payable in part

The following charges only are payable in certain circumstances:

- Metered standing charges – Payable on unoccupied, metered properties which are still connected.
- Surface water charge – Payable on unmeasured properties which are temporarily disconnected.
- Sewerage unmeasured tariff – Payable on unmeasured, occupied properties where the water supply is disconnected but sewerage is still provided.
- Surface water and highway drainage – Payable on furnished properties where the water supply is disconnected.

Not chargeable

Properties which are unoccupied, unfurnished and disconnected are not chargeable for water and sewerage therefore no billing is raised, and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties

The occupier is any person who owns a premises or who has agreed with us to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all the following:

- Physical inspection
- Mailings
- Customer contacts
- Meter readings for metered properties
- Checks with third parties, e.g. credit agencies.

When a new customer is identified, the company process aims to establish the date that they became responsible for water and sewerage charges at the property. This is normally the date at which they moved into the property. The new customer will be charged retrospectively from the date at which they became responsible for water and sewerage charges of the premises.

Where evidence exists that a property is occupied the property management process is followed until occupancy details are obtained. Bills are not issued in the name of 'The Occupier' to try to generate confirmation of occupancy and therefore there is no billing in the name of 'The Occupier' within revenue.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and unfurnished.
- The company has been informed that the customer has left the property, it is unfurnished and not expected to be reoccupied immediately.
- It has been disconnected following a customer request.
- The identity of the customer is unknown.
- The company has been informed that the customer is in a care home, long-term hospitalisation, prison, overseas long term or deceased.

If the property management process confirms that the property is unoccupied, the property may be declared void and the supply turned off.

New properties

All new properties are metered. Charges accrue from the date at which the new connection is assessed as being made and/or when the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as revenue.

If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

d) Revenue disclosures

In accordance with RAG 3.14 we highlight the following comments in respect of turnover for the year:

(i) The value of household billings raised in the year ended 31 March 2024 for consumption in prior years was £216.2 million. The value of these billings was lower than the metered income accrual made at 31 March 2023. The estimation difference was £7.4 million and this has been recognised in the current year's turnover.

(ii) No changes have been made to the overall accrual methodology in the year although we have taken into consideration the experience from March 2023.

e) Social tariffs

We provide a number of schemes and tariffs to improve affordability and accessibility for vulnerable customers. These include:

- **Essentials** – for customers whose household income is less than £21,000, or for those in receipt of pension credit.
- **WaterSure** – for those who are in receipt of means tested benefits and use a large amount of water either as a result of large families, or because of a particular medical condition.
- **Water Direct** – where bills may be paid from a customer's existing benefit schemes directly to us.
- **NewStart** – for those who owe us money but have not been able to make a payment for a while.

Further details can be found in our Annual Report and on our website at: southernwater.co.uk/help-and-support/what-if-i-cant-pay-my-bill.

f) Bad and doubtful debts

The bad debt provision is calculated by applying estimated recovery rates, based on the past collection experience of other customers who share similar characteristics.

Higher provisioning percentages are applied to customers which are, based on their characteristics, considered to be of greater risk. These include those with a poor payment history as well as to those with older debts. Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system. Actual amounts recovered may differ from the estimated levels of recovery, which could impact on operating results.

The company operates a comprehensive debt recovery process and bad debt is only written off when the recovery of such debt has been exhausted through routine collection, debt recovery or litigation processes or where it would be uneconomical to undertake further recovery action.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted,
- Where the customer has died without leaving an estate or has left an insufficient estate from which to recover the debt,
- Where the age and/or value of the debt makes it uneconomical to pursue,
- Where county court proceedings and attempts to recover the debt using debt collection agencies have proved unsuccessful,
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

Write-off rules apply primarily to customers to whom the company has ceased to supply a service. Only in exceptional circumstance or as part of specific debt recovery assistance programmes is debt relating to continuing customers considered for write-off.

For debt to be written off there must be a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note.

The company's bad debt provisioning and write-off policies have remained unchanged and have been consistently applied during the year. The value of debt written off over the past year has remained low due to the continuation of projects aimed at reducing bad debt before the point of write-off.

The value of trade and other receivables of the appointed business increased to £342.3 million (2023: £250.1 million). This increase largely relates to the impact of inflation on our main trade debtors and accruals of £27.7 million together with an increase in the inter-company debtor with SW (Finance) I plc of £72.5 million. The cash transferred to SW (Finance) I plc is held and used to make interest payments on our loans.

g) Price control units

The notes to the regulatory accounting statements analysing revenues, operating costs and fixed assets by price control segment have been drawn up in accordance with the guidance provided by Ofwat in RAG 2.09 and our accounting separation methodology statement which is published separately on our website.

The methods for undertaking cost allocations to produce this information are summarised below:

Operating expenditure

Most direct costs are specific either to water, wastewater or retail services. Where costs cannot be directly attributed to a sub-function an apportionment has been made on an appropriate basis, using the most accurate allocation method available. Examples of allocation methods include the use of time recording devices, headcount, operational site data and management estimates.

The allocation methods adopted have been agreed following review meetings held across the business with management and technical experts.

The information relating to non-appointed business, including an allocation of overhead cost, has been excluded in line with the guidance.

Fixed assets

The fixed asset data has predominantly been directly attributed to the price control segments based on an assessment of the overall nature of each scheme.

Where a scheme relates to more than one price control segment it has been allocated to the price control unit where the principal use occurs. For corporate assets, the price control of principal use is wholesale wastewater as this is our largest price control and recharges to the other price control units are made for the use of these assets.

New expenditure incurred during the year is allocated to business units within each price control based on an analysis of the scheme design.

Revenues

Revenue streams have been directly attributed to price control segments where they have been recorded as such in our systems. Classification of household and non-household revenues has been made in line with the classifications in place when the business plan was completed in accordance with the guidance from Ofwat.

Revenues that could not be directly attributed to a price control segment have been assessed and allocated to the appropriate price control segment based on the nature of the income.

h) Provisions and contingencies

Environment Agency – wastewater sites

The company is seeking to work proactively with the Environment Agency to resolve its investigation into sampling compliance and reporting issues 2013 and 2017 (inclusive). The Board has concluded that it is not yet possible to make a reliable estimate of the financial obligation that will arise from this investigation and further details are provided within the contingent liability disclosures in our Annual Report.

i) Havant Thicket

In February 2021 the company entered into a contractual arrangement with Portsmouth Water, under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant. Once the construction is complete, Portsmouth Water will supply, on the request of Southern Water up to 21 million litres of treated water per day from 1 April 2029.

Following a detailed review of the complex contractual arrangement which requires both parties to complete certain activities to enable the water to be provided, we have formed the judgment that this contract should be accounted for as an executory contract until such time that both parties have fulfilled their obligations and the right to water can be met.

As a result, payments made during 2020–21 of £6.5 million, and included within the totex reported in that year, are classified within prepayments in the Statement of Financial Position.

2 Differences between statutory and regulatory reporting

Statutory reporting reflects the financial performance of Southern Water Services which comprises appointed and non-appointed activities. The appointed business relates to those activities which are necessary for the company to fulfil its function and duties as a water and sewerage undertaker. The non-appointed business relates to activities we undertake that are not covered by our Licence but are related to our business. For regulatory reporting the activities of the non-appointed business have been separated from those of the appointed business.

In addition, there are differences between regulatory accounting definitions and those applied for statutory reporting under FRS 101. These are summarised below:

Income statement – differences between statutory and RAG definitions

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Interest expense £m
i) CHP income	(3.2)	3.2	–	–	–
ii) Grants and contributions	(28.1)	–	–	28.1	–
iii) Regulatory settlement amortisation	(27.1)	–	27.1	–	–
iv) Borrowing costs	–	14.6	–	–	(61.9)
v) Innovation costs	–	3.5	–	(3.4)	–
Total	(58.4)	21.3	27.1	24.7	(61.9)

i) Income generated from Combined Heat and Power (CHP) processes, which convert methane into electricity, is recorded as revenue within the statutory accounts. For regulatory reporting this income is reported as a negative operating cost. As a result, £3.2 million of revenue has been re-classified as a negative operating cost.

ii) As required by RAG 1.09 section 4.11, grants and contributions received and recognised in the income statement are reported under other income in the Annual Performance Report financial tables. As a result, £28.1 million has been transferred from revenue to other income in the income statement. See table 2E for further information.

iii) In 2018–19 we made a provision for rebates to be made to customers during the period from 2020–25 as a result of the investigation undertaken by Ofwat into wastewater reporting as set out on page 10. For regulatory purposes, the amortisation of this provision is reclassified from revenue to other operating income.

iv) For statutory reporting, borrowing costs associated with capital expenditure are capitalised. Regulatory reporting does not permit interest to be capitalised. As a result, operating costs are reduced by £14.6 million, reflecting the removal of depreciation on interest capitalised and the interest charge has been increased by £61.9 million reversing the element of interest capitalised in the year.

v) As required by Ofwat we have removed the costs paid and accrued in relation to the innovation fund from our operating costs. The value paid into the fund and for administration of the fund of £3.4 million has been reclassified within other income in order to reflect this transaction through reserves and the movement on the accrual of £0.1 million has been reversed in accordance with IN-2201 Expectations for monopoly company annual performance reporting 2021–22 as published by Ofwat.

Statement of financial position – differences between statutory and RAG definitions

	Fixed Assets £m	Intangible Assets £m	Trade and other receivables	Cash and cash equivalents	Current trade and other payables £m	Deferred income – grants and contribu-tions
i) Borrowing costs	(307.0)	(2.4)	–	–	–	–
ii) Grants and contributions	–	–	–	–	4.2	(4.2)
iii) Innovation costs	–	–	–	–	4.6	–
iv) Short-term deposits	–	–	(100.0)	100.0	–	–
Total	(307.0)	(2.4)	(100.0)	100.0	8.8	(4.2)

i) As borrowing costs cannot be capitalised under regulatory reporting, fixed and intangible assets have been reduced by £307.0 million and £2.4 million respectively, reflecting the removal of cumulative borrowing costs capitalised. There is a corresponding reduction to retained earnings.

ii) Grants and contributions relating to requisitions of £4.2 million classified within current trade and other payables in the statutory accounts have been transferred to deferred income for regulatory reporting.

iii) Removal of the innovation cost accrual made at March 2024 of £4.6 million as referenced in note (v) to the income statement above.

iv) At 31 March 2024 there was £100.0 million held on short-term deposit and reported in the statutory accounts as a current investment. Short-term deposits are reclassified to cash and cash equivalents for the regulatory accounts.

Statement of cash flows – differences between statutory and RAG definitions

	Operating profit £m	Other income £m	Depreciation £m	Amortisation – grants and contributions £m	Changes in working capital £m	Grants and contributions £m	Investing activities – other £m
i) Grants and contributions – income statement	(28.1)	28.1	–	–	–	–	–
ii) Depreciation	14.6	–	(14.6)	–	–	–	–
iii) Grants and contributions – cash	–	–	–	(5.4)	–	5.4	–
iv) Innovation fund	3.5	(3.4)	–	–	(0.1)	–	–
v) Short-term deposits	–	–	–	–	–	–	100.0
Total	(10.0)	24.7	(14.6)	(5.4)	(0.1)	5.4	100.0

i) The re-classification of grants and contributions received in the income statement of £28.1 million from operating profit to other income.

ii) A £14.6 million adjustment is made to both operating profit and depreciation relating to the removal of capitalised borrowing costs.

iii) In the statutory accounts for 2023–24, cash contributions received and held on the Balance Sheet have been presented as operating cashflows. These have been included within the statutory amortisation of grants and contributions row of table 1D. For regulatory purposes £5.4 million, reflecting the cash received for specific capital assets, has been reclassified to grants and contributions within investing activities.

iv) Innovation fund – reclassification of payments made from operating costs to other income of £3.4 million and removal of the movement on the accrual made in the statutory accounts of £0.1 million.

v) Short-term deposits – reclassification of the movement of short-term deposits from current investments to cash and cash equivalents.

3 Interest

Further details of the interest income and expenses charged to the income statement are provided below:

	£m
Interest income	
Deposit income on short-term bank deposits	4.1
	4.1
Interest expense	
Interest payable on other loans	(29.1)
Interest paid to group companies	(167.8)
Indexation	(82.8)
Amortisation of issue costs	(1.5)
Amortisation of gilt lock proceeds	0.1
Amortisation of bond premium	0.7
Amortisation of bond discount	(0.1)
Finance lease interest	(1.0)
Dividends on preference shares	(4.5)
	(286.0)
Other interest expense	
Pension financing charge	(3.4)
	(3.4)

4 Corporation tax reconciliation

The tax assessed for the year is different to the standard rate of corporation tax in the UK and the reconciliation is shown in the table below.

	Appointed £m	Non-appointed £m
Profit before tax and fair value movement	(344.8)	1.9
Tax at the UK corporation tax rate of 25%	(86.2)	0.5
Permanent differences	55.1	–
Fixed asset timing differences	42.0	(0.5)
Other short-term timing differences	(8.1)	–
Pension cost relief in excess of pension charge	(2.8)	–
Group relief received for nil payment	–	–
Adjustment in respect of prior years – current tax	–	–
Tax charge for year	–	–

Details of factors affecting future tax charges:

The Spring Finance Bill 2023 confirmed the main rate of UK corporation tax increase to 25%, effective 1 April 2023 (from 19%) and therefore all of our deferred assets and liabilities have been calculated at the 25% rate.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Comparison between tax charge and allowance in final determination

A comparison of the current appointed tax charge with the allowance in price limits is shown in the table and associated notes below:

		Current tax charge £m
i)	Final determination allowance	-
ii)	Price determination – tax not charged on forecast tax losses	(9.3)
iii)	Earnings before interest and tax	(53.0)
iv)	Regulatory settlement	4.6
v)	Net finance costs, including taxable fair value movements	(22.3)
vi)	Depreciation and capital allowances claimed	43.3
vii)	Pensions	(0.3)
viii)	Group relief claimed	-
ix)	Change in tax rate	-
x)	Other	37.0
Current tax before payments for group relief and prior year adjustments		-
xi)	Payments for group relief	-
Appointed current tax charge		-

i) In the price review process for the current regulatory period, 2020–25, there was no corporation tax forecast to be paid in the wholesale business and therefore there is no allowance for corporation tax in customer bills.

ii) For 2023–24 the price determination included tax losses of £9.3 million and no allowance was provided for these in price limits.

iii) Actual earnings before interest and tax are lower than those in the Final Determination. This is mainly driven by additional operating expenditure in both the wholesale and retail businesses.

iv) In 2018–19 we made a provision for the regulatory settlement on revenues and did not reflect a reduction to our tax charge due to the reduced revenues in that year. During AMP7 this provision is released to the income statement, increasing revenues. We do not reverse this for tax purposes, instead recognising an increased tax charge due to the regulatory settlement.

v) Net finance costs increased, reducing our tax charge, due to higher interest costs, higher inflation on index-linked debt instruments, and taxable fair value losses relating to debt indexation. This is partially offset by the interest receivable on our derivative financial instruments.

vi) Lower capital allowances were claimed compared to the final determination as a result of lower taxable profits.

vii) We are making pension contributions in excess of those in the price determination. These additional contributions reduce our tax charge.

In 2021–22, a lump sum payment of £59.6 million, covering agreed contribution payments to March 2025, was made and has been subject to pension spreading rules for tax.

viii) Historically we have used losses from other companies within the Greensands group to reduce the current tax charge for Southern Water. Capital allowances not claimed, in favour of group losses, were then available to Southern Water as a deduction against future taxable profits.

In 2023–24 we claimed no group losses.

ix) The Final Determination assumed that corporation tax would be payable at a rate of 17%. The actual tax rate of 25% would, all other things being equal, increase/decrease our current tax charge/credit. Historically we have shown a small value in this reconciliation for the impact of the change in tax rate, applied to the current tax charge prior to the use of group relief. For 2023–24 the rate change impact is nil.

x) Historically, under the corporate interest restriction (CIR) regime, the group had spare interest capacity for tax purposes and the CIR did not apply. This is no longer the case as SWS Ltd is not making sufficient taxable profits. As a result, at a group level interest deductions are restricted. From 2022–23, as this was primarily driven by lower taxable profits at SWS Ltd in the first instance, the CIR is now allocated to SWS Ltd corporation tax returns. In 2023–24, the application of CIR increased taxable profit by £36.0 million at a rate of 17% and this is the main driver for the other movement. .

xi) As described above at (ix), we claimed no group relief in the year and have therefore made no payments.

Taxation policy and strategy

We manage our tax affairs in an open and transparent way and contribute materially to the Exchequer each year.

Our tax policy is consistent with the overall values and strategy of the company and will consider financial risk, reputational risk, and social responsibilities. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders rather than using tax planning to drive or determine business decisions. Our focus is therefore on compliance, and our tax planning is always aligned with our commercial and economic activity. The very nature of our business means we take a long-term view on all the activities we undertake and as a result we also ensure our tax strategy is sustainable.

Our approach to tax management is compliant with tax laws, rules, regulations and reporting requirements in all of its operations. A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by ensuring we pay the right amount of tax, in the right place at the right time. Management of our tax affairs is carried out by an experienced internal tax team with the support of professional tax advisers and specialist tax support. Professional tax advisers are used in circumstances when additional advice is deemed appropriate (for example, to ensure compliance with new legislation and tax planning). We use specialist tax support in the preparation of our capital allowances.

Risk is managed by ensuring there are sufficient processes, systems, governance and appropriate controls in place. Internal assurance for the company is carried out by our Internal Audit team and we have also used the services of professional tax advisers to assist us with our tax compliance. Our tax policy extends to the wider group and ensures all companies within the Southern Water and Greensands groups are subject to UK tax, and all companies are UK tax resident irrespective of their place of incorporation.

We meet all statutory and legislative requirements and we manage our tax affairs in an open and transparent way. This extends to us sharing information with HMRC, which goes beyond the normal filing of statutory returns, such as the sharing of internal process manuals and other documents so that we can be open and transparent in our approach to managing tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs, with the last HMRC assessment, in September 2020, being that we were deemed to be a ‘low-risk’ company. This was reaffirmed with HMRC in January 2024.

Further information is available in our Annual Report and Financial Statements on page 102.

5 Innovation Fund

For the period from 2020–25 Ofwat has introduced a series of innovation competitions. We are collecting monies from customers through our revenue across this regulatory period to fund these innovation competition activities. Several awards were made during 2023–24 for which we have paid the administration fees and contributions totalling £3.4 million. As disclosed above this payment has been re-classified through other income in the regulatory financial statements to exclude it from operating costs, as required by Ofwat, and ensure that it is reflected in retained earnings.

An accrual of £4.6 million (2023: £4.5 million), made for the liability associated with innovation fund income collected from customers but not yet paid out in awards, has been removed from the regulatory accounting statements in accordance with IN-2201 Expectations for monopoly company annual performance reporting 2021–22 as published by Ofwat.

