

# Northumbrian Water Limited Annual Report and Financial Statements

for the year ended  
31 March 2022

**NORTHUMBRIAN  
WATER** *living water*

**ESSEX & SUFFOLK  
WATER** *living water*

Registered company number 02366703

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# Annual Report and Financial Statements

## for the year ended 31 March 2022

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# Strategic Report

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# Chairman's statement



**For most of our customers, Northumbrian Water Limited (NWL or the Company) is the only available supplier of essential water and wastewater services.**

The Board therefore recognises that we carry very significant responsibilities and must strive to meet the high expectations of everyone we serve and work with. Driven by our Purpose, and our long-term vision to become the national leader in the provision of sustainable water and wastewater services, the Board challenges itself and the Company's employees, to deliver improved performance each year, so that our customers' high expectations can continue to be met. This requires us to consistently deliver outstanding service to our customers across our water and wastewater businesses, as well as maintaining the highest levels of environmental performance.

Our vision to be the national leader in the provision of sustainable water and wastewater services has not changed and we know that this means that we need to continue to raise the bar to improve standards further, deliver leadership and show support for our region and communities in the face of climate change and the challenges it brings.

The Board's Statement of our Purpose, Vision and Performance (our Purpose), which is set out on [page 12](#) reflects the ways in which we strive to achieve this and our Purpose also outlines how the Board sets the Company's aspirations in respect of the services we provide to our customers and other stakeholders, how we are performing against our aspirations and how we structure management rewards to incentivise delivery of these aspirations.

As a Board, we remain committed to continuing our drive to be the national leader and to deliver outstanding service to our customers and other stakeholders both for now and into the future.

It is a primary duty of the Board to balance the interests of all our stakeholders fairly, whilst meeting our fiduciary duties as directors. Our Purpose sets out how we must invest prudently and operate efficiently, in order to provide the essential services our communities rely on for the long term. As Chairman, I believe the Board strikes the required balance very well, assisted by the robust governance arrangements we have in place, which are set out in detail in our Governance report.

Our business has been built to be resilient and adaptable against a background of an increasing incidence of severe weather related events. Over the last year, this included Storm Arwen, which struck in November 2021 and was one of the most powerful and damaging storms in a decade. The situation was declared a civil emergency and I was hugely impressed by how our teams cared for our customers in extremely challenging circumstances. We have also continued to adapt to updated guidance in relation to COVID-19 and our people have shown great professionalism throughout.

This resilient and strong performance is underpinned by our five strategic themes: Customer, Environment, Competitiveness, People and Communities. At each meeting, the Board has reviewed performance against a balanced scorecard of measures related to these strategic themes in addition to health and safety, financial performance and other key factors. A more detailed overview of our work and progress on these themes is set out later in this Strategic Report.

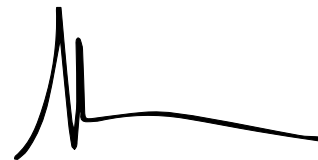
Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review our continued strong performance delivered against the commitments we have made, including, importantly, the progress made in the second year of delivering our 2020-25 Business Plan (our Plan).

Our environmental performance continues to be very strong. We once again achieved the top 4-star rating in the Environment Agency's most recent annual Environmental Performance Assessment (EPA). In addition, we have continued our strong pollution performance and we are on track and making excellent progress towards our ambitious goal to be net zero for operational greenhouse gas emissions by 2027, having already reduced our carbon emissions by over 68% since 2019.

We continue to work at a detailed level in response to the investigation initiated by Ofwat and the Environment Agency (EA) in relation to 'Flow to Full Treatment' (FFT) compliance at our wastewater treatment works. Reducing pollution numbers associated with combined sewer overflows and contributing to our local bathing waters achieving top ratings is of the utmost importance to us.

As ever, it is our people who are our 'front-line' and NWL's performance depends entirely on their continued engagement, initiative, innovation and hard work. I would again like to offer my sincere thanks to all our employees for their dedication and commitment this year.

Finally, I would like to express the Board's sincere appreciation for the longstanding valuable contribution of our outgoing Senior Independent Non-Executive Director (SINED) Paul Rew, who retired from the Board in November 2021. We wish him well for the future. Alan Bryce has taken on the role of SINED bringing a wealth of experience and expertise to the role. I would also like to thank Martin Parker, who retired as General Counsel and Company Secretary in October 2021, for his many years of excellent service to the Company, and to welcome Richard Somerville who assumed this role in October 2021.



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**A J Hunter**  
Chairman

# Chief Executive Officer's review



**I would like to take this opportunity to thank our teams across the business for their flexibility and adaptability as we've continued to provide essential services while the COVID-19 pandemic continued to affect us. Thankfully, we have begun the process of returning to more normal working arrangements and I am delighted we remain one of the leaders in our industry under these challenging circumstances.**

We take our responsibility towards the environment very seriously and remain committed to pursuing our goals to reduce carbon emissions and waste. I'm proud that we've been named on the World's Most Ethical Companies list, compiled by the Ethisphere Institute, for the eleventh time, the only water company recognised. This reflects our work supporting our people and embedding an ethical approach and a strong sense of purpose in our culture.

After making sustained progress since 2017/18 we are delighted to have now reached our ambitious local spending goal, ensuring that 60p in every £1 we spend is spent locally, changing lives for the better in the Northumbrian Water (NW) and Essex & Suffolk Water (ESW) regions we serve. I am also proud of the great progress we have made in tackling affordability, a hugely important topic for our customers. The challenges faced by households through COVID-19 and the impact of high inflation on energy bills and food prices make this as important as ever.

Benchmarking ourselves against others inspires us to constantly find new ways to innovate and improve. We have worked hard to exceed our stretching targets in many areas, building on our strong track record in a year that has not been without its challenges.

## Customer

We're committed to eradicating water poverty in our regions by 2030 and have now reduced that to less than 10%. Despite the recent increase, our bills in the NW region are still the lowest water and sewerage bills in England.

I am particularly delighted that we have excelled in our customers' eyes. Our people work hard to get it right 'first time, fast time, every time', so we can deliver an unrivalled customer experience. C-MeX is Ofwat's measure of customer experience, and I was thrilled to see the results of our effort being reflected in the scores this year, achieving our stretching aim of being in the top two in the industry. In July 2022 NW was listed as the top scoring English water company, and ESW second, in the UK Customer Service Index, a national barometer of customer satisfaction published by The Institute of Customer Service.

## Environment

We were especially pleased to have delivered a good environmental performance, including retaining a 4\* EPA from the EA and we are well on course to exceed our Net Zero target by 2027. In April 2022 we published '**A Vision for Our Coasts and Rivers**' which includes nine pledges we believe will be effective for our unique water environment and make a real difference to our communities. Expectations of the water industry are changing. Increased challenges around climate change and population growth mean simply meeting current obligations won't be enough in the future. While we already perform relatively well against the recommendations recently laid out in Ofwat and the Consumer Council for Water's (CCW's) joint sewer flooding research report, we recognise that areas for improvement exist.

We continue to work in partnership with others as water quality can be affected by many different sources. For example, we have worked with Marske Litter Action, a local community group committed to improving the coastal area, to develop public understanding of our wastewater system and promote our Bin The Wipe campaign.

## Water

We continue to meet the challenges of a changing climate, including facing one of the most powerful winter storms on record in our northern operating area, Storm Arwen. Taking into account the exceptional impacts of Storm Arwen, our performance to keep the water flowing for our customers remains at the forefront of the industry. I was enormously proud of the response of our teams to battle through extreme conditions to return supply for customers as quickly as possible.

Our focus is on making the right long-term decisions to ensure a reliable and resilient supply. We are planning now for future challenges, such as longer periods of dry weather and an increase in non-household demand in Suffolk. Tackling leaky loos remains a key component of our water efficiency strategy as we face the continued challenges of climate change.

Once again, we delivered on the customer focused aspects of water quality, like taste and smell and discoloured water, but there remain areas where we strive to do better. We have agreed a plan for water quality with the Drinking Water Inspectorate (DWI) for which we are currently on track. Our innovation focus continues and we're developing exciting plans using digital twins of the network to tackle problem areas. We were pleased to have reduced the time it takes us to repair customer-reported visible leaks, something our customers tell us is very important to them and demonstrates that we are listening and responding to their priorities.

## Our People and the Communities we serve

Having an engaged, healthy and diverse workforce is critical for our business success. We developed our 'Together for Inclusion, Diversity and Equity' strategy this year which, alongside our award-winning programmes on employee health, contributed to us being named in the top 35 Great Places to Work survey (super-large category) for the second year running.

We were absolutely delighted to be the first and only water company to achieve the Good Business Charter (GBC) accreditation, recognising us for responsible business practices. We're finding new ways to make sure the economic benefit of our spending is maximised in our regions, as per our commitment to supporting local communities, and remain committed to spending 60p in every £1 in region.

## Looking Forward

We are making further progress towards the ambitious goals we set in Our Plan and will continue to drive this forward over the coming year. I know we are building on strong foundations in areas such as customer service and environmental performance. Equally we must improve our performance across water quality, leakage and sewer flooding, investing in the resilience of our assets.

We have already begun talking to customers and stakeholders about our next regulatory Business Plan which will set out our objectives and commitments for the five years from 2025-2030, in the longer-term context of our plan to 2050. We are focusing on understanding and planning for long-term challenges around climate change, economic and population changes, changes to customer behaviours and expectations and developing investment priorities.

We will also continue to work with the EA and Ofwat on their environmental investigations at wastewater treatment works and have already acted to make improvements. Collaboration is key as we strive towards globally important climate change goals and improving the water environment and biodiversity on our landholdings.

We are proud of our achievements to date, but we are never complacent and will continue to make further service improvements.



**H Mottram CBE**  
CEO

This **Annual Report and Financial Statements** is just one of a suite of documents we have published to provide our stakeholders with easily accessible information on our performance and governance. We have also published:

**Annual Performance Report (APR)**: setting out how we have performed against the commitments we made in our Business Plan for 2020-25 and how we are continually striving to improve the services we deliver to our customers and our business Outcomes.

**Data Assurance Summary**: explaining how we ensure that the information we report is accurate, clear and transparent and deliver against the commitments in Our Assurance Plan.

**Our Purpose**: presenting the social, environmental and economic impact we have on the communities we serve.

All of these documents are available on our website at: [www.nwg.co.uk](http://www.nwg.co.uk).

# Business overview

## Our vision is to be the national leader in sustainable water and wastewater services.

We provide water and wastewater services to our customers in the North East of England, trading as Northumbrian Water (NW), and water services only to our customers in the south east of England, trading as Essex & Suffolk Water (ESW).

We employ over **3,000** people.

NW supplies water and wastewater services to **2.7 million** people in the major population centres of **Tyneside**, **Wearside** and **Teesside** as well as the large rural areas of **Northumberland** and **County Durham**. We provide wastewater services only in **Hartlepool**.

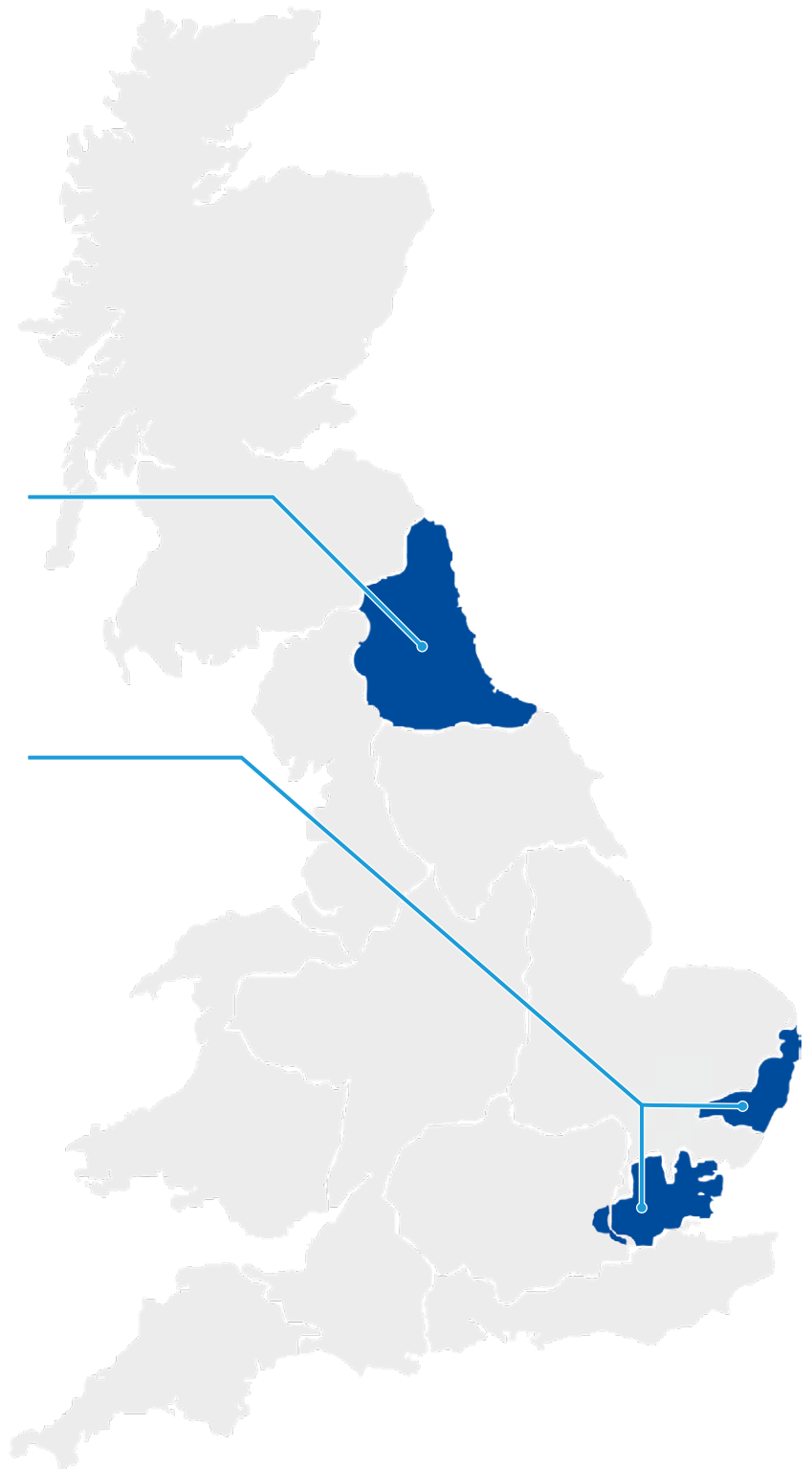
ESW supplies water services to **1.6 million** people in **Essex** and **0.3 million** in **Suffolk**. Our Essex area is part rural and part urban and includes the main population centres of **Chelmsford**, **Southend** and the **London Boroughs of Barking and Dagenham** and **Havering and Redbridge**. Our Suffolk area is mainly rural with the largest towns being **Great Yarmouth** and **Lowestoft**.

We operate and maintain:

- **53** water treatment works;
- **394** water pumping stations;
- **341** water service reservoirs;
- **26,200km** of water mains;
- **410** sewage treatment works;
- **1,007** sewage pumping stations; and
- **30,106km** of sewers.

Every day we supply **1.1 billion** litres of water.

NWL is part of the Northumbrian Water Group (NWG or the Group). Further information about the structure and ownership of NWG is provided on **page 53** of this report.



# Our highlights



## C-MeX - top 2

Ranked 2nd overall for customer experience and satisfaction



## Reducing water poverty

On track to deliver zero water poverty by 2030 despite challenging economic climate



## EPA 4\*

Delivered the highest possible rating and best in industry on the Environment Agency assessment of environmental performance



## Vision for coasts and rivers

Published our pledges to further improve our coast and rivers



## Greenhouse gas emission reduction

Reduce our greenhouse gas emissions by 2/3 in two years



## Emission Possible

Our strategy to deliver Net Zero emissions by 2027



## Innovation fund success

Over £12m of projects awarded from Ofwat Innovation Fund



## Together for inclusion, diversity and equity

Launch of new Inclusion and Diversity Strategy



## Ethisphere - World's Most Ethical Companies

Recognised for 11th time and only water company on the list



## Supporting local suppliers

Over 60p in every £1 spent with local suppliers in our operating regions

# Business model

## OUR PURPOSE

Caring for the essential needs of our communities and environment, now and for generations to come.

We do this by providing reliable and affordable water and wastewater services for our customers.

We make a positive difference by operating efficiently and investing prudently, to maintain a sustainable and resilient business.

## OUR VISION

Our vision is to be the national leader in the provision of sustainable water and waste water services.



## OUR STRATEGIC THEMES



CUSTOMER



ENVIRONMENT



COMPETITIVENESS



PEOPLE



COMMUNITIES

## OUR VALUES



CUSTOMER FOCUSED



ONE TEAM



RESULTS DRIVEN



ETHICAL



INNOVATIVE

## OUR REPUTATION



# Our Purpose

## Our Purpose

We redefined our Purpose last year, working with Business in the Community (BITC) and engaging with employees, customers and stakeholders, to give us a powerful, relevant and shared understanding of why our company exists. We have worked this year on embedding our Purpose in the business and developing an approach to effectively measure and transparently communicate how well we implement our Purpose. The Our Purpose report, which is available on our website, describes our progress and performance against these measures.

## Our Vision

Our Vision sits alongside our Purpose and clear sets out what we want to achieve, to be the national leader in the provision of sustainable water and wastewater services.

## Our Strategic Themes

We aim to deliver our Vision through our five Strategic Themes of Customer, Environment, Competitiveness, People and Communities. We measure our performance using a balanced scorecard across all of these Themes and report this performance on [pages 23 to 52](#).

## Our Values

Our Values set out how we behave in order to deliver our Purpose and Vision and are well recognised and understood across the business. Over the last year we have focused on making clear links between our Values and Purpose. We have refreshed the look and feel of our Values and they are now a core part of our updated performance management approach, called Connect.

## Our Reputation

How we perform and how we behave underpins our Reputation which is of great importance. Building trust among our customers and wider stakeholders is crucial to achieving our Purpose.

# Our Outcomes: 2020-25

We created Our Plan for 2020-25 to deliver the outcomes that matter most to our customers.



## Unrivalled Customer Experience

- Our customers tell us we provide excellent customer service and resolve issues quickly
- Our customers say they feel informed about the services we provide and the importance of water
- Our customers say we are a company they trust
- Our finances are sound, stable and achieve a fair balance between customers and investors



## Reliable and Resilient Services

- We are resilient and provide clean drinking water and effective sewerage services, now and for future generations
- We always provide a reliable supply of water
- Our drinking water is clean, clear and tastes good
- Our sewerage service deals with sewage and heavy rainfall effectively



## Affordable and Inclusive Services

- Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all



## Leading in Innovation

- We are an innovative and efficient company



## Improving the Environment

- We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife
- We take care to protect and improve the environment in everything we do, leading by example



## Building Successful Economies in our Regions

- We are proud to support our communities by giving time and resources to their important causes
- We work in partnership with companies and organisations to achieve the goals that are most important to our customers

# Our stakeholders

## We provide an essential service that is relied on by our customers and communities

Understanding their experiences, needs and expectations is therefore vital to our business success in the short and long-term.

To achieve this it's critical for us to engage with the representatives and organisations who share and help to advance their interests, including in relation to the environment in our regions.

We engage proactively with a wide range of stakeholders to understand their views, insight and expertise, and work with them to provide an unrivalled customer experience and deliver our business Outcomes.

### Customer voice

#### Customers

Understanding our customers' priorities and preferences, and how they experience our services, is vital to delivering world class services today and preparing for the future.

#### How we engage

- Focus groups / deliberative workshop groups, including via digital platforms
- Co-creation workshops
- Email surveys
- SMS surveys
- Social media
- Community Portal
- Online community groups – Have Your Say
- People's Panels
- Customer Zone at Innovation Festival

#### Key issues discussed

- Defining the Future
- Long-term strategies
- Drainage and Wastewater Management Plans (DWMP)
- Water Resource Management Plans (WRMP)
- SMART metering
- Complaints and compensation
- Water environment improvements
- Water use behaviours
- Digitalisation
- Campaigns feedback

#### Consumer Council for Water

CCW is the statutory consumer body for our sector, representing customers' interests on a national and regional basis. CCW help us understand how we can continue to develop world class customer service and deliver against increasing customer expectations.

#### How we engage

- Responding to consultations
- Sharing material for review
- Quarterly liaison meetings
- Attendance at regional public meetings
- Bespoke engagement sessions
- Industry working groups and best practice forums
- Customer Service Network / PAGs

#### Key issues discussed

- Complaints management and best practice
- Water Matters tracking research
- Tariffs, including social tariffs
- Customer engagement
- Future service provision
- Innovation Festival outcomes

#### Water Forum

The Water Forum brings together a range of experts from various stakeholders. Our Water Forum plays a critical role in challenging us on how we listen to and act upon customer views, as well as our performance across a range of focus areas.

#### How we engage

- Formal meetings and sub-groups
- Meetings with senior managers, Executive Leadership Team (ELT) and Board members
- Consultation processes

#### Key issues discussed

- Company performance
- Customer engagement activity and performance
- Financial support for customers
- DWMP and WRMP
- Drinking water quality improvements
- Climate change adaptation and mitigation

## Government and regulatory context

### Ofwat

As our economic regulator, Ofwat plays a key role in setting our price controls and performance commitments and monitors compliance with our regulatory duties.

### How we engage

- Responding to consultations
- Peer to peer contact and meetings
- APR

### Key issues discussed

- Preparation for PR24
- Preparation for APR, including assessing impact of Storm Arwen, and treatment of Greenhouse Gases reporting
- Engagement with Ofwat's innovation competition
- FFT Investigation

### Environment Agency

The EA regulates environmental protection and we liaise on our environmental performance, discharge compliance, pollution and sewer flooding. We are committed to delivering excellent environmental outcomes and work closely with the EA to ensure we consistently achieve high standards.

### How we engage

- Responding to consultations
- Annual and monthly performance reviews
- Management reviews
- National strategy and practitioner networks
- Industry task and finish groups
- Joint working group on pollution incidents and monthly pollution challenge group meetings
- Site visits
- Regional and local partnerships and groups, including Regional Flood and Coastal Committee, Northumbria Integrated Drainage Partnership and Catchment Partnerships
- Water Resources East

### Key issues discussed

- Compliance and performance, including pollution and bio-resources
- Event duration monitoring of Storm Overflows
- WINEP delivery
- DWMP
- WRMP
- Howdon Sewage Treatment Works expansion

### Drinking Water Inspectorate

The DWI monitors drinking water quality. Our commitment to providing clean, clear and great tasting water requires us to understand and meet the DWI's expectations for best practice. In the last year we entered into a Transformational Design with DWI in order to identify our main risk areas to water quality performance and create a collaborative Transformation Plan.

### How we engage

- Responding to consultations
- Quarterly operational and transformational liaison meetings
- Senior leadership strategy meetings
- Chief Inspector's report launch meetings
- Consultation and negotiation via Water UK groups at board, strategic and policy levels
- DWI laboratory liaison groups
- Water safety planning forums
- Reviews of regulatory commitments
- Industry task and finish groups
- On site collaborative investigations and audits

### Key issues discussed

- Company compliance assessments
- Dissemination of company incidents and agreed learning points
- Technical audit feedback
- Progress with agreed programmes of work
- Internal water quality communication strategy
- Collaboration opportunities
- National legislation changes
- Research outputs

### Government and policy makers

Politicians, civil servants and policy makers have a significant influence on the conditions within which we operate, as well as a clear interest in understanding how we serve our customers and communities.

### How we engage

- Briefings
- Site visits
- Face to face meetings
- Attendance at key forums
- Speeches and events
- Response to consultations

### Key issues discussed

- Environmental performance and net zero commitment
- Environment Act
- Water demand
- Storm Overflows and river water quality
- Eradicating water poverty
- Innovation activity

## Our people and partners

### Colleagues

Our colleagues deliver daily the activities and services that enable us to achieve our ambitious goals. Our success is dependent upon their engagement, collaboration and innovation. Therefore, it's essential to understand their needs and invest in them. We engage both through our Employee Relations Framework and via a range of communication channels.

### How we engage

- Weekly 'Heidi Live' question and answer session via broadcast with CEO
- TeamTalk business update events with Leadership Group and cascaded to all colleagues
- Internal communication channels – new intranet, weekly interactive newsletter, email newsflashes, digital screens, Yammer
- Leadership Conferences
- Informal 'coffee morning' discussions with CEO and ELT
- Company-wide employee surveys
- Internal networks and forums

### Key issues discussed

- Company performance and scorecard updates
- Reinforcing our Company purpose, vision and values
- Health, safety and wellbeing campaigns
- Return to Office planning and communication following pandemic
- Diversity and inclusion strategy and campaigns
- Innovation projects and ideas
- Survey feedback and resulting focus areas

### Supply chain partners

Our supply chain is vital in enabling us to deliver our services. It is also a significant part of the economic impact we deliver in our regions, through our goal of spending 60p in every £1 with suppliers in our operating areas.

### How we engage

- Joint Framework Governance Groups
- Safety, Health and Environment Forum
- Integrated programme delivery teams
- Joint conferences and workshops
- Joint recruitment and development of employees
- Leading and participating in industry bodies
- Partner participation in our Innovation Festivals

### Key issues discussed

- Innovation and best practice solutions
- Sustainable operations including environmental challenges
- Stakeholder engagement and customer service improvement
- Capex programme delivery
- Community investment initiatives
- Responsible procurement approaches

## Civil society

### Local authorities

Local authorities are important partners in delivering services within their areas. They also have a deep understanding of the communities we operate in.

### How we engage

- Regular meetings with senior officials and lead councillors
- Technical input and support on planning matters
- Participation in consultations and steering groups relating to environment or economic development issues

### Key issues discussed

- COVID-19 response
- Asset investment schemes
- Local campaigns and customer engagement initiatives
- Environmental performance
- Regional plans, including economic development and environmental initiatives
- Eradicating water poverty
- Water resources
- DWMP

### Charities and non-governmental organisations (NGOs)

We're committed to positive outcomes in our communities and environment. Working with organisations that share this passion and have deep knowledge and expertise enables us to deliver more effectively.

### How we engage

- Sponsorship and donations
- Just an Hour volunteering programme
- Policy input
- Innovation and development support
- Governance support
- Meetings and forums
- Partnership schemes and collaboration

### Key issues discussed

- Environmental activities and investments
- Water for health campaigns
- Eradicating water poverty
- Education initiatives
- Regional policy support

### Media and opinion formers

Media and other influential voices in our regions and industry help us to communicate important messages about our services and understand the impact they have on our audiences.

### How we engage

- News releases
- Briefings
- Events

### Key issues discussed

- Critical incidents
- Investment schemes
- Key campaigns, including Bin The Wipe
- Environmental initiatives
- Water saving / usage advice
- Water safety advice
- Customer service support
- Community initiatives

## Investors

### Investors

We are conscious of our duty to act in the best interests of our shareholders and we seek to achieve a fair balance between them and our customers and other stakeholders, including debt investors. Our investors ensure we have access to the funding we need to deliver services and invest for the future and provide important feedback and insight to inform our business practices.

### How we engage

- Shareholder directors
- Periodic reporting
- Investor update on new issuance
- Credit investors portal
- Credit agency meetings and publications
- Engagement with banks

### Key issues discussed

- Financial results
- Regulatory and operational performance
- Funding, hedging and liquidity
- Regulatory environment
- Capital programme update

# Section 172 statement

## The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in Section 172 of the Companies Act 2006.

In doing so, the Directors must have regard to the needs of, and impact on, our many stakeholders and the other matters described in the legislation. This Section 172(1) Statement has been prepared in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 to describe how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act when performing this duty.

### How the Board has operated

We describe how the Board operates in the best interests of the Company and its stakeholders in our Governance Report on [pages 64 to 111](#). This explains how the Board:

- Has established the purpose, strategy and values to reflect the needs of all of our stakeholders;
- Takes full responsibility for all aspects of the business over the long-term;
- Demonstrates leadership and an approach to transparency and governance which engenders trust and ensures accountability for its actions; and
- Has a range of skills and experience, including strong independent membership, enabling it to make decisions that address diverse customer and stakeholder needs.

### Purpose

The Board oversaw and endorsed a review of the Purpose Statement in 2020/21, involving extensive engagement with employees and customers, in partnership with BITC. This redefined the Purpose to clearly communicate why our Company exists and to generate a deeper understanding and shared ownership among our people and stakeholders.

### Long-term planning

The nature of our business requires a long-term view to be taken and this is enshrined in our Purpose Statement.

This long-term perspective underpinned the Board's strategy for the PR19 Business Plan, which set out ambitious goals in respect of achieving net zero carbon and delivering reliable and resilient services for future generations.

During the year the Board commenced its planning for PR24 and is clear that it retains ultimate responsibility for the Business Plan. The Board discussed the importance of balancing the need for environmental and service improvements, in particular reducing storm overflows and improving drinking water quality, with ensuring affordability for customers. It will also consider how the improvement of long term asset health can be addressed through the Business Plan.

It established a PR24 Board Sub-group to provide strategic direction on all aspects of PR24 including ensuring that the governance and assurance arrangements underpinning the preparation of the Business Plan are robust and comply fully with Ofwat's requirements. The full Board will approve key strategic decisions and the Plan itself before submission.

The Board closely monitors the financial position of the business through a rolling five year plan, whilst also considering longer-term financial resilience over an extended time horizon as explained in the viability statement on [pages 107 to 110](#). An updated Treasury Strategy was developed, and approved, to meet financing requirements over the next six years. This is now being implemented (see [page 57](#)).

## Dividends

The Board considers whether or not to pay dividends each year after taking account of the considerations set out in its dividend policy. Having not paid any dividend between April 2019 and April 2021, the Board approved a final dividend in respect of the year ended 31 March 2021, reflecting cumulative financial performance over the two years since the previous dividend payment, the impact of the Competition and Markets Authority (CMA) redetermination on the five year plan and performance against statutory obligations and regulatory commitments, as reported in the 2020/21 APR.

For the year ended 31 March 2022, the Board approved the payment of an interim dividend of £58.2m and a final dividend of £55.4m. In reaching these decisions, the Board took account of the underlying financial performance of the business, excluding non-cash movements in respect of the deferred tax restatement, the valuation of derivatives and the impact of high inflation on index-linked debt accretion, the Company's five year plan which remained compatible with investment grade credit ratings, and how the Company had performed for its customers.

The Board took account of the full range of Performance Commitments (PCs) for customers and the environment, both where the PC was achieved and where performance fell short of the target, noting that the overall performance was a net Outcome Delivery Incentive (ODI) reward.

Areas of positive performance included:

- Excellent customer service results on C-MeX (top two in the industry) and D-MeX, along with further extension of affordability support to customers and reduction in number of void properties;
- Continued industry-leading performance on interruptions to supply (excluding the exceptional short-term impact of Storm Arwen) and positive outcomes on burst mains and contact levels on appearance, taste and smell of water;
- Awarding of 4\* EPA, reflecting excellent overall environmental performance; and
- Further progress on reducing greenhouse gas emissions towards our objective of being net zero by 2027.

In respect of areas requiring improvement, the Board took account of the action plans being carried out to improve these areas, including:

- The substantial investment to improve water quality and compliance risk index score, working closely with the DWI on a transformation plan;
- Additional commitment both in terms of resources and investment to reduce leakage levels; and
- Innovative approaches to reduce the causes of sewer flooding, such as the Bin The Wipe campaign, as part of a broader flooding tactical plan.

The Board also considered the significant interruptions to supply resulting from Storm Arwen, which was classified as a major incident by local authorities in the region, noting that these were largely caused by power supply failures and recognising the tremendous effort put in by our teams to minimise disruption and return customers to supply as quickly as possible. Learning points have been noted where some equipment failures prolonged outages.

The Board is fully aware of the ongoing investigations by the EA and Ofwat into 'Flow to Full Treatment' (FFT). The Company has developed a detailed action plan which is being implemented to address issues arising. These investigations have not concluded and the Board will respond as appropriate in due course.

Following discussions with Ofwat, the Board also approved the payment of a special dividend of £159m, from the non-appointed business, to enable an intercompany loan arrangement with Northumbrian Water Group Limited (NWGL) to be settled. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company.

### Strategic risks

The Board, through its Risk & Compliance Sub-committee (R&CSC), monitors the principal risks and uncertainties facing the business including longer-term strategic risks. A detailed review of the Strategic Risk Register is carried out each year, most recently in December 2021, which considers horizon scanning reports from external sources. The principal risks and uncertainties, and how they are mitigated, are reported on [pages 58 to 63](#). The R&CSC identified two new principal risks, in relation to asset health and supply chain risks, as well as discussing how the problem of micro plastics in the water environment is becoming an increasingly important issue.

### Governance

The Board is committed to maintaining high standards of corporate governance and business conduct.

We adhere to Ofwat's Board leadership, transparency and governance principles, subject to the exceptions explained on [pages 73 to 80](#). We also operate in accordance with the Wates Corporate Governance Principles for Large Private Companies, and explain our compliance with the principles on [page 87](#).

### Independent Membership

Five new Independent Non-Executive Directors (INEDs) have been appointed to the Board since April 2021. Through the work of its Nomination Committee, the Board ensured that the newly appointed INEDs bring a wide range of relevant expertise and experience.

Whilst the Board will continue to work as an integrated whole, the new INEDs each have areas of special focus, drawing on their professional expertise and backgrounds and working with particular stakeholder groups. Peter Vicary-Smith pays particular attention to customer-related matters, Jacqueline McGlade brings a strong environmental perspective, Bridget Rosewell provides insight on asset management and Alan Bryce works closely on employee matters. In addition, Bridget Rosewell and Alan Bryce will have particular regard to our work in the north east, and Richard Sexton and Jacqueline McGlade to our work in Essex and Suffolk. Alan Bryce has been appointed as SINED. Richard Sexton has been appointed as Chair of the Audit Committee and R&CSC.

### Stakeholder engagement

The Company has a wide range of stakeholders and we describe how we engage proactively with these groups in Our Stakeholder section on [pages 14 to 17](#). Much of the stakeholder engagement takes place at an operational level, with the Board receiving regular reports in respect of customer service, operational performance, health and safety and key risks, such as data security and water quality.

The Board reviews Company performance across a wide range of subjects at each meeting through the balanced scorecard (see [pages 23 to 24](#)), which tracks performance across our corporate themes of Customer, Environment, Competitiveness, People and Communities, and also through management reports on health and safety, finance, customer, regulation and operational performance. This provides a balanced view of performance enabling informed decisions to be made which fairly reflect the broad range of stakeholder interests.

### Customers

Understanding customer needs is critical to delivering unrivalled customer service and this underpins the Board's decision making. As part of understanding customer needs, the Board supports direct customer engagement across a wide range of subjects, as well as engaging with CCW and the Water Forum. During the year this included developing a customer research and engagement strategy for PR24 and ongoing engagement on the development of regional and local water resource management plans and drainage and wastewater management plans, which will inform long-term planning for our water and wastewater businesses.

The Board and its R&CSC continued to take a keen interest in cash collection trends from customers and, in particular, how the Company is working with CCW and other stakeholders to extend the use of social tariffs for customers with affordability issues. The R&CSC discussed CCW's independent review of water affordability and supported efforts to encourage policy makers to implement compulsory metering.

See [pages 25 to 32](#) for more information on Customer matters.

## Environment

The Board is conscious of the environmental responsibilities of the business and the importance of maintaining the highest standards of compliance. The Board, through its R&CSC, regularly requests 'deep dives' into areas of particular importance to its stakeholders enabling it to understand the risks and actions and provide direction.

The Board held a number of discussions around the subject of water quality in rivers, an area of increasing interest to stakeholders, and the impact of storm overflows which are a key part of the design of the network. Acknowledging that it would be prohibitively expensive to remove all storm overflows, the Board considered the debate to seek an approach acceptable to all stakeholders. The Board noted that the Environmental Audit Committee had observed that agriculture was a significant cause of pollution and that the Company's catchment management work could help in that regard.

The Board also played an active role in ensuring that a comprehensive response was provided to the Ofwat and EA investigations into compliance with permit conditions at wastewater treatment works.

The R&CSC received an update on business resilience and climate change and discussed how climate change could be manifested more explicitly across the business, involving all employees as climate change champions. Professor McGlade provided input into the Company's Climate Adaptation Report, reflecting her expertise in this area.

See [pages 33 to 38](#) for more information on Environment matters.

## Employees

The health and safety of employees is the first matter considered by the Board at each meeting, including considering any lost time accidents or high risk incidents and the learning points taken from them as well as performance against leading and lagging indicators. The Board discussed the Company's approach to staff returning to offices in the aftermath of the COVID-19 pandemic and how to return staff on a phased basis to improve productivity and service levels whilst ensuring their safety.

The Board discussed proposals to consult with employees on the closure of the defined benefit pension scheme in the light of increasing costs and volatility. The Board discussed how proposed contributions rates for a replacement defined contribution scheme could be benchmarked in the region and across the sector and considered how the impact on employees could be mitigated.

The Board also received updates on the development of an asset backed funding arrangement to improve the sustainability of the scheme's deficit recovery plan, and discussed how this would benefit customers and employees.

See [pages 42 to 47](#) for more information on Employee matters.

## Community

The Board considers sustainability matters and the impacts on the local community when approving capital projects and contracts, and also when it discusses the progress of major capital investment projects.

The Board was kept apprised of research and engagement with local communities to help shape activities to deliver the Company's Water Environment Improvements performance commitment. Many customers were keen to be involved in local projects and wanted the opportunity to volunteer to help deliver local improvements.

See [pages 48 to 50](#) for more information on Community matters.

### Suppliers

Our supply chain is vital in enabling us to deliver our services, and also makes a significant contribution to the economies of the regions we serve. The Board encourages the Company to work collaboratively and ethically with suppliers. This can be seen in our work with partners on innovation, including our numerous successful bids to Ofwat's Innovation Fund.

The Board approves large contract awards, considering these from an ethical and sustainability perspective as well as a commercial standpoint. The Board also discussed and reaffirmed its commitment to its Slavery and Human Trafficking statement, which aims to ensure transparency on these matters in our supply chain. The Board requested that management carry out further engagement with suppliers to enhance the assurance provided to the Board that they are compliant.

See [pages 39 to 41](#) for more information on Supplier matters.

### Section 172 Duty

The Directors of NWL consider, both individually and together, that they have acted to promote the long-term success of the Company for the benefit of its members as a whole during the year ended 31 March 2022, in accordance with their duties under Section 172 of the Companies Act.

# Performance Review

**In order to measure delivery of the Company Business Plan and goals, we use a balanced scorecard of Key Performance Indicators (KPIs) covering the full range of our strategic themes.**

This reflects the Measures of Success (MoS) and Performance Commitments set in our PR19 Final Determination (FD). Though we track a wide number of metrics in our business, we have reduced the number of key indicators to focus on the matters which are most important to our customers. We report against our full range of PCs in our APR.

The top section of the Performance table on [page 24](#) (with a blue header block) shows our performance against the Outcomes, MoS and PCs we agreed in the PR19 price review. Please note that the leakage targets were revised to reflect changes in the CMA FD.

We have colour coded our customer and environmental performance as follows. We show (●) where we have met our performance against our promise, (●) where we have not met our performance target but still generated a reward or not incurred a penalty, and (●) where we have not met our performance and have incurred a penalty.

We are pleased that we have shown improvement, or held performance stable, on 75% of our stretching customer and environmental targets, including being in the top 2 overall for C-MeX, meeting our leakage target in ESW where we are already at the forefront of the sector and making further improvements on greenhouse gas emissions. However, we aim to achieve all of our PCs and we are always disappointed when our performance doesn't meet our targets.

The bottom section (with a light blue header block) reports our performance against our internal targets under our Competitiveness, People and Communities Outcomes. These are colour coded on a simple pass (●) or fail (●) basis.



## Actual performance against the KPI targets

| Scorecard Measure                                   | Units                 | 2020/21 Performance | 2021/22 Target | 2021/22 Performance | 2021/22 Achieved | 2022/23 Target |
|-----------------------------------------------------|-----------------------|---------------------|----------------|---------------------|------------------|----------------|
| <b>Customer</b>                                     |                       |                     |                |                     |                  |                |
| C-MeX: Customer experience                          | position              | 2nd                 | Top 2          | 1st                 | ●                | Top 2          |
| C-MeX: Customer service                             | position              | 3rd                 | Top 2          | 5th                 | ●                | Top 2          |
| D-MeX: Developer services measure of experience     | position              | 7th                 | Top 2          | 5th                 | ●                | Top 2          |
| Interruptions to supply > 3 hours <sup>1</sup>      | mm:ss                 | 04:04               | <=05:02        | 05:52               | ●                | 04:53          |
| Repeat sewer flooding incidents                     | number                | 25                  | <=28           | 23                  | ●                | <=31           |
| Internal sewer flooding incidents                   | number                | 244                 | <=212          | 238                 | ●                | <=207          |
| Compliance Risk Index (CRI)                         | score                 | 7.11                | <=3            | 6.36                | ●                | <=3            |
| <b>Environment</b>                                  |                       |                     |                |                     |                  |                |
| Leakage (NW)                                        | MI/d                  | 140.0               | <=126.9        | 130.5               | ●                | <=121.3        |
| Leakage (ESW)                                       | MI/d                  | 66.0                | <=60.2         | 59.3                | ●                | <=63.2         |
| Discharge permit compliance                         | %                     | 99.51               | 100            | 98.04               | ●                | 100            |
| Pollution events (Category 1&2)                     | number                | 1                   | <=1            | 1                   | ●                | 0              |
| Greenhouse gas emissions                            | ktCO <sub>2</sub> e   | 55.9                | <=50.21        | 21.92               | ●                | <=21.92        |
|                                                     |                       |                     |                |                     |                  |                |
| Scorecard Measure                                   | Units                 | 2020/21 Performance | 2021/22 Target | 2021/22 Performance | 2021/22 Achieved | 2022/23 Target |
| <b>Competitiveness</b>                              |                       |                     |                |                     |                  |                |
| Gearing: net debt to Regulatory Capital Value (RCV) | %                     | 69.9                | <=77.5         | 69.8                | ●                | <=77.5         |
| Regulated gearing: net debt to RCV                  | %                     | 69.5                | <=70           | 69.7                | ●                | <=70           |
| Interest cover                                      | times                 | 3.0                 | >=2.4          | 2.3                 | ●                | >=2.4          |
| <b>People</b>                                       |                       |                     |                |                     |                  |                |
| Employee engagement – trust index                   | %                     | 70                  | >=72           | 67                  | ●                | >=70           |
| Lost time accidents                                 | number                | 9                   | <=3            | 14                  | ●                | <=15           |
| <b>Communities</b>                                  |                       |                     |                |                     |                  |                |
| Trust - Ethisphere                                  | awarded / not awarded | awarded             | award          | awarded             | ●                | award          |

<sup>1</sup> Excludes interruptions related to Storm Arwen caused by third party power supply failures (see [page 28](#))

# Customer



## Unrivalled Customer Experience

We are passionate about engaging with our customers and work hard to understand how they want us to deliver world class customer service. Our focus remains on getting things right first time, fast time, every time. We know our customers really value this and we always work hard to achieve it.

We were delighted to achieve our target of being in the top two companies for C-MeX, the industry-wide measure that provides a holistic comparison of companies' customer satisfaction and experience.

To improve customer satisfaction, our focus has been on improving customers' experiences when they do get in touch. Where written complaints are received, we take a 'phone first' approach and always try to contact our customers by phone before following up in writing. This makes sure we fully understand their concerns and that they are satisfied with our proposed resolution.

On the broader customer experience measure, we continue to promote the great work we do through our Just Add Water integrated marketing campaign and have ramped up visibility of this in our local communities, promoting the ways in which we can offer help with bills to our customers who are struggling to pay. We've offered at least five contact channels throughout the year, and at least three of them were digital. Examples of our channels include voice, automated interactive voice response, email, webform, website, app, social media, and messaging.

In addition to C-MeX, for our NW region we ranked first place in the water industry and fourth place against all utilities in the latest Institute of Customer Service's UK Customer Satisfaction Index. This is the national barometer of customer satisfaction based on 45,000 customer responses and covering 13 sectors of the economy giving a unique insight into the quality of customer service in the UK as a whole. Our ESW region was named as one of the most improved companies.

We are very proud of these results and of the hard work by our teams, we will continue to build on this top performance for our customers.

**Our customers tell us we provide excellent customer service and resolve issues quickly.**

**Our customers say they feel informed about the services we provide and the importance of water.**

## D-MeX – Developer Measure of Experience

D-MeX is measure the service that we provide to developer services customers, including property developers, self-lay providers and those with new appointments and variations. Our target is to be in the top two companies for D-MeX. This year we finished in 5th place which showed improvement on the previous year.

To improve on our performance, we made three significant changes to our processes. In line with our approach to getting things right first time, fast time, every time, we now direct inbound developer calls straight to the Developer Services team, significantly improving customer experience. We also co-created an online portal for water and sewerage connections, allowing developers to submit applications, track progress and make payments all online while still being able to engage with our people for advice. Thirdly, we have established a working group to transfer learning from our ESW region, where performance has been better, to our NW region and to review end to end processes.

## Customer engagement

Listening to our customers and having a deep understanding of what they expect from us now and in the future is important to us. Digital contact via our website, app and automated phone system spiked during the first COVID-19 lockdown of March 2020 and has not returned to pre-COVID levels. Contact via our website and app is now consistently higher than contact by phone. We believe this demonstrates a permanent change in our customers' contact preferences and are aiming for 72% of contact to be digital by the end of 2022. To support this, we're regularly releasing new features and upgrades to both our website and app. Our digital customer experience roadmap is based on customers' feedback and priorities and so reflects what matters to them.

We're confident that our customers are having a great experience with us online. Our website consistently achieves a world class Net Promoter Score (NPS) of +70 and in November 2021 we were a Silver Award Winner for Best Digital Customer Experience – Telecoms and Utilities at the International Customer Experience Awards.

### Affordable and inclusive services

We have an ambitious target to eradicate water poverty in our operational areas by 2030. We have set annual targets to reduce water poverty each year towards our long-term goal and are delighted to have beaten our target this year to reduce water poverty further. This great result has been achieved despite the difficulties economic circumstances with the impacts of the global coronavirus pandemic followed by significant increases to the cost of living in the form of higher energy, food, and fuel prices. Water and sewerage services should be affordable for all our customers, whatever their circumstances, and they should all have equal access to an unrivalled customer experience.

We remain focused on getting support to those who need it most and given the economic climate and expected investment demands at the next price review, expect to continue this focus into the future. During 2021/22, the number of customers benefitting from financial support through our SupportPlus tariff increased by over 50% and through our company-funded tariff increased by over 20%. We've also seen a steady increase in our WaterSure numbers, which increased by 15% this year.

In January 2022 we relaunched the payment break service, initially launched in March 2020 for COVID-19, in response to the increased cost of living and to support customers experiencing new income shocks. Since the first lockdown, we've given nearly 8,200 customers a payment break. We are supporting customers at the end of their payment breaks with extended arrangements and spreading their remaining balance over the remainder of the billing year. In 2021 we referred more customers to independent debt charity, StepChange, than any other water company.

**Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all.**

In May 2021 CCW published its independent review of water affordability support in England and Wales. The report set out ten recommendations to support financially vulnerable customers. We strongly support and welcome the outputs from the CCW Affordability review and are already delivering on aspects of the review's recommendations with plans in place to do more.

We are pleased to be part of the core Development Group, led by Defra to create a single social tariff for England and Wales, and are playing an active role on several sub groups including economic modelling, operations, and communications. If implemented the tariff will make sure no-one has to spend more than 5% of their income after housing costs on water bills, something we have publicly supported as the first water company in the UK to commit to eradicating water poverty.

We're proud to have maintained BS 19477: Inclusive Service Verification this year. The standard assesses whether inclusive services are fully accessible to all customers and that companies have the right business processes in place. This is the second year that we have completed the audit which reviews our approach to vulnerability and makes sure our services are inclusive for all, whatever a customer's circumstances.

# Case study

## Towards Zero Water Poverty

We made further progress towards our ambitious goal of zero water poverty this year. Here are two of the ways we're helping our customers.

### Data sharing with the Department for Work and Pensions (DWP) to move customers out of water poverty

During the year we started data sharing with the DWP, to help identify customers in need of financial support. This approach allows us to provide an amazing proactive service to our customers, automatically applying discounts to their water bill and moving them out of water poverty without the need for them to take time and effort applying to us. To date we have identified an additional 3,740 accounts we can place onto WaterSure and 9,240 onto Pension Credit. In March 2022 data matching was extended to include Universal Credit which will increase the match rate for 2022/23.

Mrs B. from Dagenham applied for WaterSure as she has a daughter living with disabilities. We accepted Mrs B. onto the tariff without asking her to provide proof of her daughter's disabilities, as we were able to verify this through our data sharing agreement with the DWP. Mrs B's bill monthly payments reduced from £34 a month to £19. We contacted Anglian Water on her behalf, and they have applied the WaterSure cap to her wastewater bill, saving her more money.

### Flexible payment arrangements

As our customers' are impacted by increases to the cost of living, we want to do everything we can to protect the affordability of water bills, by supporting them to have more control and flexibility over the payments they make.

In June 2021 we launched the option for customers to make payments using KiKapay. This is a new payment service that uses open banking to connect customers to their bank to initiate secure and immediate payments. This gives our customers more control over their payments. Since launching KiKapay several hundred customers have used it to bring their account back up to date.

Following our virtual Innovation Festival in 2020 we worked with Netcall to create an app which creates a smoother and more efficient payment journey. Customers can request changes to the amount they pay each month, either reducing or increasing it. The app also allows customers to request financial support if they feel they would benefit from a wider affordability conversation, where we can signpost to alternative tariffs or support. To date we have received 9,929 applications at a rate of around 60-70 requests a day.



### Reliable supply of water

Our customers expect that water will flow when they turn on the tap and that they should not be affected by shortages of water. Any interruption to the water supply can cause our customers real inconvenience, especially when it is unexpected and we cannot warn customers in advance.

We have delivered amongst the lowest levels of interruptions to supply in the industry over a number of years and performed well again this year, though we failed to achieve our stretching KPI target and our performance was adversely affected by Storm Arwen. We hold weekly reviews to learn from events which have occurred and seek to continually improve our processes. Where possible we seek to restore supplies through alternative methods before the repair is fully completed and have developed a mobile pumped water storage unit which can temporarily restore supply during more complicated repairs.

### Storm Arwen

Storm Arwen hit the North East of England over 26 and 27 November 2021 and was one of the most powerful and damaging winter storms in a decade. There was widespread and sustained loss of power across the region and a major incident was declared. The loss of power had a significant consequential impact on provision of water to our customers, primarily because of loss of power to our assets and associated loss of communications. We conducted a thorough and independent review into the effectiveness of our response to the storm. The overall findings were that our response was robust, quickly mobilised and effectively organised. It also concluded that we went beyond our duty in organising alternative water supplies and made sure customers on our Priority Services Register received the support they required.

In the context of what was a very challenging and exceptional event to respond to, the review also identified a small number of areas where we could have been more robust, especially in relation to provision of back-up power, and had this been the case then we could have lessened the impact on customers even further. We have accepted the performance impact related to those areas where our response could have been improved upon. This accounts for 01:05 minutes of our reported performance of 05:52 minutes.

**We always  
provide a reliable  
supply of water.**

If the total impact of Storm Arwen was included in our performance, it would give a result of 11:45 minutes. However, in accordance with Ofwat's 'Reporting Guidance - Supply Interruptions' we have requested that an exception be granted on the basis that the storm was declared a civil emergency by the local authorities under the Civil Contingencies Act 2004.

In addition to improving water supply we have continued our efforts to help our customers reduce their demand for water. We have a long term goal to reduce per capita consumption (PCC) to 118 litres per person per day by 2040, from three-year average of 150.6 litres per person per day. However, the COVID-19 pandemic has had a pronounced effect on PCC, which reflects household water consumption only, through increased water use for hygiene requirements and a substantial shift to home working. Social distancing restrictions have also limited our ability to implement water efficiency measures in customer homes. As a result PCC has increased by 4.4% against the 2019/20 baseline. Ofwat has acknowledged the impact of the pandemic on PCC and has agreed to defer the application of any financial incentives until the end of the period in order to allow research to be carried out to understand the impact.

We have continued to adapt our water efficiency strategy to include video surveys of customer's homes and an online water and energy calculator allowing customers to produce personalised reports with tailored water and energy saving solutions. We have been actively involved in two national water efficiency behaviour change campaigns: Water's Worth Saving and Pledge21. We have also introduced our new home water and energy saving retrofit programme, which targets the highest users of water.

### Clean, clear water that tastes good

The water we supply must meet the stringent quality standards set by the DWI, to ensure that it is safe to drink and free of colour and particles, poor tastes and smells. This is measured by the CRI, using information from the whole source to tap journey, through water treatment works, networks and customer taps, to make a more exacting assessment of water quality. Every compliance failure receives a CRI score based on the cause and significance of the failure, the location within the water supply system, and the quality of our investigation. Our ambition is to drive towards a zero score over time.

Our CRI in 2021 of 6.36 showed some improvement on the previous year, but was still above our KPI target of 3 units. We saw a significant improvement resulting from our enhanced programmes of service reservoir maintenance and treated water storage tank inspections. However, a bacteriological failure from a large water treatment works in our Essex area accounted for 2.5 units alone. We're committed to achieving improved levels of CRI and are delivering our long-term plans to reach this. We're working closely with the DWI and as part of a transformation plan, have increased and accelerated funding in our base capital programme.

We are continuing to prioritise our efforts around water treatment where CRI risk is highest, and areas of focus include filter media refurbishment, carbon regeneration alongside a risk review of treatment processes. We completed the full replacement of a treatment site in Berwick, Northumberland which will provide more reliable supplies and meet future drinking water standards. This will be supplemented in the next year with the completion of the new Horsley works feeding large proportions of Tyneside, the replacement of three other sites in Northumberland and the completion of the installation of UV treatment at two works supplying the Durham and Wearside areas.

Our drinking water is clean, clear and tastes good.

The quality of the water we supply is of paramount importance, but our customers also care about the appearance, taste and smell of the water they receive. In recent years we've made improvements at our water treatment works and in our networks to address discolouration and have again beaten our PC this year. We are continuing to progress our programmes of work to avoid discolouration from trunk mains and to flush smaller sized pipes closer to customers.

The number of complaints we received about the taste and smell of our water was also better than our PC. Around 40% of contacts relate to chlorine and we have been carefully controlling the level of chlorine in the water, striking the right balance between wholesome water and lower chlorine levels to maximise our water's acceptability. We are also investigating network operations to determine how we can provide customers with a more consistent supply from the same source, as changes to the water supply can cause concern for customers. Our ambitious goal is to promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water.

### Sewer flooding

Sewer flooding is one of the worst service failures our customers can experience and our goal is to eradicate sewer flooding in the home as a result of our assets and operations. This remains one of our highest business priorities and we recognised that we required a step change in our own performance to meet our targets and progress towards our goal.

Sewer flooding performance is significantly affected by the weather and 2021/22 was much wetter than normal, with major storms and floods such as Storms Arwen and Dudley. Despite this, we improved our performance in the year across each of our sewer flooding measures; internal, external and repeat flooding. However, we know we need to improve further on internal and external flooding to achieve our PC.

**Our sewerage service deals with sewage and heavy rainfall effectively.**

We continued our sewer flooding tactical plan to identify and deliver effective near-term interventions to help reduce the risk of flooding. This is based around customer communication and education, improved operational planning, better use of data analytics and increased proactive CCTV survey programme. We extended our studies to investigate chronic repeat external incidents and opportunities to extend our property level protection programme.

We have continued to tackle sewer blockages, which are a significant contributing factor to sewer flooding, through our Bin The Wipe campaign initiative to create sustainable, behavioural change and stop people flushing wipes which cause blockages. We have now engaged with more than 75,000 households in priority areas, reducing blockages by 45% in those areas, and are seeking to accelerate this programme over the next year. We also continue to engage with food service establishments to help prevent fats, oils and greases from entering our network.

# Case study

## Bin the Wipe

Our war on wipes continues to help protect homes and the environment from pollution. Our industry leading Bin the Wipe campaign aims to help people understand the problems caused by sewer blockages containing wipes that have been flushed down the toilet. By helping people understand that this can cause waste to back up into people's homes, or be forced out into the environment, we hope to encourage people to put wipes into the bin, not down the loo.

When we first launched Bin the Wipe at the start of 2020, we trialled a different initiative in parts of Redcar, giving away bins. More than 50% of homes do not have bins in their bathrooms, and the aim was to make better flushing habits as easy as possible. While this pilot was a success, resulting in a 43% reduction in the number of blockages caused by wipes in the area, a trial of the letters and tracking took place in Stockton, with even greater success, and this is now being rolled out in flushing hot spots across the North East.

Over the last year we've targeted hot spot areas across the North East including around 4,500 homes in Redcar and 6,000 homes in Billingham. Customers receive letters explaining the issues, and how a team will be monitoring the area's sewers, finding flushed wipes, and tracking back up the network to the properties from which they were flushed. As the team close in on streets, or even individual homes from which wipes are being flushed, further letters and doorstep conversations will reinforce the need for people to stop using their toilets as bins.

**Simon Cyhanko, our Head of Wastewater Networks, said:** "Wipes that have been flushed down the toilet are the number one contributor to blockages in our sewers. We find them in more than 60% of the blockages we clear."

"We know not everybody in the area flushes wipes, and we thank those who dispose of them properly. However, those who do are putting not just their own homes, but those of the people who live near them, at risk of sewer flooding."



### Reliable and resilient services

We always consider longer term perspectives in operating our business and use horizon scanning to look for future challenges. This enables us to adapt our plans today to provide a resilient and sustainable business for future generations.

A particular area of focus is understanding the risks posed by climate change. In December 2021 we published our first Climate Adaptation Report, which we submitted to the UK Government, setting out our assessment of our key climate risks, how our business is responding to cope with climate change and the adaptive approach we are adopting.

The key climate risks we've identified relate to flooding, drought and extreme temperatures. We have assessed these risks and set out our action plan under five action areas, developed based on the action areas in the Climate Change Committee's third Climate Change Risk Assessment. These action areas are:

- Engineered and nature based solutions – physical interventions including grey, green and blue solutions;
- Data, R&D and emerging technologies – research, innovation, new designs and tools, digitisation and data;
- Behavioural – new practices, information sharing, engagement and skills;
- Institutional – governance, standards, supply chain, regulation and advisory; and
- Financial - insurance, risk disclosure and finance.

Our PR19 Water Resources Management Plan demonstrated that we have 100% security of supply in all our Water Resource Zones, across the full 40-year planning horizon. We also demonstrated resilience to a drought with a return period of 1 in 200 years in all our Water Resource Zones, with 0% of our customers at risk from severe supply restrictions.

**We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations.**

In 2023, we will deliver our first ever DWMP to identify how we will extend, improve and maintain a robust and resilient drainage and wastewater system in light of the pressures of climate change, population growth and growing customer expectations. The framework provides the basis for more collaborative and integrated planning alongside organisations that have responsibilities relating to drainage, flooding and protection of the environment.

The DWMP will take a long-term view, setting out a planning period that is appropriate to the risks we face with a minimum period of 25 years. This will help inform our plans for future investment in service areas such as sewer flooding and pollution for the next price review in 2024 and beyond. For subsequent planning periods, DWMPs will become embedded within our planning processes as business as usual.

We have a number of other enhancement investments underway which will improve the resilience of our water and wastewater asset base, as well as commencing our roll out of smart water meters. We are also enhancing our cyber security to mitigate against the increasing cyber threat landscape, focusing on the areas that have the greatest impact on protecting our business.

# Environment

The first of our environmental outcomes covers our responsibility towards good quality water at our rivers and beaches and our regulatory obligations to improve the environment. We are committed to meeting our ambitious goals to have zero pollutions as a result of our assets and operations, and to have the best rivers and bathing water beaches in the country.

We are pleased to have retained a 4-star company status in the EA's EPA for 2021, with leading environmental performance.

## Treatment works compliance

This measure includes both wastewater and water treatment works discharges. We were disappointed to have four failing works, one wastewater and three water, out of a total of 203 eligible treatment works. The wastewater discharge was due to an ammonium failure with the water failures being two for iron and one for chlorine.

We have completed extensive investigations to establish the root cause of these events and identified corrective measures to mitigate the likelihood of a reoccurrence. These corrective actions have been either fully implemented or are nearing completion and include improvements to operating procedures and preventive maintenance schedules along with the installation of additional process infrastructure. Each failure has or continues to undergo a thorough investigation process to identify any further mitigation measures to avoid future failures.

Our teams continue to strive for excellence and continuous improvement within our operations. We remain focused and proactive in using leading indicators in monitoring our treatment works taking regular samples that are analysed for compliance, including phosphorous and ammonia, and specific substances that may accumulate to cause a problem in the water environment. We continue to do our best to deliver against challenging new standards, whilst also adapting to challenging circumstances.

**We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife.**

We must also continue to be adaptive and plan to meet future requirements whilst satisfying our continued obligations in contributing to a 'Good' Water Framework Directive status in our rivers.

In November 2021, we, along with all other wastewater companies, were contacted by the EA and Ofwat in relation to measures to ensure permitted 'Flow to Full Treatment' requirements are being achieved at our wastewater treatment works. We submitted a significant volume of data for review and have worked at a very detailed level to offer reassurance that we have a clear oversight of the environmental impacts of our assets and processes.

Our investigations have shown that across the 189 locations where we have these permits we have identified circumstances where we may not have always been achieving the required levels of FFT at a small number of sites. We have a clear action plan to address these sites. We are continuing to scrutinise compliance with our environmental permits at all of our sites and will continue to keep customers and stakeholders updated.

In early March 2022, Ofwat issued a formal notice (known as a Section 203 notice) that requires us to provide further information. This notice is a formal investigatory step and indicates that Ofwat will be carefully considering the information in the light of our legal obligations. It does not necessarily imply that any enforcement action will follow, but it is a more formal process. We recognise the importance of the issue to our stakeholders and customers and the gravity of the investigation. We have fully complied with the requirements to provide information, taking the opportunity to demonstrate to Ofwat that we take our responsibilities very seriously.

Further information on FFT is provided in 'A Vision for Our Coasts and Rivers' on our website. This report also sets out how we will play our part in making sure that the rivers of the future will meet our customers' aspirations (see case study on [page 35](#)).

### Pollution incidents

We aim to avoid causing any pollution from our operations. However, we occasionally experience problems in our water and wastewater systems that result in environmental harm to watercourses and the sea. We continue to focus our attention on reducing the risk of this happening, and we are pleased that the number of more serious category 1 and 2 pollution incidents remains low at one in 2021. However, we experienced an increase in category 3 incidents from 43 to 69 and, while we remain an upper quartile company, we are disappointed to have lost our industry-leading status.

One of the main reasons behind our increase in wastewater category 3 incidents was associated with power issues at sewage pumping stations. These were either related to the incoming power supply or internal power issues affecting the service of the stations. We have conducted a thorough cause analysis to understand the reasons for these incidents and put in place measures to increase the resilience of these assets.

We continuously learn and improve our pollution performance through our company-wide zero-tolerance approach to it. By constantly examining all aspects of pollution through our pollution best practice group and learning from others, such as through the industry Pollution Reduction Task Force group, we target our efforts to effectively reduce the number of incidents. In April 2022, we updated our published Pollution Incident Reduction Plan which outlines the initiatives that we are conducting to further improve performance.

The EA's expectation is that we will pro-actively 'self-report' at least 80% of all pollution incidents to them rather than rely on others to point out a problem. We consistently achieve high levels of self-reporting increasing to 89% in 2021. Since 2020, the EA has also expected a self-reporting level of 90% or more for sewage pumping stations and wastewater treatment works, and we maintained our 100% self-reporting in 2021.

### Bathing water compliance

Our stretching performance commitment for 2020-25 is to contribute towards all the region's bathing waters being classified as Good or Excellent. For the 2021 bathing season, 32 out of 34 bathing waters achieved our target with 25 classed as Excellent and 7 as Good. The two bathing waters not achieving our target were Marsden (Sufficient) and Cullercoats (Poor).

We continue to work in partnership to make improvements and maintain standards as seawater quality can be affected by many different sources, such as run-off from agriculture, seabirds and urban pollution, as well as from our assets. This includes working closely with the EA to understand all bathing water quality compliance issues and identify priority beaches for closer attention. Our bathing waters continue to be among the cleanest in the country.

We have conducted an investigation at Marsden to understand the deterioration from Good in 2019 to Sufficient in 2021. The study has concluded that local diffuse sources represent the predominant cause and removal of our only asset, a storm overflow, would not improve the classification.

Cullercoats bathing water in North Tyneside had deteriorated from being classified as Good in 2016 to Poor since 2018. We continue to work in partnership with the EA and the local authority to understand the reasons for the localised decline in bathing water quality at Cullercoats. The indications from a number of investigations and surveys are that contaminated groundwater is the most likely primary reason for the deterioration in bathing water quality and that there is no evidence that our assets have an impact. We remain committed to working with our partners to improve the seawater quality at Cullercoats for our customers, local businesses and recreational users.

# Case study

## A Vision for our Coasts and Rivers

Our care and respect for our natural environment goes far beyond any regulatory requirements. We work constantly to protect and bring about improvements for our coasts, rivers, and watercourses in all areas of our operations. We are proud of the level of environmental investment we committed to in the current five-year investment period, which reflects our customers' priorities as we understood them pre-COVID, but we understand that times and expectations have changed.

Our challenge now is to demonstrate how we can do even more to invest to protect and enhance our rivers so we have committed to nine ambitious pledges that we believe will be effective for our unique water environment and make a real difference to our communities.

We have recently published '**A Vision for our Coasts and Rivers**', a report that outlines the pledges and how we will play our part in enhancing the local environment. It details our new long-term commitments to water quality, and our programme of work to 2025 that will help us achieve our goals. We are committed to nine ambitious pledges that we believe will be effective for our unique water environment and make a real difference to our communities.

- We will work with the Environment Agency, Natural England, The Rivers Trust and Catchment Partnerships to identify, and have plans in place to eliminate, all impediments to our rivers achieving good ecological status caused by our operations.
- We will invest in monitoring to provide 100% near Realtime Data on all Storm Overflows by 2023.

- We will introduce final effluent, in-river upstream and downstream monitoring to get a greater understanding of environmental impacts of treated water by 2030.
- We will implement Water Quality monitoring at the highest priority Storm Overflow locations by 2025.
- We will reduce spills from storm overflows to an average of 20 per year by 2025.
- We will work closely with The Rivers Trust through our strategic partnership and North East Catchments Hub to focus on river needs for investment through catchment and nature-based solutions, and to identify at least 2 inland bathing water sites where applications for designation can be made at the earliest opportunity. We are proud that already 95% of the North East England population lives within an hour's drive from a beach with Good or Excellent bathing waters.
- We will work with partners to achieve 100% of coastal bathing waters at Good or Excellent by 2030.
- We will work in partnership to improve 500km of bluespaces (such as river banks and accessible water environments) for the public to enjoy in our regions by 2030.
- We will double the number of our Water Rangers – our citizen scientist volunteers who are trained to help us monitor environmental conditions around rivers and take action to address wider river issues such as littering, fly tipping or signs of pollution.

These pledges are clear and stretching. They aim to meet the expectations of the public and our customers to enable our region to benefit from the best rivers and beaches in the country.



The second of our environmental outcomes presents our above and beyond approach to the wider environment. We have an ambitious goal to be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027. We also aim to demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity.

**We take care to protect and improve the environment in everything we do, leading by example.**

### Leakage

Reducing leakage remains a key focus, and our goal is to have the lowest levels of leakage in the country in our water-stressed ESW operating area. After a difficult winter in 2020/21, we started the year in a poor position in both of our operating regions and have worked throughout the year to reduce the number of outstanding leaks and to minimise the average run times. We have made a good reduction in the annual performance in each area and achieved our target reduction in ESW, though not in NW.

We employed several innovative interventions alongside our standard active leakage control processes throughout the year. We surveyed 8,000km of mains via satellite to highlight potential points of interest, developed digital twins of the network to identify specific areas of focus for our leakage technicians in problematic zones, carried out trials of acoustic logging with multiple suppliers and undertook further studies to review our plumbing losses.

We have also been promoting our leak portal to encourage customers to report leaks online making it quicker and easier for them to report. This has helped to reduce our average time taken to fix visible leaks. Looking forward, we are providing additional investment in leakage technicians, analytics and pressure management schemes to continue to drive leakage down.

### Greenhouse gas emissions

Our ambitious goal is to achieve net zero carbon by 2027 and in July 2021 we launched our Emissions Possible plan (see case study) setting out how we will achieve this ahead of the sector and government targets. We have set challenging targets to reach this goal and are very pleased that we are ahead of schedule, reducing our operational emissions by two thirds in just two years. More detail on these emissions is provided in the Directors' Report on [page 103](#).

We have achieved this by:

- Being the first and are the only water company to use 100% of our sewage sludge to create energy;
- Powering all of our sites using renewable electricity, including a 10 year deal to source around 30% of our electricity demand from an offshore wind farm under power purchase agreement;
- Installing our first large scale solar array at Lumley Water Treatment Works, with six more large scale farms being built this year;
- Using biomethane purchased through the market to reduce our reliance on natural gas; and
- Continuing to be efficient in our travel, avoiding unnecessary journeys and travelling by public transport or using electric vehicles where possible.

Our plans to reach net zero carbon include further development of renewable energy generation, with additional installation of further solar generation in progress, and transition to a low emission fleet, through investment in electric vehicles and using biodiesel for our sludge tanker fleet. We also plan to deploy onshore wind at sites where suitable and sensitive to the environment and our communities. We are continuing to explore other innovative solutions to deliver carbon reductions.

We are also aiming to create zero avoidable waste by 2025 and are on track to achieve this target. This will mean eliminating, re-using, or recycling 90% of our waste from operations, developing resource recovery technologies and working with partners to contribute to the circular economy in their regions. We'll also continue our investment in natural solutions like reedbeds, which have provided environmental benefits in biodiversity and reduction in CO<sub>2</sub> emissions.

# Case study

## Net Zero - Emission Possible

As one of the UK's leading water companies, we are leading by example by rising to the challenge of decarbonising the water sector ahead of COP26. Part of the world's largest alliance on climate change (the United Nations' Race To Zero campaign), our plan is to achieve Net Zero carbon by 2027, 23 years ahead of the campaign target and that of the UK government.

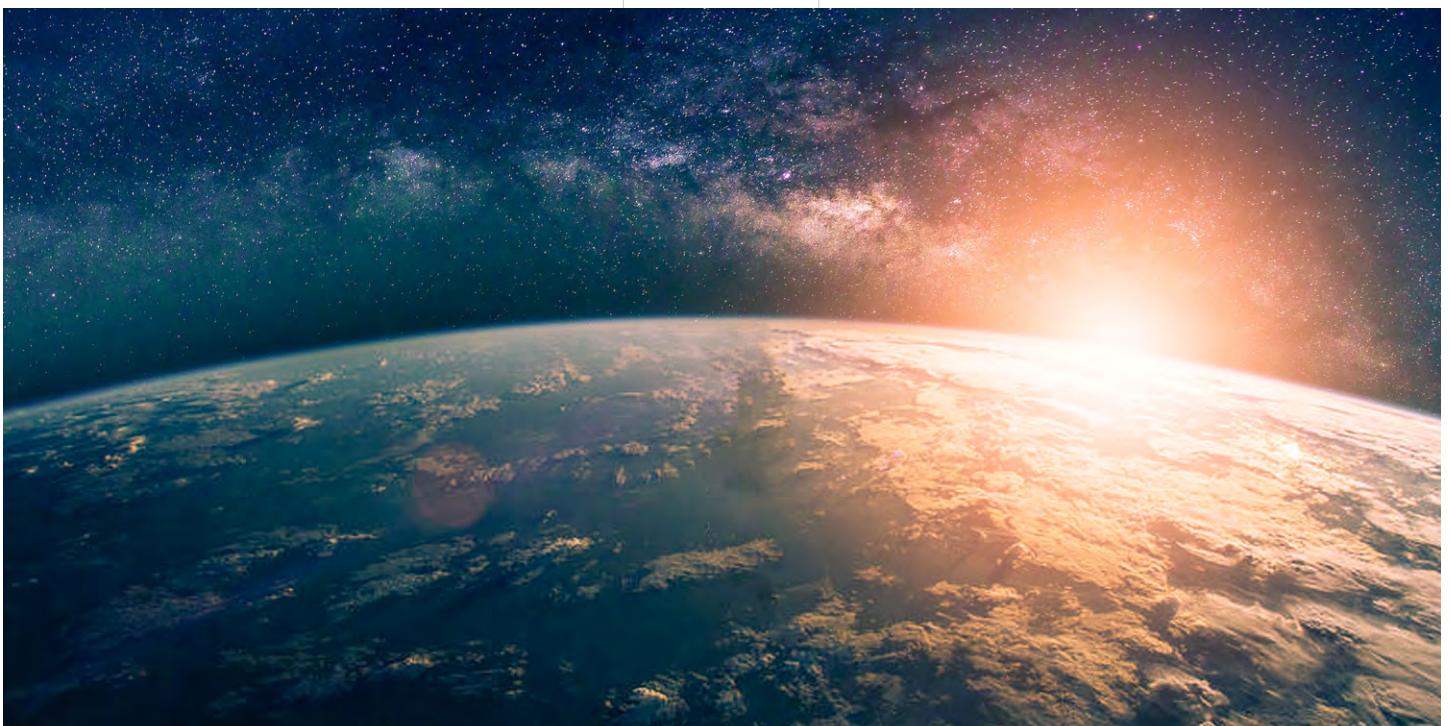
Delivering leadership and showing support for our region and communities in the face of climate change and the challenges it brings is vital because of how carbon intense our sector is. Climate change poses the single greatest threat to our environment and reducing carbon emissions, working collaboratively and doing things differently is a key in tackling that challenge.