Price control and other segmental reporting

2A – Segmental income statement for the 12 months ended 31 March 2024

	Retail		Wholesale				
	Retail household £m	Retail non-household £m	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Total £m
Revenue – price control	47.005	–	28.424	199.800	484.444	49.932	**809.605**
Revenue – non price control	–	–	4.696	0.451	3.103	0.070	**8.320**
Operating expenditure – excluding PU recharge impact	(60.359)	–	(16.749)	(157.579)	(316.014)	(32.761)	**(583.462)**
PU opex recharge	(1.345)	–	(2.712)	(17.651)	25.120	(3.412)	**–**
Operating expenditure – including PU recharge impact	**(61.704)**	**–**	**(19.461)**	**(175.230)**	**(290.894)**	**(36.173)**	**(583.462)**
Depreciation – tangible fixed assets	(2.146)	–	(11.581)	(64.785)	(219.470)	(22.788)	**(320.770)**
Amortisation – intangible fixed assets	(5.369)	–	(1.827)	(0.308)	(19.943)	–	**(27.447)**
Other operating income	–	–	–	0.129	27.508	–	**27.637**
Operating (loss)/profit	**(22.214)**	**–**	**0.251**	**(39.943)**	**(15.252)**	**(8.959)**	**(86.117)**
Surface water drainage rebates							**(0.153)**

PU = Principal Use

2B – Totex analysis for the 12 months ended 31 March 2024 – Wholesale

	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Total £m
Base operating expenditure					
Power	5.250	17.285	58.121	(2.646)	**78.010**
Income treated as negative expenditure	–	(0.026)	0.001	(3.194)	**(3.219)**
Abstraction charges/discharge consents	4.229	0.096	3.980	–	**8.305**
Bulk supply/bulk discharge	–	1.680	–	–	**1.680**
Renewals expensed in year (Infrastructure)	–	25.347	53.758	–	**79.105**
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	**–**
Other operating expenditure	7.821	105.211	150.091	39.907	**303.030**
Local authority and Cumulo rates	1.144	12.933	15.870	2.106	**32.053**
Total base operating expenditure	**18.444**	**162.526**	**281.821**	**36.173**	**498.964**
Other operating expenditure					
Enhancement operating expenditure	0.146	6.082	6.894	–	**13.122**
Developer Services operating expenditure	–	1.751	2.179	–	**3.930**
Total operating expenditure excluding third party services	**18.590**	**170.359**	**290.894**	**36.173**	**516.016**
Third party services	0.871	4.871	–	–	**5.742**
Total operating expenditure	**19.461**	**175.230**	**290.894**	**36.173**	**521.758**
Grants and contributions					
Grants and contributions – operating expenditure	–	–	–	–	–
Capital expenditure					
Base capital expenditure	3.598	139.553	288.252	23.566	**454.969**
Enhancement capital expenditure	29.578	42.779	197.213	–	**269.570**
Developer Services capital expenditure	–	9.964	13.343	–	**23.307**
Total gross capital expenditure excluding third party services	**33.176**	**192.296**	**498.808**	**23.566**	**747.846**
Third party services	2.410	4.623	–	–	**7.033**
Total gross capital expenditure	**35.586**	**196.919**	**498.808**	**23.566**	**754.879**
Grants and contributions					
Grants and contributions – capital expenditure	2.435	9.368	14.637	–	**26.440**
Net totex	**52.612**	**362.781**	**775.065**	**59.739**	**1,250.197**
Cash expenditure					
Pension deficit recovery payments	–	–	–	–	**–**
Totex including cash items	**52.612**	**362.781**	**775.065**	**59.739**	**1,250.197**

2C – Cost analysis for the 12 months ended 31 March 2024 – Retail

	Household £m	Total £m
Operating expenditure		
Customer services	26.432	**26.432**
Debt management	9.420	**9.420**
Doubtful debts	15.376	**15.376**
Meter reading	3.717	**3.717**
Services to developers	–	**–**
Other operating expenditure	5.390	**5.390**
Local authority and Cumulo rates	0.024	**0.024**
Total operating expenditure excluding third party services	**60.359**	**60.359**
Depreciation		
Depreciation on tangible fixed assets existing at 31 March 2015	0.978	**0.978**
Depreciation on tangible fixed assets acquired after 1 April 2015	1.168	**1.168**
Amortisation on intangible fixed assets existing at 31 March 2015	1.032	**1.032**
Amortisation on intangible fixed assets acquired after 1 April 2015	4.337	**4.337**
Recharges		
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.067	**0.067**
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	–	**–**
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	1.278	**1.278**
Income from wholesale assets acquired after 1 April 2015 principally used by retail	–	**–**
Net recharges costs	**1.345**	**1.345**
Total retail costs excluding third party and pension deficit repair costs	**69.219**	**69.219**
Third party services operating expenditure	–	**–**
Pension deficit repair costs	–	**–**
Total retail costs including third party and pension deficit repair costs	**69.219**	**69.219**
Debt written off		
Debt written off	29.347	**29.347**
Capital expenditure		
Capital expenditure	4.408	**4.408**
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale		
Demand-side water efficiency – gross expenditure	–	
Demand-side water efficiency – expenditure funded by wholesale	–	
Demand-side water efficiency – net retail expenditure	–	
Customer-side leak repairs – gross expenditure	–	
Customer-side leak repairs – expenditure funded by wholesale	–	
Customer-side leak repairs – net retail expenditure	**–**	
Comparison of actual and allowed expenditure		
Cumulative actual retail expenditure to reporting year end	279.637	
Cumulative allowed expenditure to reporting year end	207.879	
Total allowed expenditure 2020–25	261.689	

Movement in costs from 2022–23

Household retail operating expenditure has increased by £7.7 million to £60.4 million (2023: £52.7 million).

This is principally due to an increase in the bad debt charge of £3.4 million to £15.4 million (2023 £12.0 million) together with debt management costs, which increased by £1.2 million to £9.4 million (2023 £8.2 million), reflecting the impact of the cost-of-living pressures on our customers.

There have also been increases in other costs with customer services costs rising by £2.9 million largely due to inflation.

Comparison to the final determination

Household

Total household retail costs totalling £69.2 million are £16.1 million higher than allowed in the Final Determination (£53.1 million). The increase is due to the following factors:

Debt management costs are £3.6 million higher than the business plan due to the continued focus on litigation optimisation as per prior year, but also increased activity throughout the earlier stages of the collection process due to the effect of the cost-of-living crisis whereby customers are taking longer to pay than previously. This is reflected in the debt provision charge which is higher than the business plan by £3.7 million.

Customer services costs are £7.4 million higher than the business plan, due to inflation and transformational activities taking longer than planned. This is offset by £5.3 million lower allocated overheads due to the outsourcing of customer services.

Meter reading costs are £1.0 million over the business plan due to additional costs incurred as a result of increasing volumes of failing automatic reads.

The charge for depreciation and amortisation of tangible and intangible assets for the household retail business is £6.0 million higher than the allowance in the Final Determination. This is all relates to the charge for depreciation and amortisation on assets acquired after March 2015.

Recharges from wholesale assets was not in the business plan and is therefore a variance of £1.3 million, this is offset by £1.7 million lower pension deficit repair costs.

Non-household

On 1 April 2017 we exited the non-household retail business and our customers transferred to a specialist retail company, Business Stream.

2D – Historic cost analysis of tangible fixed assets – Wholesale and retail

	Wholesale				Retail	
	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Household £m	Total £m
Cost						
At 1 April 2023	284.484	2,350.253	7,195.860	673.447	38.816	**10,542.860**
Disposals	(1.147)	(14.244)	(19.198)	(0.508)	–	**(35.097)**
Additions	38.817	197.064	485.665	23.566	(2.023)	**743.089**
Adjustments	–	–	–	–	–	**–**
Assets adopted at nil cost	–	–	7.509	–	–	**7.509**
At 31 March 2024	**322.154**	**2,533.073**	**7,669.836**	**696.505**	**36.793**	**11,258.361**
Depreciation						
At 1 April 2023	(87.141)	(753.367)	(2,506.195)	(332.012)	(30.809)	**(3,709.524)**
Disposals	1.147	14.234	19.072	0.508	–	**34.961**
Adjustments	–	–	–	–	–	**–**
Charge for year	(11.581)	(64.785)	(219.470)	(22.788)	(2.146)	**(320.770)**
At 31 March 2024	**(97.575)**	**(803.918)**	**(2,706.593)**	**(354.292)**	**(32.955)**	**(3,995.333)**
Net book amount at 31 March 2024	**224.579**	**1,729.155**	**4,963.243**	**342.213**	**3.838**	**7,263.028**
Net book amount at 1 April 2023	197.343	1,596.886	4,689.665	341.435	8.007	**6,833.336**
Depreciation charge for year						
Principal services	(9.888)	(62.816)	(219.219)	(22.785)	(2.146)	**(316.854)**
Third party services	(1.693)	(1.969)	(0.251)	(0.003)	–	**(3.916)**
Total	**(11.581)**	**(64.785)**	**(219.470)**	**(22.788)**	**(2.146)**	**(320.770)**

The net book value of tangible assets includes £793.4 million in respect of assets in the course of construction.

In order to present the intangible asset information alongside the fixed asset information Table 2O is presented below.

2O – Historic cost analysis of intangible assets – Wholesale and retail

	Wholesale				Retail	
	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Household £m	Total £m
Cost						
At 1 April 2023	14.364	4.282	192.587	0.094	40.708	**252.035**
Disposals	–	–	–	–	–	**–**
Additions	(3.231)	(0.145)	13.143	–	6.431	**16.198**
Adjustments	–	–	–	–	–	**–**
Assets adopted at nil cost	–	–	–	–	–	**–**
At 31 March 2024	**11.133**	**4.137**	**205.730**	**0.094**	**47.139**	**268.233**
Depreciation						
At 1 April 2023	(8.824)	(3.421)	(114.553)	(0.094)	(18.356)	**(145.248)**
Disposals	–	–	–	–	–	**–**
Adjustments	–	–	–	–	–	**–**
Charge for year	(1.827)	(0.308)	(19.943)	–	(5.369)	**(27.447)**
At 31 March 2024	**(10.651)**	**(3.729)**	**(134.496)**	**(0.094)**	**(23.725)**	**(172.695)**
Net book amount at 31 March 2024	**0.482**	**0.408**	**71.234**	**–**	**23.414**	**95.538**
Net book amount at 1 April 2023	5.540	0.861	78.034	–	22.352	**106.787**
Depreciation charge for year						
Principal services	(1.827)	(0.307)	(19.943)	–	(5.369)	**(27.446)**
Third party services	–	(0.001)	–	–	–	**(0.001)**
Total	**(1.827)**	**(0.308)**	**(19.943)**	**–**	**(5.369)**	**(27.447)**

The net book value of intangible assets includes £2.7 million in respect of assets in the course of construction.

2E – Analysis of ‘grants and contributions’ for the 12 months ended 31 March 2024 – water resources, water network+ and wastewater network+

	Fully recognised in income statement £m	Capitalised and amortised (in the income statement) £m	Total £m
Grants and contributions – water resources			
Diversions – s185	–	–	**–**
Other contributions (price control)	–	2.435	**2.435**
Price control grants and contributions	–	2.435	**2.435**
Diversions – NRSWA	–	–	**–**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	–	**–**
Total	**–**	**2.435**	**2.435**
Value of adopted assets	–	–	–
Grants and contributions – water network+			
Connection charges	5.517	–	**5.517**
Infrastructure charge receipts	0.709	–	**0.709**
Requisitioned mains	1.657	(0.580)	**1.077**
Diversions – s185	0.713	–	**0.713**
Other contributions (price control)	–	2.432	**2.432**
Price control grants and contributions before deduction of income offset	**8.596**	**1.852**	**10.448**
Income offset	1.086	–	**1.086**
Price control grants and contributions after deduction of income offset	**7.510**	**1.852**	**9.362**
Diversions – NRSWA	0.006	–	**0.006**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	–	**–**
Total	**7.516**	**1.852**	**9.368**
Value of adopted assets	**–**	**–**	**–**
Grants and contributions – wastewater network+			
Receipts for on-site work	2.039	1.029	**3.068**
Infrastructure charge receipts	10.972	–	**10.972**
Diversions – s185	2.341	–	**2.341**
Other contributions (price control)	0.202	–	**0.202**
Price control grants and contributions before deduction of income offset	**15.554**	**1.029**	**16.583**
Income offset	2.401	–	**2.401**
Price control grants and contributions after deduction of income offset	13.153	1.029	**14.182**
Diversions – NRSWA	(0.037)	–	**(0.037)**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	0.492	**0.492**
Total	13.116	**1.521**	**14.637**
Value of adopted assets	**7.509**	**–**	**7.509**

2E – Analysis of 'grants and contributions' for the 12 months ended 31 March 2024 – water resources, water network+ and wastewater network+ – continued

IFRS 15 'Revenue from Contracts with Customers' became effective for financial period commencing on or after 1 January 2018.

The effect of applying IFRS 15 results in the immediate recognition, on completion of the performance obligation, of developer related revenue relating to diversions, requisitions and adoptions, previously treated as deferred revenue. Until the performance obligation is completed the revenue for these activities will be deferred on the Balance Sheet.

Grants and contributions recognised in the statutory income statement as revenue have been reclassified to other income for regulatory purposes in table 1A. These include the amounts of £7.5 million and £13.1 million disclosed above for water and wastewater respectively together with £7.5 million of adopted assets.

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
Movements in capitalised grants and contributions				
Brought forward	6.058	11.799	14.201	**32.058**
Capitalised in year	2.435	1.852	1.521	**5.808**
Amortisation (in income statement)	(0.161)	(0.847)	(0.592)	**(1.600)**
Carried forward	**8.332**	**12.804**	**15.130**	**36.266**

2F – Residential retail for the year ended 31 March 2024

	Revenue £m	Number of customers 000's	Average residential revenues £
Residential revenue			
Wholesale charges	609.736		
Retail revenue	47.005		
Total residential revenue	**656.741**		
Retail revenue			
Revenue Recovered ('RR')	47.005		
Revenue sacrifice	–		
Actual revenue (net)	**47.005**		
Customer information			
Actual customers ('AC')		2,001.645	
Reforecast customers		1,997.674	
Adjustment			
Allowed revenue ('R')	47.720		
Net adjustment	**0.715**		
Other residential information			
Average residential retail revenue per customer			23.483

As we have exited the retail market and in accordance with the guidance in RAG 4.12, we are not required to report tables 2G and 2H.

2I – Revenue analysis for the 12 months ended 31 March 2024

	Household £m	Non-household £m	Total £m	Water resources £m	Water network+ £m	Total £m
Wholesale charge – water						
Unmeasured	19.443	1.230	**20.673**	2.585	18.088	**20.673**
Measured	153.213	52.907	**206.120**	25.770	180.350	**206.120**
Third party revenue	–	1.431	**1.431**	0.069	1.362	**1.431**
Total wholesale water revenue	**172.656**	**55.568**	**228.224**	**28.424**	**199.800**	**228.224**

	Household £m	Non-household £m	Total £m	Wastewater network+ £m	Bioresources £m	Total £m
Wholesale charge – wastewater						
Unmeasured – foul charges	83.859	2.871	**86.730**	77.596	9.134	**86.730**
Unmeasured – surface water charges	5.834	0.135	**5.969**	5.969	–	**5.969**
Unmeasured – highway drainage charges	3.363	0.071	**3.434**	3.434	–	**3.434**
Measured – foul charges	299.388	88.013	**387.401**	346.603	40.798	**387.401**
Measured – surface water charges	27.101	3.587	**30.688**	30.688	–	**30.688**
Measured – highway drainage charges	17.535	0.795	**18.330**	18.330	–	**18.330**
Third party revenue	–	1.824	**1.824**	1.824	–	**1.824**
Total wholesale wastewater revenue	**437.080**	**97.296**	**534.376**	**484.444**	**49.932**	**534.376**
Wholesale total	**609.736**	**152.864**	**762.600**			
Retail revenue						
Unmeasured	5.036	–	**5.036**			
Measured	41.969	–	**41.969**			
Other third party revenue	–	–	**–**			
Retail total	**47.005**	**–**	**47.005**			
Third party revenue – non-price control						
Bulk supplies – water			**4.222**			
Bulk supplies – wastewater			**2.310**			
Other third party revenue			**1.399**			
Principal services – non-price control						
Other appointed revenue			**0.389**			
Total appointed revenue			**817.925**			

2J – Infrastructure network reinforcement costs for the 12 months ended 31 March 2024

	Network reinforcement capex £m	On site / site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	–	3.956
Pumping and storage facilities	(0.203)	–
Other	–	–
Total	**(0.203)**	3.956
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	6.721	3.598
Surface water only systems	–	–
Pumping and storage facilities	0.069	0.007
Other	–	–
Total	**6.790**	3.605

2K – New connections – infrastructure charges reconciliation for the 12 months ended 31 March 2024

	Water £m	Wastewater £m	Total £m
Impact of infrastructure charge discounts			
Infrastructure charges	0.709	10.972	**11.681**
Discounts applied to infrastructure charges	0.110	–	**0.110**
Gross infrastructure charges	**0.819**	**10.972**	**11.791**
Comparison of revenue and costs			
Variance brought forward	2.787	(12.204)	**(9.417)**
Revenue	0.709	10.972	**11.681**
Costs	0.203	(6.790)	**(6.587)**
Variance carried forward	**3.699**	**(8.022)**	**(4.323)**

Infrastructure charges are received when new connections are made to the network and represent a contribution to the incremental impact additional connections have on the overall network. Network reinforcement costs represent the capital expenditure undertaken generally on our network to allow for the increased flows as a consequence of new connections/developments.

In order to be in a position to accept the flows as new connections are made it is necessary to complete the infrastructure enhancement in advance of the new connections meaning construction normally precedes income. For example, we spent £0.6 million in the year, bringing the total spend to £12.9 million, on providing a new 6.5km rising main to support an ongoing development at Chilmington Green near Ashford. This is a development of up to 7,500 new properties to be built over the coming years. We continue to increase capacity in several areas of our region, to support substantial long-term population growth, including Chichester £2.3 million and Bexhill £1.5 million.

The table above compares infrastructure charges received in the year with the level of general network reinforcement work. The variance in the year relates to the timing difference of completing these activities and is expected to even out over time.

2L – Analysis of land sales for the 12 months ended 31 March 2024

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Total £m
Proceeds from disposals of protected land	–	–	0.072	**0.072**

2M – Revenue reconciliation for the 12 months ended 31 March 2024 – wholesale

	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	Total £m
Revenue recognised					
Wholesale revenue governed by price control	28.424	199.800	484.444	49.932	**762.600**
Grants and contributions (price control)	2.435	9.362	14.182	–	**25.979**
Total revenue governed by wholesale price control	**30.859**	**209.162**	**498.626**	**49.932**	788.579
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	33.074	197.903	495.033	55.918	**781.928**
Allowed grants and contributions before adjustments (or modified by CMA)	0.323	20.936	21.571		**42.830**
Revenue adjustment	–	–	–	–	**–**
Other adjustments	–	–	–	–	**–**
Revenue cap	**33.397**	**218.839**	**516.604**	**55.918**	824.758
Calculation of the revenue imbalance					
Revenue cap	33.397	218.839	516.604	55.918	**824.758**
Revenue recovered	30.859	209.162	498.626	49.932	**788.579**
Revenue imbalance	**2.538**	**9.677**	**17.978**	**5.986**	36.179

Overall wholesale price control revenue was £36.2 million (4.4%) lower than allowed in the final determination.

We under-recovered by £2.5 million (7.5%) in Water Resources and in Water Network+ we under-recovered by £9.7 million (4.5%). This under-recovery reflects both consumption being 4% lower than forecast and the decision of the Board to purposefully defer some revenues to later years to ensure that the increase in water supply bills faced by our customers was not excessive.

In Wastewater Network+ we under-recovered by £18.0 million (3.5%). In Bioresources the allowed wholesale revenue is as set out in Ofwat's final determination; the revenue imbalance of £6.0 million (10.7%) is due to the actual volume of sludge being lower than forecast in our business plan and reflected in the Final Determination from Ofwat. The revenue imbalance will be reconciled through a revenue adjustment to bills in year five of the AMP.

In total Grants and Contributions were £16.8 million below the allowed level. Contributions received for water resources were £2.1 million higher than our allowance, but this was offset by Water and Wastewater Network+, which were £11.6 million and £7.4million lower than the Ofwat assumption respectively. Under Ofwat's 'single till' approach Grants and Contributions and wholesale revenues are treated as a single allowance; due to the forecast shortfall in Grants and Contributions we will recover more of the allowed revenues from wholesale water and wastewater charges than forecast in the Final Determination.

The shortfall in Grants and Contributions results primarily from reduced developer related activities in relation to requisitions, diversions and new connections. In addition, we have experienced increasing numbers of New Appointment Variations and water self-lay activity, resulting in much lower requisition volumes.

2N – Household affordability support and debt

Section A – social tariffs	Number of customers 000s
Number of residential customers on social tariffs	
Residential water only social tariffs	2.354
Residential wastewater only social tariffs	67.688
Residential dual service social tariffs	49.413
Number of residential customers not on social tariffs	
Residential water only no social tariffs	94.435
Residential wastewater only no social tariffs	867.774
Residential dual service no social tariffs	919.982

Section A – social tariffs (continued)	Average amount per customer £
Social tariff discount	
Average discount per water only social tariffs customer	87.511
Average discount per wastewater only social tariffs customer	110.404
Average discount per dual service social tariffs customer	177.221

Section A – social tariffs (continued)	Revenue £m	Average amount per customer £
Social tariff cross-subsidy – residential customers		
Total customer funded cross-subsidies for water only social tariffs customers	0.206	
Total customer funded cross-subsidies for wastewater only social tariffs customers	7.473	
Total customer funded cross-subsidies for dual service social tariffs customers	8.757	
Average customer funded cross-subsidy per water only social tariffs customer		2.128
Average customer funded cross-subsidy per wastewater only social tariffs customers		7.989
Average customer funded cross-subsidy per dual service social tariffs customer		9.033
Social tariff cross-subsidy – company		
The company has not forgone revenue to subsidise the social tariff		
Social tariff support – willingness to pay		
Level of support for social tariff customers reflected in business plan		6
Maximum contribution to social tariffs supported by customer engagement		13

2N – Household affordability support and debt

Section B – WaterSure tariffs	Revenue £m	Number of customers 000s	Average amount per customer £
WaterSure tariffs			
Number of unique customers on WaterSure		16.815	
Total reduction in bills for WaterSure customers	4.241		
Average reduction in bills for WaterSure customers			252.215

Section C – other direct bill reduction schemes for household
Other bill reduction schemes
The company does not operate any other bill reduction schemes

Section D – debt metrics	Water only 000s	Wastewater only 000s	Dual service 000s
Total number of household customers served - active and final accounts			
Number of household customers served – active accounts	97.279	938.760	974.169
Number of household customers served – final accounts	8.934	95.356	89.996

Section D – debt metrics (continued)	Number of households 000s	Total amount of debt £m
Household customers in arrears		
Households in arrears – active accounts with debt repayment arrangements	75.876	16.336
Households in arrears – final accounts with debt repayment arrangements	3.739	1.112
Households in arrears – active accounts without debt repayment arrangements	139.348	108.618
Households in arrears – final accounts without debt repayment arrangements	92.996	75.159
Households not having made any payment for the year – active accounts	68.718	86.377
Households not having made any payment for the year – final accounts	72.099	66.210

2N – Household affordability support and debt

Section D – debt metrics (continued)	Number of households 000s	Total amount deferred £m
Temporary payment suspension		
Households with temporarily suspended payments – payment break arrangements	–	–
Households with temporarily suspended payments – breathing space arrangements	1.747	1.755

Section D – debt metrics (continued)	Number of households 000s	Total value of debt £m
Household debt collection through third party agents where water company remains creditor		
Debt collected by external agents – active accounts	36.718	12.030
Debt collected by external agents – final accounts	9.790	2.021
Number of Priority Services Register customers passed on to external debt collection agents – active and final accounts	9.645	6.097

Household debt sold to external agencies

The company has not sold any debt to external agencies

Section D – debt metrics (continued)	Number of accounts 000s	Total amount involved £m
Unpaid household bills referred to courts		
Number of county court claims	10.428	16.083
Number of county court judgements	9.580	16.858
Number of county court judgement enforcements	6.631	12.354
Number of high court claims	–	–
Number of high court judgements	–	–
Number of high court judgement enforcements	–	–

Section E – payments to household customers made in accordance with the Guaranteed Standards Scheme (GSS)	Number of payments 000s	Total amount £m	Number of unique households 000s
GSS payments to household customers			
Total amount of GSS payments made to household customers		3.024	
Number of GSS payments made to household customers	36.289		
Number of unique household customers receiving GSS payments			35.097

2N – Household affordability support and debt

Section E – payments to household customers made in accordance with the Guaranteed Standards Scheme (GSS)	Total number of unique payments made to household customers under GSS 000s	Total value of payments made in relation to column 1 £m	Total number of unique payments to household customers that could be classed as compensation or goodwill (including all payments made under GSS, customer charter payments and/or other payments e.g. goodwill payments) 000s	Column 4 Total value of payments made in relation to column 3 £m
Number and value of GSS and other payments to household customers by type in the reporting period				
Keeping of appointments	0.568	0.011	–	–
Incidences of low water pressure	0.032	0.001	–	–
Incorrect notice of planned interruptions to supply	0.105	0.003	–	–
Supply not restored	34.816	2.844	–	–
Written account queries and requests to change payment arrangements not actioned on time	0.001	–	–	–
Written complaints not responded to within 10 working days	0.066	0.001	–	–
Properties sewer flooded internally	0.322	0.089	–	–
Properties sewer flooded externally	0.379	0.063	–	–
Gesture of goodwill payments / Water supply			21.395	1.644
Gesture of goodwill payments / Sewer flooding			0.027	0.016
Gesture of goodwill payments / Miscellaneous			6.826	0.582
Late payment penalties (paid in relation to the rows above)	0.644	0.011		

We have updated the maximum contribution to social tariffs supported by customer engagement to reflect the level above which most of the customers surveyed confirmed an increase would be unacceptable. We consulted with our regulators in July 2022 for their approval to increase the support we provide to those customers most in need.

Independent Auditor's report

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

Opinion

We have audited the sections of Southern Water Services Limited's ("the Company") Annual Performance Report for the year ended 31 March 2024 ("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), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of 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 wholesale (table 2B), the cost analysis retail (table 2C), the historical cost analysis of fixed assets (table 2D), the analysis of grants and contributions (table 2E), the residential retail (table 2F), the non-household water revenues by tariff type (table 2G), the non-household wastewater revenues by tariff type (table 2H), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.9 to 1F.11, 1F.15 to 1F.20 and 1F.23 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) or the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, Southern Water Services Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.12 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2), set out on page 32.

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 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 Standard 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 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(s), as defined in RAG 3.14, 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. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. 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. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs 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 23 to 90 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusion relating to going concern

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained an understanding of relevant controls related to the management assessment of going concern;
- Obtained third party bank confirmation for the group's bank accounts, which confirmed cash balances and borrowings;
- Inspected the revolving credit facility agreement;
- Assessed the reasonableness of the cash flows projections;
- Performed integrity checks of management's going concern model, including checking for mathematical and clerical accuracy;
- Recalculated debt covenants and assessed compliance over the forecasted period;
- Evaluated and challenged management's stress tests;
- Evaluated the appropriateness of management's identified mitigating actions;
- Evaluated the company's ability to raise debt finance in light of similar transactions in the market place; and
- Assessed the appropriateness of the disclosures over going concern included within the financial statements

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements 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 we do not express any form of assurance conclusion 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 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 based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, 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 published accounting methodology statement(s), as defined in RAG 3.14, 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 as a whole 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 the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WSRA, UK Companies Act, pensions legislation and tax legislation; and
- Do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's 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 is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 7th July 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "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 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 Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP

London, United Kingdom

15 July 2024

Performance Summary

Assurance

KPMG LLP were engaged to provide independent limited assurance over the selected annual performance data highlighted in this section marked with the symbol Δ for the calendar year ended 31 December 2023 and the information marked with the symbol * for the financial year ended 31 March 2024 using the assurance standard ISAE (UK) 3000. KPMG LLP has provided limited assurance only over the performance level reported for 2023–24. KPMG LLP has issued an unqualified report over the selected annual performance data which is available on page 74.

3A – Outcome performance – Water common performance commitments

Common performance commitments – Water (Financial)	Unique reference	Status	Unit	Performance level – actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020–25 outperformance or underperformance payment £m
Water quality compliance (CRI)Δ	PR19SRN_WN02	Amber	number	3.07	No	-0.672	-8.786
Water supply interruptions*	PR19SRN_WN03	Amber	hh:mm:ss	01:21:33	No	-4.237	-15.022
Leakage*	PR19SRN_WN04	Red	%	-4.4	No	-4.346	-11.964
Per capita consumption*	PR19SRN_WR01	Amber	%	-1.3	No	0.000	0.000
Mains repairs*	PR19SRN_WN05	Amber	per 1000km of main	121.1	No	-1.991	-11.878
Unplanned outage*	PR19SRN_WN06	Green	%	5.68	Yes	0.000	0.000
Bespoke performance commitments – Water and Retail (Financial)							
Drinking water appearanceΔ	PR19SRN_WN07	Red	nr	1.00	No	-2.079	-7.071
Drinking water taste and odourΔ	PR19SRN_WN08	Amber	nr	0.24	No	-0.092	-0.370
Abstraction Incentive Mechanism*	PR19SRN_WR05	Green	nr	-19	Yes	0.511	0.899
Access to daily water consumption data	PR19SRN_RR02	Amber	nr	0	No	0.000	0.000
Void properties*	PR19SRN_RR03	Red	%	2.97	No	-0.600	-3.000
Replace lead customer pipes	PR19SRN_WN09	Amber	nr	0	No	0.000	0.000
Properties at risk of receiving low pressure*	PR19SRN_WN11	Green	nr	173	Yes	0.000	-0.243
Long term supply demand schemes	PR19SRN_WN13	Amber	months	51	-	0.000	0.000
Impounding reservoirs	PR19SRN_WR07	Amber	%	0.0	No	-0.324	-3.810
Financial water performance commitments achieved			%	0	21		
Overall performance commitments achieved (excluding C-MeX and D-MeX)			%	0	41		

Key

- Green: Ofwat target met or exceeded
- Amber: Ofwat target missed but performance improved in relation to prior year outcome
- Red: Ofwat target missed and performance worse than prior year outcome
- – Not applicable

Notes: Each performance commitment is shown with the assessed performance status (red, amber or green) which indicates performance against expectations. An explanation of each performance commitment, the definitions and the criteria for assessment is given in appendix 2.

3B – Outcome performance – Wastewater common performance commitments

Common performance commitments – Wastewater (Financial)	Unique reference	Status	Unit	Performance level – actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020–25 outperformance or underperformance payment £m
Internal sewer flooding *	PR19SRN_ WWN01		Number of incidents per 10,000 sewer connections	2.57	No	-6.279	-21.030
Pollution incidents Δ	PR19SRN_ WWN02		Number of incidents per 10,000 km of sewer	58.90	No	-8.382	-41.549
Sewer collapses *	PR19SRN_ WWN04		Number of sewer collapses per 1,000 km of all sewers	5.85	No	-0.590	-10.358
Treatment works compliance Δ	PR19SRN_ WWN05		%	99.36	No	0.000	-37.800
Bespoke performance commitments – Wastewater (Financial)							
Effluent re-use	PR19SRN_ WWN07		nr	79	Yes	0.000	0.002
Renewable Generation	PR19SRN_ BIO01		%	13.32	No	-1.326	-6.630
Satisfactory bioresources recycling Δ	PR19SRN_ BIO02		%	100.00	Yes	0.000	0.000
River water quality *	PR19SRN_ WWN09		nr	102.70	Yes	0.000	-0.446
Maintain Bathing waters at 'Excellent'. Δ	PR19SRN_ WWN11		nr	48	No	-4.050	-7.650
Improve the number of Bathing waters to at least 'Good' (Cost Adjustment Claim). Δ	PR19SRN_ WWN12		nr	4	Yes	2.382	0.530
Improve the bathing waters at 'Excellent' quality (Cost Adjustment Claim). Δ	PR19SRN_ WWN13		nr	4	Yes	3.573	7.146
Surface water management	PR19SRN_ WWN06		m3	0	No	-0.052	-0.239
External sewer flooding *	PR19SRN_ WWN08		nr	3,245	Yes	1.703	5.036
Thanet Sewers	PR19SRN_ WWN16		months	0	Yes	0.000	0.000
Financial wastewater performance commitments achieved			%	0	50		

Key

Ofwat target met or exceeded

Ofwat target missed but performance improved in relation to prior year outcome

Ofwat target missed and performance worse than prior year outcome

– Not applicable

3C – Customer measure of experience (C-MeX) table

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	63.57
Annual customer satisfaction score for the customer experience survey	Number	70.17
Annual C-MeX score *	Number	66.87
Annual net promoter score	Number	-16.50
Total household complaints	Number	18,975
Total connected household properties	Number	2,077,571
Total household complaints per 10,000 connections	Number	91.33
Confirmation of communication channels offered	TRUE or FALSE	TRUE

3D – Developer services measure of experience (D-MeX) table

Item	Unit	Value
Qualitative component annual results	Number	68.27
Quantitative component annual results	Number	98.76
D-MeX score*	Number	83.52
Developer services revenue (water)	£m	12.993
Developer services revenue (wastewater)	£m	16.583

Calculating the D-MeX quantitative component

Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)
W1.1 Pre-development enquiry – reports issued within target	%	100.00%	
W3.1 s45 quotations – within target	%	99.43%	
W4.1 s45 service pipe connections – within target	%	95.53%	
W6.1 Mains design	%	100.00%	
W7.1 Mains design >500 plots – quotations within target	%	–	
W8.1 Mains construction within target	%	100.00%	
W17.1 Mains diversions (without constraints) – quotations within target	%	100.00%	
W17.2 Mains diversions (with constraints) – quotations within target	%	100.00%	
W18.1 Mains diversions – construction/commissioning within target	%	100.00%	
W20.1 Self lay Point of Connection report < 500 plots etc – reports issued within target	%	–	
W21.1 Self lay Point of Connection reports >500 plots etc – reports issued within target	%	–	
W23.1 Self lay design and terms request	%	–	
W24.1 Self lay design and terms request >500 plots etc – quotations within target	%	–	
W26.1 Self lay water for pressure/bacteriological testing – provided within target	%	–	
W27.1 Self lay permanent water supply– provided within target	%	–	
W30.1 Self lay plot references and costing details – issued within target	%	–	

Calculating the D-MeX quantitative component (continued)

Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)
S1.1 Pre-development enquiry – reports issued within target	%	99.37%	
S3.1 Sewer requisition design – offers issued within target	%	90.91%	
S4.1 Sewer requisition – constructed and commissioned within agreed extension	%	–	
S7.1 Adoption legal agreement – draft agreements issued within target	%	–	
SN2.2 % Bulk discharge offer letters issued to the applicant within target period	%	100.00%	
SN4.1 % of main laying schemes constructed and commissioned within the target period	%	–	
WN1.1 % of confirmations issued to the applicant within target period	%	100.00%	
WN2.2 % Bulk supply offer letters issued to the applicant within target period	%	100.00%	
WN4.1 % of main laying schemes constructed and commissioned within the target period	%	100.00%	
WN4.2 % of testing supplies provided within target period	%	–	
WN4.3 % of permanent supplies made available within the target period	%	–	
SAM – 3/1 Update draft agreement	%	100.00%	
SAM – 4/1 Inspections and construction period	%	100.00%	
D-MeX quantitative score (for the relevant reporting period)	%	98.76%	
D-MeX quantitative score (annual)	Number		0.99

3E – Outcome performance – Non financial performance commitments

Common	Unique reference	Status	Unit	Performance level – actual: Current reporting year	PCL met?
Risk of severe restrictions in a drought*	PR19SRN_WR02	✓	%	0.0	Yes
Priority services for customers in vulnerable circumstances – PSR reach*	PR19SRN_RR08	✓	%	11.7	Yes
Priority services for customers in vulnerable circumstances – Attempted contacts*	PR19SRN_RR08	✓	%	98.7	Yes
Priority services for customers in vulnerable circumstances – Actual contacts*	PR19SRN_RR08	✓	%	36.4	Yes
Risk of sewer flooding in a storm	PR19SRN_WWN03	✓	%	10.87	Yes

Bespoke performance commitments	Unique reference	Status	Unit	Current reporting year	PCL met?
Target 100*	PR19SRN_WR03	–	%	38	No
Water saved from water efficiency visits	PR19SRN_WR04	–	m^3/day	832	No
Effectiveness of financial assistance	PR19SRN_RR04	–	%	76	No
Customer satisfaction with vulnerability support*	PR19SRN_RR05	✗	%	70	No
Community engagement	PR19SRN_N01	–	rank	33	No
Schools visited and engagement with children	PR19SRN_N02	✓	%	99	Yes
Water supply resilience*	PR19SRN_WN10	✓	nr	131,610	Yes
Combined Sewer Overflows (CSO) monitoring	PR19SRN_WWN10	–	%	86.59	No
Natural capital	PR19SRN_WWN15	✓	nr	11	Yes
Gap sites*	PR19SRN_RR06	–	nr	39	No
Distribution input*	PR19SRN_WN12	✗	Ml/day	565	No
Value for money	PR19SRN_RR07	✗	%	57	No
WINEP delivery*	PR19SRN_NEP01	✓	text	Met	Yes

Non-financial water performance commitments achieved	%	50

3F – Underlying calculations for common performance commitments – water and retail

Performance commitments set in standardised units – Water	Status	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – Calculated (i.e. standardised)
Mains repairs – Reactive		Mains repairs per 1000 km	Mains length in km	13,972.60	985	70.50
Mains repairs – Proactive		Mains repairs per 1000 km	Mains length in km	13,972.60	707	50.60
Mains repairs		Mains repairs per 1000 km	Mains length in km	13,972.60	1,692	121.09
Per capita consumption (PCC)		l/p/d	Total household population (000s) and household consumption (Ml/d)	2,623.50	333	126.70