'**Emission Possible**' showcases the hard work that has already gone into our own drive towards Net Zero in 2027, and the way we intend to achieve that ambitious goal. Our plan outlines how we are facing this as a business and recognising our part on the global fight ahead. Our pioneering plan not only supports the water industry's sector-wide commitment to be Net Zero by 2030, but goes even further and faster, committing to eliminate our contribution to climate change by 2027.

Among the achievements that have contributed to our carbon reductions so far are:

- Being the first and still the only water company to use 100% of our sewage sludge to create energy.
- Enhancing our energy creation activities further in 2020 with the implementation of a second Gas To Grid plant, which is at Bran Sands on Teesside.
- An industry-leading offshore wind power purchase agreement, which was the first of its type in the UK. This 10-year deal has us sourcing around 30% of our electricity demand from the Race bank offshore wind farm.
- We power all 1,886 of our sites using renewable electricity. This means we can achieve 125,000 tonnes of CO<sub>2</sub> savings each year - over 600 times the weight of the Angel of the North.

We have also set a target for zero avoidable waste by 2025. Our Routemap to Net Zero adds to our genuine commitment to the environment through the use of renewable energy, sustainable management of our land, and our leading efforts to support vulnerable people and our communities.



### Catchment management

Catchment management covers the whole water cycle and links across our water, wastewater and conservation activities. We carry out catchment activities across our own network and assets, and in partnership with others, working to influence and to make shared decisions to improve the environment. and showing leadership in integrated catchment management. Our goal is to demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity.

We work with farmers, land managers and other stakeholders to protect the water resources from which we source drinking water in our regions and are leading on two holistic catchment projects in the South Tyne (NW) and Blackwater (ESW) catchments. We are also delivering our Field to Tap scheme to allow land managers to apply for capital grants for items that will reduce diffuse pollution from their land and help improve water quality in rivers and reservoirs.

We work collaboratively through a number of groups, working with ten partnerships across our regions to support a catchment based approach and we are a core member of Water Resources East. We have recently launched the North East Catchment Hub, supported by a new strategic partnership with the national Rivers Trust, which creates regional expertise and resources to support catchment planning and the development of catchment and nature-based solutions for PR24.

We also carry out conservation and land management activities to protect and enhance biodiversity within our operating areas, such as increasing priority habitat and managing invasive non-native species. Under our Water Environment Improvements commitment, we are delivering activities which focus on wildlife and biodiversity, water quality and recreational access to facilities, contributing to enhanced natural and social capital and integrated catchment management.

# Competitiveness

## Financial performance

A review of our financial performance and financing position is detailed in the Financial Performance and Structure section on [pages 112 to 155](#).

## Leading in innovation

Innovation is one of our five core values and we are working hard to enable innovation right across the business in order to deliver our ambitious goal to be leading in innovation within the water sector and beyond. This year, in addition to building on the strong foundations we have laid with regards to fostering an innovation culture within the business, we have also focused our efforts externally on bringing in external funding to grow our innovation capacity and further develop our external partnerships.

Our innovation ambassadors are at the core of our approach, enabling and spreading an innovative culture across our business and driving the implementation of new ideas so innovation becomes business as usual. This group has grown from 14 in 2018 to over 80 people in 2021 spanning all aspects of the business and across all levels. We also engage monthly via our Innovation Connect newsletter and invite external organisations that excel in this area to a quarterly Innovation Connect virtual call.

Alongside our core skills training programme and the NWG Innovation University, which offers bite-sized training covering all the core elements of innovation, we are running a Creative Leadership programme with the Royal College of Arts to extend the thinking of 35 of our key leaders across the organisation. In addition, innovation has been a key part of our last two Leadership Conferences to emphasise the role our leadership teams have in growing the innovation culture across the business.

**Our finances are sound, stable and achieve a fair balance between customers and investors.**

**We are an innovative and efficient company.**

## Innovation Festival

We have now ran our Innovation Festival successfully in three different formats, from in-person to virtual to a hybrid approach in 2021, always bringing newness and generating genuine business impact. The Festivals are an important element of our innovation programme and are key to generating ideas given their outward facing nature that creates and builds meaningful partnerships. These events are now widely anticipated and attract industry-wide participants nationally and from across the globe.

This year, the global pandemic had loosened its grip slightly, so we opted to run our first hybrid event. This was our biggest festival with 54 activities taking place, 38 sprints and six of which were hybrid in format (both physical and virtual). The festival attracted 62 sponsors from 22 sectors, 800 organisations with participants from over 40 countries. In addition, Sydney Water ran its first Innovation Festival at the same time using the same blueprint as ours. We passed on our expertise to help them run their event, further reinforcing our leadership in innovation globally.

We also had eight sprints that had global hubs including US, India, Ireland, and Australia. The hybrid nature of the event meant it was very inclusive and accessible and attracted a more diverse audience than we would be able to work with in our normal business activities. The equivalent professional services value of this contribution is estimated to be between five and six million pounds. Since our first Festival we have taken more than 200 ideas back into the business and put more than £1.5m back into the local economy, demonstrating our convening power to bring others into our regions. In 2021 we reached more people than ever across social media channels (LinkedIn, Twitter, and Facebook), building up a strong innovation community with thought leadership and impactful content that had a social reach of over 2.3 million people.

### Innovation fund

Ofwat's Innovation Fund was set up to fund projects that are beyond business as usual and encourages collaboration across the water sector and beyond. We have actively engaged with this process as it will enable us to fund and run innovation projects that would normally be beyond our capacity, both in terms of costs and personnel.

To date there have been three rounds of competition allocating funding of over £60m to 40 projects. To date, we have been one of the most successful companies in winning funding of £12.25m for eight projects. Our successful projects to date are:

### Innovation in Water Challenge

- UK Water Sector Centre of Excellence (Spring) – led creation of a centre for excellence to accelerate the sector's transformation through innovation and collaboration;
- Organics Ammonia Recovery - a sector first project to turn ammonia into green hydrogen fuel, collaborating with Organics, Wood Group, and Warwick and Cranfield Universities;

### Water Breakthrough Challenge 1

- Fair Water – awarded almost £3.8m to develop more effective and sustainable water and energy efficiency solutions for customers' homes, in partnership with Northern Gas Networks Ltd, University of Newcastle upon Tyne, Proctor & Gamble Technical Centres Limited, National Energy Action;

### Water Breakthrough Challenge 2: Catalyst

- Support for All - a platform to help vulnerable customers, with CCW and a group of utility and technology partners;
- SuPR Loofah - a sector first technology for phosphorus removal from wastewater, with the Newcastle and Northumbria Universities and Dwr Cymru;
- Water Quality as a Service (Treatment 2 Tap) - a sensor as a service business model to deliver a step change improvement in the management of water quality for customers;

### Water Breakthrough Challenge 2: Transform

- National Leakage Research and Test Centre – awarded £5.3m to create an ambitious, first of its kind leakage test centre for the sector to significantly fast forward technology development in this vital space;
- Stream – phase 1 funding for the development of an open data platform for the water sector.

In addition, we have also had success in securing funding from the Smart Factories Innovate UK bid, which will create a blueprint for water capture and re-use from an innovative semi-conductor factory, the Digital Catapult's Made Smarter competition, for a novel, cheaper water quality sensor, and £0.5m from the European Space Agency for collaborative project with MGISS and NGN around Interruption Prevention Alert Service demonstrator. We will continue to leverage this momentum in future Ofwat competitions and other funding mechanisms.

### Value from innovation

During the last year we have also been focusing on speeding up the creation of value from innovation by supporting the seed of an idea through to it becoming business as usual. We have an active innovation pipeline with more than 80 ideas being considered across the business. The estimated value of ideas in the pipeline, if successful, could be worth £37m. This year's Festival outputs included the Tipping Point tool that has the potential to save many millions in our asset programmes.

We actively support employees to come forward with innovative ideas and support their development. We have had some brilliant technologies adopted through this process which are now making a difference, such as the Pressure Vessel which can be quickly deployed to reduce interruptions to supply, and a burst rising main sensor which is a simple device that is deployed in rural wastewater sites to alert failure which is preventing pollution events. These are a few examples of how innovation is really making a difference to our customers, now and for a more resilient future.

## Case study

# Water Breakthrough Challenge

We secured £1.8m worth of funding for three different projects which will help to further improve services for customers and make operations more efficient. The funding was achieved through three winning bids in the second round of the Water Breakthrough Challenge, Catalyst Stream competition ran by Ofwat and innovation foundation Nesta.

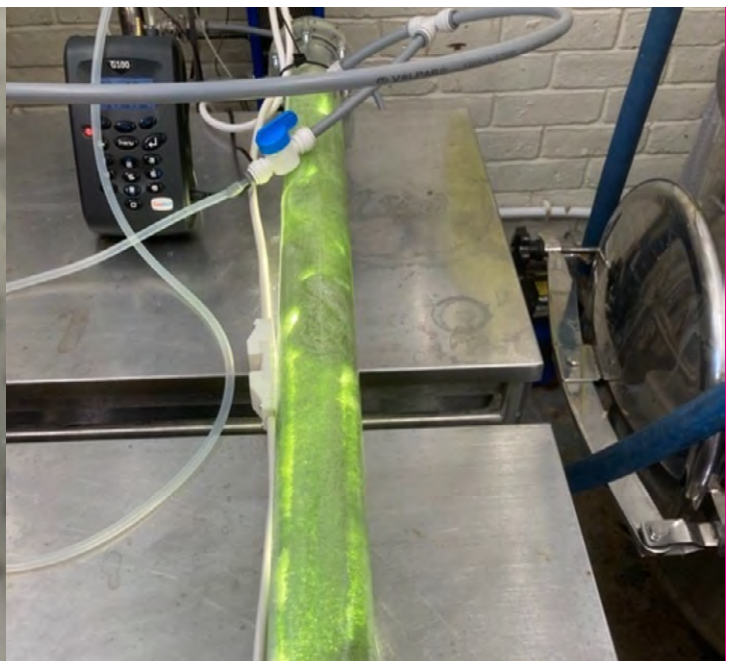
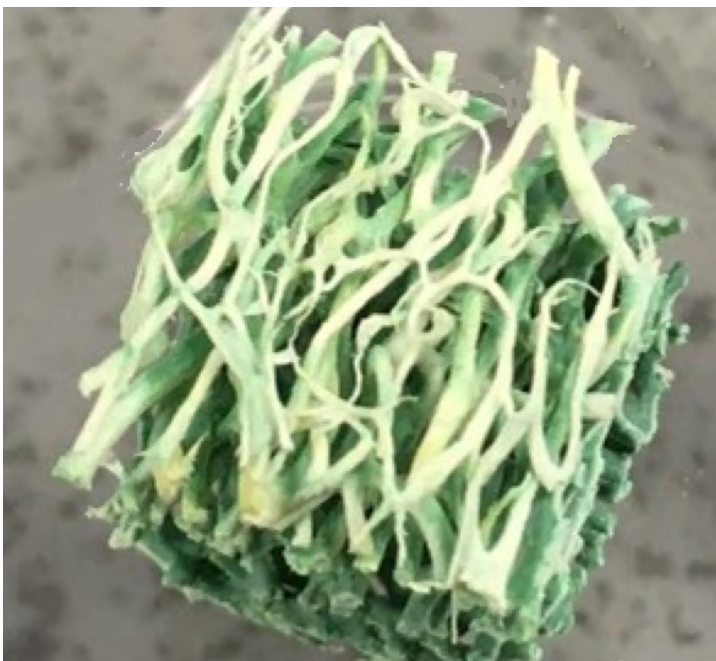
The large-scale financial backing will be a great investment into the region, and will support work into initiatives aimed at improving water quality, as well as wastewater and customer services. All three projects are customer focused and are set to have a positive benefit to customers across the North East.

The first project to receive funding is called 'Support for All'. This is aimed at helping to establish a region-wide cross-utility Priority Services Register so that customers in vulnerable circumstances can receive help from all their utility companies when needed.

The second project is called 'Treatment-2-Tap' and will see engineers adding water quality sensors to the final leg of water's journey from treatment works to tap. This will then be studied, in collaboration with four other water companies, and the data gained will help to further improve the water quality for the customer.

The final project is known as SuPR Loofah (Sustainable Phosphorus Recovery) and this initiative involves the recovery of phosphorus from wastewater using an innovative, micro-algae coated on loofah material and held in place by a sustainable polymer coating. Once the 'SuPR Loofah' is full of phosphorus it will be removed, replaced and the phosphorus recovered, preventing environmental damage.

**Angela MacOscar, our Head of Innovation, said:**  
"Our customers are at the heart of everything we do, and here we have three incredible projects that are set to deliver great benefits for them. We are incredibly proud that out of the 13 winning bids, we have managed to secure three of them – this shows how Northumbrian Water is truly leading the way when it comes to innovation both in the region and in the sector. I can't wait to see what happens to all three of these projects over the coming months, and I'm looking forward to see each of them making a real-life difference to the people in our communities."



# People

## Great place to work

Our aspiration is for all our people, current and future, to have a positive experience at work and to understand the part they play to achieve our purpose, vision, outcomes and to deliver unrivalled customer experience.

In November 2021 we participated in the Great Place to Work survey, inviting all colleagues to share their views. 2,587 (87%) of colleagues provided their feedback, with 70% agreeing that this is a great place to work. With an overall Trust Index Score of 67%, results mean the business is now listed as the 35th Best Workplace in the UK (Super Large category) and a Great Place to Work Certified Employer.

Creating multiple channels for feedback and ideas is key to a positive working relationship. We engage with our employees through our Employee Relations Framework and through a range of communication channels including our weekly H2info e-bulletin, and digital tools such as our intranet and Yammer. Our networks and groups including Mind Mates (mental health first aiders), Male Health Group, Female Health Group, Young Persons Network, Rainbow Support Network, Reach Network, Thisability Network and Parents Network continue to be important sources for two-way communication.

Our bi-monthly Teamtalk events ensure everyone comes together to discuss performance and key areas of focus. After a session with our CEO, our leaders cascade to their teams with the support of a pack including videos and interactive activities to bring the message to life.

We continue to be accredited as a Living Wage Employer with the Living Wage Foundation, which means that every employee in the Company earns at least the Living Wage, an hourly rate set independently and calculated according to the basic cost of living for the UK.

**We are seen as a great place to work.**

## Early Careers Strategy

In 2020 we developed a new Early Careers Strategy. To support our national leader vision, we need to continuously build a workforce fit for now and the future. We have a clear responsibility to not only ensure we have the right skills to support our strategic ambitions but support the development of skills across the industry.

We have delivered against our strategy over the past two years through:

- Recruiting 39 Kickstart placements and provided those colleagues with valuable work experience to help them get into permanent employment during and after the pandemic. We are delighted to have provided 4 with permanent jobs at NWL;
- Recruiting 15 apprentices, 24 undergraduate placement students and 4 sponsored placements. 21 colleagues have also graduated from our apprenticeship programmes and are now in permanent employment with us;
- Launching a new STEM (Science, Technology, Engineering and Mathematics) work experience programme aiming to attract 14-16-year-olds and provide them with an inspiring experience of work in STEM. 30 students have attended our STEM programme so far with another 45 in the summer; and
- Running the first cohort of our Innovate Futures Programme. This talent programme aimed at increasing the diversity of our employee base, saw us recruit 20 engineering students (the majority of who were BAME (black, Asian and minority ethnic) and female), who undertook 4 weeks of work experience and are now engaging in reverse mentoring relationships with our ELT and supporting with business projects.

### Colleague development

We continue to provide apprenticeship opportunities for colleagues looking to expand their career and skills. We currently have 105 upskillers completing an apprenticeship in the business. We have robust development plans in place for colleagues undertaking technical roles e.g., Water Supply – the Competent Operator Scheme (Level 3 Qualification). We have 50 colleagues participating in external talent programmes where they will learn new skills and enhance work skills needed now and, in the future, to support with their career development. Examples of the talent programmes include Common Purpose and STEMAZING.

Colleagues have access to mentoring opportunities, online learning and a range of training and development in line with their role. In addition, we offer qualification loans if they wish to undertake a qualification which isn't directly relevant to their role. During 2021 we offered colleagues the opportunity to train to become career coaches. These colleagues have now completed their training and are coaching other colleagues in the business.

We have launched a new masterclass series where colleagues can attend a range of masterclasses on a variety of topics and skill areas including problem solving, adapting to change and a range of wellbeing masterclasses.

### Leadership and management development

Our leaders and managers have access to a range of development and support in order to enhance their leadership practice and build high performing teams. Development includes the following:

- People managers induction programme to support new managers to fully understand their role, company policies and how to lead well at Northumbrian Water;
- A new world of work masterclass series comprising of virtual masterclasses on a range of topics (e.g. leading change/complex problem solving);
- Creative Leadership Programme – 20 leaders are attending this programme designed and facilitated by the Royal College of Arts;
- We hold two Leadership Conferences each year where leaders come together and discuss business performance and enhance their leadership thinking and practice through discussion and access to keynote speakers; and
- Online learning videos on a range of topics related to leading others.

### Diversity and equal opportunities

We recognise the value and importance of diversity and inclusion in our workforce. Our customers come from a wide range of backgrounds, and our workforce needs to reflect that in both ambition and aspiration. Our diversity and inclusion work to date has focused heavily on gender but this year we have taken broader organisational diversity beyond this, particularly with regards to ethnicity and disability.

Working in partnership with our colleagues, networks, partners and communities, we have developed a robust Inclusion and Diversity Strategy called TIDE (Together for Inclusion, Diversity and Equity). TIDE aligns to the Business in the Community Responsible Business Map and has been shaped to take a holistic approach to inclusion, diversity and equity (see case study on [page 46](#) for more information). The order is important: diversity isn't achieved unless the environment is positive and open and the culture inclusive. When people see and hear about this through our colleague stories, a more diverse colleague base is attracted to the business. Equity is then continually monitored to ensure fairness.

The ambition of TIDE is:

**To serve our communities and play our role in creating a better society for all by:**

- Being a responsible business;
- Being a fair and inclusive place to work, embracing difference and having zero tolerance of discrimination; and
- Having a workforce reflective of the diversity of the communities we serve.

We launched a diversity driven talent programme, 'Innovate Futures', partnering with the Association of BME Engineers (AFBE) in year one to help provide opportunities to engineers from under-represented groups. This hugely successful attraction campaign resulted in a significantly more diverse candidate group and the 2021 cohort was 33% female and 86% non-white. Students joined the organisation on a four-week work placement participating in live projects and innovation activities.

Our work to increase the number of females in the workforce has continued in 2021 and entry level opportunities have been of particular focus. We have increased female representation on Apprenticeship Programmes over the last three years from 14% to 22% and since 2018 women have made up 47% of our undergraduate programmes.

In 2021 we joined the Business Disability Forum and remain a Disability Confident Committed Employer and we welcome employment applications from people with disabilities, having inclusive and accessible recruitment and making reasonable adjustments to accommodate applicants. In addition to commitments we are exceeding the activities by offering opportunities through work experience, apprenticeships, and student placements. Where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective training or redeployments. Occupational health physicians assist this process with professional medical advice.

Our Respect at Work Policy seeks to ensure that all our current employees and potential employees are treated with respect. We welcome job applications from all parts of the community and it is our intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation. In 2020 we became a signatory of the BITC's Race at Work Charter and are embedding the five commitments within planning.

## Gender Diversity and Pay Gap

| Name         | Female | Male  |
|--------------|--------|-------|
| Board        | 3      | 8     |
| ELT          | 5      | 6     |
| Full Company | 979    | 2,062 |

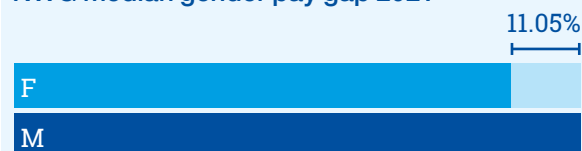
We are committed to the principle of equality of opportunity and equal treatment for all our employees. We published our gender pay gap figures in our Gender Pay Report March 2022, which is available on our websites. In March 2022 we reported a reduction in our median gender pay gap to 11.05%. This has been impacted by work undertaken to better understand causes of our Gender Pay Gap. Working with experts, we have made sure that our approach is consistent with wider approaches across employers and in line with Government guidance. However, we have also continued progress on increasing female representation at managerial level and improving recruitment and job evaluations.

While it is pleasing that we are below the national figures, our ambition is to reduce this gap further. One of the key reasons for our gender pay gap is the additional premiums that are included to operational roles, which are primarily held by males; while support roles primarily held by females largely don't attract these premiums. Over time we are working to address this through adapting our marketing of vacancies and approach to talent attraction, including through engaging with education and external networks. The development and launch of our TIDE strategy in 2021 provides us with a structure and a clear approach to deliver the change we want to see.

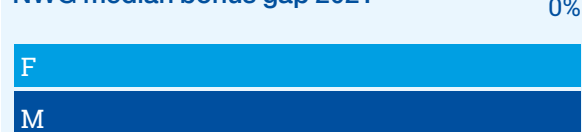
The gender pay gap is the difference between the average hourly pay for all the men and women working for the same organisation. It's not the same as equal pay, which is about a man and woman receiving the same pay for performing the same or a similar job.

The mean gender pay gap is the percentage difference in the average hourly pay for women compared to men. The median pay gap is the difference between the hourly pay rate for the median woman compared to the median man.

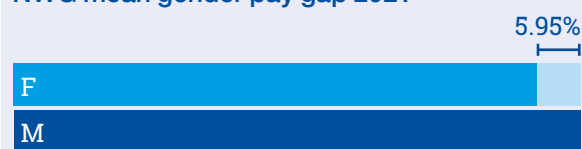
### NWG median gender pay gap 2021



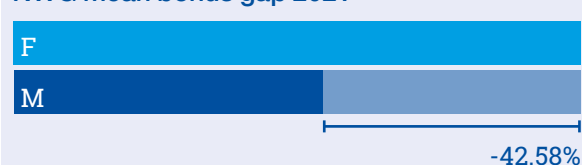
### NWG median bonus gap 2021



### NWG mean gender pay gap 2021



### NWG mean bonus gap 2021



### Proportion of men and women paid a bonus

|   |        |
|---|--------|
| F | 24.08% |
| M | 26.42% |

## Case study

# TIDE

We have been part of a ground-breaking ethnicity programme, to help attract a more diverse workforce. By participating in the Workforce Integration Network (WIN) Design Labs programme, launched by the Equal Group and the Greater London Authority, we aim to tackle the under representation of the BAME community, particularly young black men, within the infrastructure and construction sectors.

Interactive sessions and workshops were designed to help the eleven companies involved engage with a more diverse talent pool, with a targeted approach towards recruitment. As part of the programme, we've developed a detailed action plan. Some of our commitments include:

1. Working with diverse recruiters to increase the representation of the BAME community within the water company and providing diverse interview panels.
2. Diversifying the supply chain by refreshing the responsible procurement strategy and carrying out sustainable procurement assessments.
3. Upgrading our HR systems to allow people to self-disclose or update their ethnicity / religion / sexual orientation at all recruitment stages from interview to even years into the role, to understand how sustainable recruitment is for diversity, inclusion and equity.

We also plan to launch a four-year diversity and inclusion strategy, which will see employee network support groups established and a series of online learning events delivered.

**Our Diversity, Inclusion and Wellbeing Manager, Michael Nicholas, said:** “Essex & Suffolk Water is committed to being reflective of the communities we serve but currently we have room for improvement in this area. Taking part in this invaluable project and developing an action plan is a positive step forward to creating a diverse workforce and it springboards our commitment to being the national leader on diversity and inclusion within our industry.”

**A spokesperson at the Equal Group, said:** “We are delighted Essex & Suffolk Water are committed to increasing the representation of young Black men in their organisation through the publication of their action plan. Essex & Suffolk Water have been such active participants in the GLA WIN Design Lab programme and we look forward to seeing them, and continuing to support them, in creating a more diverse workforce.”



## Health and safety

It is our aspiration and ethical responsibility to make sure that everyone goes home safe every day, which extends to our employees, supply chain partners and customers.

We were disappointed to have had 14 lost time reportable accidents in the year and seek to learn lessons from each accident or near miss. The learnings from each lost time accident and each high potential incident are overseen by an operational Director and the learnings and actions are shared across the business. Any actions identified from the incidents are tracked by the ELT on a monthly basis. Health and safety is also the first item on the agenda at each Board meeting. Although the number of accidents has been higher than we would have wanted, the total number of days lost due to accidents has significantly dropped year on year for the last three years which is very encouraging.

We continued to see fantastic engagement with our established safety awareness tools within the business and our people voluntarily carried out 107,732 '60 second checks', 84,657 COVID 60 second checks, 6,837 safety conversations and 3,269 hazards were spotted and reported within the business. All of these measures demonstrated a significant increase compared to the previous year, especially notable in a pandemic influenced environment. Our managers and leaders conducted 3,378 safety visits and 2,741 contractor safety audits demonstrating a commitment to visible safety leadership.

During 2021 the Health and Safety team conducted a programme of assurance visits on the business high hazard activities to ensure effective controls were in place. The assurance visits created a number of learnings that have continued to drive continuous improvement and innovation into the 2022 Safety plan. As a direct result of the programme a new risk assessment tool was built and launched in January 2022, further enhancing control of work in high-risk activities.

**Our workplaces are healthy and safe.**

## Wellbeing

The holistic approach to Health and Wellbeing 'Living Well', introduced in 2020, has continued to evolve in 2021. One single digital location holds all resources and services and is accessible 24/7 via work or personal device. Living Well is simply split in to three areas - Mind, Body and Social - built in a visual, simple and engaging style. Health benefits continue to be widely used by all colleague groups, with use of the Digital GP Service doubling during 2021.

In 2021 we maintained Better Health at Work Ambassador Status and progressed the Great Place to Work Centre of Excellence in Wellbeing Status to achieve a ranking as the 35th top Super Large UK company for wellbeing. Ongoing impact was recognised in September 2021 when the approach was awarded UK Best Health & Wellbeing Initiative at the CIPD People Management Awards.

In recognition of the impact the pandemic has had upon mental health, the number of mental health first aiders was trebled and, following colleague feedback, was renamed 'Mind Mates' to create a more informal and approachable profile. Our Male Health Group continues to shape and inform our approach and this has been added to with the creation of a Female Health Group, to ensure we offer resources, support and solutions that meets the needs of all colleagues.

During the year we consolidated all core health services with one provider, People Asset Management (PAM). This was done to create a more connected health journey and speed up referrals between services. This includes a medically resourced Day One absence phone line, Employee Assistance Programme, Occupational Health, Physio Services and Health Surveillance. Unique programmes such as structured health support for colleagues experiencing Long COVID have demonstrated positive value.

# Communities

Communities are at the heart of our Purpose. Every single person in our region is our customer, our infrastructure runs up and down every street, and our employees live in our region with their families and care passionately about their local area. We're therefore committed to going beyond our core services to contribute to our communities, using our resources and expertise to deliver a range of benefits.

Last year we launched a new Community Investment Strategy. This builds on customer insights, focusing on where our ambitious goals align with wider community priorities, and where working in partnership can deliver broader benefits. We will therefore focus our community investment on work around water poverty, the water environment, and water for health.

We do this through a number of different routes: financial and in-kind giving, volunteering, and engagement with education. We also use our leadership role on these issues to encourage others to join our efforts, and leverage more contributions from external partners.

We are building from a strong base: we have a long-standing practice of committing at least 1% of our pre-tax profit to community causes. The Our Purpose report, published alongside this report, includes key data for measuring our community activity, and a series of detailed case studies on our activity.

## Local procurement

As one of the largest businesses in the regions where we operate, and in keeping with our commitment to our communities, we believe it is important to maximise the positive local impact of our spending. We therefore prioritise working with a supply chain that upholds our social, economic, and environmental standards and shares our vision of continuous improvement.

Our ambitious goal is to spend at least 60p in every £1 with suppliers in our regions and after making strong and sustained progress since 2017/18 we are delighted to have reached this target with local spending at 60.3% in the year.

**We are proud to support our communities by giving time and resources to their important causes.**

**We work in partnership with companies and organisations to achieve the goals that are most important to our customers.**

Our continued work in the past year on this has included taking part in a programme to help County Durham businesses get ready to win construction work, and establishing a network with other North East organisations through the County Durham Pound group who have similar goals to us regarding local spend and social value. We also updated our Responsible Procurement Strategy, committing us to maintaining this level of local spending through continuing to create awareness and opportunities for local suppliers to work with us.

## Employee volunteering

Our long-standing 'Just an Hour' employee volunteering scheme gives each of our team the opportunity to commit a minimum of 15 working hours to support community initiatives. In total we supported 235 organisations, with 37% of our employees taking part.

This included more than 200 volunteers donating over 1,000 hours in support of World Oceans Day and The Great British Spring Clean, to carry out beach cleans along coastlines in both of our operating areas.

We also backed Metro Radios annual Laffs 4 Kids Christmas event, with volunteers collecting and delivering the gifts donated by attendees, and working in the warehouse to get them ready for distribution to children in our communities.

## Drop Swap

In the last year we launched our new Drop Swap initiative, giving users of our digital apps the opportunity to choose which community causes receive charitable donations. Through this new scheme, users of the app are rewarded with 'e-drops' for carrying out tasks, such as submitting meter readings. They can then use these drops to vote for one of three local charities, with bi-monthly donations allocating according to which get the most votes. A total of £17,400 will be donated each year through this scheme, which came from an idea at NWG's Innovation Festival.

### SeaScapes

We have committed to supporting SeaScapes, the UK's first marine National Lottery Heritage Fund Landscape Partnership, by helping create a new role that will support improvements to the North East coast. SeaScapes is a partnership that will be investing £4m in the coastline between the rivers Tyne and Tees over the next four years.

We are hosting the group's new Beach Care Officer, Louise Harrington, within our Water Environment team, to help identify coastal improvements, as well as driving customer engagement and volunteering activity. This is part of our bluespaces initiative, through which we go above and beyond our regulatory requirements to support projects that benefit customers and the environment.

SeaScapes is a partnership of organisations covering the natural, cultural and heritage sectors that have come together to better protect and celebrate the unique coastline and marine environment between the rivers Tyne and Tees. It's also the UK's first marine Landscape Partnership scheme.

### Innovation Festival

We used our 2021 Innovation Festival to give back to the North East by supporting a range of community organisations to stage 'daily dashes' – a feature of the Festival aimed at fast-tracking solutions to problems.

Alongside our own design sprints, we invited local organisations including the Newcastle Gateshead Initiative (NGI), Foundation of Light and Seascapes.

NGI's event focused on how the River Tyne can be made into the region's greatest tourism asset in order to create memorable visitor experiences. Groundwork NE and Cumbria looked at how nature-based solutions can be used to improve water quality and increase biodiversity in the River Tyne, while the Foundation of Light considered how to encourage young people to play their part in tackling climate change.

The Festival also gave more than 100 16-25 year-olds the opportunity to take part in a virtual assessment centre to help them understand how to be successful when applying for jobs, assessing skills that are core to many career areas. Each participant received an individual feedback report, helping them shape their approach for job interviews for a variety of different STEM careers.

### Branch Out

Our Branch Out fund was set up in 2013 to support local community groups, organisations and individuals with projects to benefit the natural environment in our operating areas. It is geared towards projects to reconnect habitats for the benefit of people and wildlife, to help manage or eradicate invasive non-native species, or landscape scale projects to create or restore priority habitats.

Since its launch it has invested more than £600,000 contributing towards other match-funding sources to secure a £12 million wider partnership investment.

Last year, we supported 12 projects through Branch Out with grants totalling £66,500. In addition, our Branch Out INNS, which allocated £39,985 to six projects to protect against invasive non-native species; and Branch Out Priority Habitats allocated £77,500 to enable the creation and restoration of 228ha priority habitat.

During the year we had the privilege to join a visit by HRH Princess Anne to Carlton Marshes Nature Reserve to celebrate the Suffolk Wildlife Trust's 60th anniversary.

Through Branch Out, we have donated £135,000 to transform the site and create new wetlands, helping boost populations, and offering flood protection benefits.

## Case study

# Seascapes

We are supporting SeaScapes, the UK's first marine National Lottery Heritage Fund Landscape Partnership, by helping create a new role that will support improvements to the North East coast.

SeaScapes is a partnership that will be investing £4m in the coastline between the rivers Tyne and Tees over the next four years. As a key SeaScapes partner, we are hosting the group's new Beach Care Officer, Louise Harrington, within our Water Environment team, to help identify coastal improvements, as well as driving customer engagement and volunteering activity. Hosting Louise allows for even broader, ongoing engagement with partners to enhance the region's coastline.

Our water environment initiative has also helped deliver enhancements to a 12km stretch of one of Britain's best loved walks. The team has worked with partners including the Kielder Water & Forest Park Development Trust and its members to deliver the work on Lakeside Way, the multi-use track that circumnavigates Kielder Water in Northumberland. The track has been enhanced by improved signage and interpretation, a dedicated Ranger role for the area to support the local red squirrel population, and a new base for Kielder Osprey Watch activities.

Our support for the SeaScapes partnership shows we are delivering on this commitment and set the stage for the coming years, when we look forward to helping to deliver even more for customers and the environment.

**Karen Daglish, SeaScapes Delivery Manager, said:** “Thanks to partners including Northumbrian Water, and passionate, local volunteers, we are able to take action to tackle our ocean crisis. Every individual, family or group taking part in our beach clean events, surveys and litter picks plays a part in a bigger shift in mindsets as we protect and restore our ocean.”



# Reputation

Our reputation is of great importance, as building trust among our customers and wider stakeholders is crucial to achieving our objectives. The overarching element of this is our Just Add Water campaign. This is our mass market, overarching brand building campaign, which is informed by data and seeks to support our C-MEX and NPS objectives by targeting customers with messaging that improves awareness and perception.

Last year we were once again the only water company to be named on the World's Most Ethical Companies list compiled by the Ethisphere Institute. This is the eleventh time we have featured on the list, which assesses issues including community activity, environmental performance and employment practices.

It is important to us that customers have a high level of trust in our governance and assurance arrangements. We published Our Assurance Plan for 2021/22, following consultation with customers and stakeholders, setting out how we intend to meet our obligations and commitments and providing information of appropriate quality. We have published a Data Assurance Summary as part of our suite of annual reporting which describes what assurance we have carried out on our data reporting any key findings. This confirms there were no significant issues to report.

Our assurance framework builds upon our company-wide accreditation, including to: ISO 14001 Environmental Management; ISO 55001 Asset Management; and ISO 17025 Sampling and laboratory analysis accreditation.

## Water Matters

CCW's Water Matters research is published each year, based on interviews with hundreds of bill payers. It covers experiences of a wide range of services provided by water and sewerage companies, asking about satisfaction levels, perceptions of value for money, communication, and awareness of additional services.

In the most recent report, NW received the highest rating among water and sewerage companies for six measures.

**Our customers say we are a company they trust.**

These include satisfaction with value for money for water services, agreement that charges are affordable, agreement that charges are fair and satisfaction with the cleaning of wastewater before releasing it back into the environment.

While scores for ESW were not as high, we were pleased to be above average for many measures, including trust and value for money.

It was positive to see growing awareness of our WaterSure tariff and that awareness of Priority Services is above average, but we still need to work harder to promote our additional support services to customers.

## Good Business Charter

Last year, NWG became the first water company to achieve the GBC accreditation. The Charter, which is supported by the Confederation of British Industry (CBI) and the Trades Union Congress (TUC), is an independent not-for-profit organisation that encourages and recognises responsible business practices.

It accredits ethical businesses by measuring their behaviour over 10 key components. These include paying the real living wage, fair hours and contracts, employee wellbeing, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment.

## Responsible Business Tracker

Our good practice was recognised through BITC's Responsible Business Tracker benchmarking tool. This showed us scoring well above the cohort average overall, and with maximum possible scores for digital transformation and nature stewardship. On the latter, BITC reported that **"NWG performed phenomenally in this area and go far beyond the regulatory requirements"**.

# Case study

## Good Business Charter

We became the first and only water company to achieve the Good Business Charter accreditation, which awards ethical businesses by measuring their behaviour over 10 key components.