Performance commitments measured against a calculated baseline	Status	Unit	Performance level - actual (2017-18)	Performance level - actual (2018-19)	Performance level - actual (2019-20)	Baseline (average from 2017-18 to 2019-20)	Performance level - actual (2020-21)	Performance level - actual (2021-22)	Performance level - actual (2022-23)	Performance level - actual (2023-24)	Performance level - actual (2024-25)	Performance level 3 year average (current and previous 2 years)	Calculated performance level to compare against PCLs
Leakage		Ml/d	102.6	102.9	94.1	99.9	93.8	96.8	108.5	107.5		104.3	-4.4
Per capita consumption (PCC)		l/p/d	126.2	129.6	128.1	128.0	139.0	133.6	128.4	126.7		129.6	-1.3

Water supply interruptions	Status	Unit	Standardising data indicator	Standardising data numerical value	Total minutes lost	Number of properties supply interrupted	Calculated performance level
Water supply interruptions		Average number of minutes lost per property per year	Number of properties (thousands)	1,165.6	95,062,231	90,103	01:21:33

Unplanned or planned outage	Status	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Unplanned outage		867.67	49.26	5.68%

Priority services for customers in vulnerable circumstances	Status	Total residential properties	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts over a 2 year period	Attempted contacts %	Number of actual contacts over a 2 year period	Actual contacts %
Priority services for customers in vulnerable circumstances		2,010	235,901	11.7%	51,641.0	50,953	98.7%	18,772.0	36.4%

3G – Underlying calculations for common performance commitments – wastewater

Performance commitments set in standardised units	Unique reference	Status	Units	Standardising data indicator	Standardising data numerical value	Performance level – actual current reporting year	Calculated performance level
Internal sewer flooding – customer proactively reported	PR19SRN_WWN01		Number of incidents per 10,000 sewer connections	Number of sewer connections	2,048.90	424	2.07
Internal sewer flooding – company reactively identified (i.e. neighbouring properties)	PR19SRN_WWN01		Number of incidents per 10,000 sewer connections	Number of sewer connections	2,048.90	103	0.50
Internal sewer flooding	PR19SRN_WWN01		Number of incidents per 10,000 sewer connections	Number of sewer connections	2,048.90	527	2.57
Pollution incidents	PR19SRN_WWN02		Number of incidents per 10,000 km of sewer	Sewer length in km	39,729.00	234	58.90
Sewer collapses	PR19SRN_WWN04		Number of sewer collapses per 1,000 km of all sewers	Sewer length in km	40,031.00	234	5.85

3H – Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding C-MeX and D-MeX) £m (2017–18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	-0.068
Water network+	-13.457
Wastewater network+	-15.525
Bioresources (sludge)	-1.286
Residential retail	-0.600
Business retail	0.000
Dummy control	0.000
Initial calculation of end of period revenue adjustment by price control	
Water resources	-1.655
Water network+	-35.919
Wastewater network+	0.000
Bioresources (sludge)	0.000
Residential retail	0.000
Business retail	0.000
Dummy control	0.000
Initial calculation of end of period RCV adjustment by price control	
Water resources	0.000
Water network+	0.000
Wastewater network+	0.000
Bioresources (sludge)	0.000
Residential retail	0.000
Business retail	0.000
Dummy control	0.000

3I – Supplementary outcomes information

Unplanned or planned outage	Status	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Planned outage	✓	867.67	49.26	5.68%

Risk of severe restrictions in drought	Status	Deployable output Ml/d	Outage allowance Ml/d	Dry year demand Ml/d	Target headroom Ml/d	Total population supplied	Customers at risk
Risk of severe restrictions in drought	✓	756.97	73.27	565.16	31.16	2,676,565	0.00

Risk of sewer flooding in a storm	Status	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments
Risk of sewer flooding in a storm	✓	4,858,401.00	0.00	0.00%

Risk of sewer flooding in a storm	Status	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Vulnerability risk grade Percentage of total population served Low	Medium	High
Risk of sewer flooding in a storm	✓	195,393	4.02%	4,663,008	95.98%	89.14%	2.98%	7.88%

Sewer collapses	Status	Number of patch repairs or relining undertaken on sewer and not included in reported sewer collapses
Sewer collapses	N/A	659

2023–24 performance against performance commitments

2023–24 has presented several challenges for our operational teams in both water and wastewater. Storm Ciarán had a significant impact on our internal flooding and interruptions to supply measures following the flooding of our Testwood site. We are still waiting for Ofwat's decision on the exclusion of the Testwood incident from the water supply interruptions total.

Despite these challenges we have remained focused on delivering for our customers, meeting or exceeding 17 of our 47 performance commitments compared to 15 in 2022–23 and improving on the prior year for a further 25.

While this is not the level of improvement we set out to achieve, we note that this is a positive trajectory reflected in the reduced net ODI underperformance payment for wholesale services of £31.1 million, compared to £37.8 million in 2022-23. The overall level of penalties incurred continue to reflect the continued significant level of performance challenge in Ofwat's PR19 final determination and our Service Commitment Plan (Turnaround Plan).

For Ofwat's C-MeX and D-MeX measures of customer experience, which are based on comparative performance, we are again forecasting higher penalties than the prior year, £5.1 million and £1.3 million respectively (2022–23: £4.8 million and £1.0 million).

Our performance highlights include better than forecast outcomes for water quality compliance (CRI), external sewer flooding, and treatment works compliance, all of which represent our best outcomes for these metrics. In addition to the £1.7 million reward for exceeding our performance commitment to reduce external flooding, we also reported rewards for early delivery of two of our bathing water commitments with a net reward of £6.0 million, and £0.5 million reward for outperforming our Abstraction Incentive Mechanism.

The impact of these penalties and rewards will be reflected in customers' bills from 2025–26.

We comment here on the wholesale performance commitments associated with the largest underperformance payments[6]. A full description of performance against all our performance commitments is provided in our Annual Report and Financial Statements.

Pollution incidents (penalty: £8.4 million)

As detailed in our Pollution Incident Reduction Plan (PIRP) and our Annual Report and Financial Statements, we are working hard to reduce the number of pollutions, despite increasingly challenging weather conditions. We are continuing to assess the impact of October's Storm Ciarán and the intense, heavy rain it brought with it to better improve our overall operational resilience, alongside other measures to address the root cause of pollutions. As well as ongoing action plans to reduce the number of incidents including electrical and mechanical (MEICA) issues, blockages and bursts, as well as pollutions from sewer blockages.

Despite this, the outcome of 234 incidents, a reduction compared to 358 in 2022–23, means we did not meet our PR19 performance commitment of 22.40 incidents per 10,000km sewer network, equivalent to 88 incidents meaning the maximum penalty of £8.4 million was incurred.

Internal sewer flooding (underperformance payment: £6.3 million)

While we continue to work hard to improve services for our customers and protect the environment, our total number of internal flooding incidents at 527 has fallen short of both our Ofwat target of 294, and our forecast of 400. This has been largely impacted by our region experiencing the wettest 18 months since records began, with groundwater levels at a 10-year high.

We are reviewing all flooding incidents in the year to better understand root cause, and are accelerating our sewer flushing programme to significantly reduce this number in 2024–25. We have over 243,000 sewer level monitors in place which are helping us to better identify flooding hotspots and we have improved customer satisfaction when responding to these incidents by creating a standardised clean-up process.

[6] Comment is provided for all performance commitments with an underperformance penalty of greater than £1 million for 2023–24. In addition, we provide a brief commentary on per capita consumption performance, due to the level of stakeholder interest in this area and on long term supply demand schemes.

Leakage (underperformance payment: £4.3 million)

With continued investment and company focus, our leakage level for the 2023–24 year was reduced to 107.5 megalitres per day (Ml/d). However this, combined with the higher than expected in year value for 2022–23 (108.5Ml/d), resulted in an increase to the overall measure on a three-year rolling average basis to 104.3Ml/d compared to 99.7Ml/d in the prior year.

While this was higher than our target and we have improved our find and fix and other leakage reduction measures, completing 90% of the actions in our Turnaround Plan, we have still not achieved the results we expected. As a result, we are improving the targeting and efficiency of our leakage detection activities and continue to invest in this area to deliver for our customers. We continue to focus on find and fix activity and have installed over 3,000 additional loggers taking the total across our network to over 12,000.

We set an ambitious plan for find-and-fix team this year, with the aim of achieving a significant reduction in leakage. Although we found 90% of the targeted numbers of leaks, this only delivered 76% of the assumed benefit on leakage. This was largely due to finding a higher volume of smaller leaks. Targeted interventions improved the mix of leaks found over the year with the largest leaks increasing from 5% in the first quarter to 14% in the last quarter of the year.

A focused effort to reduce leakage is being delivered via a detailed leakage reduction plan this is based on the PALM model which Separates the “leak life cycle” into four phases. These include:

PREVENT: A programme of Advanced Pressure Management measures, PRV installations, the optimisation of the existing estate of PRV’s and water main transient mitigations. These actions will also impact the burst main and supply interruptions ODI measures, by calming the water network down. We also designed and installed 70 new pressure management schemes and 30 booster control schemes. In addition, we are implementing 50 variable speed booster solutions and 10 water service reservoir inlet valve control systems to reduce the impact of transients on the network, reducing burst frequencies.

AWARE: The installation of over 1,000 further pressure loggers for leak identification, improved District Metered Area Operability and developments within our leakage reporting software to assist with the leakage targeting process.

LOCATE: Maintenance of our ALC detection resources, the deployment of an additional 3,000 semi and permanent installed acoustic loggers for early leak detection, innovation in leak detection activities with trials in satellite and thermal imaging techniques. Changes to the incentivisation model for the leak detection activities, based on leakage reductions, allowing for high volume leaks to be promoted. Concentrated efforts to increase the customer side leakage elements of leakage reduction.

MEND: An increase in the overall number of leak repairs, and the introduction of processes to improve leak repair run times with the aim to repair burst mains within reducing time periods.

We continue to undertake the following leakage reduction measures:

- Pressure optimisation: Review 200 existing schemes to identify further optimisation opportunities.
- Leakage reduction trials: Undertake trials looking at alternative approaches to reduce leakage in areas that have proven difficult to reduce.
- Continuing to undertake trials of new technologies, such as satellite detection, internal pipe condition analysis, no-dig repair techniques and using AI systems to locate leaks using acoustic data.
- Improving detection productivity: Implementing a new, digital, approach to localising points of interest for leak detection and reducing the time taken to locate leaks.
- DMA operability: Continuing to identify issues with District Meter Area level data and network configuration to improve the accuracy of leakage targeting.

As part of our Turnaround Plan, we have acknowledged that we are unlikely to reach the end of AMP target of a 15% reduction in leakage, and remain committed to maintaining a leakage level below 100 Ml/d by 2025, and are still targeting to be at our published Water Resource Management Plan leakage figure of 76.9Ml/d by the end of 2024–25, so we are where we need to be at the start of the new AMP.

Water supply interruptions (underperformance payment £4.2 million)

Several significant incidents, including the loss of our Testwood site in November during Storm Ciarán, left our customers without supply for longer than three hours. While we have marginally reduced the outcome from last year to 01:21:33 (2022-23 01:28:10) this still exceeds our target of 00:05:23 by a significant margin. The 00:34:05 lost due to our Testwood site becoming overwhelmed by flooding is currently under review as this incident is covered by the civil contingencies act, and while this would not reduce the penalty incurred, it would reduce this year's outcome to 00:47:28.

The remaining 00:47:28 also features a number of large outages, including the incident at Hardham where a site shut down caused multiple reservoirs in North Sussex to lose supply and equated to 00:33:12. Other major events included: Udimore, Hastings where a strategic trunk main burst between Udimore reservoir and the downstream District Metered Area's and resulted in 00:04:43; a site shut down at Wingham WSW caused by high Turbidity and having to run the site to waste resulting in 00:01:23; and a Chlorine gas leak at Easton WSW causing the site to shut down. This caused mass loss of pressure across the network as all downstream DMA's were affected by low reservoir levels accounting for 00:00:52.

Without these major events our minutes for the year would have sat at 00:07:18, further unplanned outages included High Turbidity at Carisbrooke, which caused downstream reservoirs to go low, including Cooks Castle with a total 00:01:20, an overrun at Singlewell WSR with a total of 00:00:31; and two mains bursts in Newport and Rye accounting for 00:00:27 each.

These nine events account for 01:17:00, meaning that our underlying performance was under five minutes. To reduce our reportable interruptions, we are rolling out several initiatives focusing on managing and preventing large scale incidents, as well as a renewed focus on Safe Control of Operations improvements and mains walkovers.

Drinking water appearance (underperformance payment: £2.1 million)

Performance for this year was heavily impacted by a high proportion of contacts related to Rownhams and Yew Hill water supply zones due to known discolouration issues within the network in these areas.

In August and September, we saw an increase in dirty water calls, caused by two major incidents in areas experiencing network changes, including reversal of flows which had disturbed particles within the water mains or changed the make-up of the water that customers receive. Across all water zones, the limited proactive flushing of our network has further reduced performance.

Proactive flushing has now re-started in the Rownhams area, and we have also rolled out bespoke training to our network inspectors, including practical training on how to minimise causing surges in the network which may stir up sediment. We are also launching a new process to add in further steps to risk assess all planned work, to drive down discoloration events arising from network operation. Additionally, we have devised a company wide strategy to manage the risk of discolouration to reduce customer contact moving forward.

Main repairs (underperformance payment: £2.0 million)

While we did not meet our PR19 target of 97.4 incidents per 1,000km of mains, at 121.1 we have outperformed both our 2022–23 outcome (152.8) and our turnaround target of 150.0

As mentioned in our comments on our leakage performance, we intend to reduce mains repairs as part of our PALM approach. Our "Setting the Standards" initiative continues to better define and govern mains repairs process including work priority, standard job codes and defect management whilst the back end has this year been enhanced by a Job Closure Handbook.

Our approach to work promotion and unique standard job codes easily facilitates the disaggregation of reactive/proactive jobs and efficient management of mains repairs. This year has once again seen additional standard job codes introduced as part of a targeted leakage focus, and a reduction in the time to complete repairs, although we are aware that our continued leakage focus has impacted the number of repairs carried out.

Renewable generation (underperformance payment: £1.3 million)

We have seen a small improvement in the level renewable energy generated to 13.32% (2022–23: 13.30%), this still falls below our target of 24%. As mentioned in our Annual Report and Financial Statements, our score is due to higher consumption on our sites and less solar generation during the unusually wet summer, and the decommissioning of the Testwood solar array in Jan 2024. We are including plans to increase the level of renewable energy generated in our PR24 business plan by investing in more reliable and efficient Combined Heat and Power (CHP) generation. While we have completed our planned commissioning of a solar array at the Peel Common site, and are investigating further feasible locations, and are nearing completion of various other projects, we are unlikely to see a significant increase in the measure in 2024–25.

Per capita consumption (underperformance payment: n/a)

As the impact on customer consumption across the industry of the COVID-19 pandemic continues to be felt, we continue to see a reduction in year of PCC, with consumption levels having come down gradually from their pandemic peak of 138.5 l/p/d to an average of 126.7 l/p/d at the end of 2023–24, resulting in a three-year rolling average of 129.6 l/p/d, above the PR19 target of 120.3, takes us below our Turnaround Plan target of 127.5 and we continue to aim to be at or below our PR19 baseline level of 128.0 by the end of 2024–25.

We created our 'Target 100' our detailed water efficiency plan for individual, social and cultural behaviour change to help protect and preserve our environment for a more sustainable water future. Our plan has evolved over the last 12 months and is designed to achieve the significant reduction in consumption outlined in HM Government's Environmental Improvement Plan (EIP) 2023 including reducing average Per Capita Consumption (PCC) to 110 litres per head per day (110l/h/d) under dry year conditions.

We have maintained one of the lowest levels of customer consumption in the industry despite the impacts of COVID-19, and more detail on our blueprint for a water-efficient culture and water saving campaigns can be found in our WRMP annual review and the additional commentary document published alongside our Annual Performance Report, which covers our additional reporting requirements for narrative commentary.

Long term supply demand schemes

Within our PR19 final determination, we have an ODI to ensure that we remain on track to deliver a number of supply demand schemes by no later than 31 March 2027. ODI penalties are incurred for every month of delay to the schemes. In line with the Ofwat requirement, an independent formal review was be carried out to inform the PR24 price review that will determine the progress of the schemes and was submitted alongside our business plan.

When compared to our plans in the WRMP19, we are currently reporting a delay of 51 months. However, in our PR24 business plan we have suggested a £0 penalty for this metric on the basis that the due to significant challenges outside of our control certain schemes have not been able to be progressed, and that as part of the WRMP24 the need in terms of volume and delivery date for all schemes has been reassessed and we are on track to meet these revised plans.

Forecasts of future years' performance

As required by Ofwat, we have provided a forecast of total 2020–25 outperformance or underperformance payments for all performance commitments. These have all been reviewed in line with our Turnaround Plan and PR24 business plan submission, reflect ongoing performance and are a best estimate of our end of AMP outcomes including forecasts of outperformance or underperformance payments. We remain committed to delivering the best outcomes for our customers and wherever possible meeting our PR19 targets.

Reporting to customers

Ofwat requires us to describe how the information reported in the Section 3 of this Annual Performance Report relates to the information on outcome performance it has published and reported to its customer challenge group or similar body and customers more generally. We can confirm that as in previous years, the performance commitment information reported here is fully consistent with the information we have reported to our customers in our Annual Report and Financial Statements. We have been updating our Customer and Community Challenge Group throughout the year on our level of performance and they will be informed of our 2023–24 results.

Independent Limited Assurance Report of KPMG LLP to Southern Water Services Limited

KPMG LLP ("KPMG" or "we") were engaged by Southern Water Services Limited ("Southern Water") to provide limited assurance over the Selected Information described below for the year ended 31 March 2024 and the calendar year ended 31 December 2023.

Our conclusion

Based on the work we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information has not been properly prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of the remainder of this report, in particular the inherent limitations explained below and this report's intended use.

Selected Information

The scope of our work includes only the information included within the Southern Water Annual Performance Report ("the Report") in respect of the year ended 31 March 2024 marked with the symbol [*] and in respect of the calendar year ended 31 December 2023 marked with the symbol [Δ] (together "the Selected Information").

We have not performed any work, and do not express any conclusion, over any other information that may be included in the Report or displayed elsewhere on Southern Water's website for the current year or for previous periods unless otherwise indicated.

Reporting Criteria

The Reporting Criteria we used to form our judgements are the Southern Water Reporting Criteria 2023-24 as set out at southernwater.co.uk/our-performance/reports/annual-reporting ("the Reporting Criteria"). The Selected Information needs to be read together with the Reporting Criteria.

Inherent limitations

The nature of non-financial information; the absence of a significant body of established practice on which to draw; and the methods and precision used to determine non-financial information, allow for different, but acceptable evaluation and measurement techniques and can result in materially different measurements, affecting comparability between entities and over time. The Reporting Criteria has been developed to assist Southern Water in detailing the methodology applied in their reporting obligations under the 2019 Price Review ("PR19") as prescribed by Ofwat. As a result, the Selected Information may not be suitable for another purpose.

Directors' responsibilities

The Directors of Southern Water are responsible for:

- designing, operating and maintaining internal controls relevant to the preparation and presentation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- selecting and/or developing objective Reporting Criteria;
- measuring and reporting the Selected Information in accordance with the Reporting Criteria; and
- the contents and statements contained within the Report and the Reporting Criteria.

Our responsibilities

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been properly prepared, in all material respects, in accordance with the Reporting Criteria and to report to Southern Water in the form of an independent limited assurance conclusion based on the work performed and the evidence obtained.

Assurance standards applied

We conducted our work in accordance with International Standard on Assurance Engagements (UK) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* ("ISAE (UK) 3000") issued by the Financial Reporting Council. That Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

Independence, professional standards and quality management

We comply with the Institute of Chartered Accountants in England and Wales ("ICAEW") Code of Ethics, which includes independence, and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the IESBA Code of Ethics. The firm applies International Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

A limited assurance engagement involves planning and performing procedures to obtain sufficient appropriate evidence to obtain a meaningful level of assurance over the Selected Information as a basis for our limited assurance conclusion. Planning the engagement involves assessing whether the Reporting Criteria are suitable for the purposes of our limited assurance engagement. The procedures selected depend on our judgement, on our understanding of the Selected Information and other engagement circumstances, and our consideration of areas where material misstatements are likely to arise.

The procedures performed included:

- assessing on a sample basis whether the Selected Information has been collected and reported in accordance with the applicable criteria;
- conducting interviews with Southern Water's management to obtain an understanding of the key processes, systems and controls in place over the preparation of the Selected Information;
- selected limited substantive testing, including agreeing a selection of the Selected Information to corresponding supporting information including to databases and monitoring systems such as Waternet, Prism, SAP BI, LabWarer, Qlikview, CSMS, Elipse, Alteryx, PI System, SAP ISU, ServiceNow, Compass BIO, SMS, BMS, Penata, InfoWorks, P6, WaterCore, WaterNet, MapInfo, and to regulatory returns from Water UK, the Drinking Water Inspectorate (DWI) and the Environment Agency (EA);
- re-performing the mathematical calculation of the Selected Information in accordance with the Reporting Criteria; and
- reading the Report and narrative accompanying the Selected Information in the Report with regard to the Reporting Criteria, and for consistency with our findings.

The work performed in a limited assurance engagement varies in nature and timing from, and is less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

This report's intended use

Our report has been prepared for Southern Water solely in accordance with the terms of our engagement. We have consented to the publication of our report in the Report for the purpose of Southern Water showing that it has obtained an independent assurance report in connection with the Selected Information.

Our report was designed to meet the agreed requirements of Southern Water determined by Southern Water's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than Southern Water for any purpose or in any context. Any party other than Southern Water who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Andy Kierney

For and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
London
E14 5GL
15 July 2024

The maintenance and integrity of Southern Water's website is the responsibility of the Directors of Southern Water; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information, Reporting Criteria or Report presented on Southern Water's website since the date of our report.

Appendix A: Selected Information

A.1 Performance commitments for the year ended 31 March 2024

PR Reference	OCF Title	Value	Unit
PR19SRN_WN03	Water Supply Interruptions	01:21:33	hh:mm:ss
PR19SRN_WN04	Leakage	-4.4	% reduction from baseline
PR19SRN_WR01	Per Capita Consumption (PCC)	-1.3	% reduction from baseline
PR19SRN_WN12	Distribution Input	565	Ml/d
PR19SRN_WN05	Mains Repairs	121.1	Mains repairs per 1000 km
PR19SRN_WN06	Unplanned Outage	5.68	%
PR19SRN_WR02	Risk of severe restrictions in a drought	0.0	%
PR19SRN_RR08	Priority services for customers in vulnerable circumstances - PSR reach	11.7	%
PR19SRN_RR08	Priority services for customers in vulnerable circumstances - Attempted contacts	98.7	%
PR19SRN_RR08	Priority services for customers in vulnerable circumstances - Actual contacts	36.4	%
PR19SRN_RR05	Customer satisfaction with vulnerability support	70	%
PR19SRN_WWN01	Internal sewer flooding	2.57	Number of incidents per 10,000 sewer connections
PR19SRN_WWN04	Sewer collapses	5.85	Number of sewer collapses per 1,000 km of all sewers
PR19SRN_WWN08	External sewer flooding	3,245	Number
PR19SRN_RR01	Annual C-MeX score	66.87	Score out of 100
PR19SRN_WN01	Annual D-MeX score	83.52	Score out of 100
PR19SRN_WWN09	River Water Quality	102.70	Km
PR19SRN_NEP01	WINEP delivery	Met	-
PR19SRN_WR05	Abstraction Incentive Mechanism	-19	Ml/d
PR19SRN_RR03	Void and Connected Properties	2.97	%
PR19SRN_WN10	Water supply resilience	131,610	Number of properties
PR19SRN_WN11	Properties at risk of receiving low pressure	173	Number
PR19SRN_RR06	Gap Sites	39	Number
PR19SRN_WR03	Target 100	38	%

A.2 Performance commitments for the calendar year ended 31 December 2023

PR Reference	OCF Title	Value	Unit
PR19SRN_WN02	Water quality compliance (CRI)	3.07	Number
PR19SRN_WWN02	Pollution Incidents	58.90	Number of incidents per 10,000 km of sewer
PR19SRN_WWN05	Treatment works compliance	99.36	%
PR19SRN_WN07	Drinking water appearance	1.00	Number of consumer contacts per 1,000 population
PR19SRN_WN08	Drinking water taste and odour	0.24	Number of consumer contacts per 1,000 population
PR19SRN_BIO02	Satisfactory bioresources recycling	100.00	%
PR19SRN_WWN11	Maintain Bathing Waters at 'Excellent'	48	Number
PR19SRN_WWN12	Improve the number of Bathing waters to at least 'Good'	4	Number
PR19SRN_WWN13	Improve the bathing waters at 'Excellent' quality	4	Number

Additional regulatory information

4A – Water bulk supply information for the 12 months ended 31 March 2024

	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports			
Affinity	5.375	–	0.008
South East Water	10,709.927	6.822	3.530
Total bulk supply exports	**10,715.302**	**6.822**	**3.538**

	Volume Ml	Operating costs £m
Bulk supply imports		
Sutton and East Surrey Water	492.050	0.678
Portsmouth Water	2,041.183	1.002
Total bulk supply imports	**2,533.233**	**1.680**

Bulk exports to NAV customers are not included in the table.

We do not show cost information for the bulk exports to Affinity Water. These supplies are made via our distribution network and the costs are therefore not separately identifiable. Operating costs are included for the exports to South East Water. These agreements are based on a sharing of specific operating costs.

4B – Analysis of debt

As permitted by RAG 3.14 section 2.7, table 4B is excluded from this APR document and is published alongside this document and can be found at southernwater.co.uk/about-us/our-annual-reporting.

4C – Impact of price control performance to date on RCV

	12 months ended 31 March 2024			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	20.890	169.839	448.635	43.014
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	28.442	326.603	743.179	57.633
Transition expenditure	–	–	–	–
Disallowable costs	0.006	12.705	7.663	0.012
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	**28.436**	**313.898**	**735.516**	**57.621**
Variance	7.546	144.059	286.881	14.607
Variance due to timing of expenditure	1.832	(37.258)	28.811	(1.560)
Variance due to efficiency	**5.714**	**181.317**	**258.070**	**16.167**
Customer cost sharing rate – outperformance	63.55%	63.55%	63.92%	0.00%
Customer cost sharing rate – underperformance	36.45%	36.45%	36.08%	0.00%
Customer share of totex overspend	2.083	66.090	93.112	–
Customer share of totex underspend	–	–	–	–
Company share of totex overspend	3.631	115.227	164.958	16.167
Company share of totex underspend	–	–	–	–
Totex – business rates and abstraction licence fees				
Final determination allowed totex – business rates and abstraction licence fees	6.719	12.875	14.681	1.529
Actual totex – business rates and abstraction licence fees	5.373	13.029	15.870	2.106
Variance – business rates and abstraction licence	**(1.346)**	**0.154**	**1.189**	**0.577**
Customer cost sharing rate – business rates	75.00%	75.00%	75.00%	75.00%
Customer cost sharing rate – abstraction licence fees	75.00%	75.00%	75.00%	75.00%
Customer share of totex over/underspend – business rates and abstraction licence fees	(1.010)	0.116	0.892	0.433
Company share of totex over/underspend – business rates and abstraction licence fees	(0.337)	0.039	0.297	0.144
Totex not subject to cost sharing				
Final determination allowed totex – not subject to cost sharing	5.802	18.034	10.114	–
Actual totex – not subject to cost sharing	16.501	20.161	1.757	–
Variance – 100% company allocation	**10.699**	**2.127**	**(8.357)**	**–**
Total customer share of totex over/underspend	**1.073**	**66.206**	**94.003**	**0.433**
RCV				
Total customer share of totex over/underspend	1.073	66.206	94.003	0.433
PAYG rate	61.03%	51.02%	40.48%	57.12%
RCV element of totex over/underspend	**0.418**	**32.427**	**55.951**	**0.186**

4C – Impact of price control performance to date on RCV – continued

	Price control period to date			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	72.390	700.473	1,726.547	186.228
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	108.063	1,067.205	2,356.790	193.062
Transition expenditure	1.721	0.980	–	–
Disallowable costs	0.122	13.744	106.092	0.167
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	**109.662**	**1,054.441**	**2,250.698**	**192.895**
Variance	37.272	353.968	524.151	6.667
Variance due to timing of expenditure	(10.280)	(79.648)	(121.469)	(2.464)
Variance due to efficiency	**47.552**	**433.616**	**645.620**	**9.131**
Customer cost sharing rate – outperformance	63.55%	63.55%	63.92%	0.00%
Customer cost sharing rate – underperformance	36.45%	36.45%	36.08%	0.00%
Customer share of totex overspend	17.333	158.053	232.940	–
Customer share of totex underspend	–	–	–	–
Company share of totex overspend	30.219	275.563	412.680	9.131
Company share of totex underspend	–	–	–	–
Totex – business rates and abstraction licence fees				
Final determination allowed totex – business rates and abstraction licence fees	24.583	47.104	53.711	5.592
Actual totex – business rates and abstraction licence fees	19.873	44.973	55.863	7.351
Variance – business rates and abstraction licence	**(4.710)**	**(2.131)**	**2.152**	**1.759**
Customer cost sharing rate – business rates	75.00%	75.00%	75.00%	75.00%
Customer cost sharing rate – abstraction licence fees	75.00%	75.00%	75.00%	75.00%
Customer share of totex over/underspend – business rates and abstraction licence fees	(3.533)	(1.598)	1.614	1.319
Company share of totex over/underspend – business rates and abstraction licence fees	(1.178)	(0.533)	0.538	0.440
Totex not subject to cost sharing				
Final determination allowed totex – not subject to cost sharing	50.281	99.360	37.965	–
Actual totex – not subject to cost sharing	58.950	69.968	8.306	–
Variance – 100% company allocation	**8.669**	**(29.392)**	**(29.659)**	**–**
Total company share of totex over/underspend	**13.800**	**156.455**	**234.554**	**1.319**
RCV				
Total customer share of totex over/underspend	13.800	156.455	234.554	1.319
PAYG rate	61.03%	51.02%	40.48%	57.12%
RCV element of totex over/underspend	**5.378**	**76.632**	**139.606**	**0.566**
Adjustment for ODI outperformance payment or underperformance payment	–	–	–	–
Green recovery	–	–	–	–
RCV determined at FD at 31 March	153.350	1,526.148	4,844.800	263.254
Projected 'shadow' RCV	**158.728**	**1,602.780**	**4,984.406**	**263.820**

Wholesale totex analysis

Our total expenditure (totex) for 2023–24 was higher than the allowance in the PR19 final determination for both water and wastewater. We set out below the principal reasons for the variances within each wholesale price control and each cost category shown above. It is important to note that the final determination from Ofwat does not explicitly show the totex allowance at a granular level. The variances described therefore represent a best estimate of the reasons for the variances.

The principal totex variances to the final determination have been allocated between timing and efficiency within the table above. The following rules have been applied in making these allocations:

- All operating expenditure variances are allocated to efficiency on the basis that these are recurring costs that cannot typically be shifted between years.
- Variances related to renewals and capital maintenance expenditure have been allocated to efficiency given that the Board has committed to a significant level of investment in excess of the final determination.
- Enhancement costs have been compared with a notional allocation of each category of expenditure to each year of the AMP using Ofwat's final determination profiling assumptions. All identified variances have been allocated to timing.
- Any enhancement costs incurred in relation to schemes which were not funded within the final determination (for example carryover of AMP6 expenditure) has been allocated to the efficiency category.

Totex variance to final determination

Water totex variance over/(under) £m	12 months ended 31 March 2024		Price control period to date	
	Water resources	Water network+	Water resources	Water network+
Net totex	7.5	144.1	37.3	354.0
Business rates and abstraction licences	(1.3)	0.2	(4.7)	(2.1)
Not subject to cost sharing	10.7	2.1	8.7	(29.4)
Total totex variance	**16.9**	**146.4**	**41.3**	**322.5**

Water

Water resources totex is £7.6 million higher than the final determination allowance for 2023–24 and is £37.3 million over the final determination for the AMP to date.

The variance of £7.5 million in 2023–24 reflects an overspend of £5.7 million together with timing variances of £1.8 million from the reversal of timing variances from prior years.

The principal reasons for the totex overspend are:

- the completion of some Eels Regulations schemes from the previous regulatory period (AMP6), representing £1.1 million in the year and £26.5 million cumulatively,
- expenditure relating to supply and demand side enhancements of £6.1 million in the year and £16.3 million cumulatively,
- additional asset maintenance capital expenditure to help improve operational performance and compliance of £2.0 million in the year and £3.8 million cumulatively,
- an increase in the provision made for ecological work associated with the section 20 agreement in relation to the Rivers Test and Itchen and the Candover Stream of £2.8 million cumulatively.

These overspends are offset by expenditure in relation to raw water deterioration, £3.3 million in year and £10.4 million cumulatively, for which we have incurred higher expenditure than allowed in the Final Determination within the water network+ price control.

Water network+ expenditure is £144.1 million above the final determination in 2023–24. This variance consists of timing variances of £37.3 million offset by an overspend of £181.3 million of these variances £21.6 million results from the reversal of timing variances from prior years, now shown as overspends.

In addition to the reversal from prior years, the timing variance mainly relates an underspend in the year of £22.3 million on supply demand balance schemes during the year and £101.3 million cumulatively. These schemes are expected to be delivered beyond the end of this AMP.

As set out in our Annual Report, we have experienced some significant additional operating costs during 2023–24 as well as a continuation of some items from 2022–23.

- Significant incidents on the Isle of Wight, responding to Storm Ciaran and in the Testwood area impacted large numbers of customers and resulted in additional costs of £8.5 million being incurred.
- At our Testwood Water Supply Works we have improved water quality performance through capital investment to replace the chemical dosing on site, however as a consequence, and to maintain compliance on site, this increased the amount of tankering and treatment required for the waste produced, adding £12.1 million in 2023–24.
- We experienced inflation of 40% in relation to power costs, following the end of our fixed price arrangements and this increased our water operating costs by £6.2 million.

The remaining (in)efficiency variance results from additional capital maintenance to address water quality risks at our supply works and general operating expenditure which is significantly higher than the final determination assumption. This overspend largely reflects additional contract costs and efficiencies not delivered in line with expectations, and this is also the main driver for the cumulative variance to date.

Business rates for water resources and water network+ are £1.2 million lower than the final determination allowance overall, mainly reflecting lower abstraction charges for water resources. Cumulatively the total variance is £6.8 million lower than the determination, this variance also includes the impact of a one-off business rates rebate in 2020–21 of £2.4 million.

Within the ‘costs not subject to sharing’ category water resources expenditure is £10.7 million higher than the final determination allowance while water network+ is £2.1 million above the allowance in 2023–24. The largest element of expenditure within this category is related to the strategic water resources development schemes which form our Water for Life Hampshire programme.

Overall expenditure on these schemes during the year is £13.8 million above the final determination allowance, with an overspend of £4.7 million within the water network+ price control and an overspend of £9.1 million within the water resources control. These overspends purely relate to the timing of expenditure and reverse underspends in previous years.

The remaining variance is principally associated with the income offset (relating to developer-led schemes) which is £5.4 million lower than allowed reflecting a lower level of development activity during the year.

Pension deficit repair costs, which are not subject to cost sharing, are excluded from both the final determination allowed totex and the actual totex.

Totex variance to final determination

Wastewater totex variance over/(under) £m	12 months ended 31 March 2024		Price control period to date	
	Wastewater network+	Bioresources	Wastewater network+	Bioresources
Net totex	286.9	14.6	524.2	6.7
Business rates and abstraction licences	1.2	0.6	2.1	1.8
Not subject to cost sharing	(8.4)	–	(29.7)	–
Total totex variance	**279.7**	**15.2**	**496.6**	**8.5**

Wastewater

Bioresources totex is £14.6 million higher than the final determination allowance for 2023–24 and £6.7 million higher than the final determination for the AMP to date.

The variance of £14.6 million in 2023–24 reflects an overspend of £16.2 million offset by a favourable timing variance of £1.6 million.

The timing element of this variance largely results from the sludge quality and growth schemes for which an allowance of £1.4 million was made in the notional final determination allocation for the year. We did not incur any expenditure against this in the year. Cumulative expenditure is now £2.6 million lower than the notional determination allowance. The efficiency variance is driven by higher energy costs, as we have not generated the level of power we anticipated in our Business Plan, together with higher capital maintenance costs.

Wastewater network+ totex is £286.9 million higher the final determination representing the reversal of previous timing differences of £28.8 million and an overspend of £258.7 million.

The principal reasons for the totex overspend are:

- higher expenditure in the year, than the profile assumed in the final determination, relating to a number of our enhancement projects. For example, Flow to Full Treatment schemes £35.1 million, storage schemes at treatment works £17.0 million and phosphorus removal schemes £25.6 million, cumulatively however spend on these schemes remains below the total determination allowance by £108.4 million.
- higher expenditure on capital maintenance and renewals during the year, £102.3 million and this is largely driven by significant schemes to improve our wastewater treatment works compliance and pumping station performance.

In addition, as set out in our Annual Report, we have experienced some significant additional operating costs during 2023–24, for example:

- we experienced inflation of 40% in relation to power costs, following the end of our fixed price arrangements and this increased our wastewater operating costs by £15.0 million.
- high groundwater levels – during 2023-24 we experienced the wettest period of weather on record. On average in the past six months our region experienced 825mm of rainfall, which is more than the annual average of 792mm. As a result of this exceptional weather, we incurred significant additional tankering costs of £27.9 million, dealing with ground water levels.
- we have continued to focus our efforts on the proactive maintenance of our sewerage network and wastewater assets to reduce pollutions and improve compliance with a further increase of £7.3 million in the year.