The Charter, which is supported by the Confederation of British Industry and the Trades Union Congress, is an independent not-for-profit organisation that encourages and recognises responsible business practices including real living wage, fairer hours and contracts, employee well-being, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing and prompt payment.

We were absolutely delighted to be recognised, an achievement which is testament to the efforts our teams put in to help us reflect our values as we provide a service people couldn't live without.

We care passionately for our customers, our communities, our employees and our environment and we're proud of our commitment to put responsible and ethical working practices at the heart of everything we do such as our commitments to become carbon neutral by 2027; to eliminate water poverty in our operating areas by 2030 and to help prevent the equivalent of four billion plastic bottles ending up as waste by 2030.

Our people have also taken time to give something back, with more than 235 organisations supported annually through our employee volunteering scheme, Just an Hour. We also participated in the Laptops 4 Kids scheme, donating hundreds of laptops and computers to help support children learning from home during the coronavirus crisis.

**Jenny Herrera, CEO of Good Business Charter, said:** **"We are so pleased to welcome Northumbrian Water to our rapidly growing community of accredited organisations. As such a leader in responsible business behaviour it's great to have them join the GBC and we hope that they seek to inspire many other businesses to follow suit".**



# Financial performance and structure

## Group structure

NWL is a wholly owned subsidiary of NWGL. NWGL has one other direct subsidiary, NWG Commercial Solutions Limited, which acts as a holding company for other non-regulated trading companies. NWGL also owns 50% of a joint venture company, Wave Ltd. which, through its trading subsidiary, carries out Non-household (NHH) retail activities in England and Scotland.

The chart below shows the summarised corporate structure of the Group. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. On 21 May 2021, CK Asset Holdings Limited acquired the Li Ka Shing Foundation's indirect interest in NWGL.

CKHH, CK Infrastructure Holdings Limited (CKI), Business Thrive Limited and NWGL have provided Ultimate Controller undertakings to the Company in accordance with the provisions of the Company's Instrument of Appointment (Licence).



\* Companies listed on The Stock Exchange of Hong Kong Limited

## Financial performance

The financial KPIs we report in our balanced scorecard on [page 25](#) reflect the financial covenants underpinning our committed bank facilities and regulatory gearing, which are reported at each Board meeting. The gearing KPIs remained better than the target for the year. The interest cover, as defined in the committed facilities covenant, fell to 2.3x, which was below the target level of 2.4x. The definition includes non-cash index-linked debt accretion within interest, which increased significantly as inflation rates increased during the year. For this reason, the counterparties to the committed facility agreed to the Company's request to amend the covenant test at 31 March 2022 to a target threshold of 2.1x.

The Company's income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement are set out on [pages 113 to 116](#). The Financial Statements have been prepared on an historical cost basis in accordance with Financial Reporting Standard (FRS) 101, reflecting International Financial Reporting Standards (IFRS) with reduced disclosures. The key accounting policies are summarised in note 1 to the Financial Statements on [pages 117 to 125](#).

Revenue was £780.1m for the year ended 31 March 2022 (31 March 2021: £758.4m), an increase of £21.7m. Combined household and non-household revenue increased by £18.8m, of which £5.1m related to an increase in allowed revenue (including 0.6% CPIH inflation on wholesale revenue). The remainder related primarily to recovery in non-household demand following the COVID-19 lockdowns in the prior year.

The impact of the redetermination of the FD by the CMA will take effect on revenue in 2022/23.

Operating costs, including capital maintenance costs, for the year ended 31 March 2022 were £591.8m (31 March 2021 (restated): £567.3m), an increase of £24.5m. The most significant factor in the increased costs was the unprecedented rise in energy costs in the second half of the year. This caused year on year energy costs to increase by £27.2m, which was partially mitigated by a £6.1m increase in renewable energy generation.

The Company's policy is to maintain a balance of medium to long term hedges and shorter term purchases. During the year, the NWGL Board approved an updated Energy Hedging Strategy to manage energy cost volatility.

In relation to COVID-19, the £6.5m provision against bad debt risk, which was created at the outset of the pandemic to reflect uncertainty of cash collection in the pandemic, has been fully released. This recognises that actual cash collection remained strong throughout the pandemic, although there were some delays to enforcement action on older debt. The bad debt provision at 31 March 2022 takes account of concerns around the cost of living pressures driven by household energy bills. This assessment has been informed by looking back at the impacts of the financial crisis in 2008.

Operating costs include the impact of a change in how the Company applies IAS 38 Intangible Assets in respect of 'software-as-a-service' (SaaS) arrangements for IT systems. This follows the publication of new guidance from the IFRS Interpretations Committee (IFRIC) on the treatment of configuration and customisation costs of SaaS software. As a result, costs which were previously capitalised as intangible assets are now recognised as operating costs in the period. The comparative operating costs, amortisation and capitalised interest have been restated as a prior year adjustment as explained in note 27.

Net interest payable was £170.1m in the year ended 31 March 2022 (31 March 2021 (restated): £111.9m). The increase of £58.2m relates principally to significantly higher accretion on index-linked bonds due to increases in inflation during the year and adverse movements on the market valuation of inflation-linked derivatives compared to the previous year. See note 6 to the Financial Statements for further detail. Profit before taxation for the year ended 31 March 2022 was £18.2m (31 March 2021 (restated): £79.2m), the reduction principally reflecting the substantial impact of higher inflation on interest charges.

There was a current tax credit of £9.7m for the year ended 31 March 2022 (31 March 2021: charge of £12.0m). The reduction in the charge of £21.7m mainly reflects the lower profit before tax due to higher interest charges and higher tax reliefs available for capital expenditure under the temporary 'super deduction' rules.

The deferred tax charge for the year ended 31 March 2022 was £167.5m (31 March 2021 (restated): £1.6m). The significant increase in the charge is due primarily to a restatement of deferred tax from 19% to 25% in the year, reflecting the decision by government to increase rate of corporation tax with effect from April 2023, which was enacted during the year. Further details of the net tax charge are provided in note 7 to the Financial Statements. This has resulted in a loss for the year ended 31 March 2022 of £139.6m (31 March 2021 (restated): profit of £65.6m).

A final dividend of £123.3m was paid for the year ended 31 March 2021. Prior to this payment, no dividends had been paid in respect of the years ended 31 March 2020 or 31 March 2021, as a result of the impact of the PR19 FD and the uncertainty surrounding the CMA redetermination process and the COVID-19 pandemic. In approving the dividend the Board took account of the cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan, as well as the other factors in the dividend policy.

For the year ended 31 March 2022 the Board approved payment of an interim dividend of £58.2m and, after the balance sheet date, a final dividend of £55.4m. In reaching these decisions the Board took full account of its dividend policy. More information is provided in note 8 to the Financial Statements.

Following discussions with Ofwat, a special dividend of £159.0m was paid from the non-appointed business for the purpose of settling a legacy intercompany loan arrangement between the non-appointed business and NWGL. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company. More information is provided in note 11 to the Financial Statements.

### Capital investment

Total fixed asset additions in the year ended 31 March 2022 were £282.2m (31 March 2021 (restated): £258.0m), including intangible assets. Around £187m of this investment related to the maintenance of our asset base to ensure the continued provision of sustainable water and wastewater services in the areas we serve. In addition, as well as supporting growth from developers in our areas, we continued to deliver our AMP7 enhancement programme which will deliver environmental improvements through the Water Industry Environmental Programme, improved resilience of our water and wastewater assets, as well as cyber resilience, and smart metering.

### Capital structure and liquidity

No new long-term debt was issued during the year. The Company's long-term debt structure therefore remained largely unchanged with 59% fixed at an average rate of 4.35%, 40% index-linked at an average real rate of 1.18% and 1% on a variable rate basis, after allowing for hedging instruments. The blended average nominal rate for the Company for the year ended 31 March 2022 was 6.25% (31 March 2021: 3.75%), an increase on the previous year due to higher inflation on index-linked debt. In April 2022, the Board approved an updated Treasury Strategy setting out a framework for raising c.£1.3bn of funding over the next four years.

We have a committed five-year bank facility of £450m for the purpose of maintaining general liquidity with a maturity date of December 2025. The facility had £283m undrawn at 31 March 2022. In addition, at 31 March 2022 the Company had a short-term working capital loan from NWGL, its parent company, of £58.1m.

Our RCV, on which our allowed regulatory revenue is based, increased to £4,547.8m at 31 March 2022, from £4,196.4m at 31 March 2021, reflecting high levels of CPIH and RPI indexation.

The Company gearing, which is measured per the financial covenant for the committed facility, reduced from 69.9% to 69.8%, well within the target of 77.5%. Regulatory gearing increased slightly from 69.5% to 69.7%, still below our target level of 70.0%. The interest cover ratio reduced from 3.0x to 2.3x, as a result of the high index-linked accretion charge in the year being included in the calculation. As noted above, for this reason the counterparties to the committed facility agreed to the Company's request to amend the target level to 2.1x at 31 March 2022. The Company subsequently requested a permanent amendment to the interest cover ratio to exclude index-linked accretion, which has been agreed.

The Company has retained its investment grade credit ratings. Moody's affirmed its rating of Baa1 with stable outlook in July 2021. Standard & Poor's (S&P) affirmed its rating of BBB+ (negative outlook) in June 2022. We report on our financial resilience in our viability statement on [pages 107 to 110](#).

### Treasury policies

The Board is responsible for the financing strategy of the Company which is determined within treasury policies set by NWGL. The treasury policies set out how the risks associated with treasury activities are managed, which are summarised below. On occasion, derivatives are used as part of this process, but the treasury policy prohibits their use for speculation.

### Funding risk

The level of capital expenditure which NWL is obliged to incur is such that we cannot be wholly cash financed by internally generated sources. As a result, we must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required by the regulated business. In order to raise this finance efficiently, the Board's aim is to retain prudent investment grade credit ratings. A reduction in the credit rating would likely restrict future sources of funding, increase the associated cost of new borrowing and prompt discussions with the European Investment Bank about the existing facilities in place.

### Liquidity risk

The Company's policy is to have available standby committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than three months. At 31 March 2022, NWL had £283m (31 March 2021: £450m) of undrawn bank facilities, provided by a group of five key relationship banks, which mature in 2025.

### Interest rate risk

The Company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and variable rates of interest and, on occasion, uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. The Company's policy is to keep a minimum 50% of its borrowings at fixed rates of interest. At 31 March 2022, 60% (31 March 2021: 60%) of the borrowings of the Company were at fixed rates of interest. Index-linked borrowings are treated as variable rate debt.

### Credit risk

The Company invests surplus cash with banks on a short-term basis. The treasury policy specifies which counterparties the Company can invest with and sets a limit for the maximum exposure to each counterparty. These limits take account of published credit ratings. There is no material customer credit risk as no individual customer accounts for a significant proportion of income or debt. Note 1(o) of the Financial Statements sets out the Company's bad debt policy.

### Foreign currency risk

The Company's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered as soon as they are identified. At 31 March 2022, the Company had forward foreign exchange contracts of £6.3m (31 March 2021: £5.1m) for the purpose of hedging the foreign currency risk of committed future purchases (see note 19).

### Market price risk

The Company's exposure to market price risk principally comprises interest rate exposure. The Company's policy is to accept a degree of interest rate risk. Based on the Company's analysis, it is estimated that a 1% rise in interest rates would not have a significant effect.

# Risk report

## Risk Management Framework

The Board sets the tone for risk management within the Company, supported by the R&CSC, and determines the appropriate risk appetite. The Board's view of acceptable risk is based on a balanced view of all of the risks in the operating environment and it aims to ensure an appropriate balance between risk aversion and opportunities. The Board's approach to monitoring, managing and mitigating risk, and the work undertaken by the R&CSC during the year, is set out in the Governance Report.

The ELT implements policies on risk management and internal control, ensuring that risks are appropriately controlled, managed and reported and that remedial action is taken as appropriate. The Company's approach to risk management is set out in our Risk Management Framework, which has been endorsed by the R&CSC, and is managed through a corporate risk model.

The Risk Management Framework sets out our process for identifying, analysing and evaluating risk across the business. Risk champions within each area of the business co-ordinate the identification and assessment of risks for their area of responsibility and record these in a departmental risk register. Risk champions meet on a quarterly basis to share learning and ensure consistency of approach.

Each risk is assessed against defined likelihood and consequence criteria on both an unmanaged and managed basis, producing a risk score. The management controls and responsibilities are documented and the effectiveness of the control assessed. An assurance map details the external and internal assurance provided over the controls. We also set a target risk and, where this is below the current managed risk score, set out an action plan to achieve the desired risk reduction.

Those risks in the departmental risk registers with a managed risk score above a defined threshold are classed as 'significant risks' and are reported in the Corporate Risk Register. This is reviewed monthly by the ELT and at each meeting of the R&CSC.

We define strategic risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in a Strategic Risk Register and a sub-group of the Board reviews these strategic risks annually, most recently in December 2021.

## Principal Risks and Uncertainties

The R&CSC, on behalf of the Board, carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, taking account of both the highest rated risks on our Corporate Risk Register and the Strategic Risk Register identified by the Sub-committee.

The conclusions of this assessment are summarised on the heat map below. This shows the current exposure of each of the principal risks and an indication of whether the risk is increasing, stable or reducing. The table on [pages 60 to 63](#) then describes each of the principal risks in more detail, along with our approach to mitigating these risks. The risks are not set out in order of priority. These principal risks have also been considered in our assessment of financial resilience, as set out in our viability statement on [pages 107 to 110](#).

### Changes to Principal Risks

The Board has made the follow changes to the Principal Risks:

#### New risks

- Asset health and delivery of capital projects - inadequate information about our asset base to enable good investment decisions to be made and leading to deterioration in asset health and service performance.
- Supply chain failure - the risk of supply chain disruption because of staff shortages, Brexit, the COVID-19 pandemic and wider economic conditions impacting on the availability and price of key commodities.

#### Risks removed

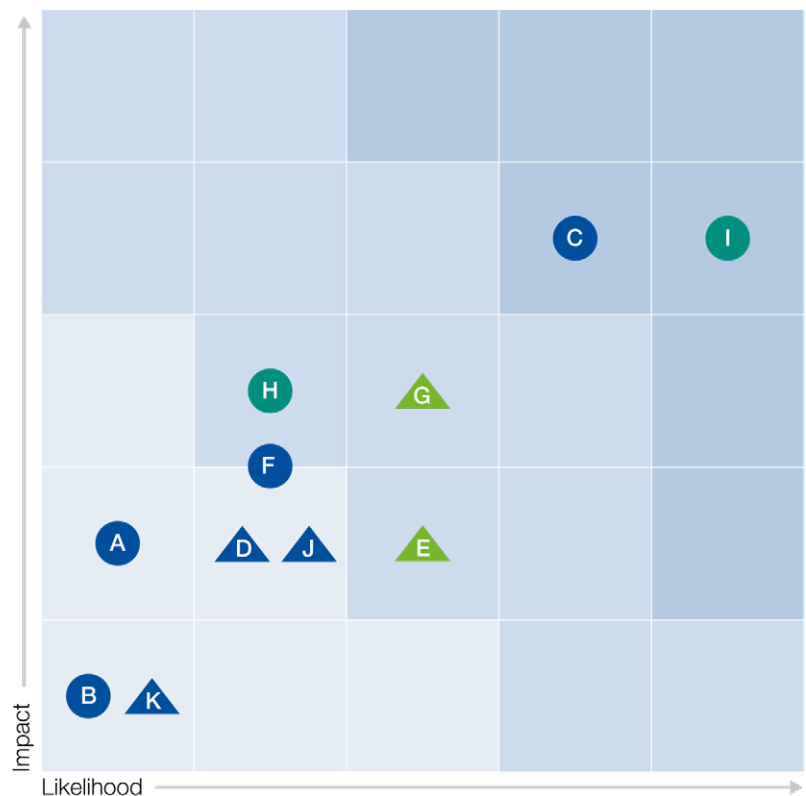
- Impact of pandemic - through the COVID-19 pandemic we have demonstrated that the business is resilient and can continue to deliver essential services even under strict lockdown conditions.
- Pension contributions – the schedule of contributions agreed at the last actuarial valuation set a sustainable level of deficit repair contributions and the closure of the defined benefit scheme to future accrual has removed the volatility risk.

### Emerging Risk – Recruitment and Retention of Staff

The demand for key skills in fields such as engineering and IT is making recruitment and retention of staff more challenging. This is particularly noticeable in our ESW operating area due to its proximity to London. Changes in working practices due to the COVID-19 pandemic have seen a sustained shift towards home working giving people more opportunity to take up roles working remotely.

- A. Health and safety
- B. Customer trust and confidence
- C. Water service failure
- D. Wastewater service failure
- E. Cyber security / information management
- F. Effect of climate change
- G. Regulatory and political changes
- H. Funding and liquidity
- I. Financial performance
- J. Asset health / delivery of capital projects
- K. Supply chain failure

- Operational
- Financial
- Compliance
- ▲ Risk increasing
- Risk stable
- ▼ Risk decreasing



## Operational risks

| Description of risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Change from prior year                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <p><b>Health &amp; safety</b></p> <p>The nature of our operational and construction workplaces means that there is a significant inherent risk to the health and safety of our staff and supply chain of which we are acutely conscious.</p> <p><b>Our workplaces are healthy and safe.</b></p>                                                                                                                                                                                                                                                                                                                                                     | <p>he health and safety of our staff, contractors and members of the public is our highest priority.</p> <p>Health and safety matters are given a high priority at all meetings of our ELT and Board. Long-term planning and targets are set to drive continuous improvement. This is underpinned by our focus on improving behavioural safety and creating a great safety culture.</p> <p>Our health and safety management system defines clear arrangements and responsibilities throughout the Company. This is supported by a programme of leader safety visits, compliance audits, training and safety awareness tools such as 60 second checks and spot-its.</p> | <p>No change (focus on continuous improvement).</p>                                                          |
| <p><b>Customer trust and confidence</b></p> <p>Our customers are at the heart of everything we do and failure to deliver a consistently unrivalled customer experience or negative media coverage resulting in a poor public perception of our reputation could damage our customers' trust and confidence in our business.</p> <p><b>Our customers tell us we provide excellent customer service and resolve issues quickly.</b></p> <p><b>Our customers say we are a company they trust.</b></p> <p><b>Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all.</b></p> | <p>Our focus on getting things right first time, fast time, every time underpins our supports our commitment to delivering a world class service.</p> <p>We have invested in significant improvements in our customer facing systems and the digital experience we offer to our customers, and continue to invest in our people.</p> <p>We continue to improve our support for customers in vulnerable circumstances, through our Inclusivity Strategy, StepChange partnership and new affordability tariffs. We plan to take this further through our commitment to eradicate water poverty across our supply areas.</p>                                              | <p>No change (focus on continuous improvement against a background of increasing customer expectations).</p> |
| <p><b>Water service failure</b></p> <p>A problem in our water system could cause either a major loss of supply or for unfit water to be supplied.</p> <p>This could have many potential causes, including the failure of a strategic water main or treatment works, loss of power supply or contamination of a service reservoir. The increase of micro plastics pollution is an increasing concern.</p> <p><b>We always provide a reliable supply of water.</b></p> <p><b>Our drinking water is clean, clear and tastes good.</b></p>                                                                                                              | <p>We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning.</p> <p>We have well developed business continuity plans in place for managing incidents, down to a site-specific level. These are regularly tested.</p> <p>We restrict access to our treated water network through authorisation and physical security measures.</p> <p>We are taking steps to understand the impact of micro plastic pollution in the water environment.</p>                                                                                                      | <p>Increasing risk around water quality performance and DWI transformation plan.</p>                         |

| Description of risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Change from prior year         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|
| <p><b>Wastewater service failure</b></p> <p>A problem in our wastewater system could cause either significant environmental pollution or flooding of customer properties.</p> <p>This could have many potential causes, including insufficient network capacity to cope with severe weather events, misconnected properties and the consequences of sewer blockages or collapses.</p> <p><b>Our sewerage service deals with sewage and heavy rainfall effectively.</b></p>                                                                                                                                                                                                      | <p>We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning.</p> <p>We continue to invest heavily in preventing pollution and sewer flooding and have a pollution management programme with multiple workstreams to tackle the root causes.</p> <p>We engage with our customers and local communities to deliver sustainable solutions.</p> <p>We are also investing significantly in proactive maintenance and cleaning of the network, real time monitoring and analysis, flooding mitigation and investment to increase network capacity.</p> | No change.                     |
| <p><b>Supply chain failure</b></p> <p>Risk of supply chain disruption because of staff shortages, Brexit, the COVID-19 pandemic and wider economic conditions impacting on the availability and price of key commodities.</p> <p><b>We are resilient and provide clean drinking water and effective sewerage services, now and for future generations</b></p> <p><b>We always provide a reliable supply of water</b></p>                                                                                                                                                                                                                                                        | <p>The most significant risk relates to availability of chemicals. We are part of the Water UK Chemicals Brexit Contingency Planning Group to manage this risk collectively across the UK water sector and monitor supply issues</p>                                                                                                                                                                                                                                                                                                                                                                                                                                    | New principal risk             |
| <p><b>Asset health deterioration</b></p> <p>Inadequate information about our asset base may result in sub-optimal investment decision-making leading to deterioration in asset health and service performance.</p> <p><b>We are resilient and provide clean drinking water and effective sewerage services, now and for future generations.</b></p>                                                                                                                                                                                                                                                                                                                             | <p>We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning.</p> <p>We are investing in improving our understanding of long term asset health to improve investment decision making and prioritisation. Our Asset Management Steering Group is overseeing a prioritised asset health inspection plan.</p>                                                                                                                                                                                                                                        | New principal risk             |
| <p><b>Effect of climate change</b></p> <p>In the short term, climate change may cause more volatile weather conditions which could impact on customer service through disrupting water supply or causing sewer flooding.</p> <p>Over the longer term, climate change could impact on water resources resilience and the integrity of our assets.</p> <p>This may be exacerbated by growing population and ongoing urbanisation.</p> <p><b>We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations</b></p> <p><b>We take care to protect and improve the environment in everything we do, leading by example.</b></p> | <p>Our approach to mitigating short-term risks of service failures on our water and wastewater businesses are set out in the risks above.</p> <p>We consider the longer-term impacts of climate change in our long-term planning, such as our WRMP and DWMPs, and identify long term solutions to future potential resilience issues well in advance.</p> <p>Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact.</p>                                                        | Increasing over the long term. |

## Compliance risks

| Description of risk                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Change from prior year                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| <p><b>Cyber security</b></p> <p>Key business systems could be lost as a result of a malicious attack or failure of cyber security.</p> <p>Sensitive data could be released in breach of the Data Protection Act, General Data Protection Regulation (GDPR) or Environmental Information Regulations (EIR).</p> <p>May not comply with obligations under the Networks &amp; Information Systems Directive.</p> <p><b>Our customers say we are a company they trust.</b></p> | <p>Our Information Security policy sets out our commitment to the continuous improvement of information security controls and culture throughout the business. This is delivered through software and hardware access controls, additional web-based security and clear policies and procedures and user awareness.</p> <p>We are implementing our enhanced cyber resilience strategy in AMP7, including 24/7 monitoring, enhanced anomaly detection, privilege management and next generation security tools.</p> <p>Data is protected through access controls, laptop encryption and awareness briefings. A ten-point data protection action plan has been developed to further mitigate the risks.</p> | <p>Increasing risk over time.</p>                                     |
| <p><b>Regulatory and political changes</b></p> <p>Changes to the Licence or regulatory methodology could impact adversely on the balance of risk and return or reduce investor confidence in the stability and predictability of the regulatory framework.</p> <p>A change in future government could introduce significant changes in policy.</p> <p><b>Our finances are sound, stable and achieve a fair balance between customers and investors.</b></p>                | <p>Externally driven, but we continue to engage with Ofwat on its strategic objectives and the development of the approach for the next price review.</p> <p>We continue to engage with all political stakeholders, both directly and through Water UK, to ensure that any debate is well-informed.</p>                                                                                                                                                                                                                                                                                                                                                                                                   | <p>Stabilised but uncertainty will increase through PR24 process.</p> |

## Financial risks

| Description of risk                                                                                                                                                                                                                                                                                                                                                                                                                                                | Mitigation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Change from prior year                                                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <p><b>Funding and liquidity risk</b></p> <p>A key funding risk would be an inability to access future funding at acceptable rates due to market uncertainty. Future borrowing costs could increase as a result of a credit rating downgrade.</p> <p>Liquidity risk could arise due to breaching financial covenants on committed facilities.</p> <p><b>Our finances are sound, stable and achieve a fair balance between customers and investors.</b></p>          | <p>The Board has approved treasury policies which set out how we manage treasury risks (see <a href="#">page 57</a>.)</p> <p>Our five-year plans identify future borrowing requirements and we plan our financing strategy accordingly over this time horizon. This is supported by £450m of standby committed borrowing facilities, of which £225m was undrawn at 31 March 2022.</p> <p>We are committed to maintaining our investment grade credit ratings and manage our financial plans accordingly. Our viability statement on <a href="#">pages 107 to 110</a> reports on the financial resilience of our plan over a nine year time horizon.</p> | <p>Risk remains heightened due to uncertainty in financial markets due to cost of living pressures.</p> |
| <p><b>Financial performance</b></p> <p>A failure to deliver our financial plans could impact on expected shareholder returns.</p> <p>This could result from significant adverse movements on costs, interest or tax or a failure to deliver efficiency commitments.</p> <p>A sustained period of low inflation could depress RCV, increasing gearing.</p> <p><b>Our finances are sound, stable and achieve a fair balance between customers and investors.</b></p> | <p>We are implementing a range of efficiency actions for both operating and capital expenditure and progress is reported monthly to ELT. We maintain more than 50% of our borrowings on fixed rates, providing certainty.</p> <p>Our viability statement on <a href="#">pages 107 to 110</a> reports on the financial resilience of our plan over a nine-year time horizon.</p>                                                                                                                                                                                                                                                                         | <p>Energy price increases and other cost pressures have increased the financial challenge.</p>          |

Approved by the Board and signed on its behalf:



**H Mottram CEO**

15 July 2022

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# Governance Report

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# Chairman's Introduction



**The Board recognises that it is a privilege to be entrusted with providing essential services to millions of customers in NWL's operating areas each and every day. With this, comes a series of important responsibilities to our communities and the environment, as well as the opportunity to contribute positively to them.**

We are a large employer in our operating regions, a buyer of goods and services, and have significant influence as an 'anchor institution'.

In 2019 Ofwat prescribed four new objectives (the 2019 Objectives) which it expects us to meet. These are set out on [pages 73 to 80](#), where we have also explained how we meet them. The Board has agreed that it would also be appropriate to report compliance with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), and that our standards of corporate governance should remain at least as high as in previous years and higher wherever appropriate.

As a private company with NWL's ownership structure, we believe it is consistent with good corporate governance for there to be significant shareholder representation on the Board, including the Chairmanship. We also accept that there needs to be an appropriate balance. As I explain at [page 68](#), we have taken the opportunity to continue to refresh the Board this year. We have five newly appointed INEDs, and four further Non-Executive Directors (NEDs), including me as Chairman, which makes INEDs the largest single group on the Board. Alan Bryce, who joined the Board in April 2021, has also assumed the role of Senior INED following the departure of Paul Rew in November 2021.

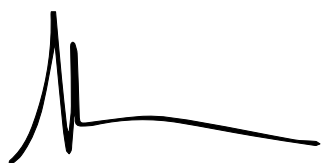
The INEDs play a very significant role in the functioning of the Company and are instrumental in all aspects of the Board's work, taking a leading role on the various Committees, which the Board relies on. The Committees are effectively led by the INEDs (within agreed parameters) and handle a significant volume of important work and present options and proposals to the Board.

The INEDs are highly experienced, capable and independently minded people with a diverse range of relevant experience and talents. Working with the other NEDs, they scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. We believe our current governance arrangements, with strong INED leadership, ensure that there is always sufficient independent membership and judgement on the Board, further supporting the Board and its Committees in making high quality decisions that address diverse customer and stakeholder needs.

The Board functions as an integrated whole. All Directors have the same legal responsibilities and each Director understands his or her individual responsibility to act in the best interests of the Company, as well as the importance of the service provided to our customers and our environmental responsibilities. All Directors play a full part in Board meetings and shape the Company's strategy, as well as ensuring that customers' interests are fully considered in any investment and operational decisions. The composition of the Board ensures a sound balance of experience, knowledge and independence and that decision making is not dominated by any single group.

Alan Bryce, our Senior INED, sets out in his report (on [page 67](#)) how the INEDs are fully involved in all the main aspects of NWL's governance and, throughout the year, were invited to all the Board meetings of our holding company, NWGL (except in relation to NHH retail business).

In practice, the Company complies with the 2019 Ofwat Objectives and, with very few exceptions, the supporting Provisions. The effective arrangements, which the Board and its Committees have in place to ensure such compliance, are explained in some detail below in the Corporate Governance Report (on [pages 68 to 88](#)).



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**A J Hunter**  
Chairman

# Senior Independent Non-Executive Director's Report



**As Senior Independent Non-Executive Director (SINED) I am pleased to be able to describe the continuing role of NWL's INEDs, and the key role played by the INEDs in the Board Committees and Sub-committees.**

I am happy to endorse the Chairman's explanation of the key role which the INEDs continue to play in NWL's governance, assurance and decision making. Fellow INED Richard Sexton chairs the Audit Committee (AC) and the R&CSC. As and when required, the Board constitutes a sub-group of members, including INEDs, to conduct detailed work on specific areas and to scrutinise and inform recommendations made to the full Board, chaired by me or by a fellow INED. INEDs sit on all sub-groups and committees and are in the majority on the AC, the R&CSC, the Remuneration Committee and the Nomination Committee.

We are therefore fully involved in all the main aspects of NWL's governance and the Board is satisfied that this enables it to ensure that sound governance is maintained. That involvement has been undiminished in the last year despite the pandemic, albeit meetings have been virtual rather than physical.

Although the INEDs are not members of the NWGL Board, we have again been present at its Board meetings this year, which has continued to encourage a cohesive approach at both Boards and given us full transparency. However, in order to maintain proper governance in relation to the NHH market (the "level playing field") we have not received papers relating to the NHH retail market or been present when that has been under discussion.

The INEDs have again all taken part in extensive sessions with management on business risk and customer service, have met from time to time without management or the other Directors being present (with and without the Company's auditors) and attended the limited number of other events relating to the water sector including non executive director events hosted by Ofwat. Beyond the formal work of the Board and its various committees, we have also continued to develop a broader insight into the work of the Company through other meetings and events, although the scope for these has been reduced over the last year by the impacts of the pandemic.

In conclusion, I and the other INEDs believe that the Board and Committees have sufficient independent membership. I am confident that the new team of INEDs will, through their leading role in the Committees, continue to exert significant influence in setting the direction which the Board takes in all key areas of strategy and business planning, monitoring, governance and reporting.

A handwritten signature in black ink that reads "Alan A Bryce".

**A A Bryce**

Senior Independent Non-Executive Director

# Corporate Governance

## Board Membership



**A J Hunter** (Non-Executive Chairman) joined the Board in October 2011. Mr Hunter is Deputy Managing Director of CKI, which is listed on The Hong Kong Stock Exchange and is a substantial shareholder in the Group. Mr Hunter is an

Executive Director of Power Assets Holdings Limited, a listed company. He has been an Executive Director of CKI since December 2006 and Deputy Managing Director since May 2010. Mr Hunter acted as the Chief Operating Officer of CKI from December 2006 to May 2010. Prior to his appointment to the board of Power Assets Holdings Limited in 1999, Mr Hunter was Finance Director of the Hutchison Property Group. He holds a Master of Arts degree, a Master's degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter chairs the Remuneration and Nomination Committees.

**Key strengths: Leadership, strategic overview, finance and infrastructure.**



**A Bryce** (Senior Independent Non-Executive Director) joined the Board in April 2021. Mr Bryce was, until 2009, Managing Director of ScottishPower Energy Networks, and before that Managing Director of

ScottishPower Generation. He is a Non-Executive Director of Northern Ireland Electricity Networks and of Jersey Electricity plc. He was formerly a Non-Executive director of Scottish Water until 2018, Infinis Energy plc, and Chair of Viking Energy Shetland. As an advisor in the utilities industry, Mr Bryce served on Ofgem's Network Innovation Competition Expert Panel and the RIIO-2 Customer Challenge Group. He is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's workforce and culture and its activities in the north east of England.

**Key strengths: Utilities, engineering and asset management and strategy.**



**L S Chan** (Non-Executive Director) joined the Board in 2016, having been appointed by Cheung Kong (Holdings) Limited (CKH), and has been an Executive Director of CKI since January 2011 and Chief Financial Officer of CKI since

January 2006. Mr Chan joined Hutchison Whampoa Limited, which is a substantial shareholder of CKI, in January 1992 and has been with the Cheung Kong Group since May 1994. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and also a member of the Institute of Certified Management Accountants (Australia). He is a member of the AC.

**Key strengths: Finance, infrastructure and corporate overview.**



**H L Kam** (Non-Executive Director) joined the Board in October 2011, having been appointed by CKH, a wholly-owned subsidiary of CK Hutchison Holdings Limited of which he is the Deputy

Managing Director. Mr Kam is also Group Managing Director of CKI, a position he has held since its incorporation in May 1996. He is the Deputy Managing Director of CK Asset Holdings Ltd., President of CK Life Sciences Int'l. (Holdings) Inc., as well as Chairman of Hui Xian Asset Management Limited, which manages Hui Xian Real Estate Investment Trust, a listed real estate investment trust. Mr Kam holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

**Key strengths: Leadership, strategic overview, finance and infrastructure.**



**D N Macrae** (Non-Executive Director) joined the Board in October 2011, and represents CK Infrastructure Holdings Limited, where he holds the position of Head of International Business. Mr Macrae has many years' experience in the

infrastructure investment field and holds a Bachelor's and a Master's degree in Philosophy, Politics & Economics. He is a member of the Remuneration Committee and Nomination Committee.

**Key strengths: Finance, infrastructure and corporate overview.**



**Prof J McGlade** (Independent Non-Executive Director) joined the Board in July 2021. A natural scientist (aquatic sciences, biochemistry, ichthyology, informatics and soil science) by training, Prof McGlade is qualified in both the

UK and Canada and is recognised globally as a leading researcher in the fields of ecosystem and human health, climate change, natural capital and dynamical systems modelling. Prof McGlade is currently at University College London and Strathmore Business School. Prior to this, she was appointed as UN Environment Chief Scientist and Global Director of Science 2013-2017 and Executive Director of the European Environment Agency 2003-2013, where she was responsible for 32 EU, EEA and Associate member states' data, reporting and assessment on the environment and major sectors. Earlier posts include Director of UK Natural Environment Research Council Centre for Coastal and Marine Science, Professor at Warwick University, and Director Ecosystems Modelling Institute German Federal Government, and Senior Research Scientist Federal Government of Canada.

Prof McGlade was a Board Member of the Environment Agency England and Wales from 1998-2003, and in 2020 was appointed a member of Essex County Council's Climate Action Commission. She is a member of the AC and R&CSC and will have a special focus on the Company's environmental performance and its activities in Essex and Suffolk.

**Key strengths: Water and climate sciences, environmental technologies and R&D, conservation and environmental policy.**



**H Mottram** (CEO) joined the Board in 2010, when she was appointed as CEO of NWL and NWGL. Ms Mottram is a Non-Executive Director of Centrica plc, Vice-Chair of the North East Local Enterprise Partnership and Vice-Chair of

Newcastle University Council. Ms Mottram was named North East Business Executive of the Year in 2017 recognising her significant contribution to business in the north east of England. She was awarded an OBE in 2010 for services to the rail industry and a CBE in 2018 for services to the water industry and business community.

**Key strengths: Leadership, corporate overview, infrastructure and customer service.**



**B C Rosewell** (Independent Non-Executive Director) joined the Board in April 2021. Ms Rosewell is an economist by background, with a track record in advising public and private sector clients on key strategic issues. She is a Commissioner

for the National Infrastructure Commission in the UK, Chair of Atom Bank and of the M6 Toll Company and a founder and Senior Adviser of Volterra Partners. Ms Rosewell has been Senior Independent Director for Network Rail, Chair of Risk for Ulster Bank and Chief Economic Adviser to the Greater London Authority. Ms Rosewell was appointed CBE in December 2018 and is also a Fellow of the Institution of Civil Engineers, the Academy of Social Science and the Society of Professional Economists. She writes on finance, risk and uncertainty as well as infrastructure and modelling validation. Ms Rosewell is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's activities in the north east of England.

**Key strengths: Strategic leadership, economics, risk and infrastructure**



**R G Sexton** (Independent Non-Executive Director) joined the Board in April 2021. Mr Sexton is a Fellow of the Institute of Chartered Accountants and was a partner in PricewaterhouseCoopers LLP (PwC) from 1992 until

2018, where he was lead partner on a diverse range of FTSE 100 and Fortune 500 clients. He also held a number of senior management roles in PwC including Vice Chairman, Global Assurance from 2013 to 2018. Mr Sexton became Co-Chair of the Value Reporting Foundation in June 2021 and was a Non-Executive Director of the International Integrated Reporting Council until June 2021. In February 2022, Mr Sexton joined the Board of Our Future Health and sits on the Nomination and Remuneration Committees and is Chair of the Audit and Risk Committee. He is Chair of the AC and R&CSC and will have a special focus on the Company's activities in Essex and Suffolk.

**Key strengths: Finance, risk and corporate governance.**



**P Vicary-Smith** (Independent Non-Executive Director) joined the Board in July 2021. Mr Vicary-Smith was for 14 years the Chief Executive of the consumer organisation Which?. Prior to that his background was in marketing, and included

roles as a strategy consultant at McKinsey, leading fundraising for Oxfam, and as Commercial Director at Cancer Research UK. He is Chair of Oxford Brookes University and advises both established companies and digital start-ups on engaging with their customers and putting their customers' needs front and centre of decision-making. Mr Vicary-Smith is a member of the Institute of Chartered Accountants of England and Wales' Corporate Governance Committee. He is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's customers.

**Key strengths: Customer engagement, strategy and corporate governance.**

## Members of the Board and attendance at Board meetings

There were five scheduled meetings during the year ended 31 March 2022 and two shorter additional meetings. The Board considered this sufficient to enable it to discharge its duties effectively, and will meet out of the agreed cycle for time-critical matters or significant matters that arise as necessary.

Membership of the Board and attendance at the five scheduled meetings during the year were as follows (except as stated the Directors served for the whole of the year ended 31 March 2022):

| Name                                         | Attendance |
|----------------------------------------------|------------|
| A J Hunter                                   | 5          |
| A A Bryce<br>(appointed 14 April 2021)       | 5          |
| L S Chan                                     | 5          |
| M Fay<br>(retired 31 May 2021)               | 1          |
| H L Kam                                      | 4          |
| Dr S Lyster<br>(retired 31 May 2021)         | 1          |
| D N Macrae                                   | 5          |
| J M McGlade<br>(appointed 14 July 2021)      | 4          |
| H Mottram                                    | 5          |
| M A B Nègre<br>(retired 31 July 2021)        | 2          |
| P Rew<br>(retired 22 November 2021)          | 4          |
| B C Rosewell<br>(appointed 14 April 2021)    | 5          |
| R G Sexton<br>(appointed 14 April 2021)      | 5          |
| P D Vicary-Smith<br>(appointed 14 July 2021) | 4          |

Attendance at the two additional Board meetings held during the year was as follows:

| Name         | Attendance |
|--------------|------------|
| A J Hunter   | 2          |
| A A Bryce    | 1          |
| L S Chan     | 2          |
| M Fay        | 2          |
| H L Kam      | -          |
| Dr S Lyster  | 2          |
| D N Macrae   | 2          |
| H Mottram    | 2          |
| M A B Nègre  | 2          |
| P Rew        | 2          |
| B C Rosewell | 1          |
| R G Sexton   | 1          |

# Corporate Governance Statement

The Boards of the Company and its holding company, NWGL, are committed to high standards of corporate governance. Ofwat has now embedded the 2019 Ofwat Objectives in the Company's Licence, to ensure that governance is sound and that the Company's Directors, acting as such, act independently of parent companies.

The arrangements and functioning of the Board, its Committees, Sub-committees and Sub-groups adhere to the Wates Principles and the 2019 Ofwat Objectives, with the latter being subject to the minor exceptions explained below. As set out above, at the 31 March 2022, and at the date of this Report, there were five INEDs, a further four NEDs, including the Chairman, and one Executive Director (being the CEO). Accordingly, the INEDs constitute the largest single group on the Board.

The Chairman ensures that the Board works in a collegiate way, in the best interests of the Company and its stakeholders, and that each Director has an equal voice. All members of the Board are content that the balance of the Board is appropriate. The Directors have all been able to allocate sufficient time to the Company to discharge their responsibilities effectively.

As the Chairman says in his introduction (on [pages 65 to 66](#)), the INEDs, within agreed parameters, effectively lead the work of the Committees, which hold very full meetings with considerable workloads, to prepare the ground for the Board.

There is a clear division of responsibilities between the Chairman and CEO. This has been set out in writing and agreed by the Board.

Directors' and Officers' liability insurance cover for the benefit of all Directors of the Company is in place. In addition, NWGL entered into a Deed of Indemnity on 21 March 2017 to provide Directors of NWGL and its subsidiaries further protection against potential liability.

# Board Leadership, Transparency and Governance

## The 2019 Ofwat objectives (and supporting provisions)

We explain below how we meet the Objectives and supporting Provisions on board leadership, transparency and governance as published by Ofwat in January 2019.

### Objective 1

**The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.**

Our comments below on compliance with the relevant supporting Provisions explain how the Company meets this Objective:

*(i) The Board develops and promotes the Company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.*

The updated Our Purpose statement (set out on [page 12](#)) has been informed by a very extensive research and consultation exercise (supported by BITC) and a number of workshops. The enhanced statement captures how we care for the essential needs of our communities and the environment, now and in the future, and the positive difference we make by investing over the long term to create a sustainable and resilient business.

There is a comprehensive and continuous programme of engagement with customers and full details are set out in the Company's APR.

This open and consultative culture is a key element of how the Company does business. It is also maintained through a very broad programme of engagement, including regular engagement at Chief Executive level with local authorities across our operating areas, and participation in regional and national business organisations. The Company also hosts site visits by MPs, civil servants, and senior regulators to encourage open and transparent debate about the challenges faced by the sector and to enable the Company to understand their respective concerns and priorities. This programme of engagement will be re-invigorated as and when the lockdown eases.

*(ii) The Board makes sure that the Company's strategy, values and culture are consistent with its purpose.*

The Board has reviewed and discussed the Company's strategy, values and culture and is satisfied that these are consistent with the enhanced purpose. The Board recognises that the Company's strategy needs to reflect the purpose, as well as customers' long-term priorities and to take account of Ofwat's emphasis on public value. The Our Purpose statement is therefore underpinned by key principles which demonstrate that NWL:

- Provides a reliable, resilient, safe and high-quality water and wastewater service for all;
- Intends to leave the environment in a better condition for the next generation;
- Is committed to keeping water affordable including for those on low incomes; and
- Acts in the long-term interests of society and the environment while still providing the very best service for customers today.

*(iii) The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the Company's purpose. Where it finds misalignment it takes corrective action.*

- (a) The Board has received and discussed detailed feedback on an extensive employee engagement survey conducted by "Best Companies". This provided a comprehensive insight into the alignment of behaviour throughout the business with the purpose. The survey findings were very positive, but there are always areas where there is scope to improve engagement. Line managers are again being supported to develop action plans to further improve engagement and ensure alignment of behaviour with the purpose. Engagement will be re-assessed later in the year to measure the improvement achieved and identify any further steps required.
- (b) Although the entire Board will engage closely with the workforce, it has designated the Senior INED, Alan Bryce, to have a special focus on our people and the culture of the business.
- (c) The Human Resources team keeps Company policies and procedures under review to ensure that these properly reflect the Company purpose and to embed it where this is appropriate.

*(iv) Annual reporting explains the Board's activities and any corrective action taken. It also includes an annual statement from the Board focusing on how the Company has set its aspirations and performed for all those it serves.*

The Board receives detailed reports from the Executive Directors in advance of Board meetings, covering each aspect of the Company's activities.

The Chairman leads the Board and ensures that all items on the Board agendas are discussed openly and that all Directors have an opportunity to express their views. He encourages constructive challenge, so that ideas and proposals are tested and explored fully. The Board recognises that customers' interests are best served when the Company is flexible and innovative, so the ELT is always encouraged to think laterally and consider a range of solutions for each issue.

The Board makes key strategic decisions, approves the annual budget and notes the medium-term business plans. It also approves key regulatory submissions and very significant investments or expenditure which is not in the normal course of business. Investments which form part of projects within approved business plans are authorised by the Committees below Board level. Although this formal framework is very effective, the ELT takes great care to ensure that matters which relate to the quality of the Company's services to customers, leakage, water quality and environmental performance are discussed fully by the Board. The Standing or Executive Committees can take decisions not delegated to specific committees between Board meetings. All Directors receive notice of Standing Committee meetings and may participate if they wish. Decisions taken by the Standing or Executive Committees are reported at the next Board meeting. The Company's Board meets at least five times each year.

During the year, the Board received regular detailed updates from the Executive Director and members of the ELT on each aspect of the Company's work. There are also regular reports on each Board agenda on customer service, operational performance, health and safety, management of key business risks, the investment programme and regulatory matters. A safety update is provided at the commencement of every Board meeting. There is a strong focus on the Company's success in delivering its key outcomes, as explained in the Strategic Report. The Chairman of the AC, R&CSC and Sub-groups reports fully to the Board on their work.

In addition, the following significant matters were considered by the Board, as a matter of sound governance:

- (a) The Annual Report and Financial Statements;
- (b) The annual business plan;
- (c) Data security;
- (d) Decisions on tariffs;
- (e) Approval of several significant capital projects;
- (f) Review of performance commitment targets and related investment priorities;
- (g) Cyber security;
- (h) Environmental impact;
- (i) COVID-19; and
- (j) PR24 preparation

A Board statement as detailed above is included in NWL's APR for the year ended 31 March 2022.

## Objective 2

### The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

NWL clearly meets this Objective. The Board sets, implements and supports the Company's vision, values, standards and strategy and ensures compliance with policies and legal and regulatory obligations. We comment below on compliance with the relevant objectives:

*(i) The regulated company sets out any matters that are reserved to shareholders or parent companies (where applicable) and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.*

Although proper regard is given to the interests of shareholders, in accordance with company law, NWL's Board has full responsibility for all aspects of the Company's business, including the freedom to set, and accountability for, all aspects of NWL's strategy. This is evidenced by the fact that the PR19 Business Plan was developed and approved entirely by the NWL Board.

The Company has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to the Committees, Sub-committees, Sub-groups and management. These are published on the Company's website.

The Company has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Company. The terms of reference and financial approval rules are reviewed periodically by the Board.

Although certain limited matters (such as extensions of directors' appointments, large contract awards and significant borrowing arrangements) are referred to the NWGL Board, this is regarded as a formality. The NWGL Board accepts that the NWL Board is required to have full responsibility for all aspects of the regulated company's business and, to that end, has never rejected a recommendation of the NWL Board.

*(ii) Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.*

All the NWL Board Committees report into the NWL Board and final decisions are made at that level.

*(iii) The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.*

The Board is absolutely focused on the sustainable, long-term success of NWL. Any conflicts of interest are declared and Directors do not speak or vote on matters where a potential conflict arises.

It is a key principle of the Cheung Kong group of companies that the boards of companies within the group manage their own affairs. Whilst support and assistance is provided when asked for, it is recognised that local management have hands-on knowledge of the operational business and of customers' needs and priorities. The non-NWL interests of the shareholders are, therefore, never a factor in decision-making at the NWL Board and this approach is regularly re-affirmed by the NEDs in the clearest possible terms.

### Objective 3

**The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.**

Our comments below on the relevant supporting provisions explain how the Company meets this Objective. The provisions require publication of the following in a clear and accessible manner:

*(i) An explanation of group structure.*

This is provided at [page 53](#).

*(ii) An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees).*

The dividend policy, and how the policy has been applied in the year, is explained in note 8 to the Financial Statements.

*(iii) An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.*

The Board has ultimate responsibility for risk management and determines appropriate risk appetite. The Board's view of acceptable risk is based on a balanced assessment of all the risks in the operating environment and aims to ensure an appropriate balance between risk aversion and opportunities. The Board monitors the management of risks and approves major decisions affecting the Company's risk profile. The Board is supported in this by the R&CSC, from which it receives regular and detailed reports.

The Board requires management to identify and assess the impact of risks to the business using a corporate risk model. In addition, during the year, a Sub-group of the Board carried out a review of strategic risks, which are potentially high-impact risks which are foreseeable but with a high degree of uncertainty.

An explanation of principal risks, and our approach to mitigating these risks, is provided on [pages 59 to 64](#).

*(iv) Details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.*

Details of Board and Committee membership and meetings and attendance is set out at [page 72](#). No votes were held at any relevant meeting and all decisions were reached by consensus.

*(v) An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.*

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on [pages 89 to 102](#), including how the criteria for the short-term incentive plan have significant linkage to benefits for our customers and the wider environment.

#### Objective 4

**The Board of the Appointee and its committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.**

Our comments below on the relevant supporting provisions explain how the Company meets this Objective.

*(i) Boards and committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.*

The Board has determined that A Bryce, J McGlade, B C Rosewell, R G Sexton and P Vicary-Smith are independent. Their backgrounds and skills are described in their biographies on [pages 68 to 70](#).

The NWL Board therefore has an excellent balance of skills, experience, independence and knowledge of the Company. The CEO has very significant experience in the water sector and in another customer-facing utility, whilst the INEDs make full use of their individual professional expertise and personal interests to make a significant contribution to addressing the needs of all stakeholders and customers.

The Board therefore believes that the Board and Committees, Sub-committees and Sub-groups have sufficient independent membership to meet the objective.

The non-independent NEDs bring extensive knowledge and experience of global infrastructure, finance, customer engagement, environmental policy and corporate governance.

*(ii) INEDs are the largest single group on the board.*

INEDs are the largest single group on the Board.

*(iii) The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.*

The Chairman was not independent of investors on appointment, when the Company had a single ultimate controlling shareholder. In her Board effectiveness review conducted in 2021, Professor Michelin invited detailed comments on the Chairman's performance. She reports that he is described as "inclusive, engaging and supportive of all directors, welcoming, good at analysing key issues and bringing a clear perspective and flexible in gaining consensus". Professor Michelin adds that "...there seems to be a great deal of respect for the Chairman, both because of his ability to run meetings efficiently, but also his friendly and open style that encourages all directors to feel comfortable in putting forward their views. All surveyed members confirmed that the Chairman promotes open debate and facilitates constructive discussion, ensuring that all directors have appropriate information and sufficient time for meaningful discussion." Given the balance of the Board and the strong group of INEDs, Professor Michelin confirms that she does not consider the fact that the Chairman is not independent to be an issue for concern.

*(iv) There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.*

In each of the last four years an annual, independently conducted, evaluation of the performance of the Board has been conducted by Professor Giovanna Michelon, a specialist in corporate governance and social responsibility, and each report has confirmed that the Board is working effectively. Given the appointment of an entirely new suite of Independent Non-Executive Directors and Company Secretary during the year, the Company is currently undertaking its first annual evaluation of the performance of the Board, since those appointments. The Company determined that in order to provide meaningful insight from the evaluation, a cycle of Board meetings needed to occur with the new suite of directors in place and able to provide constructive feedback. This process has further benefitted from the reintroduction of face-to-face Board meetings following the relaxation of COVID-19 restrictions.

*(v) There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.*

There is such a procedure in place. The recruitment campaign for the new INEDs involved a leading executive search agency to ensure that candidates were drawn from as wide a pool as practicable and was consistent with the highest standards of best practice. As part of her 2021 review, Professor Michelon invited comment on the recruitment process and it was described as “thorough”, “fair” and “effective in identifying a good range of highly able and experienced candidates”. The appointees reported that the interviews showed that the Board “had a clear vision about the roles, skills and experience it was looking for and selected a group of individuals who complement each other and cover a range of characteristics and expertise that the Board needs”.

The new INEDs participated in a comprehensive on-boarding and induction programme, covering all key aspects of the Company’s operations, responsibilities and financial structure. This involved a significant number of virtual meetings and “teach-ins” with senior colleagues and visits to key sites. These site visits continue as a method of providing enhanced understanding of the workings of the Company to the Board. The programme is flexible and the appointees have been encouraged to help shape it. They have all confirmed that the programme is effective and assisted them in their new roles.

*(vi) To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.*

The Company has adhered to this.

*(vii) There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.*

There is a majority of INEDs on the AC, Nomination Committee and Remuneration Committee. The latter two Committees are chaired by the Company's Chairman, which the Board considers appropriate in the context of the Company's ownership structure.

The INEDs play a leading part in the Board Committees and Sub-committees. Importantly, the AC is chaired by an INED with appropriate financial experience and five of the six members are INEDs. The R&CSC is, similarly, chaired by an INED and all five members are INEDs. More specifically, the AC and R&CSC deliver much of the preparatory work on the Annual Report and Financial Statements and APR, review the work of the internal audit function, review risk management and advise the Board on risk appetite and monitoring compliance with covenants and management of debt. At the AC, there is a particular focus on matters which directly impact customers, such as Guaranteed Standards of Service compliance. The AC and R&CSC report fully and frame proposals on such matters for the Board to consider. Therefore, in addition to their direct input to the Board, the influence of the INEDs and their contribution to the running of the Company, through the AC and R&CSC, is very significant and highly valued.

### Authorisation of Directors' Conflicts of Interest

Directors have a statutory duty, under s175 of the Companies Act 2006, to avoid a situation in which they have, or could have, a conflict of interest with the Company's interests. However, there is no breach of this duty if the Board has authorised the matter in question. The NWL Articles permit Directors (other than the Director having the interest in question) to authorise any situation giving rise to a known or potential conflict. A register of the interests which have been authorised is maintained by the Company Secretary and is available at every Board meeting.

### Work of the Committees

Details of the work of the AC, R&CSC and Nomination Committee are set out below.

# Audit Committee Report

## Introduction by the Chairman of the Committee, R Sexton

The role of the AC is to assist the members of the Boards of NWL and its subsidiaries (the NWL Group) to discharge their individual and collective responsibilities in relation to:

- Ensuring the financial and accounting systems of each NWL Group company are providing accurate and up-to-date information on its current position;
- Ensuring the published Financial Statements of the NWL Group companies represent a true and fair reflection of this position;
- Ensuring the integrity of the Company's regulatory reporting systems and the accuracy of its regulatory reports; and
- Assessing the integrity of internal financial controls, thereby mitigating against financial loss or mis-statement.

The Committee also maintains oversight of internal and external auditors. I have worked with the members of the Committee and with management and key advisors to produce an action plan for the Committee, setting out the business to be addressed at each meeting. This plan is dynamic and is updated throughout the year. The members of the Committee are updated regularly on developments in financial reporting requirements and on any changes in NWL's regulatory environment.

## Members of the Audit Committee

The members of the AC during the year were P Rew (Chairman) (who stood down in November 2021), L S Chan, M A B Nègre (who stood down in July 2021) and Dr S Lyster (who stood down in May 2021). A Bryce, B C Rosewell and R G Sexton (Chairman from 5 January 2022) joined the AC in April 2021 and J McGlade and P Vicary-Smith joined in July 2021.

The CEO, Chief Financial Officer, Regulation and Assurance Director, Internal Audit Manager and the external auditor normally attend the Committee's meetings by invitation and M Parker acted as Secretary to the Committee until his retirement in October 2021 at which date R Somerville took on the role. Other senior managers, independent technical auditors and advisers are invited to attend as appropriate.

## The work of the Audit Committee

During the year, and up to the date of approval of these Financial Statements, the AC assisted both Executive Directors and NEDs to discharge their individual and collective responsibilities. Its work included the following:

### External Audit

- Overseeing a tender exercise for external audit services, to take effect for the year ending 31 March 2023, and recommending the reappointment of Deloitte LLP to the Board;
- Reviewing the draft Financial Statements and APR, considering reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the NWL Group's internal controls and risk management;
- Considering the key areas of judgement in the Financial Statements, reviewing reports from management, and ensuring these are consistent with those set out in note 1(q) to the Financial Statements on [page 125](#);
- Reviewing the appropriateness of accounting policies and evidence supporting the going concern basis for the Financial Statements and recommending approval of the Financial Statements to the Board;
- Reviewing and monitoring the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy (see further details below).

The Committee monitors the independence of the audit through different reviews and actions including:

- Confirmation that the auditor is, in its professional judgement, independent of the NWL Group;
- Obtaining from it an account of all relationships which may affect the firm's independence and the objectivity;
- Rotation of the lead audit partner every five years; maintaining a policy regarding the engagement of the auditor to conduct non-audit work and monitoring the level of audit fees compared to non-audit fees (see further details below);
- Considering audit tender requirements, being tenders every 10 years and mandatory rotation after 20 years. considering new accounting standards and reviewing their applicability to the Company;
- Reviewing the approaches taken to bad debt and taxation provisioning as well as unbilled revenue recognition; and
- Reviewing reporting from management or the external auditor on the accounting judgements associated with property, plant and equipment, and assumptions taken regarding valuing financial instruments and the defined benefit pension scheme liability.

In addition, the Committee considers the effectiveness of the external audit, and considers the level of experience, industry knowledge and expertise of the audit team, and its delivery of appropriate challenge in a knowledgeable and constructive manner.

### Non-audit fees

The Company has adopted a formal policy on the provision of audit services, which was updated with effect from 1 April 2017, to reflect the FRC's Revised Ethical Standards 2016.

The policy provides for general pre-approval of a range of services which are generally regarded as audit related, where the fees are equal to or less than £50k. It also sets out a broad range of prohibited activities.

Services which are not prohibited, but which have not been pre-approved and in respect of which the fee is equal to or less than £50k, can be approved by the AC Chairman, who reports such approval to the AC. If the fee for such services will exceed £50k the approval of the AC is required.

The policy imposes a cap on non-audit fees equal to 70% of average audit fees for the previous three years.

Where Deloitte LLP is engaged to provide non-audit services, this results from its extensive knowledge on NWL's business and the sector generally, as well as demonstrating the required expertise and capability to provide good value for money.

Non-audit related work undertaken by Deloitte LLP in 2021/22 amounted to fees of £22k, comprising provision of assurance on third party contracts. The fees paid are set out in note 3 to the Financial Statements on [page 127](#).

The AC also holds in camera sessions with the audit partner.

### Internal Audit

The NWL Group operates a blended model for its internal audit function. Under this model, the internal audit team conducts most of the work, including core financial controls and regulatory reporting reviews. Reviews of specialist technical areas are outsourced to firms with appropriate experience and qualifications when felt necessary.

The Committee reviews and approves the internal audit plan for the year. Its review is designed to ensure that focus is given to the areas of highest risk for the NWL Group and that the audit work focuses on key controls.

Internal audit reports reviewed by the Committee during 2021/22 included:

- **March 2021**  
Procurement  
Process Review - Sewer Flooding  
Three Rivers Insurance
- **June 2021**  
Asset Investment
- **September 2021**  
No internal audit reports at this meeting
- **January 2022**  
Financial Accounting  
Customer Billing

In addition, at each of its scheduled meetings the Committee received reports detailing progress with implementing recommendations previously raised by internal audit and is satisfied that management has taken appropriate steps to implement the recommendations raised.

The Chair of the Committee, independent of management, maintains regular and direct contact with both the internal and external auditor, allowing open dialogue and feedback.

The Committee has considered the effectiveness of internal audit. There was also an external assessment completed by the Chartered Institute of Internal Auditors during 2018/19 which overall noted that the function “clearly meets the expectations of its stakeholders”. The Committee is satisfied that the current model described above remains appropriate for the Group.

#### **Work with other assurance providers**

Support with data assurance work for the principal regulatory reporting was provided by Deloitte LLP for financial tables and PwC and our Internal Audit team for non-financial tables.

Our overall approach to assurance of regulatory data has been approved by the Committee and is described below:

- Business as usual assurance for our ongoing data capture and measurement processes;
- Each piece of data must be provided by the nominated data provider and reviewed before being audited. This is controlled by a workflow system; and
- Additional independent technical assurance was procured (from PwC as our External Technical Auditor) to examine areas that were identified as being higher risk as defined by our regulatory data risk management framework as approved by the Committee. Our approach is described in our draft and final assurance plans with the results being described in our Data Assurance Summary annually.

Reports from Deloitte LLP, PwC and Internal Audit are received and reviewed by the Committee.

### Further compliance and other matters

- Reviewing and commenting on the APR, including the underlying assurance, reviewing evidence to support the Condition P certificate (ring-fencing certificate) and long-term Viability Statement and recommending their approval to the Board;
- Approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations;
- Reviewing management of tax compliance matters and other tax issues, and discussing key matters with HMRC; and
- Reviewing the Company's Long-Term Viability Statement.

The AC Chairman reports formally to the NWL Board following each AC meeting, and its minutes are circulated to both NWL and NWGL Boards.

Attendance at the five AC meetings during the year was as follows:

| Name             | Attendance |
|------------------|------------|
| P Rew            | 3          |
| R G Sexton       | 5          |
| A A Bryce        | 5          |
| L S Chan         | -          |
| N Herrington     | 4          |
| Dr S Lyster      | -          |
| J M McGlade      | 2          |
| M A B Nègre      | 1          |
| B C Rosewell     | 5          |
| P D Vicary-Smith | 3          |



**R G Sexton**

Chairman of the Audit Committee

# Risk & Compliance

## Sub-Committee

### Report

#### Introduction by the Chairman of the Sub-committee, R G Sexton

The role of the Sub-committee is to assist both Executive and NEDs to discharge their individual and collective responsibilities in relation to assessing the scope and effectiveness of the NWL Group's risk management systems and the integrity of its internal financial controls.

#### Members of the Risk & Compliance Sub-committee

The members of the R&CSC during the year ended 31 March 2022 were P Rew (Chairman), who stood down in November 2021, M A B Nègre, who stood down in July 2021, and Dr S Lyster, who stood down in May 2021). A A Bryce, B C Rosewell and R G Sexton (Chairman from 1 December 2021) joined the R&CSC in April 2021 and J McGlade and P Vicary-Smith joined in July 2021.

#### The work of the Risk & Compliance Sub-committee

The ELT implements policies on risk management and internal control and ensures that risks are appropriately identified and managed within the business, to ensure that the Company's resources and capacity to deliver services as required by customers remain resilient. This approach is set out in a Risk Management Framework, which has been endorsed by the R&CSC. The ELT reviews the approach to risk management in detail every year and reviews the significant risks every month. Any significant issues are reported by the CEO to the Board. Senior management implements policies on risk management and internal control.

The R&CSC, on behalf of the Board, has performed a robust assessment of the principal risks facing the Company, including those that would threaten its business model, resilience, future performance, solvency or liquidity. These principal risks, and how they are managed, are described on [pages 58 to 63](#) in the Strategic Report.

The internal control framework supports the risk management process, ensuring that risks are appropriately managed, that controls are effective and that appropriate remedial action is taken where identified. Risks are mapped against the providers of assurance, whether this be management, internal or external assurance.

The Board is supported by the AC in monitoring the effectiveness of the internal control framework with primary assurance being provided by the internal audit team.

The R&CSC, on behalf of the Board, has carried out an annual review of the effectiveness of the Company's risk management and internal control systems. This review confirmed that the Company has strong systems of internal control and robust processes in place to enable it to identify, evaluate and manage the risks it faces and to ensure that its obligations are met. These systems and processes are embedded in the organisation and are reviewed regularly by the Board, its Committees and Sub-committee. The annual review confirmed that the risk management and internal control systems have operated effectively through the year and that there have been no significant failings or weaknesses. During the year, and up to the date of approval of these Financial Statements, the work of the R&CSC included the following:

- Reviewing reports at each meeting on the top-rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- Reviewing high impact, low likelihood risks which have a rare to unlikely likelihood of occurrence but a potentially catastrophic level of impact;
- Reviewing the management of specific areas of risk in relation to the COVID-19 pandemic;
- Advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- Monitoring compliance with covenants and treasury risks;
- Reviewing management of customer debt;
- Reviewing energy policy and strategy; and
- Reviewing the risk and control framework and reporting.

## Nomination Committee

Attendance at the three scheduled R&CSC meetings during the year was as follows:

| Name             | Attendance |
|------------------|------------|
| P Rew            | 1          |
| R G Sexton       | 3          |
| A A Bryce        | 3          |
| J M McGlade      | 2          |
| B C Rosewell     | 3          |
| P D Vicary-Smith | 3          |

The Sub-committee holds a special meeting with other members of the Board each year to conduct a separate Strategic Risk review exercise.

The Board is able to monitor the impact of environmental, social and governance matters on the Company's business, to assess the impact of significant risks on the business and to evaluate methods of managing these risks through reports it receives from the AC and the R&CSC.



**R G Sexton**

Chairman of the Risk & Compliance Sub-committee

The Nomination Committee has wide-ranging terms of reference which are available on the Company's website. The members during the year were A J Hunter (Chairman), M Fay, who stood down in May 2021, Dr S Lyster who stood down in May 2021, D N Macrae and P Rew, who stood down in November 2021. A Bryce, B C Rosewell and P Vicary-Smith joined in July 2021

# Compliance with the Wates Principles

The Board considers that it complies with the relevant provisions of the Wates Principles, through the corporate governance arrangements described in detail above, and the further arrangements set out below.

## Principle One – Purpose and Leadership

**An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.**

Please see the comments on compliance with Objective 1 of the 2019 Ofwat Objectives, on [pages 73 to 75](#).

## Principle Two – Board Composition

**Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.**

Please see the comments on compliance with Objective 4 of the 2019 Ofwat Objectives, on [pages 78 to 80](#).

## Principle Three – Director Responsibilities

**The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.**

The Company has in place clear corporate governance practices which provide clear lines of accountability and responsibility. The members of the ELT have clearly defined responsibilities and levels of authority are set out in Financial Approval Rules (as explained in the comments in relation to Objective 2 of the 2019 Ofwat Objectives on [page 76](#)). The Board's approach to conflicts of interest and the relationship between the Company and its owners is also explained in that section of the Report.

The Chairman and Company Secretary discuss governance processes from time to time to confirm they remain fit for purpose and consider initiatives which could strengthen governance.

Details of the Board Committees are set out in the comments on Ofwat's 2019 Objective 4, on [pages 78 to 80](#).

Details of processes which are in place to ensure systems and controls are operating effectively and that information provided to the Board is robust are set out throughout this document and in the Company's APR and Data Assurance Summary.

## Principle Four – Opportunity and Risk

**A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.**

The Company is a long term business and ensuring its long term sustainable success is a key driver underpinning the work of the Board and Committees, as described in detail in this Report. The Board's approach to oversight of the identification and mitigation of risks is detailed in the Risk Report on [pages 58 to 63](#).

## Principle Five – Remuneration

**A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.**

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on [pages 89 to 102](#).

## Principle Six – Stakeholder Relationships and Engagement

**Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.**

Details of the Company's extensive stakeholder engagement programme are set out on [pages 14 to 17](#).

## Code of Conduct

The Group has a code of conduct, 'Our Way at NWG', covering its relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators. This document provides clear guidance to employees in relation to personal conduct, conflicts of interest, the anti-bribery policy and a number of other matters.

# Remuneration Committee Report

The following report has been produced in accordance with section 35A of the Water Industry Act 1991. It also has regard to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of directors' remuneration reporting for quoted companies, albeit in the context of a company which is not a listed public limited company.

## Annual Statement

The work of the Remuneration Committee comprises the adoption of principles and standards in relation to executive remuneration and benefits, as well as agreeing individual remuneration packages. All decisions regarding Directors' remuneration are taken by the Remuneration Committee, other than where stated.

## Members of the Remuneration Committee

The members of the Remuneration Committee during the year were A J Hunter (Chairman), D N Macrae, P Rew, who stood down in November 2021, M Fay and Dr S Lyster who both stood down in May 2021, and A A Bryce, B C Rosewell and P D Vicary-Smith, who were appointed following the May 2021 meeting. H Mottram attends Committee meetings but does not participate in discussions relating to her own remuneration. There is a majority of INEDs in accordance with the Ofwat Principles.

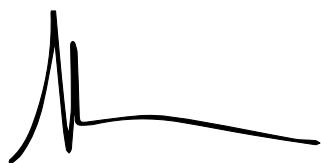
## The work of the Remuneration Committee

The Remuneration Committee met once during the year, in May 2021, and twice after the balance sheet date, in April and June 2022, to finalise incentive plan awards. Attendance at the meetings was as follows:

| Name             | May 2021 | Apr/Jun 2022 |
|------------------|----------|--------------|
| A J Hunter       | 1        | 2            |
| A A Bryce        | -        | 2            |
| M Fay            | 1        | -            |
| Dr S Lyster      | 1        | -            |
| D N Macrae       | 1        | 2            |
| P Rew            | 1        | -            |
| B C Rosewell     | -        | 2            |
| P D Vicary-Smith | -        | 2            |

Set out below is a brief summary of the work of the Committee:

- Finalising awards for the 2020 Short-term Incentive Plan (STIP) and Long-term Incentive Plan (LTIP);
- Reviewing Executive pay and Non-Executive Directors' fees, taking account of market benchmarking data, and agreed annual pay awards to take effect from 1 January 2022;
- Considering an assurance report from the Internal Audit Manager on performance against targets reflected in the 2021 STIP and LTIP;
- Agreeing STIP payments for the 2021 calendar year, including reviewing performance against the balanced scorecard measures;
- Agreeing the level at which the LTIP award in respect of the 2021 calendar year would vest;
- Setting performance targets for the STIP for the ELT and senior managers for the 2022 calendar year, reflecting all of the corporate themes in our balanced scorecard to deliver benefits for all stakeholders and ensuring that targets are set at stretching levels aligned to industry-leading performance; and
- Setting performance targets for the LTIP scheme for the award in respect of the 2022 calendar year, reflecting a sub-set of the balanced scorecard measures which deliver benefits for our stakeholders.



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**A J Hunter**

Chairman of the Remuneration Committee

# Directors' Remuneration Policy

The policy of the Remuneration Committee is to pay no more than necessary to attract and retain good quality directors, and to ensure that policy is aligned with market practice. For Executive Directors the reward policy is designed to achieve a balance between attraction, reward for performance and retention, and salaries are based on relevant market benchmarks, which are reviewed typically every three years. For NEDs, fees paid reflect market practice for similar sized companies, and may be enhanced for roles leading Board Committees.

## Executive Directors

The remuneration of the Executive Directors comprises:

- Basic salary;
- Benefits in kind;
- A performance related STIP;
- Annual LTIP awards; and
- Pension benefits.

In addition to reviewing each constituent element, the Remuneration Committee reviews the remuneration packages as a whole to ensure that they remain appropriate in terms of structure and quantum. The Remuneration Committee is satisfied that this balance between fixed and performance related remuneration remains appropriate.

A significant proportion of remuneration is linked to Company performance through the short-term and long-term incentive plans, with 51% of the CEO's maximum remuneration being linked to performance, as illustrated on [page 94](#).