These costs, together with cost reductions anticipated as part of the final determination not being achieved in line with expectations are the main reasons for the variances experienced to date.

Business rates for bioresources and wastewater network+ are £1.8 million higher than the final determination allowance for the year.

Within the ‘costs not subject to sharing’ category actual expenditure is £8.4 million less than the final determination allowance for the year and £29.7 million lower for the AMP to date. This variance is largely driven by the income offset (relating to developer-led schemes) which is £5.4 million lower than the determination in 2023–24, £20.2 million cumulatively reflecting a lower level of developer activity than anticipated together with lower expenditure on third party services of £2.9 million in the year, £10.1 million cumulatively, offset by expenditure of £0.6 million in relation to the innovation fund.

Pension deficit repair costs, which are not subject to cost sharing, are excluded from both the final determination allowed totex and the actual totex.

Atypicals/Exceptionals

The atypical costs shown in table 4E relate to a court fine and costs associated with a prosecution by the EA for a pollution event at Little Bull Lane in July 2019, ongoing legal costs relating to an EA investigation and the costs associated with the cyber incident as described on page 18 of our Annual Report. These costs have also been classified as disallowable costs in table 4C and do not form part of the variances that are highlighted above.

Link to the final determination outcomes

With the exception of performance commitments that relate to specific capital delivery schemes it is generally not possible to directly associate expenditure with the delivery of the final determination outcomes. This is because the vast majority of outcomes are delivered through base operating and capital maintenance expenditure rather than specific funded schemes. We note that despite both water and wastewater totex being significantly higher than the final determination allowance we have nonetheless incurred significant Outcome Delivery Incentive underperformance payments, in particular in relation to pollution incidents. water supply interruptions, leakage, mains repairs, drinking water appearance, renewable generation and internal sewer flooding. These remain key areas of focus and investment for the business.

Disallowable costs

When comparing our actual totex to that allowed in the Final Determination we are required to make adjustments for certain disallowable costs, including fines and investigation costs and compensation claims. The disallowable costs disclosed for 2023–24 of £20.4 million are comprised of:

- A court fine and costs totalling £0.4 million, associated with a pollution incident in July 2019 at Little Bull Lane pumping station,
- Costs of £4.5 million relating to cyber security experts, legal advice and contacting customers and employees affected by the cyber incident we experienced in January 2024,
- Compensation and Guaranteed Standards Scheme payments made cumulatively over the AMP totalling £15.0 million. Note, we had not adjusted for these in previous years and so we have made this adjustment in full in 2023–24,
- The bonuses awarded to the executive directors totalling £0.3 million which are being borne by shareholders,
- Costs of £0.2 million for the ongoing EA investigation into wastewater sampling compliance.

Recharges between business units

Details of our process for allocating costs between business units can be found in our Methodology Statement.

4D – Totex analysis for the 12 months ended 31 March 2024 – water resources and water network+

		Network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure						
Base operating expenditure	18.444	0.399	0.292	83.857	77.978	**180.970**
Enhancement operating expenditure	0.146	0.004	0.004	4.951	1.123	**6.228**
Developer services operating expenditure					1.751	**1.751**
Total operating expenditure excluding third party services	**18.590**	**0.403**	**0.296**	**88.808**	**80.852**	**188.949**
Third party services	0.871	–	–	2.487	2.384	**5.742**
Total operating expenditure	**19.461**	**0.403**	**0.296**	**91.295**	**83.236**	**194.691**
Grants and contributions						
Grants and contributions – operating expenditure	–	–	–	–	–	**–**
Capital expenditure						
Base capital expenditure	3.598	(0.060)	–	55.702	83.911	**143.151**
Enhancement capital expenditure	29.578	1.427	–	16.088	25.264	**72.357**
Developer services capital expenditure					9.964	**9.964**
Total gross capital expenditure (excluding third party)	**33.176**	**1.367**	**–**	**71.790**	**119.139**	**225.472**
Third party services	2.410	–	–	4.622	0.001	**7.033**
Total gross capital expenditure	**35.586**	**1.367**	**–**	**76.412**	**119.140**	**232.505**
Grants and contributions						
Grants and contributions – capital expenditure	2.435	–	–	2.426	6.942	11.803
Net totex	**52.612**	**1.770**	**0.296**	**165.281**	**195.434**	**415.393**
Cash expenditure						
Pension deficit recovery payments	–	–	–	–	–	–
Other cash items	–	–	–	–	–	–
Totex including cash items	**52.612**	**1.770**	**0.296**	**165.281**	**195.434**	**415.393**

4E – Totex analysis for the 12 months ended 31 March 2024 – wastewater network+ and bioresources

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	Total £m
Operating expenditure									
Base operating expenditure	104.171	19.606	19.606	134.107	4.331	6.738	20.441	8.994	**317.994**
Enhancement operating expenditure	4.800	1.047	1.047	–	–	–	–	–	**6.894**
Developer services operating expenditure	1.517	0.331	0.331	–	–	–	–	–	**2.179**
Total operating expenditure excluding third party services	**110.488**	**20.984**	**20.984**	**134.107**	**4.331**	**6.738**	**20.441**	**8.994**	**327.067**
Third party services	–	–	–	–	–	–	–	–	–
Total operating expenditure	**110.488**	**20.984**	**20.984**	**134.107**	**4.331**	**6.738**	**20.441**	**8.994**	**327.067**
Grants and contributions									
Grants and contributions – operating expenditure	–	–	–	–	–	–	–	–	–
Capital expenditure									
Base capital expenditure	84.307	18.378	18.378	167.189	–	–	23.566	–	**311.818**
Enhancement capital expenditure	12.550	2.630	2.630	179.403	–	–	–	–	**197.213**
Developer services capital expenditure	9.293	2.025	2.025	–	–	–	–	–	**13.343**
Total gross capital expenditure (excluding third party)	**106.150**	**23.033**	**23.033**	**346.592**	–	–	**23.566**	–	**522.374**
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	**106.150**	**23.033**	**23.033**	**346.592**	–	–	**23.566**	–	**522.374**
Grants and contributions									
Grants and contributions – capital expenditure	9.845	2.146	2.146	0.500	–	–	–	–	**14.637**
Net totex	**206.793**	**41.871**	**41.871**	**480.199**	**4.331**	**6.738**	**44.007**	**8.994**	**834.804**
Cash expenditure									
Pension deficit recovery	–	–	–	–	–	–	–	–	–
Other cash items	–	–	–	–	–	–	–	–	–
Totex including cash items	**206.793**	**41.871**	**41.871**	**480.199**	**4.331**	**6.738**	**44.007**	**8.994**	**834.804**
Atypical expenditure									
Costs resulting from Cyber Attack	–	–	–	**4.481**	–	–	–	–	**4.481**
Wastewater EA investigation	–	–	–	**0.240**	–	–	–	–	**0.240**
Little Bull Lane - penalty	**0.244**	**0.053**	**0.053**	–	–	–	–	–	**0.350**
Total atypical expenditure	**0.244**	**0.053**	**0.053**	**4.721**	–	–	–	–	**5.071**

4F – Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2024

	Expenditure in report year					
		Water network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose						
Thames to Southern Transfer	–	1.173	–	–	–	**1.173**
Hampshire Water Transfer and Water Recycling Project	–	–	–	0.027	4.861	**4.888**
Total major project capital expenditure	**–**	**1.173**	**–**	**0.027**	**4.861**	**6.061**

	Cumulative expenditure on schemes completed in the report year					
		Water network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose						
Thames to Southern Transfer	–	–	–	–	–	**–**
Hampshire Water Transfer and Water Recycling Project	–	–	–	–	–	**–**
Total major project capital expenditure	**–**	**–**	**–**	**–**	**–**	**–**

As part of the RAPID gate 2 final decision, it was agreed that funding would be allowed for the Thames (Water) to Southern (Water) Transfer (T2ST) to continue to gate three. This has since (April 2024) reached and successfully passed its first (of two) mid-gate Checkpoints.

Since 2023, Southern Water has taken an increasingly active role at a strategic level with Thames Water (lead developer) and Affinity Water (joint partner) in the early-stage development of the South East Strategic Reservoir Option (SESRO). It is expected that this Strategic Resource Option (SRO) will form the source of raw water for T2ST. For Southern Water, a share of funding to support continued development is anticipated to commence in AMP8.

We have formally stopped all work of Fawley desalination development due to potential adverse environmental impacts and have agreed with RAPID and Ofwat to pursue the best alternative option that emerged via a comprehensive option selection process. The replacement SRO in the Water for Life Hampshire programme is referred to as the Hampshire Water Transfer and Water Recycling Project (HWTWRP). Following an informal RAPID gate 3 submission at the end of March 2024, this is currently (June 2024) on the verge of a formal RAPID gate 3 submission and is projected to deliver water resource benefits in excess of Fawley desalination (as it accounts for another, smaller non-viable, non-SRO scheme), with lower environmental risk, lower carbon emissions and at lower whole life financial cost.

4G – Major project expenditure for wholesale wastewater by purpose for the 12 months ended 31 March 2024

We have no projects classed as major projects to report within wholesale wastewater.

4H – Financial metrics for the 12 months ended 31 March 2024

	Units	Current year	AMP to date
Financial Indicators			
Net debt	£m	**4,858.290**	
Regulatory equity	£m	**1,929.262**	
Regulatory gearing	%	**71.58%**	
Post tax return on regulatory equity	%	**-17.82%**	
RORE (return on regulatory equity)	%	**-8.40%**	-7.31%
Dividend yield	%	**0.00%**	
Retail profit margin – Household	%	**-3.27%**	
Retail profit margin – Non Household	%	**0.00%**	
Credit rating – Fitch	n/a	**BBB (Negative)**	
Credit rating – Moody's	n/a	**Baa3 (Stable)**	
Credit rating – Standard & Poor's	n/a	**BBB (Stable)**	
Return on RCV	%	**-0.89%**	
Dividend cover	dec	**–**	
Funds from operations (FFO)	£m	**173.386**	
Interest cover (cash)	dec	**2.24**	
Adjusted interest cover (cash)	dec	**(0.89)**	
FFO/Debt	dec	**0.04**	
Effective tax rate	%	**0.00%**	
Retained cash flow (RCF)	£m	**173.386**	
RCF/Net debt	dec	**0.04**	
Borrowings			
Proportion of borrowings which are fixed rate	%	**33.89%**	
Proportion of borrowings which are floating rate	%	**0.24%**	
Proportion of borrowings which are index linked	%	**65.87%**	
Proportion of borrowings due within 1 year or less	%	**0.00%**	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	**0.72%**	
Proportion of borrowings due in more than 2 years but no more than 5 years	%	**21.41%**	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	**67.88%**	
Proportion of borrowings due in more than 20 years	%	**9.99%**	

The interest cover and adjusted interest cover ratios quoted above are based on the cash interest payable for the financial year rather than the cash interest paid in the financial year.

Interest Cover Ratios reconciliation

	ICR (cash) £m	Adj ICR (cash) £m
Funds from operations	173.386	173.386
Add back cash interest paid in year	82.666	82.666
Less regulatory depreciation		(357.866)
	256.052	**(101.814)**
Cash interest paid in year	168.254	168.254
Swap receipts	(85.588)	(85.588)
Less interest paid in prior year	(37.949)	(37.949)
Add interest payable re current year	73.591	73.591
Less interest prepaid	(4.037)	(4.037)
Interest payable for 2023–24	**114.271**	**114.271**
Ratio (dec)	**2.241**	**(0.891)**

4I – Financial derivatives for the 12 months ended 31 March 2024

Interest rate swap (sterling)	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March)	
	0 to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
	£m	£m	£m	£m	£m	£m	£m		
Fixed to index-linked									
Super-senior swaps with breaks or accretion paydowns	–	–	400.000	1,928.247	**2,328.247**	1,471.811	398.380	1.27%	5.65%
Pari-passu swaps with breaks or accretion paydowns	–	–	–	38.361	**38.361**	97.046	–	0%	0%
Fixed to index-linked Total	–	–	**400.000**	**1,966.608**	**2,366.608**	**1,568.857**	**398.380**		

The pari-passu derivatives have accretion payments in 2050 and 2055 relating to a £250 million inflation-linked swap against a £300 million fixed rate bond. The remaining inflation-linked cashflows associated with this inflation-linked swap are super senior.

Floating to index-linked derivatives are intended to expose interest cash flows, and the nominal value of debt outstanding, to short-term movement in RPI inflation. This ensures a proportion of our interest cost is a match against the nature of our inflation-linked cash flows and our inflation-linked RCV. Our inflation-linked financial instruments have a long maturity in order to finance the long life of our assets and the long-term nature of our investment decisions.

The value of the Mark to Market represents forecast future cash flows for the duration of the derivatives and discounted by prevailing interest rates. This value is extremely volatile given that market interest rates are constantly moving. The liability shown in the table above of £1,568.9 million associated with the Mark to Market valuations of our derivatives is high and is indicative of the high interest rates in the financial markets. The risk of this Mark to Market value crystallising is extremely remote given that it can only crystallise under certain conditions of a default of our financing covenants, in which case operations of the company are protected and will continue. Further details are available on page 242 of our Annual Report and Financial Statements.

4V – Mark-to-market of financial derivatives analysed based on payment dates

	Derivatives – Analysed by earliest payment date				Derivatives – Analysed by expected maturity date			
	Net settled £m	Gross Settled outflows £m	Gross Settled inflows £m	Total £m	Net settled £m	Gross Settled outflows £m	Gross Settled inflows £m	Total £m
Due within one year	–	–	–	–	–	–	–	–
Between one and two years	–	–	–	–	–	–	–	–
Between two and three years	128.754	–	–	128.754	–	–	–	–
Between three and four years	–	–	–	–	–	–	–	–
Between four and five years	97.046	–	–	97.046	–	–	–	–
After five years	1,341.057	–	–	1,341.057	1,568.857	–	–	1,568.857
Total	**1,568.857**	**–**	**–**	**1,568.857**	**1,568.857**	**–**	**–**	**1,568.857**

4W – Defined Benefit Pension Scheme – Additional Information

Item	Defined benefit pension schemes Pension scheme 1
Scheme details	
Scheme name	Southern Water Pension Scheme
Scheme status	Closed to new members and future accrual
Scheme validation under IAS/IFRS/FRS	
Scheme assets	594.300
Scheme liabilities	672.300
Scheme surplus/(deficit) Total	**(78.000)**
Scheme surplus/(deficit) Appointed business	(78.000)
Pension deficit recovery payments	0.000
Scheme valuation under part 3 of the Pensions Act 2004	
Scheme funding valuation date	31-Mar-22
Assets	720.200
Technical Provisions	988.000
Scheme surplus/(deficit)	**(267.800)**
Discount rate assumptions	Fixed interest gilts curve + 65bps

Recovery plan

Recovery plan agreed on 15 March 2023, the company will pay the following deficit contributions arising from the latest triennial valuation carried out as at 31 March 2022:

On 31 March 2022 the Company made a contribution of £59.6 million (The funding shortfall of £267.8 million above uses an asset valuation that excludes this payment). This was a prepayment of the 1 April 2022 contribution of £20.6 million plus a further prepayment of £39.0 million in relation to contributions due in future years as set out below:

a) From 2023 to 2029 £20.976 million per annum increased by RPI each year based on December RPI

b) An additional £0.5 million per annum from 2023 to 2028 being the continuation of advance payments (made since 2018) of the 2029 deficit contribution which will be reduced by £5.5 million from that calculated in a) above.

The deficit contributions, offset where relevant by the £39.0 million prepayment are payable on 1 April of each relevant year.

Recovery plan end date	1 April 2029
Asset Backed Funding (ABF) arrangements	n/a
Responsibility for ABF arrangements	n/a

Additional regulatory tables

As permitted by RAG 3.14 section 2.9, the remaining regulatory tables which form the Annual Performance Report are excluded from this document and are published as an appendix at southernwater.co.uk/about-us/our-annual-reporting.

Data assurance summary

We take full responsibility for the information we publish on our performance. We seek to provide confidence to customers and stakeholders through a transparent approach to data assurance. This assurance provides confidence in our reported performance and the delivery of performance commitments made in our 2020–25 business plan.

Whilst assurance is rarely able to provide absolute certainty over the quality of reported information, we aim for the assurance that we perform and commission to provide our internal and external stakeholders with sufficient comfort over the robustness and quality of the information that we report.

The assurance activity we undertake around the information that we provide is one of the critical elements we have put in place to build and secure the trust and confidence of our regulators, stakeholders and customers.

Our technical assurance framework agreement in place for our five-year Business Plan period (AMP7) allows us to appoint the most suitable assurance partners to different technical assurance projects. KPMG LLP and Jacobs are now completing their fourth year in this role.

We have published a separate document that details the completed assurance work performed on our reported information for the 2023–24 financial year. The results, both positive and improvement areas are published in the document entitled 'Data Assurance Summary' which is available on our Southern Water website southernwater.co.uk/about-us/our-annual-reporting.

The main assurance areas for the annual reports are:

Significant areas for assurance	Assurance results for 2023–24
The Annual Report including the Statutory and Regulatory Accounts, cost allocation and segmental reporting	The Annual Report and Financial Statements were audited by Deloitte LLP. Their opinion is included on page 257 of that report. The Annual Performance Report (APR), sections 1 and 2, excluding table 1F, were audited by Deloitte LLP. Their assurance statement is included on page 57. Deloitte LLP also performed assurance activities agreed with us on the financial information presented in table 1F and sections 4 to 9 of the APR and the financial information published in the cost assessment tables alongside this report. No issues were identified.
Additional assurance undertaken	Deloitte LLP also undertook assurance procedures on the following statements made in the Annual Report and APR: • Viability statement • Ring-fencing Certificate and statement (Licence Condition P)
Ofwat Performance Commitments and Outcome Delivery Incentives (ODIs)	Our independent assurer KPMG LLP have issued an unqualified limited assurance ISAE (UK) 3000 report over the reported performance against selected Performance Commitments for the Business Plan period 2020–25 in Section 3 of the APR.
Specific assurances related to other regulators' required information (i.e. The Drinking Water Inspectorate and The Environment Agency)	Each specified requirement is detailed in our Data Assurance Summary

Appendices

The information in the appendices has not been audited.

Appendix 1. Transactions with associates and the non-appointed business

Services supplied to associated companies by the appointee

Greensands Holdings Limited (GSH) is the ultimate parent of Greensands Investments Limited (GSI), which is an intermediate parent of Southern Water Services Limited (SWS), the appointee. The purpose of GSH and GSI is to act as holding companies for SWS. As such they do not trade and have no turnover.

During the year, recharges for group-related management services, for example legal, treasury, governance and financial services, supplied by Southern Water Services Limited were as follows:

Service	Company	Turnover of associate	Terms of supply	Value £m
Management charges	Greensands Investments Limited	–	Cost/market price	1.000

Services received by the appointee from associated companies

There were no services supplied by associate companies to SWS.