The remuneration policy is designed to incentivise performance across all the full range of the Company's strategic themes and not to over-emphasise short-term financial gains. The following table describes the policy in more detail, explaining the purpose of each component, how the policy operates and, for the variable elements of remuneration, the maximum amount payable and how performance is assessed.

| Purpose                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Operation                                                                                                                                                                                                                                                                                                                                                                                         | Performance assessment                                                                                                                                                                                                                                                                                                                                                           | Maximum payable                                                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| <b>Basic salary</b>                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                             |
| Basic salaries are set at a level to attract and retain Directors with the leadership capabilities to deliver the Company's vision of being the national leader in the provision of sustainable water and wastewater services and to reflect the external market.                                                                                                                                                                                          | Basic salary is reviewed annually based on individual contributions, periodic benchmarking to the external market and with regard to the expected pay award for other groups of employees.                                                                                                                                                                                                        | The basic salaries payable to Directors of NWL are not directly linked to specific standards of performance in connection with the carrying out of functions of a 'relevant undertaker'. There is no variable performance related element.                                                                                                                                       | Fixed annual amount determined annually by the Remuneration Committee.                                                      |
| <b>Benefits in kind</b>                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                             |
| Other employment benefits provided in accordance with the Company's policy on provision of benefits to all staff.                                                                                                                                                                                                                                                                                                                                          | Benefits provided to the Executive Directors comprise car and fuel allowances, healthcare and professional subscriptions.                                                                                                                                                                                                                                                                         | There is no variable performance related element.                                                                                                                                                                                                                                                                                                                                | Fixed annual amount set in accordance with the Company's policies on provision of benefits to all staff.                    |
| <b>STIP</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                             |
| <p>The purpose of the STIP is to focus on delivering key business performance targets in the year.</p> <p>The performance targets are firmly linked to NWL's strategic themes (customer, environment, competitiveness, people and communities) as reported in the balanced scorecard. Stretching targets are set which are aligned to the Company's vision of being the national leader in the provision of sustainable water and wastewater services.</p> | <p>The STIP is assessed on a calendar year basis. Awards are paid in cash with no deferral, other than for specific reasons, such as a performance metric not being finalised at the point of award.</p> <p>A clawback applies in the event that results on which the STIP is paid are subsequently found to be inaccurate or there has been relevant misconduct on the part of the employee.</p> | <p>The STIP is structured with 60% related to the achievement of balanced scorecard targets, delivering benefits for customers and the environment, and 40% related to financial targets.</p> <p>The Chairman retains the right to award an additional discretionary bonus to the CEO, taking account of overall performance. Any discretionary bonus is paid fully by NWGL.</p> | <p>The maximum STIP payable, as a percentage of basic salary, is 70% for the CEO and 50% for other Executive Directors.</p> |

| Purpose                                                                                                                       | Operation                                                                                                                                                                                                                                                                                                                                              | Performance assessment                                                                                                                                                                                                                                                                                                                                                                                                                         | Maximum payable                                                                                                      |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>LTIP</b>                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                      |
| Our LTIP is structured differently from others in the sector and is designed to operate as a modest retention mechanism only. | <p>The LTIP is a cash-based award, with deferred payment.</p> <p>Vesting of the LTIP is based on performance in the first calendar year after award. Payment is deferred until the completion of four years from the start of the performance period.</p>                                                                                              | <p>The LTIP is structured with 60% related to the achievement of balanced scorecard targets, delivering benefits for customers and the environment, and 40% related to financial targets.</p> <p>For the financial targets there will be no vesting if less than 97.5% of the target value is achieved, increasing on a sliding scale to 50% vesting if 100% of the target is achieved and 100% vesting if 105% of the target is achieved.</p> | The maximum LTIP payable, as a percentage of basic salary, is 50% for the CEO and 30% for other Executive Directors. |
| <b>Pension</b>                                                                                                                |                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                      |
| Pension benefits are provided at a level to reflect market expectations.                                                      | <p>The Company operates the Northumbrian Water Pension Scheme (NWPS or the Scheme), a defined benefit scheme, and a defined contribution scheme. The defined benefit section closed to new entrants on 31 December 2007 and to future accrual on 31 May 2022.</p> <p>More details of the NWPS are provided in note 24 of the Financial Statements.</p> | There is no variable performance related element.                                                                                                                                                                                                                                                                                                                                                                                              | H Mottram left the NWPS in 2016 and receives additional salary payments in lieu of pension contributions.            |

### Illustration of remuneration policy

The graphs below show for H Mottram, for the proportion of her remuneration borne by the Company:

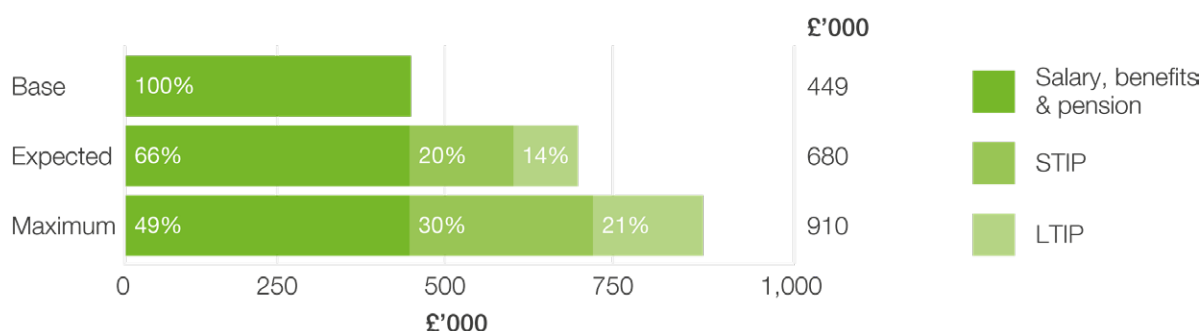
- The base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- The expected level of remuneration, reflecting a typical level of performance against targets for the STIP and LTIP; and
- The maximum level of remuneration, if all STIP and LTIP performance targets were fully achieved.

For H Mottram, 51% of maximum remuneration is linked to Company performance through the STIP and LTIP.

For the purposes of the graph, the expected level of performance for both the STIP and LTIP has been assumed to achieve 50% of the maximum value, though awards are dependent upon actual performance.

Information on actual awards for the STIP and LTIP in respect of 2021 is provided on [pages 97 to 98](#).

### H Mottram



### Non-executive Directors

| Fees                                                                                                                                                                                                                                                           | Other components of remuneration                                                                                                     | Remuneration elsewhere in the Group                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Company's policy is that the INEDs receive fees for their duties. The level of fees is set by reference to the market.</p> <p>An additional fee is paid to the Senior INED to reflect the additional responsibilities and time commitment involved.</p> | <p>The NEDs do not receive benefits in kind and do not participate in the STIP, LTIP or pension schemes operated by the Company.</p> | <p>The INEDs do not receive any other remuneration from the Company, the Group or its shareholders.</p> <p>The other NEDs receive no remuneration from the Company or Group.</p> |

### Service contracts

The service contracts of Executive Directors have a notice period of six months from either side.

The contracts do not contain any specific provisions related to payment for loss of office. Any such payments would be at the discretion of the Remuneration Committee and would take account of the contractual notice period and any STIP payments considered to have been earned. LTIP awards will typically lapse, although the Remuneration Committee may approve payment of outstanding LTIP awards if a Director is considered to be a 'good leaver', for example upon retirement.

INEDs are engaged on a contract for services with a notice period of six months from either side. No payment is made for loss of office other than accrued fees.

The other NEDs do not have service contracts with the Company, and receive no payment from the Company.

### Approach to remuneration on recruitment

Newly appointed Directors are remunerated in accordance with the policy set out in this report. Service contracts for new Directors have a notice period of six months from either side.

### Consideration of shareholder views

The Remuneration Committee comprises two shareholder-appointed Directors and three INEDs. In the context of a private company with NWL's ownership structure, this ensures that the views of the shareholder are taken into account when setting executive remuneration, whilst also maintaining a strong independent presence on the Committee.

### Consideration of employment conditions elsewhere in the Company

The Remuneration Committee reviews Directors' pay on an annual basis, taking account of market trend information and pay awards for the wider workforce in the Company. Whilst Directors' remuneration is not specifically consulted on with employees, in general, annual pay awards for Directors reflect the target pay awards for the workforce, which are subject to consultation under the Company's Employee Relations Framework. The incentive pay arrangements for executives are not mirrored elsewhere, but are considered to be relatively modest in comparison with market comparisons.

Directors' remuneration packages are benchmarked against market data on a periodic basis, typically every three years, with support from external advisers. The salary benchmarking is reviewed annually for senior managers and every three years for the wider workforce.

### Directors' remuneration in 2021/22 (audited)

The table below shows the total remuneration paid by the Company to Directors during the year, along with comparative information for the previous year. The table has been produced in accordance with the requirements of Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

|                | Salaries and fees |               | Benefits in kind |               | STIP          |               | LTIP          |               | Pension       |               | Total remuneration |               |
|----------------|-------------------|---------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|---------------|
|                | 2022<br>£'000     | 2021<br>£'000 | 2022<br>£'000    | 2021<br>£'000 | 2022<br>£'000 | 2021<br>£'000 | 2022<br>£'000 | 2021<br>£'000 | 2022<br>£'000 | 2021<br>£'000 | 2022<br>£'000      | 2021<br>£'000 |
| H Mottram      | 384               | 383           | 8                | 8             | 130           | 140           | 84            | 55            | 42            | 42            | 648                | 628           |
| C I Johns      | -                 | 41            | -                | 2             | -             | -             | -             | -             | -             | 4             | -                  | 47            |
| A C Jones      | -                 | 190           | -                | 7             | -             | 43            | -             | 21            | -             | 16            | -                  | 277           |
| A A Bryce      | 53                | -             | -                | -             | -             | -             | -             | -             | -             | -             | 53                 | -             |
| M Fay          | 9                 | 51            | -                | -             | -             | -             | -             | -             | -             | -             | 9                  | 51            |
| Dr S Lyster    | 9                 | 51            | -                | -             | -             | -             | -             | -             | -             | -             | 9                  | 51            |
| J McGlade      | 43                | -             | -                | -             | -             | -             | -             | -             | -             | -             | 43                 | -             |
| M A B Nègre    | -                 | 68            | -                | -             | -             | -             | -             | -             | -             | -             | -                  | 68            |
| P Rew          | 56                | 68            | -                | -             | -             | -             | -             | -             | -             | -             | 56                 | 68            |
| B C Rosewell   | 53                | -             | -                | -             | -             | -             | -             | -             | -             | -             | 53                 | -             |
| R G Sexton     | 53                | -             | -                | -             | -             | -             | -             | -             | -             | -             | 53                 | -             |
| P Vicary-Smith | 49                | -             | -                | -             | -             | -             | -             | -             | -             | -             | 49                 | -             |
|                | 709               | 852           | 8                | 17            | 130           | 183           | 84            | 76            | 42            | 62            | 973                | 1,190         |

The table shows only the proportion of remuneration borne by the Company. For two of the Directors, H Mottram and C I Johns, NWL paid 70% of their remuneration and NWGL paid the remaining 30%, other than the STIP. For the STIP, with effect from 2021/22, any additional discretionary award made by the Chairman is paid fully by NWGL. For the other Directors reported in the table, NWL paid 100% of their remuneration.

The Executive Directors receive salary payments in lieu of employer pension contributions. These payments are reported under the pension heading in the table.

### Basic salary

Basic salary is set by reference to market data and trends.

For the calendar year 2022, senior executives were awarded an annual increase in their basic salaries of 3.5%. This was the same as the level awarded to other employees.

### Benefits

Taxable benefits provided to the Executive Directors comprise car and fuel allowance, healthcare and professional subscriptions. The values are not significant in the context of overall remuneration.

## STIP

The STIP for the 2021 calendar year was structured by the Committee in accordance with the policy outlined above, as follows:

- Up to 40% payable on balanced scorecard financial targets; and
- Up to 60% payable on balanced scorecard non-financial targets.

The balanced scorecard measures and targets, and performance against the targets in the year, are shown in the table below. These targets are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the APR.

| Scorecard measure                                                  | Target  | Performance | Achieved         | % of total awarded | % of total STIP potential |
|--------------------------------------------------------------------|---------|-------------|------------------|--------------------|---------------------------|
| <b>Customer</b>                                                    |         |             |                  |                    |                           |
| C-MeX experience                                                   | top 2   | 1st         | yes              | 2.5                | 2.5                       |
| C-MeX customer service                                             | top 2   | 5th         | yes <sup>1</sup> | 2.5                | 2.5                       |
| D-MeX experience                                                   | top 2   | 5th         | no               | -                  | 5                         |
| Unplanned interruptions >3 hours (mm:ss per property) <sup>1</sup> | <=5:02  | 4:47        | yes <sup>2</sup> | 5                  | 5                         |
| Compliance risk index (number)                                     | <=3     | 6.36        | no               | -                  | 5                         |
| Repeat sewer flooding (number)                                     | <=28    | 23          | yes              | 2.5                | 2.5                       |
| Internal sewer flooding (number)                                   | <=212   | 238         | no               | -                  | 2.5                       |
| <b>Environment</b>                                                 |         |             |                  |                    |                           |
| Leakage – NW (Mld)                                                 | <=126.9 | 130.5       | no               | -                  | 2.5                       |
| Leakage – ESW (Mld)                                                | <=60.2  | 59.3        | yes              | 2.5                | 2.5                       |
| Discharge permit compliance (EPA)                                  | 100%    | 98.04       | no               | -                  | 5                         |
| Pollution incidents category 1 & 2                                 | <=1     | 1           | yes              | 5                  | 5                         |
| Greenhouse gas emissions (ktCO <sub>2</sub> e)                     | <=50.21 | 46.42       | yes              | 5                  | 5                         |
| <b>Competitiveness</b>                                             |         |             |                  |                    |                           |
| Group EBIT                                                         | budget  | -           | no               | -                  | 20                        |
| Group distributions                                                | budget  | -           | yes              | 20                 | 20                        |
| <b>People</b>                                                      |         |             |                  |                    |                           |
| Employee engagement score (Trust Index) (%)                        | >=72    | 67          | no               | -                  | 5                         |
| Lost time accidents (number)                                       | <=3     | 14          | no               | -                  | 5                         |
| <b>Communities</b>                                                 |         |             |                  |                    |                           |
| Ethisphere                                                         | award   | awarded     | yes              | 5                  | 5                         |
| <b>Total</b>                                                       |         |             |                  | <b>50</b>          | <b>100</b>                |

<sup>1</sup>As a result of achieving top 2 in the sector for the overall C-MeX measure, the Remuneration Committee deemed the target to have been achieved for both C-MeX measures.

<sup>2</sup>The Remuneration Committee decided to exclude any unplanned interruptions related to Storm Arwen, on the basis that it was an exceptional event, and therefore deemed the measure to be achieved.

For the CEO, in addition to the STIP calculation explained above, a further discretionary award was made by the Committee to reflect the Board's continued satisfaction with the CEO's performance. This remained within the limit of the overall potential maximum STIP award and was paid fully by NWGL.

The total STIP awarded for 2021 for the NWL proportion of service was as follows:

|           | STIP awarded<br>(out of 100%) | Maximum STIP<br>(% of basic salary) | STIP awarded<br>(% of basic salary) |
|-----------|-------------------------------|-------------------------------------|-------------------------------------|
| H Mottram | 70%                           | 70%                                 | 35%                                 |

### LTIP

A cash LTIP was awarded by the Committee in 2021, structured in accordance with the policy outlined above, as follows:

- Up to 40% payable on balanced scorecard financial targets; and
- Up to 60% payable on balanced scorecard non-financial targets.

The scheme relates to the period January 2021 to December 2024. Performance targets were assessed in the first year of the scheme with payment deferred until early 2025, after the end of the four-year scheme period.

| Scorecard measure                                        | Target  | Performance       | Achieved | % of<br>total awarded | % of total<br>STIP potential |
|----------------------------------------------------------|---------|-------------------|----------|-----------------------|------------------------------|
| <b>Customer &amp; Environment</b>                        |         |                   |          |                       |                              |
| C-MeX customer service                                   | top 2   | 2nd               | yes      | 10                    | 10                           |
| Unplanned interruptions >3 hours<br>(mm:ss per property) | <=5:02  | 4:47 <sup>1</sup> | yes      | 10                    | 10                           |
| Compliance risk index (number)                           | <=3     | 6.36              | no       | -                     | 10                           |
| Internal sewer flooding (number)                         | <=212   | 238               | no       | -                     | 10                           |
| Leakage – NW (Mld)                                       | <=126.9 | 130.5             | no       | -                     | 5                            |
| Leakage – ESW (Mld)                                      | <=60.2  | 59.3              | yes      | 5                     | 5                            |
| Pollution incidents category 1 & 2                       | <=1     | 1                 | no       | -                     | 10                           |
| <b>Competitiveness</b>                                   |         |                   |          |                       |                              |
| Group profit after tax                                   | budget  | -                 | no       | -                     | 20                           |
| Group distributions                                      | budget  | -                 | yes      | 20                    | 20                           |
| <b>Total</b>                                             |         |                   |          | <b>45</b>             | <b>100</b>                   |

<sup>1</sup>The Remuneration Committee decided to exclude any unplanned interruptions related to Storm Arwen, on the basis that it was an exceptional event, therefore scoring the measure as achieved.

The total LTIP award for 2021 was as follows:

|           | LTIP awarded<br>(out of 100%) | Maximum LTIP<br>(% of basic salary) | LTIP awarded<br>(% of basic salary) |
|-----------|-------------------------------|-------------------------------------|-------------------------------------|
| H Mottram | 45%                           | 50%                                 | 22.5%                               |

## Pension

Pension arrangements operated in accordance with the policy outlined on [page 93](#).

## Percentage change in CEO remuneration

The table below shows the change in remuneration for 2021/22 compared to 2020/21 for the CEO and for other employees. In order to make a meaningful comparison, other employees includes only those who have been employed for the full two-year period and excludes senior management whose remuneration is set by the Remuneration Committee. STIP has been compared to the annual bonus paid to the senior management cohort and only reflects the proportion paid by NWL.

|                     | Change in CEO remuneration (%) | Change in other employees' remuneration (%) |
|---------------------|--------------------------------|---------------------------------------------|
| Salaries and fees   | 0.4%                           | 2.2%                                        |
| Benefits in kind    | (5.0%)                         | (7.0%)                                      |
| STIP / annual bonus | (7.2%)                         | 1.5%                                        |

## CEO pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new legislation in respect of reporting ratio of CEO pay compared to other employees. The table below shows this information produced in accordance with the legislation.

| Year | Method   | 25th percentile ratio | Median pay ratio | 75th percentile ratio |
|------|----------|-----------------------|------------------|-----------------------|
| 2022 | Option A | 21:1                  | 16:1             | 13:1                  |
| 2021 | Option A | 21:1                  | 16:1             | 13:1                  |
| 2020 | Option A | 20:1                  | 16:1             | 12:1                  |
| 2019 | Option A | 22:1                  | 17:1             | 14:1                  |

The Company has chosen Option A (as set out in the said Regulations) for calculating the pay ratio on the basis that it represents the most complete data set. The employees representing each of the percentiles were based on the full year remuneration of staff employed throughout the year. The pension cost for those employees in the defined benefit section of the pension scheme have been calculated based on the estimated employer contributions as applying the method set out in section 229 of the Finance Act 2004 for all members would not be practical. Under Option A, the value of the full-year remuneration of each relevant employee is listed in order from lowest to highest and the values at the 25th, 50th and 75th percentile points identified.

| Year                                 | 25th percentile employee<br>£'000 | Median pay employee<br>£'000 | 75th percentile employee<br>£'000 |
|--------------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| Salary component of pay and benefits | 21                                | 28                           | 42                                |
| Total pay and benefits               | 31                                | 41                           | 52                                |

### CEO remuneration over time

Since the current remuneration policy was put in place in 2012, the basic salary of the CEO has increased by the same as, or less than, the average pay award for the majority of employees each year, which has been targeted to ensure we keep pace with the general cost of living. Over the same period, the maximum potential bonus available under the STIP and LTIP has remained a constant proportion of salary and the actual bonuses awarded have increased year on year by less than 2%.

### Relative importance of spend on pay

The table below shows total staff costs and dividends paid in the current and prior years, and the year on year change.

| Year                 | 2022<br>£'m        | 2021<br>£'m | Change<br>% |
|----------------------|--------------------|-------------|-------------|
| Staff costs (note 5) | 150.5              | 151.7       | (0.8%)      |
| Dividends (note 8)   | 181.5 <sup>1</sup> | -           | n/a         |

<sup>1</sup>Excluding special dividend of £159m which was used to settle a legacy intercompany loan arrangement and was cash neutral to the Company.

## Remuneration policy for 2022/23

At its meeting in January 2020, the Remuneration Committee made changes to the STIP and LTIP to increase the proportion of performance-related executive pay aligned to delivering benefits for our customers to 60%. No changes have been made to the structures of the STIP and LTIP for 2022.

### STIP 2022

The balanced scorecard targets for 2022/23 are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision.

| Scorecard measure                                                  | Target        | % of total STIP potential |
|--------------------------------------------------------------------|---------------|---------------------------|
| <b>Customer</b>                                                    |               |                           |
| C-MeX experience                                                   | top 2 company | 2.5                       |
| C-MeX customer service                                             | top 2 company | 2.5                       |
| D-MeX experience                                                   | top 2 company | 5                         |
| Unplanned interruptions >3 hours (mm:ss per property) <sup>1</sup> | <=4:53        | 5                         |
| Compliance risk index (number) <sup>1</sup>                        | <=3           | 5                         |
| Repeat sewer flooding (number) <sup>1</sup>                        | <=31          | 2.5                       |
| Internal sewer flooding (number) <sup>1</sup>                      | <=207         | 2.5                       |
| <b>Environment</b>                                                 |               |                           |
| Leakage – NW (Mld) <sup>1</sup>                                    | <=121.3       | 2.5                       |
| Leakage – ESW (Mld) <sup>1</sup>                                   | <=63.2        | 2.5                       |
| Discharge permit compliance (EPA) <sup>1</sup>                     | 100%          | 5                         |
| Pollution incidents category 1 & 2 <sup>1</sup>                    | 0             | 5                         |
| Greenhouse gas emissions (ktCO <sub>2</sub> e) <sup>1</sup>        | <=21.92       | 5                         |
| <b>Competitiveness</b>                                             |               |                           |
| Group EBIT                                                         | budget        | 20                        |
| Group distributions                                                | budget        | 20                        |
| <b>People</b>                                                      |               |                           |
| Employee engagement Trust Index                                    | >=70          | 5                         |
| Lost time accidents (number)                                       | <15           | 5                         |
| <b>Communities</b>                                                 |               |                           |
| Ethisphere                                                         | awarded       | 5                         |
| <b>Total</b>                                                       |               | <b>100</b>                |

<sup>1</sup> Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

**LTIP 2022**

The LTIP targets for the 2022 scheme are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the APR.

| Scorecard measure                                                  | Target        | % of total LTIP potential |
|--------------------------------------------------------------------|---------------|---------------------------|
| <b>Customer &amp; Environment</b>                                  |               |                           |
| C-MeX customer service                                             | top 2 company | 10                        |
| Unplanned interruptions >3 hours (mm:ss per property) <sup>1</sup> | <=4:53        | 10                        |
| Compliance risk index (number)                                     | <=3           | 10                        |
| Internal sewer flooding (number)                                   | <=207         | 10                        |
| Leakage – NW (Mld)                                                 | <=121.3       | 5                         |
| Leakage – ESW (Mld)                                                | <=63.2        | 5                         |
| Pollution incidents category 1 & 2                                 | 0             | 10                        |
| <b>Competitiveness</b>                                             |               |                           |
| Group profit after tax                                             | budget        | 20                        |
| Group distributions                                                | budget        | 20                        |
| <b>Total</b>                                                       |               | <b>100</b>                |

<sup>1</sup> Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

# Directors' Report

## Directors

The Directors who served during the year, and to the date of signing, are listed on [pages 68 to 70](#) of the Governance Report.

## Disclosures provided in the Strategic Report

Future developments which may impact on the Company are described in the CEO's Report and in the Strategic Report.

Our approach to research and innovation is described in the Performance Review section of our Strategic Report under the Competitiveness heading and the costs of research and development are disclosed in note 3 of the Financial Statements.

Our policies in respect of the employment of disabled persons are set out in the Performance Review section of our Strategic Report under Diversity and Equal opportunities on [page 44](#).

Information on results and dividends and capital structure and equity are contained in the Financial Performance and Structure section of the Strategic Report. Our policies in relation to the use of financial instruments and treasury operations are set out in the same section under the 'Treasury policies' heading.

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. Our approach to stakeholder engagement is set out in the Our Stakeholders section of our Strategic Report on [pages 14 to 17](#), and summarised on our Section 172 Statement on [pages 18 to 22](#).

Further information in relation to employee engagement is set out in the Performance Review section of our Strategic Report under the People heading on [pages 42 to 47](#).

## Statement of corporate governance arrangements

The Company's corporate governance arrangements are described on [pages 87](#) of the Governance Report. In accordance with the requirements of our Licence, we report our corporate governance arrangements against the 2019 Objectives set by Ofwat. We also report compliance with the Wates Principles, which are appropriate for large privately owned companies.

## Political donations

NWL does not support any political party and we do not, directly or through any subsidiary, make what are commonly regarded as donations to any political party or other political organisation. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the Company and political parties and political organisations. These activities include attending party conferences, as these provide the best opportunity to meet a range of stakeholders, both national and local, to explain our activities, as well as local meetings with MPs, MEPs and their agents. During the year, no external costs were associated with these activities, however, Company representatives attended the party conferences of the Labour and Conservative parties.

### Energy and Carbon reporting

As part of our PR19 Business Plan we set a target to achieve net zero emissions by the end of 2027. Our plan is to deliver this through a combination of further investment in renewable energy and green vehicles and continued focus on using energy more efficiently. Our approach to reducing energy emissions is described in more detail in the Performance Review section of our Strategic Report under the Environment heading on [pages 33 to 38](#).

For our regulatory Performance Commitment emissions are calculated using the industry-standard approach (the UK Water Industry Research Ltd Carbon Accounting Workbook) using 'market-based' reporting which allows for the purchase of green energy through the electricity and gas networks. Our emissions have been externally assured in accordance with ISO 14064-1 to ensure validity and transparency.

Under the calculation methodology described above, our baseline emissions in 2019/20 were 68.6ktCO<sub>2</sub>e. Our total net operational GHG emissions for the year ending 31 March 2022 reduced to 21.9ktCO<sub>2</sub>e a reduction of 46.7ktCO<sub>2</sub>e which is a significantly greater reduction than our regulatory performance commitment of 5.6 ktCO<sub>2</sub>e.

The table below summarises our emissions for the reporting year, the previous year and the baseline year of 2019/20 showing both market-based and location-based performance measures as reported in the Carbon Accounting Workbook.

| Annual operational GHG emissions |                                                 | Location based |         |         | Market based |         |         |
|----------------------------------|-------------------------------------------------|----------------|---------|---------|--------------|---------|---------|
| ktCO <sub>2</sub> e/MI           |                                                 | 2021/22        | 2020/21 | 2019/20 | 2021/22      | 2020/21 | 2019/21 |
| Scope 1                          | Direct emissions from burning of fuels          | 41.9           | 43.9    | 28.9    | 8.6          | 43.9    | 28.9    |
|                                  | Process and fugitive emissions                  | 28.0           | 28.3    | 28.8    | 28.0         | 28.3    | 28.8    |
|                                  | Transport in company owned/leased vehicles      | 8.0            | 8.3     | 8.3     | 8.0          | 8.3     | 8.3     |
| Scope 2                          | Purchased electricity                           | 71.1           | 75.4    | 86.9    | -            | -       | -       |
| Scope 3                          | Public transport and travel in private vehicles | 0.3            | 0.2     | 0.9     | 0.3          | 0.2     | 0.9     |
|                                  | Outsourced activities                           | 1.9            | 2.1     | 2.1     | 1.9          | 2.1     | 2.1     |
|                                  | Electricity Transmission & Distribution         | 6.3            | 6.5     | 7.4     | -            | -       | -       |
| Gross operational emissions      |                                                 | 157.5          | 164.7   | 163.3   | 46.8         | 82.8    | 69.0    |
| Exports                          | Renewable electricity generated & exported      | (0.2)          | (0.2)   | (0.2)   | (0.2)        | (0.3)   | (0.4)   |
|                                  | Biomethane generated & exported                 | (24.7)         | (26.6)  | (15.4)  | (24.7)       | (26.6)  | -       |
| Net operational emissions        |                                                 | 132.6          | 137.9   | 147.7   | 21.9         | 55.9    | 68.6    |

In 2021/22 the Company used 595GWh of energy, compared to 530GWh in the baseline year of 2019/20, including:

- 334.9 GWh of grid-supplied electricity used for pumping, treatment and support functions (2019/20: 339.9 GWh);
- 217.0 GWh of natural gas used for treatment and support functions (2019/20: 147.7 GWh);
- 33.8 GWh of road fuels used (2019/20: 37.5 GWh).

In addition to gross and net emissions we also monitor the emissions intensity of our operations using three measures, one relating to the water service and two for wastewater. These measures can vary depending on emissions performance and levels of rainfall or customer demand.

| Annual operational GHG emissions<br>ktCO <sub>2</sub> e/MI | Location based |         |         | Market based |         |         |
|------------------------------------------------------------|----------------|---------|---------|--------------|---------|---------|
|                                                            | 2021/22        | 2020/21 | 2019/20 | 2021/22      | 2020/21 | 2019/20 |
| Emissions/MI of water                                      | 121            | 126     | 144     | 3            | 3       | 2       |
| Emissions/MI of sewage treated (flow to full treatment)    | 270            | 276     | 253     | 102          | 198     | 155     |
| Emissions/MI of sewage treated (water distribution input)  | 528            | 556     | 517     | 200          | 399     | 316     |

### Directors' indemnification

The Company has maintained Directors' and Officers' (D&O) insurance cover throughout the year to 31 March 2022, provided under group-wide D&O insurance placed by CKHH.

On 21 March 2017 NWGL entered into a deed of indemnity to grant the Directors of NWGL and its subsidiaries further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006, and this remains in place.

### Directors' statement

As required under s418 of the Companies Act 2006, so far as each current Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

The Company had expressed its intention to undertake a selection process to appoint an auditor for the year ending 31 March 2022. However, in order to enable an effective and competitive tender process to take place, the Board decided to appoint Deloitte LLP as the Company's auditor for the year ended 31 March 2022 and to carry out a selection process for the following year.

Following a competitive tender process, Deloitte LLP were re-appointed as the Company's auditor for the year ended 31 March 2023.

### Financial statements preparation and going concern

The Directors confirm that, in their opinion, the Company has sufficient financial resources and facilities available to enable it to carry out its activities for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. In arriving at their decision, the Directors have taken into account:

- The financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2022;

- The key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- The fact that the Company has in place £450m of committed bank facilities as back up liquidity, maturing in December 2025, of which £283m was undrawn at 31 March 2022;
- The updated Treasury Strategy which the Board approved in April 2022;
- Progress on the implementation of the Treasury Strategy and initial meetings with prospective lenders giving the Directors confidence that the Company will be able to raise new financing in a timely manner; and
- The Company's formal governance and risk management arrangements which are monitored by the Audit Committee, R&CSC and Board.

The Directors are conscious of the need to refinance £350m of Eurobonds in February 2023 (see note 15). The Board has approved a Treasury Strategy which sets out the approach to be followed to meet the Company's financing needs for the next four to six years.

The implementation of the strategy is underway and the Company has held initial meetings with a number of its relationship banks to consider options to deliver the strategy. The Company has also commenced the introduction a Medium Term Note Programme. This will offer a range of debt instruments and allow the Company to raise smaller amounts to suit borrowing requirements and provide the ability to react to market pricing and investor requests quickly.

Whilst the Company has not raised finance through the capital markets since 2019, it has maintained active relationships with a number of lenders and regularly receives reverse enquiries. The Company also monitors market trends and is aware of the regular, well-subscribed issuances in the sector. The Directors are confident the Company will be able to raise the required financing in a timely manner and at a competitive rate.

### Viability statement

When considering long-term viability the Directors note that, in their opinion, the PR19 FD and the amendments made by the CMA in March 2021 still result in a settlement which is extremely challenging. The level of asymmetric risk in the settlement package is significant and not matched by the level of return and allowed costs are insufficient for an efficient company like NWL to deliver the stretching service levels set out in the FD for its customers. This also results in lower financial headroom available for the management of downside shocks and there is likely to be pressure on projected credit ratings as reflected in the current negative outlook from S&P.

Financial forecasts over longer-term timeframes are inherently subject to more risk that the assumptions adopted will not be realised. As set out above, the Directors have confirmed that the business remains a going concern. In considering the longer-term viability, the Directors note the challenges inherent in the PR19 FD referred to above and that some of the downside stress test scenarios would place pressure on projected credit ratings in the next three years, particularly higher operating and capital costs. The longer-term view beyond three years assumes that the 2024 price review will provide a sufficient rate of return to enable the Company to finance its functions for the period 2025-30, as well as setting stretching but achievable targets and allowing sufficient totex to enable an efficient company to meet its obligations and service level targets.

The Directors have assessed the future prospects of the Company and consider that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the eight years to March 2030 given the long-term nature of the business.

In arriving at their conclusion, the Directors have taken into account:

- The Licence which is in place on a rolling 25 year basis;
- The Board's five year plan, extended to eight years for the purposes of this assessment and updated to reflect current macro-economic circumstances;
- Revenue from wholesale and household retail price controls to March 2025 provided by the PR19 FD, as revised by the CMA in March 2021;
- The financial strength of the Company at the balance sheet date and the fact that the Company has a £450m committed bank facility as back up liquidity, of which £283m was undrawn, maturing in December 2025 with the intention of extending until 2030 in due course
- The Board Treasury Strategy, approved in April 2022, which sets out a framework for raising c.£1.3bn of funding over the next four years to meet borrowing requirements;
- The key financial ratios over the planning horizon of the Company's financial forecast to March 2027 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- The Board's flexible dividend policy;
- The principal risks and uncertainties facing the Company and the mitigating controls, as described on [pages 58 to 63](#), which are monitored by the Audit Committee, R&CSC and Board; and
- The work of the Audit Committee, on behalf of the Board, to review and approve the baseline plan and stress test scenarios and to review the outputs of the stress testing in the context of the Company's financial resilience.

To support the Directors in their assessment of viability, the Audit Committee carried out a thorough review process. This included discussing and approving appropriate updates to the Board approved plan to reflect latest economic projections, in particular inflation assumptions and discussing an appropriate forward testing period. This concluded that the base forward plan should be updated to reflect the latest inflation forecast published by the Bank Of England's Monetary Policy Committee in May 2022.

The Audit Committee also discussed and approved the range and severity of stress test scenarios to be applied to the baseline plan, taking account of the principal risks of the business. The stress tests are set out in detail below. The Audit Committee then reviewed the detailed outcomes of the stress testing and the potential impact on the Company's key financial ratios and discussed appropriate mitigating actions which could be taken if the need arose. Following this process, the Audit Committee recommended approval of the viability statement to the Board.

The Directors have chosen a period of eight years to March 2030 to assess the viability of the Company to align with the business planning process for the regulatory price review period to March 2025, and the next price review period to March 2030. Whilst the Directors do not believe that it is possible to test financial resilience beyond March 2025 to the same level of robust detail, given uncertainty of revenue and returns past this point, they have performed an assessment of viability beyond the current price control period against an extended plan applying reasonable assumptions for the next price review which includes a sufficient rate of return to enable the Company to finance its functions.

The financial forecast has been stress tested under a number of plausible and severe adverse scenarios. The scenarios were selected after considering the principal risks and uncertainties facing the Company and the key economic and financial variables which could impact on the forecast. The combined impact of multiple scenarios has also been tested.

The stress tests were assessed in the context of NWL's overarching financial objective of maintaining prudent investment grade credit ratings from S&P and Moody's, and the Board's target of retaining regulatory gearing of around 70%. Whilst the viability statement relates specifically to NWL, both rating agencies take account of NWGL metrics in their methodologies, therefore, the impact on both NWL and NWGL financial plans have been considered.

The table below sets out the stress tests performed, the severity of the adverse scenarios applied, the outcome in the context of the key financial ratios and potential mitigating actions where required.

| Ref | Stress test                                                                                                | Scenarios                                                               | Outcome and mitigation                                                                                                                                                                                                                                                    |
|-----|------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1   | Lower inflation, reducing allowed revenue and RCV growth                                                   | Up to 1% per annum lower than base forecast                             | No material impact on ratios                                                                                                                                                                                                                                              |
| 2   | Increased borrowing costs for raising new and refinanced debt                                              | Up to 5% higher than base forecast                                      | No material impact on ratios in AMP7. Sustained increase into AMP8 should be reflected in PR24 cost of debt                                                                                                                                                               |
| 3   | Further increases in corporation tax rate beyond planned increase to 25% in April 2023                     | Up to 2% additional tax rate                                            | No material impact on ratios                                                                                                                                                                                                                                              |
| 4   | Defined benefit pension scheme returns to deficit position and higher deficit repair contributions         | Deficit up to £100m and increased deficit repair payments up to £10m pa | No material impact on ratios.                                                                                                                                                                                                                                             |
| 5   | Higher operating costs, including energy and chemical prices                                               | Up to 15% overspend against FD                                          | Significant cost increases would impact on credit ratios over the period. Mitigation is strong management of costs and delivery of efficiencies through innovation, without impacting on service levels to customers. Application of the Board's flexible dividend policy |
| 6   | Higher capital costs, reflecting input cost pressures                                                      | Up to 10% overspend against FD                                          |                                                                                                                                                                                                                                                                           |
| 7   | Higher totex costs                                                                                         | Combination of scenarios 5 and 6                                        |                                                                                                                                                                                                                                                                           |
| 8   | Impact of incident crystallising one of the principal risks identified on <a href="#">pages 59 to 64</a> . | One off impact of up to £50m                                            | One -off impact. No material impact on ratios over longer term                                                                                                                                                                                                            |
| 9   | Regulatory penalty for poor performance or non-compliance with obligations                                 | One off penalty of up to 10% of regulated revenue                       | One -off impact. No material impact on ratios over longer term                                                                                                                                                                                                            |
| 10  | Sustained deterioration in household revenue collection due to cost of living pressures                    | Up to 2% pa                                                             | No material impact on ratios                                                                                                                                                                                                                                              |
| 11  | Net ODI penalty                                                                                            | Up to £15m pa                                                           | No material impact on ratios                                                                                                                                                                                                                                              |
| 12  | Adverse outcome of PR24 compared to base plan assumptions                                                  | Lower rate of return of up to 0.5% below base plan assumption           | No impact in AMP7. To be assessed through PR24 process.                                                                                                                                                                                                                   |
| 13  | Combined impact of adverse economic movements                                                              | Scenarios 1, 2 and 3                                                    | No material impact on ratios in AMP7. Sustained increase into AMP8 should be reflected in PR24 cost of debt                                                                                                                                                               |
| 14  | Combined impact of external factors                                                                        | Scenarios 4 and 12                                                      | No impact in AMP7. To be assessed through PR24 process.                                                                                                                                                                                                                   |

The baseline plan is compatible with retaining the Company's investment grade credit ratings. None of the stress test scenarios undermined the Company's long term financial resilience. However, certain stress test scenarios indicated a risk of a credit rating downgrade, specifically higher operating and capital costs and a substantial increase in the cost of raising new finance into AMP8. However, in the Board's opinion, even the most severe scenarios were not indicative of falling below BBB/Baa2 rating.

To the extent that any of these scenarios, in isolation or combination, would place retention of the Company's investment grade credit rating or liquidity position at risk, the Board would seek to take mitigating actions. This includes:

- Actions to support pension deficit repair payments utilising an asset-backed funding arrangement;
- Flexible and efficient financing of new debt;
- Strong management of costs and delivering efficiencies through innovation, taking care not to impact on service levels to customers; and
- Application of the Board's flexible dividend policy.

While outperformance of the FD cost allowance would also help mitigate such an outcome, the Directors do not consider this to be a key mitigating factor given the level of challenge and stretch implied by the FD.

The Board engaged Deloitte LLP to provide third party assurance, in the form of agreed upon procedures.

#### **Fair, balanced and understandable**

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Board has taken advice from the Audit Committee which has considered the process by which the Annual Report and Financial Statements has been produced as well as reviewing and commenting on the Report.

#### **Directors' responsibilities statement**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf:



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**R Somerville**

Company Secretary  
15 July 2022

**Registered office**

Northumbria House  
Abbey Road  
Pity Me  
Durham  
DH1 5FJ  
Registered in England and Wales  
Registered no: 02366703

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# Financial Statements

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# Income Statement

## for the year ended 31 March 2022

|                                                                                    |      |                | Restated              |
|------------------------------------------------------------------------------------|------|----------------|-----------------------|
|                                                                                    | Note | 2022 £'m       | 2021 <sup>1</sup> £'m |
| <b>Continuing operations</b>                                                       |      |                |                       |
| Revenue                                                                            | 2    | 780.1          | 758.4                 |
| Operating costs                                                                    | 3    | (591.8)        | (567.3)               |
| <b>Operating profit</b>                                                            |      | <b>188.3</b>   | <b>191.1</b>          |
| Finance costs                                                                      | 6    | (170.1)        | (111.9)               |
| <b>Profit before taxation</b>                                                      |      | <b>18.2</b>    | <b>79.2</b>           |
| Taxation                                                                           | 7(a) | (162.0)        | (13.0)                |
| <b>(Loss) / profit for the year attributable to the shareholder of the Company</b> |      | <b>(143.8)</b> | <b>66.2</b>           |

<sup>1</sup>The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

# Statement of Comprehensive Income

## for the year ended 31 March 2022

|                                                                                                           |      |               | Restated              |
|-----------------------------------------------------------------------------------------------------------|------|---------------|-----------------------|
|                                                                                                           | Note | 2022 £'m      | 2021 <sup>1</sup> £'m |
| (Loss) / profit for the year                                                                              |      | (143.8)       | 66.2                  |
| <b>Items that will not be reclassified subsequently to profit and loss:</b>                               |      |               |                       |
| Actuarial gain / (loss)                                                                                   | 24   | 127.9         | (54.2)                |
| Deferred tax related to actuarial gain / (loss)                                                           | 7(b) | (18.7)        | 10.3                  |
| <b>Items that may be reclassified subsequently to profit and loss:</b>                                    |      |               |                       |
| Gain on cash flow hedges taken to equity                                                                  |      | 23.2          | 2.7                   |
| Deferred tax on cash flow hedge gain                                                                      | 7(b) | (5.2)         | (0.5)                 |
| <b>Other comprehensive income / (expense)</b>                                                             |      | <b>127.2</b>  | <b>(41.7)</b>         |
| <b>Total comprehensive (expense) / income for the year attributable to the shareholder of the Company</b> |      | <b>(16.6)</b> | <b>24.5</b>           |

<sup>1</sup>The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

# Balance Sheet

at 31 March 2022 (registered number 02366703)

|                                                       |      |           | Restated              |
|-------------------------------------------------------|------|-----------|-----------------------|
|                                                       | Note | 2022 £'m  | 2021 <sup>1</sup> £'m |
| Non-current assets                                    |      |           |                       |
| Intangible assets                                     | 9    | 54.2      | 55.4                  |
| Property, plant and equipment                         | 10   | 4,825.2   | 4,690.1               |
| Financial investments                                 | 11   | 1.9       | 160.9                 |
| Pension asset                                         | 24   | 17.5      | -                     |
|                                                       |      | 4,898.8   | 4,906.4               |
| Current assets                                        |      |           |                       |
| Inventories                                           | 12   | 6.2       | 4.6                   |
| Trade and other receivables                           | 13   | 235.9     | 221.7                 |
| Cash and cash equivalents                             |      | 60.0      | 28.6                  |
|                                                       |      | 302.1     | 254.9                 |
| Total assets                                          |      | 5,200.9   | 5,161.3               |
| Current liabilities                                   |      |           |                       |
| Trade and other payables                              | 14   | (194.0)   | (163.4)               |
| Borrowings                                            | 15   | (665.8)   | (66.1)                |
| Provisions                                            | 17   | (0.5)     | (1.1)                 |
|                                                       |      | (860.3)   | (230.6)               |
| Non-current liabilities                               |      |           |                       |
| Borrowings                                            | 15   | (2,566.7) | (2,895.6)             |
| Provisions                                            | 17   | (3.3)     | (4.9)                 |
| Deferred tax liabilities                              | 7(d) | (648.0)   | (452.4)               |
| Pension liability                                     | 24   | -         | (127.6)               |
| Hedging instruments                                   | 19   | (65.6)    | (52.5)                |
| Grants and deferred income                            | 18   | (538.5)   | (522.1)               |
|                                                       |      | (3,822.1) | (4,055.1)             |
| Total liabilities                                     |      | (4,682.4) | (4,285.7)             |
| Net assets                                            |      | 518.5     | 875.6                 |
| Capital and Reserves                                  |      |           |                       |
| Share capital                                         | 20   | 122.7     | 122.7                 |
| Cash flow hedge reserve                               |      | 9.7       | (8.3)                 |
| Profit and loss account                               |      | 386.1     | 761.2                 |
| Equity attributable to the shareholder of the Company |      | 518.5     | 875.6                 |

<sup>1</sup>The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

Approved by the Board of Directors on 15 July 2022 and signed on their behalf by: **H Mottram**



# Statement of Changes in Equity

## for the year ended 31 March 2022

|                                          | Note | Share Capital<br>£'m | Cash Flow<br>Hedge Reserve<br>£'m | Retained<br>Earnings<br>£'m | Total<br>Equity<br>£'m |
|------------------------------------------|------|----------------------|-----------------------------------|-----------------------------|------------------------|
| At 31 March 2020 as previously stated    |      | 122.7                | (10.5)                            | 763.4                       | 875.6                  |
| Prior year adjustment                    | 27   | -                    | -                                 | (24.5)                      | (24.5)                 |
| At 1 April 2020                          |      | 122.7                | (10.5)                            | 738.9                       | 851.1                  |
| Profit for the year as previously stated |      | -                    | -                                 | 70.1                        | 70.1                   |
| Prior year adjustment                    | 27   | -                    | -                                 | (3.9)                       | (3.9)                  |
| Other comprehensive income and expense   |      | -                    | 2.2                               | (43.9)                      | (41.7)                 |
| Total comprehensive income (restated)    |      | -                    | 2.2                               | 22.3                        | 24.5                   |
| Dividends                                | 8    | -                    | -                                 | -                           | -                      |
| At 31 March 2021 (restated)              |      | 122.7                | (8.3)                             | 761.2                       | 875.6                  |
| Profit for the year                      |      | -                    | -                                 | (143.8)                     | (143.8)                |
| Other comprehensive income               |      | -                    | 18.0                              | 109.2                       | 127.2                  |
| Total comprehensive income for the year  |      | -                    | 18.0                              | (34.6)                      | (16.6)                 |
| Ordinary dividends                       | 8    | -                    | -                                 | (181.5)                     | (181.5)                |
| Special dividend                         | 8    | -                    | -                                 | (159.0)                     | (159.0)                |
| At 31 March 2022                         |      | 122.7                | 9.7                               | 386.1                       | 518.5                  |

Other comprehensive income and expense taken to the cash flow hedge reserve arises from the cumulative amount of gains or losses on hedging instruments, and associated deferred tax, taken directly to equity under the hedge accounting provisions of International Accounting Standard (IAS) 39.

Other comprehensive income and expense taken to retained earnings arises from actuarial revaluations, and associated deferred tax, on the Company's defined benefit pension scheme taken directly to equity.

# Cash Flow Statement

## for the year ended 31 March 2022

|                                                                                              | Restated       |                       |
|----------------------------------------------------------------------------------------------|----------------|-----------------------|
|                                                                                              | 2022 £'m       | 2021 <sup>1</sup> £'m |
| <b>Operating activities</b>                                                                  |                |                       |
| <b>Reconciliation of profit before interest to net cash flows from operating activities</b>  |                |                       |
| Profit before interest                                                                       | 188.3          | 191.1                 |
| Depreciation and impairment losses                                                           | 147.5          | 145.3                 |
| Other non-cash charges and credits                                                           | (13.5)         | (14.1)                |
| Net credit for provisions, less payments                                                     | (2.2)          | 5.0                   |
| Difference between pension contributions paid and amounts recognised in the income statement | (19.6)         | (12.4)                |
| Capital grants received                                                                      | 15.6           | 12.9                  |
| Increase in inventories                                                                      | (1.6)          | (0.4)                 |
| (Increase) / decrease in trade and other receivables                                         | (2.1)          | 19.5                  |
| Increase / (decrease) in trade and other payables                                            | 28.5           | (6.1)                 |
| <b>Cash generated from operations</b>                                                        | <b>340.9</b>   | <b>340.8</b>          |
| Interest paid                                                                                | (95.8)         | (96.9)                |
| Income taxes paid                                                                            | (4.2)          | (11.7)                |
| <b>Net cash flows from operating activities</b>                                              | <b>240.9</b>   | <b>232.2</b>          |
| <b>Investing activities</b>                                                                  |                |                       |
| Interest received                                                                            | 0.4            | 2.5                   |
| Proceeds on disposal of property, plant and equipment                                        | 1.6            | 1.5                   |
| Short term cash deposits                                                                     | -              | 27.0                  |
| Loan repayment received from Group company                                                   | 159.0          | -                     |
| Purchase of property, plant and equipment and intangible assets                              | (252.2)        | (224.2)               |
| <b>Net cash flows used in investing activities</b>                                           | <b>(91.2)</b>  | <b>(193.2)</b>        |
| <b>Financing activities</b>                                                                  |                |                       |
| New borrowings                                                                               | 225.1          | -                     |
| Net movement in overdraft                                                                    | 37.6           | (5.2)                 |
| Dividends paid to equity shareholders                                                        | (340.5)        | -                     |
| Repayment of borrowings                                                                      | (36.2)         | (36.0)                |
| Payment of principal in respect of leases                                                    | (4.3)          | (4.3)                 |
| <b>Net cash flows used in financing activities</b>                                           | <b>(118.3)</b> | <b>(45.5)</b>         |
| Increase / (decrease) in cash and cash equivalents                                           | 31.4           | (6.5)                 |
| Cash and cash equivalents at start of year                                                   | 28.6           | 35.1                  |
| <b>Cash and cash equivalents at end of year</b>                                              | <b>60.0</b>    | <b>28.6</b>           |
| Cash and cash equivalents at end of year                                                     | 60.0           | 28.6                  |
| <b>Total cash, cash equivalents and short term cash deposits</b>                             | <b>60.0</b>    | <b>28.6</b>           |

<sup>1</sup> The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

Additional cash flow information is included in note 21.

# Notes to the Financial Statements

## for the year ended 31 March 2022

### 1. Accounting Policies

NWL is incorporated in the UK under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on [page 111](#). The nature of the Company's operations and its principal activities are set out in the Strategic Report on [page 9](#).

These Financial Statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

These Financial Statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements under the terms of section 400 of the Companies Act 2006, because it is included in the Group Financial Statements of NWGL (see note 26).

#### (a) Basis of accounting

These Financial Statements have been prepared in accordance with FRS 101, incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The Company adopted no new accounting standards in the period.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, standards not yet effective, related party transactions and presentation of a prior year opening balance sheet due to the prior year adjustment.

The Financial Statements have been prepared under the historical cost convention, with the exception of financial instruments held at fair value through profit and loss.

The Financial Statements have been prepared on a going concern basis, having considered the principal risks and uncertainties, which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2022, the Company had net current liabilities of £588.2m (2021: net current assets of £24.3m). The net liability reflects borrowings repayable within a year, as disclosed in note 15. The Directors have reviewed cash flow requirements and other factors, as described in the going concern statement on [page 106](#) of the Directors' Report. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

**(b) Revenue**

Revenue, which excludes Value Added Tax, represents the income receivable in the ordinary course of business for services provided within the UK. In accordance with IFRS 15 Revenue from Contracts with Customers revenue is recognised as performance obligations to the customer are satisfied.

The Company's principal source of revenue is from water and wastewater charges to customers, which are recognised over the period which the services are provided. For volumetric charges to measured customers, revenue is recognised as the service is supplied. For measured charges which have not yet been billed, an accrual is made based on an estimate of consumption. Wholesale charges for non-household customers are estimated on the basis of market information provided by Market Operator Services Limited.

A secondary source of revenue is contributions to capital investment, particularly from developers. For contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, the Company considers that these activities form a combined performance obligation that is not distinct from the ongoing provision of water and wastewater services through the new connection. On this basis, these contributions are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, per note 1(f).

For other contributions to capital investment, most significantly mains and sewer diversions, the Company considers that the performance obligation is satisfied upon completion of the investment, which will typically be the point at which the associated asset is brought into use. On this basis, these contributions are recognised in full in the income statement upon satisfaction of the performance obligation. Contributions received before the performance obligation is satisfied are recorded as receipts in advance.

**(c) Intangible assets**

Intangible assets, primarily comprising computer software, are recognised at cost less accumulated amortisation and any provision for impairment. Computer software is amortised evenly over its estimated economic life of 2 to 25 years. Intangible assets in development are not amortised until commissioned. Amortisation is charged to the income statement through operating costs.

In accordance with IFRIC guidance regarding 'Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud' and 'Configuration or Customisation Costs in a Cloud Computing Arrangement', costs of configuring and implementing 'software-as-a-service' systems, where the Company does not control the asset and the services are not provided by the SaaS provider, are expensed to the income statement in the year in which they are incurred.

#### (d) Property, plant and equipment

Property, plant and equipment, including assets in the course of construction, comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, vehicles and above ground plant and equipment).

Purchased property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount incurred and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Where assets are constructed by a developer and adopted by NWL at no cost to the Company, the assets are recognised in the balance sheet at their fair value on the date of the transfer and an equivalent value is recognised in deferred income, in accordance with IFRIC 18 Transfers of Assets from Customers. The fair value is based on the average cost to the Company of constructing an equivalent asset.

Upon their initial recognition, right-of-use assets are valued at the initial measurement of the corresponding lease liability (note 1(g)), less lease payments made at or before the commencement day, any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are presented as a separate line in note 10.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

|                                             |             |
|---------------------------------------------|-------------|
| Freehold buildings                          | 30-60 years |
| Operational structures, plant and machinery | 4-92 years  |
| Infrastructure assets (see below)           | 4-200 years |
| Fixtures, fittings, tools and equipment     | 4-25 years  |

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and, where adjustments are required, these are made prospectively.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Assets in the course of construction are not depreciated until commissioned.

#### Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets which enhances the asset base is treated as fixed asset additions while maintenance expenditure which does not enhance the asset base is charged as an operating cost.

Infrastructure assets are depreciated evenly to their estimated residual values over their estimated economic lives, which are principally as follows:

|                                |            |
|--------------------------------|------------|
| Dams and impounding reservoirs | 150 years  |
| Water mains                    | 100 years  |
| Sea outfalls                   | 60 years   |
| Sewers                         | 200 years  |
| Dedicated pipelines            | 4-20 years |

#### (e) Financial investments

Financial investments are stated at their purchase cost, less provision for diminution in value (note 11).

**(f) Grants and contributions**

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Revenue grants are credited to the income statement in the period to which they relate.

Grants and contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, as explained in note 1(b).

Other grants and contributions to capital investment, most significantly mains and sewer diversions, are recognised in full in the income statement upon satisfaction of the performance obligation to the customer, which is the point at which the associated asset is brought into use. Up to this point, any contributions received are reported as receipts in advance.

**(g) Leases**

The Company assesses whether a contract is or contains a lease, at the inception of a new contract and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within Borrowings in the Balance sheet and as a separate line within note 15.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in operating costs in the Income Statement.

#### **(h) Inventories**

Inventories are stated at cost less any provision necessary to recognise damage and obsolescence. Inventory is charged at average cost upon use.

#### **(i) Pension costs**

The Company is the principal employer of the NWPS, which has both a defined benefit section and a defined contribution section.

The cost of providing benefits under the defined benefit section of the Scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs. Net interest is calculated by applying the discount rate to the net defined asset or liability.

The service cost is disclosed in manpower costs and the net interest expense is disclosed within finance costs.

Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

The costs of the defined contribution section are charged to the income statement in the period they arise.

**(j) Taxation****Current tax**

Current tax assets and liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

**(k) Foreign currency**

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account in the period incurred.

**(l) Research and development**

Research and development expenditure is charged to the income statement in the period in which it is incurred.

### (m) Derivative financial instruments

The Company utilises interest and inflation rate swaps, gilt locks and forward exchange contracts as derivative financial instruments.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Group's risk management policies. Derivative financial instruments are stated at their fair value.

Hedge accounting is employed in respect of those derivative financial instruments fulfilling the requirements for hedge accounting as prescribed under IFRS 9. The Company has not applied hedge accounting criteria under IFRS 9 on a retrospective basis. Existing derivative financial instruments, if eligible for hedge accounting, continue to apply the hedging criteria under the provisions of IAS 39. Any new instruments will apply IFRS 9.

Derivative financial instruments are measured at fair value, which is considered to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction reflecting the credit risk of the counterparties in the principal (or most advantageous) market under market conditions as at the balance sheet date.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps and inflation swaps are determined by reference to market values for similar instruments.

Hedging transactions undertaken by the Company are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in currency cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement.

In relation to cash flow hedges to hedge firm currency commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the cash flow hedge reserve and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in the cash flow hedge reserve are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in the cash flow hedge reserve are transferred to the income statement in the same periods in which the hedged firm commitment affects the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in the cash flow hedge reserve is kept in the cash flow hedge reserve until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the cash flow hedge reserve is transferred to the income statement.

**(n) Interest bearing loans and borrowings**

All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing.

Fixed rate borrowings are stated at amortised cost. Finance and issue costs are recognised in the income statement over the duration of the borrowing using the effective interest rate method.

The carrying amount of index linked borrowings increases annually in line with the relevant RPI, with the accretion being charged to the income statement as finance costs payable. Other borrowing costs are recognised as an expense when incurred and fees are recognised evenly over the duration of the borrowing.

Realised gains and losses that occur from the early termination of loans and borrowings are taken to the income statement in that period.

Net debt is the sum of all loans and borrowings less cash and cash equivalents, short-term cash deposits, financial investments and loans receivable.

**(o) Bad debt provisioning**

The bad debt provision is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age.

**(p) Borrowing costs**

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial time to prepare for its intended use are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal, and use of each part ceases upon substantial completion of that part, a weighted average cost of borrowings is used.

#### (q) Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Actual results may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The significant accounting judgement was:

- The asset lives assigned to property, plant and equipment, details of which can be found in note 1(d) above.

The significant accounting estimates were:

- The estimation of income for measured water and sewerage services supplied to household customers but not billed at the end of the financial period. Consumption is billed in arrears on a six-monthly cycle. Revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer. A variation of 5% in the estimated consumption would change revenue by £2.1m;
- The estimation of income for measured water and sewerage services supplied to non-household customers based on estimated consumption. Non-household income is billed to the relevant retailer under the terms of the Wholesale Contract and may be either in advance or in arrears. Revenue billed in arrears is based upon wholesale market settlement reports which include an estimate for consumption since the most recent meter reading, adjusted for any additional information obtained after a settlement report has been run. A variation of 5% in the estimated consumption would change revenue by £0.5m;
- Those assumptions used in arriving at the defined benefit pension scheme assets and liabilities under IAS 19. These key assumptions and their possible impact are disclosed in note 24; and

- The doubtful debt provision, reported in note 13, which is determined by estimating expected credit losses based on the Company's historical experience of irrecoverable debts. Debt is segmented according to the age of the debt, payment history and type of debt (eg. current or previous occupier). Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Potential impacts of forward-looking macro-economic factors on collectability are also considered. A reduction of 0.1% in the long-term collection rate would increase the provision by £6m.

#### (r) Transition to new accounting standards in the period

The Company adopted no new accounting standards in the period.

## 2. Revenue and Segmental Information

The Directors consider that the Company has a single class of business, the provision of water and wastewater services. All revenue is generated from within the United Kingdom.

Appointed business revenue is generated from the regulated activities of the Company, defined in its licence of appointment, necessary to fulfil its duties as a water and sewerage undertaker under the Water Industry Act of 1991.

Non-appointed revenue is generated from the non-regulated activities of the Company.

|                                 | 2022             |                         |              | 2021             |                         |              |
|---------------------------------|------------------|-------------------------|--------------|------------------|-------------------------|--------------|
|                                 | Household<br>£'m | Non<br>Household<br>£'m | Total<br>£'m | Household<br>£'m | Non<br>Household<br>£'m | Total<br>£'m |
| Wholesale Water                 | 315.6            | 85.4                    | 401.0        | 315.4            | 76.0                    | 391.4        |
| Wholesale Wastewater            | 185.8            | 65.6                    | 251.4        | 183.4            | 59.0                    | 242.4        |
| Retail                          | 56.0             | -                       | 56.0         | 55.8             | -                       | 55.8         |
|                                 | <b>557.4</b>     | <b>151.0</b>            | <b>708.4</b> | <b>554.6</b>     | <b>135.0</b>            | <b>689.6</b> |
| Other appointed business        |                  |                         | 36.4         |                  |                         | 34.3         |
| <b>Total appointed business</b> |                  |                         | <b>744.8</b> |                  |                         | <b>723.9</b> |
| Non appointed business          |                  |                         | 35.3         |                  |                         | 34.5         |
| <b>Total revenue</b>            |                  |                         | <b>780.1</b> |                  |                         | <b>758.4</b> |

### 3. Operating Costs

Auditor's remuneration in respect of the statutory audit of the Financial Statements was £212k (2021: £158k), including fees for a financing subsidiary, Northumbrian Water Finance plc (NWF), of £9k (2021: £7k). Fees of £70k (2021: £70k) were incurred in respect of the APR, including the audit of the Regulatory Accounting Statements, and agreed upon procedures in respect of additional regulatory information, the statement of sufficiency of financial resources and facilities and financial resilience stress testing.

Fees of £22k (2021: £15k) were incurred for non-audit services comprising provision of assurance on third party contracts.

|                                                     | Note | Restated     |              |
|-----------------------------------------------------|------|--------------|--------------|
|                                                     |      | 2022 £'m     | 2021 £'m     |
| Materials and consumables                           |      | 24.1         | 20.4         |
| Employee costs                                      | 5    | 150.5        | 151.7        |
| Own work capitalised                                |      | (46.7)       | (45.0)       |
| Costs of research and development                   |      | 0.5          | 0.7          |
| Bad debt charge                                     |      | 7.1          | 17.4         |
| Inventories recognised as an expense                |      | 3.1          | 3.2          |
| Other operating costs                               | 27   | 306.5        | 274.9        |
| Depreciation of property, plant and equipment       |      | 137.1        | 136.0        |
| Amortisation of intangible assets                   | 27   | 9.4          | 9.3          |
| Impairment of tangible fixed assets                 | 10   | 1.0          | -            |
| Profit on disposal of property, plant and equipment |      | (0.8)        | (1.3)        |
| <b>Total operating costs</b>                        |      | <b>591.8</b> | <b>567.3</b> |

#### 4. Directors' Emoluments

##### (a) Directors' remuneration

The remuneration of the Directors of the Company was as follows:

|                                            | 2022<br>£'000 | 2021<br>£'000 |
|--------------------------------------------|---------------|---------------|
| Emoluments<br>(including benefits in kind) | 973           | 1,190         |

For those Directors holding office with both NWL and NWGL, or contributing significantly to the day to day operations of NWGL, costs are apportioned between the companies to reflect the level of activity carried out for each company. This note reflects only the proportion of costs charged to NWL.

None of the Directors serving during the year ended 31 March 2022 were members of a pension scheme where the Company makes contributions towards the cost. In the prior year, one Director was a member of a defined contribution pension scheme where the Company made contributions towards the cost, but left the Company during that year.

The Directors' remuneration policy and a detailed report showing total remuneration for each Director, for the year to 31 March 2022, are set out in the Remuneration Committee Report on [pages 91 to 104](#) of the Governance Report.

##### (b) Highest paid Director

The amounts for remuneration shown in note 4(a) include the following in respect of the highest paid Director:

|                                            | 2022<br>£'000 | 2021<br>£'000 |
|--------------------------------------------|---------------|---------------|
| Emoluments<br>(including benefits in kind) | 648           | 628           |

The highest paid Director left the defined contribution section of the NWPS at the beginning of the year ended 31 March 2017, therefore no payments were made to the Scheme in either the current or prior year.

## 5. Employee Information

The total employment costs of all employees (including Directors) were as follows:

|                                                            | 2022 £'m     | 2021 £'m     |
|------------------------------------------------------------|--------------|--------------|
| <b>Gross costs charged to the profit and loss account:</b> |              |              |
| Wages and salaries                                         | 83.2         | 83.8         |
| Social security costs                                      | 9.1          | 9.1          |
| Other pensions costs                                       | 17.7         | 19.2         |
|                                                            | <b>110.0</b> | <b>112.1</b> |
| <b>Costs recharged to other Group companies</b>            |              |              |
| Wages and salaries                                         | 2.1          | 2.1          |
|                                                            | <b>2.1</b>   | <b>2.1</b>   |
| <b>Net costs charged to the profit and loss account</b>    |              |              |
| Wages and salaries                                         | 81.1         | 81.7         |
| Social security costs                                      | 9.1          | 9.1          |
| Other pensions costs                                       | 17.7         | 19.2         |
|                                                            | <b>107.9</b> | <b>110.0</b> |
| <b>Costs charged to capital schemes</b>                    |              |              |
| Wages and salaries                                         | 32.5         | 31.6         |
| Social security costs                                      | 3.5          | 3.4          |
| Other pensions costs                                       | 6.6          | 6.7          |
|                                                            | <b>42.6</b>  | <b>41.7</b>  |
| <b>Total employee costs</b>                                | <b>150.5</b> | <b>151.7</b> |

The average monthly number of employees during the year was made up as follows:

|                                     | 2022         | 2021         |
|-------------------------------------|--------------|--------------|
| Water and waste water services      | 1,234        | 1,232        |
| Customer services and meter reading | 662          | 669          |
| Other regulated activities          | 1,106        | 1,093        |
| Non regulated activities            | 87           | 91           |
|                                     | <b>3,089</b> | <b>3,085</b> |

## 6. Net Finance Costs

|                                                                            | Restated     |                       |
|----------------------------------------------------------------------------|--------------|-----------------------|
|                                                                            | 2022 £'m     | 2021 <sup>1</sup> £'m |
| <b>Finance costs payable:</b>                                              |              |                       |
| Bank overdrafts and loans                                                  | 8.4          | 9.6                   |
| Receivable in respect of derivatives                                       | (4.2)        | (4.0)                 |
| Payable to subsidiary Group company                                        | 86.2         | 85.8                  |
| Payable to other Group company                                             | 0.5          | -                     |
| Amortisation of discount, fees, loan issue costs and other financing items | 5.5          | 2.0                   |
| Accretion on index linked bonds                                            | 52.3         | 15.2                  |
| Interest cost on pension plan obligations                                  | 2.4          | 1.7                   |
| Obligations under leases                                                   | 2.8          | 2.5                   |
|                                                                            | <b>142.9</b> | <b>112.8</b>          |
| Less amounts capitalised on qualifying assets (note 27)                    | (8.8)        | (9.9)                 |
|                                                                            | <b>134.1</b> | <b>102.9</b>          |
| Fair value losses on derivative financial instruments                      | 36.3         | 11.1                  |
| <b>Total finance income payable</b>                                        | <b>170.4</b> | <b>114.0</b>          |
| <b>Finance income receivable:</b>                                          |              |                       |
| Bank deposits                                                              | -            | (0.1)                 |
| Receivable from Group companies                                            | (0.3)        | (2.0)                 |
| <b>Total finance income receivable</b>                                     | <b>(0.3)</b> | <b>(2.1)</b>          |
| <b>Net finance costs payable</b>                                           | <b>170.1</b> | <b>111.9</b>          |

<sup>1</sup> The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

## 7. Taxation

### (a) Tax on profit

|                                                                                            | Restated     |             |
|--------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                            | 2022 £'m     | 2021 £'m    |
| <b>Current tax:</b>                                                                        |              |             |
| UK current income tax (credit) / charge at 19% (2021: 19%)                                 | (7.6)        | 11.0        |
| Adjustments in respect of prior periods                                                    | (2.3)        | 1.5         |
| (Receivable) / payable in respect of group relief for the year                             | (0.4)        | 1.1         |
| Adjustments in respect of prior period group relief                                        | 0.6          | (1.6)       |
| <b>Total current tax</b>                                                                   | <b>(9.7)</b> | <b>12.0</b> |
| <b>Deferred tax:</b>                                                                       |              |             |
| Origination and reversal of temporary differences in the year at 19% (2021: 19%) (note 27) | 10.6         | 2.6         |
| Impact of increase in rate of UK corporation tax                                           | 158.1        | -           |
| Adjustments in respect of prior periods                                                    | 3.0          | (1.6)       |
| <b>Total deferred tax</b>                                                                  | <b>171.7</b> | <b>1.0</b>  |
| <b>Tax charge in the income statement</b>                                                  | <b>162.0</b> | <b>13.0</b> |

The rate of UK corporation tax for the current year was 19%. However, deferred tax has been provided at 25% to reflect the change to the rate of tax enacted by Finance Act 2021.

Tax losses arising in the current year have been partially carried back to generate a current year credit and provisionally surrendered as group relief to other group companies, for which payment is receivable at the full rate of current tax. The remaining losses have been carried forward to be set off against future taxable profits.

### (b) Tax relating to items charged / (credited) outside the income statement

|                                                                       | 2022 £'m    | 2021 £'m     |
|-----------------------------------------------------------------------|-------------|--------------|
| <b>Deferred tax:</b>                                                  |             |              |
| Actuarial gains / (losses) on pension scheme                          | 32.0        | (10.3)       |
| Impact of increase in rate of UK corporation tax                      | (13.3)      | -            |
| Financial instruments                                                 | 5.8         | 0.5          |
| Impact of increase in rate of UK corporation tax                      | (0.6)       | -            |
| <b>Tax charge / (credit) in the statement of comprehensive income</b> | <b>23.9</b> | <b>(9.8)</b> |

**(c) Reconciliation of the tax charge**

|                                                                          | Restated     |                       |
|--------------------------------------------------------------------------|--------------|-----------------------|
|                                                                          | 2022 £'m     | 2021 <sup>1</sup> £'m |
| <b>Profit before tax</b>                                                 | <b>18.2</b>  | <b>79.2</b>           |
| Profit multiplied by standard rate of corporation tax of 19% (2021: 19%) | 3.5          | 15.1                  |
| <b>Effects of:</b>                                                       |              |                       |
| Expenses not deductible for tax purposes                                 | 0.2          | 0.1                   |
| Non-taxable gains and amortisation of capital sums                       | (1.4)        | (1.6)                 |
| Depreciation in respect of non-qualifying items                          | 1.1          | 1.1                   |
| Capital allowances super deductions                                      | (2.3)        | -                     |
| Impact on deferred tax of increase in current tax rate                   | 158.1        | -                     |
| Deferred tax movement not at current tax rate                            | 1.5          | -                     |
| Adjustments in respect of prior periods                                  | 1.3          | (1.7)                 |
| Transfer pricing adjustments                                             | (0.7)        | (0.8)                 |
| Balancing payment payable                                                | 0.7          | 0.8                   |
| <b>Total tax charge</b>                                                  | <b>162.0</b> | <b>13.0</b>           |

<sup>1</sup>: The prior year balances have been restated to reflect the adjustment in respect of SaaS detailed in note 27.

The effective rate of tax for the year was 888.5% (2021: 16.3% restated) The increase of 872.2% is mainly explained by the impact of the restatement of deferred tax from 19% to 25% (+867.1%), deferred tax not provided at the current rate for the year (+8.5%), adjustments in respect of prior periods (+9.3%), offset by capital allowances 'super-deductions' available in excess of the cost of the related assets (-12.4%).

**(d) Deferred tax**

|                                                            | Accelerated<br>tax<br>depreciation<br>£'m | Deferred<br>income<br>£'m | Retirement<br>benefit<br>obligations<br>£'m | Fair value<br>hedging<br>instruments<br>£'m | Business<br>combinations<br>£'m | Tax<br>losses<br>£'m | Other<br>£'m | Total<br>£'m |
|------------------------------------------------------------|-------------------------------------------|---------------------------|---------------------------------------------|---------------------------------------------|---------------------------------|----------------------|--------------|--------------|
| <b>At 1 April 2020</b>                                     | <b>533.9</b>                              | <b>(57.7)</b>             | <b>(16.2)</b>                               | <b>(8.3)</b>                                | <b>5.8</b>                      | <b>-</b>             | <b>9.5</b>   | <b>467.0</b> |
| Adoption of SaaS                                           | (1.9)                                     | -                         | -                                           | -                                           | -                               | -                    | (3.8)        | (5.7)        |
| <b>At 1 April 2020<br/>(restated)</b>                      | <b>532.0</b>                              | <b>(57.7)</b>             | <b>(16.2)</b>                               | <b>(8.3)</b>                                | <b>5.8</b>                      | <b>-</b>             | <b>5.7</b>   | <b>461.3</b> |
| Charge / (credit) in<br>the income<br>statement (restated) | 6.0                                       | (4.4)                     | 2.1                                         | (2.1)                                       | (0.2)                           | -                    | (0.5)        | 0.9          |
| Credit in other<br>comprehensive<br>income                 | -                                         | -                         | (10.3)                                      | 0.5                                         | -                               | -                    | -            | (9.8)        |
| <b>At 31 March 2021<br/>(restated)</b>                     | <b>538.0</b>                              | <b>(62.0)</b>             | <b>(24.4)</b>                               | <b>(9.9)</b>                                | <b>5.6</b>                      | <b>-</b>             | <b>5.2</b>   | <b>452.4</b> |
| Charge / (credit) in<br>the income<br>statement            | 194.4                                     | (25.4)                    | 9.9                                         | (11.7)                                      | 1.5                             | (8.0)                | 11.0         | 171.7        |
| Charge in other<br>comprehensive<br>income                 | -                                         | -                         | 18.7                                        | 5.2                                         | -                               | -                    | -            | 23.9         |
| <b>At 31 March 2022</b>                                    | <b>732.4</b>                              | <b>(87.5)</b>             | <b>4.2</b>                                  | <b>(16.4)</b>                               | <b>7.1</b>                      | <b>(8.0)</b>         | <b>16.2</b>  | <b>648.0</b> |

**(e) Factors that may affect future tax charges**

The Company expects to continue to incur high levels of capital expenditure during the remainder of the 2020-25 regulatory review period which should result in claims for tax reliefs in excess of depreciation.

The temporary increase in the rate of capital allowances included in Finance Act 2021 applies to qualifying expenditure incurred in the two years ended 31 March 2023 under contracts entered into on or after 3 March 2021. Such expenditure attracts allowances of 130% (compared to the normal 18%) in the case of assets with an economic life of less than 25 years, and 50% (compared to the normal 6%) in the case of assets with an economic life of 25 years or more. The additional allowances were a contributory factor to the Company incurring tax losses in the current year and this may be repeated in the year ended 31 March 2023, after which the Company expects to utilise carried forward losses in the remainder of the the 2020-25 regulatory review period.