Group relief received by the appointee

Service	Company	Turnover of associate	Terms of supply	Value £m
Corporation tax group relief	–	–	Cost	–

No group relief was received by the appointee.

Allocation of costs between regulated and non-regulated businesses

Each non-appointed activity is treated separately within the company's financial records. Examples of non-appointed activities include non-monopoly rechargeable works, property searches and services for waste tankering. Revenues, costs, assets and liabilities are generally directly allocated to particular business activities. Administrative overheads have been apportioned from the appointed business to the non-appointed business on an activity cost basis.

Service provided by the non-appointed business	Basis of recharge made by the appointed business	Value £m
Treatment of imported sludge	Not applicable	–
Treatment of tankered waste	The Mogden Formula was used to calculate the income for tankered waste and the costs were derived from this calculation	6.853
Other	Headcount (FTE) was used to calculate administrative overhead for property searches, accommodation rental and Homeserve costs	0.326

Details of intercompany loans

Loans granted to Southern Water Services Limited

Company	Loan type	Interest rate %	Repayment date	Balance at 31 March 2024 £m
SW (Finance) I Plc	Fixed rate	6.192	2029	349.181
	Index linked	3.706	2034	314.984
	Index linked	3.706	2034	58.861
	Fixed rate	6.640	2026	349.607
	Fixed rate	5.000	2041	147.440
	Fixed rate	4.500	2052	197.403
	Fixed rate	5.125	2056	292.976
	Fixed rate	2.375	2028	372.143
	Fixed rate	3.000	2037	444.552
	Fixed rate	1.625	2027	297.158
	Fixed rate	7.375	2041	444.693
	Index linked	3.315	2043	72.545
	Index linked	4.123	2043	20.136
	Fixed rate	7.000	2040	544.076
	Fixed rate	2.780	2031	174.366
	Fixed rate	2.960	2036	74.658
SW (Finance) II Limited	Index linked	4.076	2033	346.482
	Index linked	3.635	2032	320.714
Total				**4,821.975**

Loans granted by Southern Water Services Limited

Company	Loan type	Interest rate %	Repayment date	Balance at 31 March 2024 £m
SW (Finance) I Plc	Fixed rate	0.000	On demand	102.529
Total				**102.529**

Dividends paid by Southern Water Services Limited to group companies

Company	**2024 £m**	2023 £m
SWS Holdings Limited (ordinary dividend)	**0.000**	0.000

No ordinary dividend was declared for payment to Southern Water Holdings Limited (SWSH) in 2024 (2023: £nil).

Dividend policy

Our dividend policy is formulated to ensure a fair balance of reward between investors and customers. To deliver on our vision for the successful delivery of our Business Plan for 2020–25, all stakeholders must share in success: customers benefitting through enhanced service and lower bills, and shareholders earning a fair return on the equity invested.

When proposing payment of a dividend the directors of Southern Water Services Limited, acting independently in accordance with their directors' duties and in accordance with the Company's Licence, will apply the following principles:

1. Determination of a base level of dividend, based on an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.
2. In assessing any adjustment to the base level of dividend, we will take into account our financial and non-financial performance. This would reflect our overall financial performance as compared to the final Business Plan for 2020–25 as agreed by Ofwat and would explicitly consider a qualitative assessment of customer service levels and how customers share in our successes.
3. We will consider our financial resilience ahead of any dividend decision, and whether any financial outperformance should be re-invested to benefit our customers. This consideration will also include taking into account the interests of our employees, other stakeholders, and our pension schemes.

   Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of step three we carry out an assessment of:

   a) headroom under debt covenants

   b) the impact on the company's credit rating

   c) the liquidity position and ability to fulfil licence conditions

   d) key areas of business risk.
4. We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.
5. We will publish our Dividend Policy annually (as part of the Annual Report) and highlight any changes.

Comparison of dividend to the PR19 Final Determination

The Board has resolved that the company will not pay dividends until it is clear that to do so would not be detrimental to the company's financial position. No ordinary dividends were declared or paid in 2023–24 (2023: £nil).

No payments were made in relation to preference share dividends (2023: £17.5 million, comprising principal redemption of £5.2 million and dividends of £12.3 million).

Dividends on the preference shares accrue like interest and from an accounting perspective they are treated as interest, even though they are called dividends. The payment made in July 2022 was our first payment since 2020. These payments are made to a SWS group company and enable the payment of external interest on loans within the group. None of this money is paid to Southern Water shareholders.

An accrual totalling £9.1 million in relation to the cumulative liability of preference share dividends to 31 March is included within the financial statements as an inter-company creditor.

Asset transfers

There were no asset transfers during the year.

Appendix 2. KPI definitions and status assessment rules

Performance Commitment Definitions RAG status

✓	Performance meets or better than Ofwat target
– (amber)	Performance is worse than Ofwat target, but better than prior year
✗	Performance is worse than Ofwat target, and worse than prior year
–	Not applicable

Performance Commitment Definitions

Delivering great service

Water quality compliance (Compliance Risk Index)	**Definition:** The definition for this performance commitment is set by the Drinking Water Inspectorate (DWI) in collaboration with the industry. This is published as DWI Compliance Risk Index (CRI), August 2018: ofwat.gov.uk/publication/dwi-compliance-risk-index-cri-definition.
Drinking water appearance	**Definition:** The number of times the company is contacted by consumers due to the drinking water not being clear, reported per 1,000 population. Calculation is the number of contacts for appearance multiplied by 1,000 divided by the resident population as reported to the Drinking Water Inspectorate (DWI).
Drinking water taste and odour	**Definition:** The number of times the company is contacted due to the taste and odour of drinking water, reported per 1,000 population. Calculation is the number of contacts for all taste/odour contacts multiplied by 1,000 divided by the resident population as reported to the Drinking Water Inspectorate (DWI).
Replace lead customer pipes	**Definition:** The number of residential properties receiving grants from the company towards removing lead pipes in the home in the 2020-25 period. This is a co-delivery measure with the company's customers to reduce the amount of lead in customer pipes. The performance commitment will apply only in the company's 'Deal' (Kent) water supply zone, where it is trialling this approach to eliminating lead pipes and fittings.
Water supply interruptions	**Definition:** Reducing interruptions to water supply is defined in the reporting guidance for PR19 – Supply Interruptions, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-supply-interruptions. It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.
C-MeX	**Definition:** The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys. Standard and higher performance payments under C-MeX depend on a company's performance relative to those of other companies. Higher performance payments are available if the company passes each of the following three 'gates': • the company is one of the top three performers by C-MeX score; • the company is at or above a cross-sector threshold of customer satisfaction performance based on the all-sector upper quartile (ASUQ) of the UK Customer Satisfaction Index (UKCSI); and • the company has lower than the industry average number of household complaints (per 10,000 connections).

Delivering great service

Void properties	**Definition:** The number of household properties classified as void as a percentage of the total number of household properties served by the company. Void properties are defined as properties, within the company's supply area, which are connected for either a water service only, a wastewater service only or both services but do not receive a charge, as there are no occupants. Additionally a property connected for both services that is not occupied, only counts as one void property.
Gap sites	**Definition:** The number of household gap sites identified by the company and brought into charge annually. A gap site is identified as a property that is not recorded on the company's billing database. To add one more site requires the company to add one property to its billing database.
Internal sewer flooding	**Definition:** The internal sewer flooding measure is defined in the reporting guidance for PR19 – Sewer Flooding, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-sewer-flooding The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections including sewer flooding due to severe weather events.
External sewer flooding	**Definition:** The performance commitment will be reported as the absolute number of the company's external sewer flooding incidents per year including incidents caused by severe weather. The external sewer flooding measure is defined in the reporting guidance for PR19 – Sewer Flooding, updated on 28 April 2018: ofwat.gov.uk/publication/reporting-guidance-sewer-flooding
Customer Satisfaction with Vulnerability Support	**Definition:** Percentage of customers that have received non-financial support who believe Southern Water's support addresses their specific requirements and needs. Non-financial support is defined as any support that is provided by the company to a customer with specific requirements or needs which affects the customer for reasons that are not specific to their financial position. This support is provided through the Priority Services Register (PSR) e.g. braille bills or talking bills. Performance will be measured through a survey of customers that have received PSR support. Customers will be asked whether the support provided addresses their specific requirements and needs in relation to their water and wastewater service. Customers will be provided information about the support the company provides as part of the questionnaire so they clearly understand the premise of the question. The questionnaire used will be consistent with that used in the company's baseline survey for 2017/18. Customers will be able to respond with a "Yes" or "No" answer and provide additional comments to give the company feedback on any improvements that could still be made to improve support. The performance will be measured as the total number of yes responses divided by the total number of responses. The company will not include in the survey PSR customers who have not received a service from the company in the reporting period. The survey should be planned and carried out following social research best practice (example any applicable sections of a relevant code such as that published by the Market Research Society). The sample size should be selected to give a reasonable statistical significance for the purpose of the performance commitment.

Delivering great service

Effectiveness of financial assistance	**Definition:** The percentage of customers that pay their bills in the immediate twelve months following the receipt of financial assistance. The measure includes residential customers who have received support through the Essentials social tariff, WaterSure, Water Direct, NewStart Debt Matching scheme and any new financial assistance schemes the company implements. Any new financial schemes introduced by the company for inclusion in this performance commitment should be subject to assurance from the Customer Challenge Group. Customers 'paying their bills' is defined as customers either having paid in ten distinct months (of twelve) or having paid 90% of the billed value.
Priority services for customers in vulnerable circumstances	**Definition:** This common performance commitment is defined in the reporting guidance: 'Reporting guidance – Common performance commitment for the Priority Service Register'. This performance commitment consists of the following criteria: • The PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR; • Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period; • Actual contact: percentage of distinct households on the PSR that the company has actually contacted over a two-year period. To achieve compliance with this performance commitment the reach, attempted contact and actual contact targets should be achieved.
Properties at risk of receiving low pressure	**Definition:** The number of properties receiving or at risk of receiving pressure below the low pressure reference level. This measure is calculated as the total number of properties receiving pressure below standard, minus the number of those properties that are covered by the predetermined allowable exclusion categories as detailed in the reporting guidance. Low pressure reference level is defined in the reporting guidance published 11 December, 2017 'Properties at risk of receiving low pressure': ofwat.gov.uk/publication/properties-at-risk-of-receiving-low-pressure
Value for money	**Definition:** Percentage of customers that state they are satisfied with the value for money of water and sewerage services in their area. This performance commitment will be measured through an annual survey of customers that is run by CCWater (Water Matters). The measure will take the results for Southern Water customers only. The proportion of customers that state either 'very' or 'fairly' satisfied on a five-point scale, as measured by CCWater's annual tracking report 'Water Matters'. It combines a mean average score of the ratings: • Satisfaction with value for money for water services; and • Satisfaction with value for money for sewerage services CCWater will interview 200 of Southern Water's customers each year in this survey. The measurement of the survey will be conducted in a consistent way over the 2020 to 2025 period. If, during the period, CCWater cease measurement of the relevant data set, the company will replace the source data and measurement for this performance commitment with an appropriate equivalent confirmed and assured by an appropriately qualified independent third party.

Fit for the future

Long term supply demand schemes	**Definition:** The expected number of months delay to deliver long term supply-demand capacity benefit of 182.5 Ml/d which is expected to be delivered by 31 March 2027. The capacity benefit (Ml/d) target represents the total of the stated average capacities for the individual schemes, both treatment and transfer, identified by the company within the business plan and the revised draft WRMP. The following schemes are expected to be delivered: • Ford Wastewater Treatment Works (WwTW) indirect potable water reuse (20 Ml/d); • Utilise full existing transfer capacity (3 Ml/d); • East Woodhay Water Supply Works (WSW) (1 Ml/d); • Bournemouth Water supply from Knapp Mill (20 Ml/d); • Coastal desalination – Shoreham Harbour (10 Ml/d); • Sussex Coast – Lower Greensand (2 Mld); • Hardham winter transfer: Stage 2 (2 Ml/d); • Aylesford WwTW indirect potable water reuse – Eccles Lake (18 Ml/d); • Sandown WwTW indirect potable water reuse (8.5 Ml/d); and • Internal interconnections (98 Ml/d).
Sewer collapses	**Definition:** Sewer collapse: A sewer collapse is considered to be where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. The measure intentionally does not refer to the magnitude of the collapse. The measure includes rising mains. Collapses on the entire network are to be reported. Sewer length: Include the length of the entire network, including sewers that transferred to their responsibility under the Transfer of Public Sewers Regs 2011. The company should separately record the length of transferred sewers, the calculation of this measure should be based on the latest measurements of the length.
Surface water management	**Definition:** Reduction in volume (m^3) of surface water entering the surface or combined sewer network as a result of sustainable urban drainage approaches. Solutions include sustainable urban drainage approaches to slow down and reduce the volume of water entering the network. These include, but are not limited to: • Provision of a soakaway, either through providing a grant to the customer or through installation by Southern Water. • Provision of a sustainable drainage system which does not connect to a combined sewer network or which materially attenuates the flow of surface water to the combined network (e.g. a rain garden).
Community engagement	**Definition:** The percentile performance of Southern Water compared to other utility companies in the B4S1 annual report The company has engaged B4SI, a company that measures corporate community investment and philanthropy, to measure the company's performance in line with organisations both within and outside the sector. The measure will be based on the company's annual ranking of utilities companies in the B4SI annual report, which will be influenced by the company's ongoing commitment to increase hours volunteered, partnering with charities, raising money for charities, community and outreach events and administering community grants. Each year the company will convert the ranking into a percentile using the excel function 'PERCENTRANK.INC' multiplied by 100 and report this. The data will be organised so that the best company will receive the highest percentile.

Fit for the future

Schools visited and engagement with children

Definition:
The measure is the percentage of feedback the company receives, from schools that have been visited in the year, which the schools have rated as 'good' or 'excellent', based on a survey completed after the visit.

It is measured annually on a reporting year basis.

A 'visit' is defined as any activity involving a school, either at the school premises or other venue, which has as its aim the education of pupils in relation to the company's core activities, including the value of water, water efficiency, 'unflushables' and the water cycle.

'Schools' includes any establishment involved in the education of children under the age of 18.

The survey should be planned and carried out following social research best practice (e.g. any applicable sections of a relevant code such as that published by the Market Research Society).

The sample size should be selected to give a reasonable statistical significance for the purpose of the performance commitment.

Impounding reservoirs

Definition:
This performance commitment measures the progress that the company makes against its programme of work for enhancing the safety of four named reservoir assets, measured as the percentage completion of the schemes. The company must increase the drawdown rates for four of its largest impounding reservoirs to at least the basic levels as set out in the below table for the purposes of measuring delivery under this performance commitment.

The company must comply with the Reservoirs Act 1975.

Statutory reservoir name	Basic drawdown standard rate (metres per day at 50 percentile inflow)	Latest timing of statutory inspection	% completion allocation	Target completion date of the works
Bewl	1.00	2018	48.8	11 Nov 2022
Darwell	0.83	2024	14.8	11 Nov 2024
Powdermill	0.31	2019	19.9	11 Nov 2024
Weir Wood	0.53	2023	16.5	11 Nov 2024

Mains repairs

Definition:
Mains repairs is defined in the reporting guidance for PR19 – Mains Repairs per 1000 km, published on 27 March 2018. ofwat.gov.uk/publication/reporting-guidance-mains-repairs-per-1000km
It is reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes).

Unplanned water outage

Definition:
Unplanned outage is defined in the reporting guidance for PR19 – Unplanned Outage, published on 4 April 2019. ofwat.gov.uk/publication/reporting-guidance-unplanned-outage

This measure is reported as the temporary loss of peak week production capacity (PWPC) in the reporting year weighted by the duration of the loss (in days). Unplanned outage for each water production site is calculated separately and then summed over the reporting year to give a total actual unplanned outage for the water resource zone.

The company water resource zone weighted outage should then be summed (Ml/d) and normalised based on overall company peak week production capacity to be reported as a percentage.

Fit for the future

Risk of sewer flooding in a storm

Definition:

Risk of sewer flooding in a storm is defined within the guidance titled, Reporting guidance – Risk of sewer flooding in a storm, published on 4 April 2019: ofwat.gov.uk/publication/reporting-guidance-risk-of-sewer-flooding-in-a-storm

This measure will record the percentage of the region's population at risk from internal hydraulic flooding from a 1 in 50-year storm, based on modelled predictions.

D-MeX

Definition:

D-MeX is a measure of customer satisfaction. A company's overall D-MeX score is calculated from two components that contribute equally:

- qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year to a customer satisfaction survey; and
- quantitative D-MeX score, based on the company's performance against a set of selected Water UK performance metrics throughout the reporting year.

The survey results which are used to calculate the qualitative component of the company's D-MeX score will be supplied by a survey agent appointed by Ofwat. This is supplied out of 100 to form the score for the qualitative component of D-MeX.

The set of Water UK performance metrics which are used to calculate the quantitative component of the company's D-MeX score, in place at the time of PR19 final determinations publication, are set out in annex 2 of 'PR19 final determinations: Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'. For each metric, a percentage is reported and a simple average of these metrics is taken. This is rescaled to be out of 100 to form the score for the quantitative component of D-MeX.

Water supply resilience

Definition:

Number of residential properties at risk of long term loss of supply (>48 hours) in the company's Thanet, Brighton and the Isle of Wight water supply zones.

A property is considered at risk of long term loss of supply (>48 hours) if it is likely to experience a long term supply interruption if one of the key hazards identified in the table below were to occur.

The key hazards and assets that are considered in the assessments are summarised in the table below.

Key hazards	Water supply works	Service reservoir	% completion allocation	Target completion date of the works
Flooding	✓	✓	✓	✗
Critical Asset Failure	✓	✓	✓	✓
Contamination	✗	✓	✗	✓
Raw Water Loss	✓	✗	✗	✗
Malicious Damage	✓	✓	✓	✗
Cyber Security Incident	✓	✓	✓	✗

Use water wisely

Abstraction Incentive Mechanism	**Definition:** The abstraction incentive mechanism (AIM) reduces abstraction of water at environmentally sensitive sites when flow or levels are below an agreed point otherwise known as a trigger. The trigger point is usually based on a level or flow, beyond which the AIM is considered to be 'switched on'. This trigger will usually be related to the point at which damage is caused and is intended to prevent this from happening or ameliorate the negative impacts. The company has included one site for AIM for the period 2020–25, this is Otterbourne and Twyford. The trigger point for this site is the month of September as this is when impacts on the environment are most severe. The September total abstraction limit for the 2020–25 period is 2280 Ml. The company's stated target is to outperform this by 15 Ml/d. The abstraction incentive mechanism is defined in the reporting guidance – Guidelines on the abstraction incentive mechanism, published in 2016: ofwat.gov.uk/wp-content/uploads/2016/02/gud_pro20160226aim.pdf
Pollution incidents	**Definition:** Pollution incidents is defined in the following guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 3). Published November 2017 by the Environment Agency. ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf
Thanet sewers	**Definition:** The expected number of months delay to deliver an enhancement scheme related to the reduction of exfiltration from sewers located within tunnels in Thanet by 31 March 2025. The specification of the scheme is set out in the company's April 2019 business plan
Maintain bathing waters at 'excellent'	**Definition:** The number of bathing waters maintained at 'Excellent' each year, as designated by the Environment Agency, based on a four-year average. This measures the number of designated bathing waters within the Southern Water region which are assessed as having Excellent bathing water quality at the end of each bathing season. This is based on a four-year assessment. If a bathing water is closed for sampling the company will use the most recent classification as reported by the Environment Agency.

Use water wisely

Improve the number of bathing waters to at least 'good'	**Definition:** The cumulative number of named bathing waters that are improved and assessed as at least 'Good' water quality classification by the Environment Agency in the 2020-25 period. The following are the named bathing waters to be taken to 'Good' classification: • Broadstairs Viking Bay • Littlestone • Lancing, Beach Green • Hastings Pelham Beach • Felpham If during investigations an additional bathing water is identified it can be added to this list with the agreement of the Environment Agency. If a bathing water is de-designated during the period, it will not be counted and will reduce the potential for the company to perform. For the 2024–25 reporting year, if a season is classed as 'abnormal' as there are at least two samples two standard deviations away from typical wet weather affected samples, an underperformance payment will not apply for the 2024–25 year so far that it relates to an 'abnormal' assessment. The performance assessment would be deferred to the following year. The performance assessment for bathing waters assessed as abnormal will not be deferred again. It is expected that any underperformance or outperformance payments for bathing waters assessed as abnormal for the 2024–25 year will apply instead for the year 2025–26, this will be confirmed at the next price review. The overall amount of underperformance or outperformance payments should be the same as if an assessment takes place in 2025–26, had taken place in 2024–25.
Improve the number of bathing waters at 'excellent' quality	**Definition:** The cumulative number of named beaches that are improved and assessed as 'Excellent' bathing water classification by the Environment Agency in the 2024–25 period. At least two from the following four bathing waters will be improved: • Gurnard; • Seagrove; • Ramsgate Sands; and • Pevensey Bay If a bathing water is de-designated during the period, it will not be counted and will reduce the potential for the company to perform. For the 2024–25 reporting year, if a season is classed as 'abnormal' as there are at least two samples two standard deviations away from typical wet weather affected samples, underperformance payments will not apply for the 2024–25 year so far that it relates to an 'abnormal' assessment. The performance assessment would be deferred to the following year. The performance assessment for bathing waters assessed as abnormal will not be deferred again. It is expected that any underperformance or outperformance payments for bathing waters assessed as abnormal for the 2024–25 year will apply instead for the year 2025–26, this will be confirmed at the next price review. The overall amount of underperformance or outperformance payments should be the same as if an assessment that takes place in 2025–26, had taken place in 2024–25.
Effluent re-use	**Definition:** Volume of treated effluent in cubic metres (m^3) made available annually for direct re-use by customers. The measurement will be m^3 of treated effluent utilised by local authorities, businesses, farmers and communities on an annual basis. It measures effluent that the company no longer discharges direct to the environment but instead provide to a third party (at the appropriate quality required) for use. This could be, for example, to a council for watering flower beds or to a grower for crop irrigation.

Use water wisely

Natural capital	**Definition:** The cumulative number of river catchments for which the company establishes and publishes baseline natural capital accounts. The company will establish baseline natural capital accounts for at least three of its ten catchments (the Test, Arun & Western Streams and Medway catchments) supported by natural and social capital metrics that will allow it to monitor and measure changes in natural capital stocks (extent and condition) and the value of water-related ecosystem services over time as a result of it investments/activities.
Distribution input	**Definition:** This measure is reported as an annual average in megalitres per day (Ml/d). Distribution input should be reported using the following criteria: • Distribution input to the system shall be metered with at least daily readings at all locations of water input to the distribution network at treatment works, boreholes and bulk supply locations; • Meters shall be an appropriate size for the flow to be measured and located at appropriate inputs to the network confirmed by record plans. Any treatment works' take-off downstream of a meter shall be excluded from the distribution input calculations; Data validity checks shall be carried out at least monthly; • Any missing data shall be infilled using both pre- and post-data for the location over at least one month, extrapolated from pump hours or use of upstream or downstream meters; and • The data transfer systems from meter output to the central database shall be checked and validated on a risk-based frequency every one to two years. This measure should be calculated consistently with other water balance components. If any missing data is infilled then the same data should be used in leakage and per capita consumption (PCC) reporting.
Treatment works compliance	**Definition:** Treatment works compliance is defined in the reporting guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 8). ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf. The discharge permit compliance metric is reported as the number of failing sites (as a percentage of the total number of discharges) and not the number of failing discharges.
Renewable generation	**Definition:** Total renewable electricity generated as a percentage of the company's total electricity consumption. The measure includes all electricity consumed at the company's sites, including both operational sites and offices. All renewable energy generated on the company's sites will contribute towards this performance measure, irrespective of whether it has been generated using assets owned, operated and maintained by it, or on behalf of it by a third party, non-regulated, or subsidiary business unit. In this way performance against the target will be intrinsically linked to behaviours incentivised by the market for the purpose of value creation and not restricted by a traditional operating model. The total amount of renewable electricity generated at the company's sites is measured in kilowatt hours (kWh) at the generation source after deducting any power not used (parasitic loads) and including electricity both consumed on site and any surplus exported into the National Grid.

Use water wisely

Satisfactory bioresources recycling	**Definition:** The overall percentage of company sludge satisfactorily used or disposed of in line with version 3 of the Environment Agency's Water and Sewerage Company Environmental Performance Assessment (EPA) methodology (published November 2017), which includes compliance with certain environmental laws and industry agreements in effect at the date of final determination, including: • the Sludge (Use in Agriculture) Regulations 1989; • Environmental Permitting (England and Wales) Regulations 2010; and • Water company voluntary compliance with the Safe Sludge Matrix. The full methodology, published in 2017, can be found here: ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf.
River water quality	**Definition:** The cumulative length of river improved as a consequence of regulatory and legislative drivers. The length of river defined as improved will be based on the delivery of specified schemes in the WINEP. The commitment level will be limited to those schemes with Green status as at 1 April 2019 and which are already confirmed. The length of river water quality improvements will be derived from specified schemes in the WINEP. It is assumed for the purposes of this performance commitment that delivery of the WINEP schemes will deliver the specified improvements to water quality.
Combined Sewer Overflows (CSO) Monitoring	**Definition:** Percentage of CSOs with effective monitoring. To count as effective monitoring under this measure, the following criteria will apply: • The monitor is an 'Event and Duration Monitor', which is a monitor that monitors that a CSO has spilt and the duration of the spill; • The monitor is in place and available providing at least 10 months valid data in any one year; • Data from the monitor has been validated, through either internal or external review; and • Data from the monitor has been made available on the company's website.
WINEP delivery	Has the company 'met' or 'not met' all of its requirements for WINEP, in the reporting year. This measure tracks the completion of required schemes in each year, as per the latest WINEP programme published by Defra. If any scheme is not delivered by the time specified in the WINEP tracker titled 'Completion Date (DD/MM/YY)', the company will report 'not met'. All WINEP schemes will be included including those reported under other performance commitments.

Protect and improve the environment

Access to daily water consumption data	**Definition:** Number of residential properties provided with a device which can give access to daily water consumption. The measure includes all residential properties.
Water saved from water efficiency visits	**Definition:** Estimated reduction in consumption in cubic meters per days from 1 April 2020. The estimate is based on the number and type of water saving devices fitted and their estimated usage reduction. This will be calculated by the company's water efficiency visit supplier at the time of the visit. A water saving device is any physical device designed to save water (for example, a low flow shower head or tap aerator) or other intervention (for example, dripping tap repair). The estimated saving will be based on the estimated daily saving associated with each device installed and the customer's stated usage. The estimated daily saving associated with each device installed will be published on the company website. The annual savings will be calculated as the sum of the estimated daily savings at each property. The measure includes all residential properties.
Leakage	**Definition:** The percentage reduction of three year average leakage in megalitres per day (Ml/d) from the 2019–20 baseline. The total level of leakage is defined in the Final reporting guidance for PR19 – Leakage, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-leakage. Three-year average values are calculated from annual average values for the reporting year and two preceding years and expressed in megalitres per day (Ml/d).
Per capita consumption	**Definition:** Per capita consumption is defined in the Final reporting guidance for PR19 – Per Capita Consumption, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-per-capita-consumption. Three-year average values are calculated from annual average values for the reporting year and two preceding years and expressed in litres/person/day (l/p/d).
Target 100	**Definition:** Percentage of household population with estimated per capita consumption (PCC) of less than 100 litres/person/day. PCC is defined as the average amount of water used by each customer that lives in a household property.

Appendix 3. Board statement on the accuracy and completeness of the data and information (financial and non-financial)

We, the Board of Southern Water (SWS), have carefully considered the requirements of the Board statement on the accuracy and completeness of the data and information (financial and non-financial). The Board is pleased to provide the following Board Statements.

We believe that our stakeholders deserve to have trust and confidence in the integrity of the information we provide in our annual reports. In order to achieve this, our performance reporting is subject to a system of checks to ensure that we meet the highest quality of reported information.

The Board is fully aware of previous issues with the control environment of the Company and has over the last seven years worked with the executive management team to rebuild capability in this area supporting the continued maturity of the internal system of control and assuring performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual Plan (both of which are signed off by the Audit Committee). This work is fully embedded, on-going and is on track and is now supporting our operational turnaround plans.

In this context, the Board has actively engaged and challenged the assurance processes that have been adopted by the Company. This covers assurance on both the financial and non-financial reporting and assessment of applicable confidence grades. The Board has, over recent years, taken action to ensure that exceptions and weaknesses in the assurance approaches have been addressed. The Board is satisfied that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information. This has been discharged through the SWS Board and its relevant Committees (most notably the Audit Committee).

Detail of this activity is included below:

Financial Reporting

- The Board reviewed the assurance outputs regarding the financial performance and prospects, reported in the 2023–24 Annual Performance Report, from Deloitte relating to the statutory and regulatory accounts. Deloitte presented their views to the Audit Committee on 19 June 2024 and to the final sign-off meeting on 8 July 2024.
- The Board has visibility of the high-level financial governance and controls that are in place around our financial reporting, and this is captured as part of the annual external audit, internal audit reports looking at financial controls and updates on the implementation of new accounting standards as reflected in the Schedule of Matters Reserved to the Board.
- The Board reviews the monthly KPI reports, including performance against budgets.
- The Board, via its Committees, monitors the Southern Water internal control framework and, if necessary, how weaknesses are being addressed. This applies to both Financial and Non-Financial controls.
- The Board has approved updates in the Annual Report, Mid-Year Accounts, Annual Performance Report and Data Assurance Summary that detail improvements in governance and controls and has included specific caveats where capability has been improving.

Non-Financial Reporting

- The Board continues to support the Company to ensure it maintains the standards required by our regulators and ourselves – for example, data reporting and assurance – work is ongoing to materially improve processes and systems, underpinned by values-based ethical business practice, to ensure the mistakes of the past are not repeated.
- SWS has adopted the ‘three lines of defence’ framework for reporting governance and assurance activity. This has been in place since 2017 and has supported the continued maturity of the internal system of control and helps to assure performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual plan (both of which are signed off by the Audit Committee).
- Internal controls are applied and improved processes are now in place to mitigate the risk of supplying incorrect or inaccurate information in all the Company’s non-financial regulatory reporting.
- The Board and Audit Committee regularly receive and review information and reports on non-financial resources and performance that support the efficient delivery of services to our customers and other stakeholders.

- The Audit Committee reviews progress of non-financial reporting improvement plans and the Ofwat Section 19 undertakings.
- The Board reviewed the assurance outputs regarding the non-financial performance, reported in the 2023–24 Annual Performance Report from KPMG. KPMG presented their views to the Board Audit Committee at the meeting on 19 June 2024.
- The Board, via its Audit Committee has received an internal assurance report in March 2024, which reported Southern Water's compliance with its Licence of Appointment.
- The Board, via its Committees, monitors the Southern Water internal control framework and, if necessary, how weaknesses are being addressed. This applies to both Financial and Non-Financial controls.
- The Audit Committee has monitored the completion of a risk-based programme of audit and assurance activities during the year.

Data Assurance Summary

We have published a separate document that details the completed assurance work performed on our reported information for the 2023–24 financial year. The results, both positive and improvement areas, are published in the document entitled 'Data Assurance Summary' which is available on our Southern Water website southernwater.co.uk/about-us/our-annual-reporting.

Stuart Ledger
Chief Financial Officer

Keith Lough
Chair

8 July 2024

Appendix 4. Tables 1A, 1B and 1C for March 2023 restated

As disclosed in our Annual Report and Financial Statements, note 1, we have made a prior year restatement to deferred tax for the impact of corporate interest restrictions of £82.9 million. As a result, the deferred tax charge in the income statement for March 2023 increased to £166.6 million (previously reported £83.7 million) and the deferred tax liability on the Balance Sheet to March 2023 has increased to £367.4 million (previously reported £284.5 million). For completeness updated copies of tables 1A, 1B and 1C for the period to 31 March 2023 are reported here.

1A – Income statement for the 12 months ended 31 March 2023

			Adjustments			
	Note	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Revenue		815.758	(48.684)	10.467	(59.151)	**756.607**
Operating costs		(835.925)	22.491	(8.779)	31.270	**(804.655)**
Other operating income		1.720	23.229	–	23.229	**24.949**
Operating profit		**(18.447)**	**(2.964)**	**1.688**	**(4.652)**	**(23.099)**
Other income		6.630	17.931	–	17.931	**24.561**
Interest income		4.283	–	–	–	**4.283**
Interest expense		(281.346)	(32.868)	–	(32.868)	**(314.214)**
Other interest expense		(1.600)	–	–	–	**(1.600)**
(Loss)/profit before tax and fair value movements		**(290.480)**	**(17.901)**	**1.688**	**(19.589)**	**(310.069)**
Fair value losses on derivative financial instruments		659.120	–	–	–	**659.120**
Profit/(loss) before tax		**368.640**	**(17.901)**	**1.688**	**(19.589)**	**349.051**
UK Corporation tax	3	–	–	–	–	**–**
Deferred tax		(166.600)	4.475	–	4.475	**(162.125)**
Profit/(loss) for the year		**202.040**	**(13.426)**	**1.688**	**(15.114)**	**186.926**
Dividends		–	–	–	–	**–**

1B – Statement of comprehensive income for the 12 months ended 31 March 2023

			Adjustments			
	Note	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Profit for the year		202.040	(13.426)	1.688	(15.144)	**186.926**
Actuarial gains/(losses) on post-employment plans		(11.500)			0.000	**(11.500)**
Other comprehensive income		2.185			0.000	**2.185**
Total comprehensive income for the year		**192.725**	**(13.426)**	**1.688**	**(15.114)**	**177.611**

1C – Statement of Financial Performance for the 12 months ended 31 March 2023

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Net current assets/(liabilities)	**(150.704)**	**8.308**	**3.285**	**5.023**	**(145.681)**
Non-current liabilities					
Trade and other payables	(11.969)	–	–	–	**(11.969)**
Borrowings	(4,133.076)	–	–	–	**(4,133.076)**
Financial instruments	(1,655.331)	–	–	–	**(1,655.331)**
Retirement benefit obligations	(73.000)	–	–	–	**(73.000)**
Provisions	(31.581)	–	–	–	**(31.581)**
Deferred income – grants and contributions	(28.316)	(3.742)	–	(3.742)	**(32.058)**
Deferred income - adopted assets	–	–	–	–	**–**
Preference share capital	(64.665)	–	–	–	**(64.665)**
Deferred tax	(367.428)	64.423	–	64.423	**(303.005)**
Total non-current liabilities	(6,365.366)	60.681	–	60.681	**(6,304.685)**
Net assets	**781.697**	**(193.269)**	**3.694**	**(196.963)**	**584.734**
Equity					
Called up share capital	0.112	–	–	–	**0.112**
Retained earnings and other reserves	781.584	(193.269)	3.694	(196.963)	**584.622**
Total equity	**781.697**	**(193.269)**	**3.694**	**(196.963)**	**584.734**

Appendix 5. Glossary of Regulatory Terms

Appointed business

The appointed business comprises the regulated activities of the company which are necessary for it to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's-length trading

Where the company treats associate companies on the same basis as external third parties.

Asset Management Plan (AMP)

A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP7, the seventh plan since privatisation, covers April 2020 to March 2025.

Associated company

Condition A of the Licence defines an associated company to be any group or related company. Condition F of the Licence requires all transactions between the company and its associated companies to be disclosed subject to specified materiality considerations.

C-MeX

C-MeX is Ofwat's measure of customer experience. It comprises two surveys – a survey of customers who have recently contacted their company and a survey of random members of the public in relation to their water company. These are used to calculate a score which can be compared between water companies, with rewards and penalties for the best and worst performers.

Final Determination (FD)

The conclusion of discussions on the scale and content of the Asset Management Plan for the forthcoming five-year period. It includes a determination of the allowable revenues for the period and the performance targets that must be achieved.

K factor

The annual increase, set by Ofwat, in wholesale revenues that companies in the water industry can recover from customers. The amount by which a company can increase (or must decrease) its revenues is controlled by the price limit formula CPIH + or – 'K'. CPIH is expressed as the percentage increase in the Consumer Price Index (including owner occupiers' housing costs) in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect the revenues it needs above or below inflation in order to finance the provision of services to customers.

Licence

The Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Southern Water Services Limited as a water and wastewater undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Non-appointed business

The non-appointed business activities of the company are activities for which the company as a water and wastewater undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the company (for example, the use of underground assets for cable television).

Ofwat

The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA is the economic regulator of the water industry.

Outcome Delivery Incentive (ODI)

Performance Commitments with outperformance and/or underperformance payments agreed with customers and Ofwat through the periodic review process.

Performance Commitment (PC)

Performance Commitments are service targets set by Ofwat as part of the Final Determination.

Periodic review

A review conducted by Ofwat each five years for the purpose of determining price controls. Each water and wastewater undertaker submits a business plan covering the five-year period for which Ofwat will set the controls. (PR19 relates to 2020–25; PR24 will cover the period 2025–30).

Price control

A price control determines the limit on the level of charges or revenues that can be recovered from customers. As part of the price control Ofwat also determines performance targets and other related matters.

Regulatory Accounting Guidelines (RAG)

The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Regulatory Capital Value (RCV)

The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Consumer Price Index (CPIH)

CPI is a measure of the change in consumer prices based on the prices of a typical basket of goods and services in the United Kingdom. The CPIH measure, includes owner occupier's housing costs. This is the principal measure of inflation used by Ofwat for regulatory purposes, including inflating allowed revenues or prices.

Totex

Total expenditure is the sum of operating expenditure and capital expenditure. It is used by Ofwat to determine the efficient level of costs as part of the periodic review process.

WATER for LIFE®

southernwater.co.uk

Southern Water
Southern House
Yeoman Road
Worthing
West Sussex
BN13 3NX

Registered no. 02366670

7255_07/24

from Southern Water®