## 8. Dividends

|                                                                                                                                    | 2022 £'m     | 2021 £'m |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|----------|
| <b>Equity:</b>                                                                                                                     |              |          |
| <b>Ordinary dividends paid:</b>                                                                                                    |              |          |
| Final dividend paid for the year ended 31 March 2021 of 100.49p (year ended 31 March 2020: nil) per share on an aggregated basis   | 123.3        | -        |
| Interim dividend paid for the year ended 31 March 2022 of 47.49p (year ended 31 March 2021: nil) per share on an aggregated basis  | 58.2         | -        |
| <b>Ordinary dividends paid in the year</b>                                                                                         | <b>181.5</b> | <b>-</b> |
| <b>Special dividend paid:</b>                                                                                                      |              |          |
| Special dividend paid for the year ended 31 March 2022 of 129.64p (year ended 31 March 2021: nil) per share on an aggregated basis | 159.0        | -        |
| <b>Special dividends paid in the year</b>                                                                                          | <b>159.0</b> | <b>-</b> |

### Dividend Policy

The Board has a policy which takes into account the principle of incentive based price cap regulation, including operating and investment performance. When declaring dividends, the Directors consider the Company's five-year plan and give due consideration to business performance, the prospects of the Company and the principal risks facing the business.

Specifically, the Board determines the level of dividend declared by reference to:

- The Company's ability to finance its functions;
- The Company's cumulative financial performance and past outperformance; and
- Maintaining the Company's investment grade credit ratings.

The Directors also have regard to:

- How the Company has satisfied its statutory and regulatory obligations, performed against the performance commitments in the final determination and the level of service provided to its customers; and
- Employees' interests and, specifically, compliance with the pension deficit repair plan agreed with the Pension Trustee in respect of the NWPS, as submitted to the Pensions Regulator.

### Application of Policy

A final dividend of £123.3m was paid for the year ended 31 March 2021. Prior to this payment, no dividends had been paid in respect of the years ended 31 March 2020 or 31 March 2021, as a result of the impact of the PR19 FD and the uncertainty surrounding the CMA redetermination process and the COVID-19 pandemic. In approving the dividend the Board took account of the cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan, as well as the other factors in the dividend policy.

For the year ended 31 March 2022 the Board approved payment of an interim dividend of £58.2m and, after the balance sheet date, a final dividend of £55.4m. In reaching these decisions the Board took full account of its dividend policy. A full explanation of the Board's considerations is published in the Company's APR.

Following discussions with Ofwat, a special dividend of £159.0m was paid from the non-appointed business for the purpose of settling a legacy intercompany loan arrangement between the non-appointed business and NWGL. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company.

## 9. Intangible Assets

|                             | Note | Software<br>£'m | Assets in<br>development<br>£'m | Total<br>£'m |
|-----------------------------|------|-----------------|---------------------------------|--------------|
| <b>Cost:</b>                |      |                 |                                 |              |
| At 31 March 2021            |      | 158.3           | 5.7                             | 164.0        |
| PYA in respect of SaaS      | 27   | (35.9)          | (2.4)                           | (38.3)       |
| At 1 April 2021 (restated)  |      | 122.4           | 3.3                             | 125.7        |
| Additions                   |      |                 | 8.2                             | 8.2          |
| Transfers                   |      | 6.2             | (6.2)                           | -            |
| <b>At 31 March 2022</b>     |      | <b>128.6</b>    | <b>5.3</b>                      | <b>133.9</b> |
| <b>Amortisation:</b>        |      |                 |                                 |              |
| At 31 March 2021            |      | 73.5            | -                               | 73.5         |
| PYA in respect of SaaS      | 27   | (3.2)           | -                               | (3.2)        |
| At 1 April 2021 (restated)  |      | 70.3            | -                               | 70.3         |
| Charge for the year         |      | 9.4             | -                               | 9.4          |
| <b>At 31 March 2022</b>     |      | <b>79.7</b>     | <b>-</b>                        | <b>79.7</b>  |
| <b>Carrying value:</b>      |      |                 |                                 |              |
| At 31 March 2022            |      | 48.9            | 5.3                             | 54.2         |
| At 31 March 2021 (restated) |      | 52.1            | 3.3                             | 55.4         |

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £3.8m (2021: £3.5m (restated)). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.18% (2021: 4.25%).

## 10. Property, plant and equipment

|                                            | Freehold land and buildings<br>£'m | Infrastructure assets<br>£'m | Operational, structures, plant and machinery<br>£'m | Fixtures, fittings, tools and equipment<br>£'m | Assets in the course of construction<br>£'m | Total £'m      |
|--------------------------------------------|------------------------------------|------------------------------|-----------------------------------------------------|------------------------------------------------|---------------------------------------------|----------------|
| <b>Cost:</b>                               |                                    |                              |                                                     |                                                |                                             |                |
| At 1 April 2021                            | 167.1                              | 3,073.5                      | 3,299.0                                             | 246.3                                          | 237.3                                       | 7,023.2        |
| Additions / adjustments                    | -                                  | 12.7                         | 0.7                                                 | -                                              | 260.6                                       | 274.0          |
| Schemes commissioned                       | 5.2                                | 97.3                         | 131.7                                               | 7.5                                            | (241.7)                                     | -              |
| Reclassifications                          | (3.2)                              | -                            | 3.2                                                 | -                                              | -                                           | -              |
| Disposals                                  | (0.9)                              | (2.2)                        | (2.4)                                               | -                                              | -                                           | (5.5)          |
| <b>At 31 March 2022</b>                    | <b>168.2</b>                       | <b>3,181.3</b>               | <b>3,432.2</b>                                      | <b>253.8</b>                                   | <b>256.2</b>                                | <b>7,291.7</b> |
| <b>Depreciation:</b>                       |                                    |                              |                                                     |                                                |                                             |                |
| At 1 April 2021                            | 71.2                               | 459.2                        | 1,599.5                                             | 203.2                                          | -                                           | 2,333.1        |
| Impairment of assets                       | 0.8                                | -                            | -                                                   | 0.2                                            | -                                           | 1.0            |
| Charge for the year                        | 4.1                                | 29.9                         | 95.0                                                | 8.1                                            | -                                           | 137.1          |
| Reclassifications                          | (0.6)                              | -                            | 0.6                                                 | -                                              | -                                           | -              |
| Disposals                                  | (0.1)                              | (2.2)                        | (2.4)                                               | -                                              | -                                           | (4.7)          |
| <b>At 31 March 2022</b>                    | <b>75.4</b>                        | <b>486.9</b>                 | <b>1,692.7</b>                                      | <b>211.5</b>                                   | <b>-</b>                                    | <b>2,466.5</b> |
| <b>Carrying value:</b>                     |                                    |                              |                                                     |                                                |                                             |                |
| At 31 March 2022                           | 92.8                               | 2,694.4                      | 1,739.5                                             | 42.3                                           | 256.2                                       | 4,825.2        |
| At 31 March 2021                           | 95.9                               | 2,614.3                      | 1,699.5                                             | 43.1                                           | 237.3                                       | 4,690.1        |
| <b>Right of Use Assets included above:</b> |                                    |                              |                                                     |                                                |                                             |                |
| Additions                                  | -                                  | -                            | 4.0                                                 | -                                              | -                                           | 4.0            |
| Depreciation charge for the year           | 0.2                                | 0.5                          | 3.9                                                 | -                                              | -                                           | 4.6            |
| Carrying value at 31 March 2022            | 2.2                                | 42.3                         | 11.3                                                | -                                              | -                                           | 55.8           |
| Carrying value at 31 March 2021            | 2.4                                | 42.8                         | 11.2                                                | -                                              | -                                           | 56.4           |

Operational structures, plant and machinery include an element of land dedicated to those assets. It is not possible to separately identify the value of all land assets.

Cumulative borrowing costs capitalised in the cost of property, plant and equipment amount to £73.9m (2021: £65.4m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.18% (2021: 4.25%).

Freehold land and buildings includes £4.3m of assets held for resale, reported at net realisable value.

## 11. Financial Investments

|                          | 2022 £'m | 2021 £'m |
|--------------------------|----------|----------|
| Loans to Group Companies | 1.9      | 160.9    |

### (a) Loans to Group Companies

In May 2004, the Company made a loan of £159m to Northumbrian Services Limited, due to mature in January 2034. Following a restructuring of the NWGL group, this loan was reassigned to NWGL in March 2016 at a variable interest rate of LIBOR plus 1% calculated on twice yearly payment dates.

During the year, this legacy intercompany loan arrangement was fully settled by way of a special dividend paid by NWL to NWGL enabling the loan to be repaid in full.

In May 2004, the Company made a loan of £1.5m to Bakethin Holdings Limited, maturing in January 2034. The interest on the loan is capitalised and at 31 March 2022 the balance was £1.9m (2021: £1.9m).

### (b) Subsidiaries

The Company's interests in subsidiaries at 31 March 2022 were as follows:

| Name of undertaking            | Country of incorporation or registration and operation | Description of shares held | Proportion of nominal value of issued shares held by Company (%) | Business activity                 |
|--------------------------------|--------------------------------------------------------|----------------------------|------------------------------------------------------------------|-----------------------------------|
| Northumbrian Water Finance plc | England and Wales                                      | Ordinary shares of £1      | 100                                                              | Holding of finance instruments    |
| Reiver Finance Limited         | England and Wales                                      | Ordinary shares of £1      | 100                                                              | Special purpose financing vehicle |
| Reiver Holdings Limited        | England and Wales                                      | Ordinary shares of £1      | 100                                                              | Holding company                   |

The registered office of all subsidiaries listed above is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

The Company also has two quasi-subsidiary special purpose entities, Bakethin Holdings Limited, which is wholly owned by Bakethin Charitable Trust, and Bakethin Finance Plc, which is a wholly owned subsidiary of Bakethin Holdings Limited. The principal activity of Bakethin Finance Plc is as a special purpose financing vehicle.

The registered office of the two quasi-subsidiaries is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, United Kingdom, EC2R 7AF.

## 12. Inventories

|                               | 2022 £'m | 2021 £'m |
|-------------------------------|----------|----------|
| Raw materials and consumables | 6.2      | 4.6      |

## 13. Trade and other Receivables

|                                       | 2022 £'m     | 2021 £'m     |
|---------------------------------------|--------------|--------------|
| Trade receivables                     | 201.0        | 216.4        |
| Doubtful debt provision               | (94.2)       | (111.0)      |
| Income tax recoverable                | 19.8         | 8.1          |
| Amounts owed by other Group companies | 3.8          | 2.8          |
| Other receivables                     | 18.3         | 16.1         |
| Prepayments                           | 4.7          | 3.4          |
| Interest prepayments                  | 1.8          | 1.6          |
| Accrued income                        | 80.7         | 84.3         |
|                                       | <b>235.9</b> | <b>221.7</b> |

Amounts owed by other Group companies includes interest of £nil (2021: £0.1m) in respect of the financial investment of £159.0m in note 11(a). This loan was fully repaid during the year as described in note 11(a). Also included in amounts by other Group companies is £0.4m (2021: nil) in respect of tax losses surrendered by the Company. The remaining amounts owed by other Group companies include £2.3m due from NWGL (2021: £2.3m) and £1.1m (2021: £0.4m) due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

## 14. Trade and other Payables

|                                       | 2022 £'m     | 2021 £'m     |
|---------------------------------------|--------------|--------------|
| Trade payables                        | 41.1         | 20.4         |
| Amounts owed to other Group companies | 1.5          | 4.2          |
| Taxation and social security          | 3.2          | 3.3          |
| Income tax payable                    | 1.3          | 0.6          |
| Receipts in advance                   | 24.0         | 20.7         |
| Other payables                        | 10.4         | 11.1         |
| Deferred income                       | 1.1          | 1.3          |
| Capital accruals                      | 32.5         | 28.0         |
| Interest accruals                     | 39.1         | 38.7         |
| Other accruals                        | 39.8         | 35.1         |
|                                       | <b>194.0</b> | <b>163.4</b> |

Included in amounts owed to other Group companies is nil (2021: £2.5m) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.5m (2021: £1.7m) is owed to NWGL and is due on demand with no fixed repayment date and bears no interest. Income tax payable includes amounts owed to related parties of £1.3m (2021: £0.6m) relating to tax losses surrendered to the Company.

## 15. Borrowings

|                                                    | Note  | 2022 £'m       | 2021 £'m       |
|----------------------------------------------------|-------|----------------|----------------|
| <b>Current:</b>                                    |       |                |                |
| Bank overdrafts                                    |       | 62.8           | 25.2           |
| Current instalments due on external borrowings     | 15(a) | 192.7          | 35.7           |
| Current instalments due on internal borrowings     | 15(b) | 407.6          | 0.2            |
| Current instalments due on leases                  | 16    | 2.7            | 5.0            |
|                                                    |       | <b>665.8</b>   | <b>66.1</b>    |
| <b>Non-current:</b>                                |       |                |                |
| Non-current instalments due on external borrowings | 15(a) | 466.0          | 470.8          |
| Non-current instalments due on internal borrowings | 15(b) | 2,041.9        | 2,367.6        |
| Non-current instalments due on leases              | 16    | 58.8           | 57.2           |
|                                                    |       | <b>2,566.7</b> | <b>2,895.6</b> |

### (a) External borrowings

Bank overdrafts are repayable on demand and bear interest at an average rate of 1.27% during the year.

Loans wholly repayable within five years amount to £434.1m (2021: £216.8m).

Loans not wholly repayable within five years amount to £282.6m (2021: £289.7m) and bear interest rates in the range 0.42% to 3.22%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2022 was £25.4m (2021: loss of £8.5m) in relation to interest rate swaps with a notional principal of £350m (2021: £350m).

**(b) Internal borrowings**

Included in internal borrowings is £58.1m (2021: £0.2) owed to NWGL in respect of an overnight borrowing which incurs interest at a rate of 1.75% (2021: 1.1%).

All other internal borrowings listed below were issued by NWF and guaranteed by the Company:

| Loan type                      | Principle value<br>£'m | Maturity date | Interest rate<br>% | Balance at 31<br>March 2022<br>£'m | Balance at 31<br>March 2021<br>£'m |
|--------------------------------|------------------------|---------------|--------------------|------------------------------------|------------------------------------|
| Fixed rate Eurobond            | 350.0                  | Feb-23        | 6.875              | 349.5                              | 350.1                              |
| Fixed rate Eurobond            | 350.0                  | Apr-33        | 5.625              | 344.1                              | 347.4                              |
| Index linked Eurobond          | 150.0                  | Jul-36        | 2.033              | 240.3                              | 231.2                              |
| Index linked Eurobond          | 60.0                   | Jan-41        | 1.6274             | 95.4                               | 91.8                               |
| Index linked Eurobond          | 100.0                  | Jul-49        | 1.7118             | 158.1                              | 152.2                              |
| Index linked Eurobond          | 100.0                  | Jul-53        | 1.7484             | 158.1                              | 152.2                              |
| Fixed rate Eurobond            | 360.0                  | Jan-42        | 5.125              | 342.6                              | 345.3                              |
| Fixed rate Eurobond            | 300.0                  | Oct-26        | 1.625              | 298.8                              | 298.7                              |
| Fixed rate Eurobond            | 300.0                  | Oct-27        | 2.375              | 298.2                              | 298.0                              |
| Index linked Private Placement | 100.0                  | Oct-39        | CPI + 0.242        | 106.3                              | 100.7                              |
|                                | <b>2,170.0</b>         |               |                    | <b>2,391.4</b>                     | <b>2,367.6</b>                     |

## 16. Leases

The Company holds leases in respect of land, buildings and infrastructure assets, and to acquire plant, machinery and motor vehicles.

Land and building rent reviews are triggered by the lessor and typically take place every 3 to 5 years, at which point there may be an increase in rental payments. There are no purchase options or escalation clauses in respect of these leases and the terms of renewal are governed by Landlord and Tenant legislation. There are no restrictions imposed by these lease arrangements. There are no contingent rents, escalation clauses or material renewal or purchase options. The leases impose no restrictions in respect of dividends or raising additional debt. The obligations are as follows:

|                           | 2022 £'m    | 2021 £'m    |
|---------------------------|-------------|-------------|
| <b>Maturity analysis:</b> |             |             |
| Year 1                    | 2.7         | 5.0         |
| Year 2                    | 3.6         | 3.6         |
| Year 3                    | 3.0         | 2.9         |
| Year 4                    | 2.5         | 2.3         |
| Year 5                    | 2.4         | 1.9         |
| Onwards                   | 47.3        | 46.5        |
|                           | <b>61.5</b> | <b>62.2</b> |

## 17. Provisions

|                                                        | £'m        |
|--------------------------------------------------------|------------|
| <b>At 1 April 2021</b>                                 | <b>6.0</b> |
| Transferred to the profit and loss account in the year | (0.7)      |
| Utilised during the year                               | (1.5)      |
| <b>At 31 March 2022</b>                                | <b>3.8</b> |
| <b>Analysed as:</b>                                    |            |
| Current                                                | 0.5        |
| Non-current                                            | 3.3        |
|                                                        | <b>3.8</b> |

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

Provisions reflected in the balance sheet include outstanding pension liabilities for pensions that have been awarded on a discretionary basis, mainly to former employees of water companies which have since merged with the Company. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme, and are expected to be paid over the remaining lives, which is approximately seven years.

The balance also includes estimated liabilities arising from historical pollution incidents and disputed rent reviews. In each case the timing of settlement is uncertain as a result of backlogs in the legal process due to the pandemic. The value of the provisions for each liability has not been disclosed due to the commercially sensitive nature of these legal matters.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some other matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

## 18. Grants and Deferred Income

|                           | Capital grants and contributions<br>£'m | Proceeds from Kielder securitisation<br>£'m | Total<br>£'m |
|---------------------------|-----------------------------------------|---------------------------------------------|--------------|
| At 1 April 2021           | 429.6                                   | 92.5                                        | 522.1        |
| Additions                 | 29.0                                    | -                                           | 29.0         |
| Amortised during the year | (5.6)                                   | (7.0)                                       | (12.6)       |
| At 31 March 2022          | 453.0                                   | 85.5                                        | 538.5        |

The Kielder securitisation involved the assignment of the right to the future income stream associated with the Kielder WROA until 2034 to Reiver Finance Limited, a subsidiary company, in return for consideration of £212.1m. This capital sum is amortised to the income statement of the Company over the life of the assignment.

## 19. Financial Instruments

|                                                                                                                         | 2022 £'m    | 2021 £'m    |
|-------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| <b>Financial (assets) / liabilities that are designated and effective as hedging instruments carried at fair value:</b> |             |             |
| Interest rate swaps                                                                                                     | (0.3)       | 10.6        |
| Power forward contracts                                                                                                 | (12.4)      | -           |
| Foreign exchange contracts                                                                                              | (0.1)       | (0.2)       |
| <b>Financial liabilities carried at fair value through profit and loss:</b>                                             |             |             |
| Inflation swaps                                                                                                         | 78.4        | 42.1        |
|                                                                                                                         | <b>65.6</b> | <b>52.5</b> |

At 31 March 2022, the Company held the following interest rate swap, designated as a hedge of future interest cash flows, used to convert variable rate interest payments to a fixed rate basis:

| Notional amount | Start date      | Termination date | Fixed rate |
|-----------------|-----------------|------------------|------------|
| £150.0m         | 15 October 2015 | 15 October 2025  | 2.36%      |

At 31 March 2022, the Company held the following inflation swaps, designated as hedges of future interest cash flows, used to convert fixed rate interest payments to an index-linked basis:

| Notional amount | Start date      | Termination date | Index linked rate |
|-----------------|-----------------|------------------|-------------------|
| £150.0m         | 15 October 2015 | 15 October 2025  | (0.42%)           |
| £100.0m         | 22 June 2017    | 22 June 2027     | (1.10%)           |

At 31 March 2021, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

| Currency bought | Maturity        | Exchange rate | Transaction value<br>£'m |
|-----------------|-----------------|---------------|--------------------------|
| USD 30,870      | 12 April 2022   | 1.3897        | -                        |
| USD 15,435      | 14 April 2022   | 1.3708        | -                        |
| USD 274,250     | 19 April 2022   | 1.3211        | 0.2                      |
| USD 274,250     | 22 April 2022   | 1.3203        | 0.2                      |
| USD 1,154,155   | 29 April 2022   | 1.3735        | 0.9                      |
| USD 274,250     | 15 July 2022    | 1.3211        | 0.2                      |
| USD 307,750     | 17 October 2022 | 1.3211        | 0.2                      |
| USD 158,919     | 5 December 2022 | 1.3703        | 0.1                      |
| USD 159,875     | 3 January 2023  | 1.3211        | 0.1                      |
| USD 307,750     | 17 January 2023 | 1.3211        | 0.2                      |
| USD 15,435      | 14 April 2023   | 1.3712        | -                        |
| USD 30,870      | 14 April 2023   | 1.3900        | -                        |
| USD 307,750     | 17 April 2023   | 1.3211        | 0.2                      |
| USD 1,154,155   | 28 April 2023   | 1.3742        | 0.8                      |
| USD 307,750     | 17 July 2023    | 1.3211        | 0.3                      |
| USD 338,750     | 16 October 2023 | 1.3211        | 0.3                      |
| USD 158,919     | 5 December 2023 | 1.3703        | 0.1                      |
| USD 338,750     | 16 January 2024 | 1.3211        | 0.3                      |
| USD 338,750     | 15 April 2024   | 1.3211        | 0.3                      |
| USD 15,435      | 15 April 2024   | 1.3716        | -                        |
| USD 30,870      | 15 April 2024   | 1.3910        | 0.1                      |
| USD 338,750     | 15 July 2024    | 1.3211        | 0.3                      |
| USD 403,250     | 15 October 2024 | 1.3211        | 0.3                      |
| USD 403,250     | 15 January 2025 | 1.3211        | 0.3                      |
| USD 403,250     | 15 April 2025   | 1.3211        | 0.3                      |
| USD 403,250     | 15 July 2025    | 1.3211        | 0.3                      |
| USD 421,750     | 15 October 2025 | 1.3211        | 0.3                      |
|                 |                 |               | <b>6.3</b>               |

At 31 March 2021, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

| Currency bought | Maturity        | Exchange rate | Transaction value<br>£'m |
|-----------------|-----------------|---------------|--------------------------|
| USD 317,750     | 15 July 2021    | 1.3211        | 0.3                      |
| USD 317,750     | 15 April 2021   | 1.3211        | 0.3                      |
| USD 274,250     | 15 October 2021 | 1.3211        | 0.2                      |
| USD 159,875     | 4 January 2022  | 1.3211        | 0.1                      |
| USD 274,250     | 18 January 2022 | 1.3211        | 0.2                      |
| USD 274,250     | 19 April 2022   | 1.3211        | 0.2                      |
| USD 274,250     | 15 July 2022    | 1.3211        | 0.2                      |
| USD 307,750     | 17 October 2022 | 1.3211        | 0.2                      |
| USD 159,875     | 3 January 2023  | 1.3211        | 0.1                      |
| USD 307,750     | 17 January 2023 | 1.3211        | 0.2                      |
| USD 307,750     | 17 April 2023   | 1.3211        | 0.2                      |
| USD 307,750     | 17 July 2023    | 1.3211        | 0.2                      |
| USD 338,750     | 16 October 2023 | 1.3211        | 0.3                      |
| USD 338,750     | 16 January 2024 | 1.3211        | 0.3                      |
| USD 338,750     | 15 April 2024   | 1.3211        | 0.3                      |
| USD 338,750     | 15 July 2024    | 1.3211        | 0.3                      |
| USD 403,250     | 15 October 2024 | 1.3211        | 0.3                      |
| USD 403,250     | 15 January 2025 | 1.3211        | 0.3                      |
| USD 403,250     | 15 April 2025   | 1.3211        | 0.3                      |
| USD 403,250     | 15 July 2025    | 1.3211        | 0.3                      |
| USD 421,750     | 15 October 2025 | 1.3211        | 0.3                      |
|                 |                 |               | <b>5.1</b>               |

## 20. Share Capital

|                                                                     | 2022 £'m | 2021 £'m |
|---------------------------------------------------------------------|----------|----------|
| <b>Authorised:</b>                                                  |          |          |
| 122,650,000 Ordinary Shares of £1 each (31 March 2021: 122,650,000) | 122.7    | 122.7    |
| <b>Allotted, called-up and fully paid:</b>                          |          |          |
| 122,650,000 Ordinary Shares of £1 each (31 March 2021: 122,650,000) | 122.7    | 122.7    |

NWL is a company limited by shares.

## 21. Additional cash flow information

Analysis of net debt as at 31 March 2022:

|                           | Note | At 1 April 2021<br>£'m | Cash flow<br>£'m | Other non-cash<br>movements<br>£'m | At 31 March<br>2022<br>£'m |
|---------------------------|------|------------------------|------------------|------------------------------------|----------------------------|
| Cash and cash equivalents |      | 28.6                   | 31.4             | -                                  | 60.0                       |
| Loans receivable          | 11   | 160.9                  | (159.0)          | -                                  | 1.9                        |
| Bank overdrafts           | 15   | (25.2)                 | (37.6)           | -                                  | (62.8)                     |
| Loans payable             | 15   | (2,874.3)              | (188.9)          | (45.0)                             | (3,108.2)                  |
| Leases                    | 16   | (62.2)                 | 4.3              | (3.6)                              | (61.5)                     |
|                           |      | <b>(2,772.2)</b>       | <b>(349.8)</b>   | <b>(48.6)</b>                      | <b>(3,170.6)</b>           |

Analysis of net debt as at 31 March 2021:

|                           | Note | At 1 April 2020<br>£'m | Cash flow<br>£'m | Other non-cash<br>movements<br>£'m | At 31 March<br>2021<br>£'m |
|---------------------------|------|------------------------|------------------|------------------------------------|----------------------------|
| Cash and cash equivalents |      | 35.1                   | (6.5)            | -                                  | 28.6                       |
| Loans receivable          | 11   | 160.9                  | -                | -                                  | 160.9                      |
| Short term cash deposits  |      | 27.0                   | (27.0)           | -                                  | -                          |
| Bank overdrafts           | 15   | (30.4)                 | 5.2              | -                                  | (25.2)                     |
| Loans payable             | 15   | (2,894.3)              | 36.0             | (16.0)                             | (2,874.3)                  |
| Leases                    | 16   | (63.0)                 | 4.3              | (3.5)                              | (62.2)                     |
|                           |      | <b>(2,764.7)</b>       | <b>12.0</b>      | <b>(19.5)</b>                      | <b>(2,772.2)</b>           |

## 22. Financial commitments

### (a) Capital commitments

|                                                                                                    | 2022 £'m | 2021 £'m |
|----------------------------------------------------------------------------------------------------|----------|----------|
| Contractual commitments for the acquisition of property, plant and equipment and intangible assets | 61.0     | 73.5     |

In addition to these commitments, the Company has longer term expenditure plans, including investment to deliver business outcomes, maintain the health of the asset base and provide for new demand and growth in the regulated part of the business.

### (b) Foreign currency commitments

At 31 March 2022 the Company held forward foreign exchange contracts of £6.3m (2021: £5.1m) for the purpose of hedging the foreign currency risk of committed future purchases.

### (c) Power purchase agreement

In 2018/19 the Company signed a power purchase agreement with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of the Company's energy demand. The agreement is for a 10 year term at a fixed commodity price, increasing annually by CPI. The Company has concluded that the 'own use exception' applies, meaning that the power purchase agreement contract is not within the scope of IFRS 9 and therefore no further disclosures are necessary.

## 23. Contingent liability

Five connected claims have been issued against water and sewerage companies, including NWL, by personal search companies (PSCs) in connection with fees paid for water and drainage reports obtained in relation to property purchases. The PSCs claim that the information should have been provided free of charge, pursuant to the Environmental Information Regulations 2004. The combined value of claims against the companies in the sector is stated to exceed £100m but, in common with the other defendants, NWL denies all liability and is defending the proceedings.

In November 2021, the Company was contacted by the EA and Ofwat in relation to measures to ensure permitted 'Flow to Full Treatment' requirements are being achieved at our wastewater treatment works. In March 2022, Ofwat issued a Section 203 notice requires further information to be provided. These investigations are ongoing and it is uncertain as to whether or not any formal action will be taken which could result in a financial liability.

## 24. Pensions

During the year, NWL participated in the Group defined benefit pension scheme, NWPS, which provided benefits to 949 active members at 31 March 2022 (2021: 1,052). The assets of the NWPS are held separately from those of the Group in independently administered funds. After the balance sheet date, following a consultation process with members, the Scheme was closed to future accrual of benefits with effect from 31 May 2022.

The most recent actuarial valuation of the NWPS was at 31 December 2019. At that date, the value of assets amounted to £1,066.7m and the liabilities were £1,291.9m, resulting in a deficit of £225.2m and a funding level of 82.6%.

Under the schedule of contributions, the employers' contribution was set at £13m per annum, increasing annually by RPI. Employee contribution rates remained at between 6% and 8% of pensionable salary, dependent upon which section of the Scheme the employee is a member of. The Company operates a salary sacrifice scheme under which members can elect for the Company to pay employee contributions on their behalf in place of salary. The Company also committed to paying the employer NI savings resulting from the salary sacrifice arrangement as additional employer contributions to the Scheme.

In addition, the employers will make deficit reduction payments of £23.8m with effect from 1 April 2022 increasing annually by RPI thereafter. The deficit reduction payments have been set with the objective of removing the deficit by 31 August 2027.

Employers' contributions (including associated company contributions) of £36.4m were paid in the year to 31 March 2022, of which £20.0m related to deficit reduction. For the year to 31 March 2023, reflecting the closure of the scheme to future accrual from 31 May 2022, employers contributions are projected to be £28.8m, including £23.8m in respect of deficit reduction.

Since 1 June 2019, the Company has participated in the LifeSight master trust, a defined contribution pension arrangement for non-associated employers. Prior to 1 June 2019, the Company contributed to the defined contribution section of the NWPS.

Defined contribution members and assets were transferred from the NWPS to LifeSight during 2019. There were 2,101 active members in defined contribution pension arrangements at 31 March 2022 (2021: 2,000), with members choosing to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. The contributions paid to defined contribution pension arrangements by the Company in the year totalled £7.6m (2021: £7.2m).

Following the closure of the defined benefit scheme, the defined contribution scheme has been revised with the employee contribution rates of 3%, 4% or 5% being matched by employer contribution rates of 6%, 8% or 10% respectively. In addition, as a transitional arrangement until 31 March 2025, former members of the NWPS who contribute 5% will receive an employer contribution of 12%. With effect from 1 April 2026, the highest rate of employer contribution will be 11%.

The additional disclosures regarding the defined benefit scheme as required under FRS 101 and the relevant impact on the Financial Statements are set out below. A qualified actuary, using revised assumptions that are consistent with the requirements of FRS 101 has updated the actuarial valuation described above as at 31 March 2022. Investments have been valued, for this purpose, at fair value.

| FRS 101 actuarial assumptions:                          | 2022  | 2021  |
|---------------------------------------------------------|-------|-------|
| Discount rate                                           | 2.80% | 2.15% |
| Pay increases <sup>1</sup>                              | 2.50% | 2.50% |
| Price inflation (RPI)                                   | 3.45% | 3.20% |
| Price inflation (CPI)                                   | 3.05% | 2.70% |
| Pension increases linked to RPI                         | 3.45% | 3.20% |
| Pension increases linked to CPI                         | 3.05% | 2.70% |
| Mortality assumptions <sup>2</sup>                      |       |       |
| - Life expectancy for a member aged 65 - female (years) | 24.1  | 24.4  |
| - Life expectancy for a member aged 65 - male (years)   | 21.6  | 22.0  |

<sup>1</sup> including promotional salary scale

<sup>2</sup> scheme specific bespoke 'VitaCurves' which reflect the characteristics of the Scheme membership

The fair value of the assets in the NWPS and the present value of the liabilities in the Scheme are shown below:

|                                     | 2022 £'m         | 2021 £'m         |
|-------------------------------------|------------------|------------------|
| Equities                            | 303.5            | 278.4            |
| Corporate bonds                     | 71.3             | 76.8             |
| Government bonds                    | 454.5            | 437.8            |
| Property related funds              | 47.9             | 45.4             |
| Cash                                | 11.9             | 12.3             |
| Other                               | 272.5            | 256.6            |
| <b>Total fair value of assets</b>   | <b>1,161.6</b>   | <b>1,107.3</b>   |
| <b>Present value of liabilities</b> | <b>(1,144.1)</b> | <b>(1,234.9)</b> |
| <b>Surplus / (deficit)</b>          | <b>17.5</b>      | <b>(127.6)</b>   |

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

| Recognised in the income statement:                                  | 2022 £'m    | 2021 £'m    |
|----------------------------------------------------------------------|-------------|-------------|
| Current service cost                                                 | 14.8        | 15.9        |
| Administration cost                                                  | 1.4         | 1.6         |
| Past service cost                                                    | 0.5         | 1.2         |
| <b>Recognised in operating costs in arriving at operating profit</b> | <b>16.7</b> | <b>18.7</b> |

|                                       | 2022 £'m   | 2021 £'m   |
|---------------------------------------|------------|------------|
| Net interest cost on plan obligations | 2.4        | 1.7        |
| <b>Recognised in finance costs</b>    | <b>2.4</b> | <b>1.7</b> |

| Recognised in the statement of comprehensive income:           | 2022 £'m     | 2021 £'m      |
|----------------------------------------------------------------|--------------|---------------|
|                                                                | (0.3)        | -             |
| Changes in financial assumptions                               | 94.9         | (152.7)       |
| Return on assets (excluding amounts included in finance costs) | 41.4         | 85.1          |
| Other actuarial (losses) / gains                               | (8.2)        | 13.2          |
| <b>Net actuarial gains / (losses)</b>                          | <b>127.8</b> | <b>(54.4)</b> |
| Contributions made by associated company                       | 0.1          | 0.2           |
| <b>Net actuarial gains / (losses)</b>                          | <b>127.9</b> | <b>(54.2)</b> |

Changes in the present value of the defined pension obligations are analysed as follows:

|                                    | 2022 £'m       | 2021 £'m       |
|------------------------------------|----------------|----------------|
| <b>At start of period</b>          | <b>1,234.9</b> | <b>1,104.7</b> |
| Current service cost               | 14.8           | 15.9           |
| Administration cost                | 1.4            | 1.6            |
| Past service cost                  | 0.5            | 1.2            |
| Interest cost                      | 26.1           | 25.4           |
| Contributions by plan participants | 0.1            | 0.1            |
| Benefits paid                      | (47.3)         | (53.5)         |
| <b>Remeasurement:</b>              |                |                |
| Changes in demographic assumptions | 0.3            | -              |
| Changes in financial assumptions   | (94.9)         | 152.7          |
| Other actuarial gains              | 8.2            | (13.2)         |
| <b>At end of period</b>            | <b>1,144.1</b> | <b>1,234.9</b> |

Changes in the fair value of plan assets are analysed as follows:

|                                                                | 2022 £'m       | 2021 £'m       |
|----------------------------------------------------------------|----------------|----------------|
| <b>At start of period</b>                                      | <b>1,107.3</b> | <b>1,020.6</b> |
| Interest income on scheme assets                               | 23.7           | 23.7           |
| Contributions by employers (including associated company)      | 36.4           | 31.3           |
| Contributions by plan participants                             | 0.1            | 0.1            |
| Benefits paid                                                  | (47.3)         | (53.5)         |
| Return on assets (excluding amounts included in finance costs) | 41.4           | 85.1           |
| <b>At end of period</b>                                        | <b>1,161.6</b> | <b>1,107.3</b> |

### **Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme**

The Scheme is a registered defined benefit scheme subject to the UK regulatory framework for pensions, including the scheme specific funding requirements. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and it has a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

### **Risks to which the Scheme exposes the Company**

The nature of the Scheme exposes the Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience.

The most financially significant risks are likely to be:

- Members living for longer than expected;
- Higher than expected actual inflation and salary increase experience;
- Lower than expected investment returns; and
- The risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets.

### **Asset-liability matching strategies used by the Scheme or the Company**

The Trustee's current investment strategy, having consulted with the Company, is to invest the majority of the Scheme's assets in a mix of equities and bonds, in order to strike a balance between:

- Maximising the returns on the Scheme's assets; and
- Minimising the risks associated with lower than expected returns on the Scheme's assets.

The Trustee is required to regularly review its investment strategy in light of the term and nature of the Scheme's liabilities.

### **Sensitivity to key assumptions**

The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for FRS 101 reporting are the responsibility of the Directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

There has been no change in the methodology used to assess the impact of changes in assumptions. Approximate adjustments were made to the defined benefit obligations reflecting the mean term of the liability.

Impact of changes in assumptions compared with actuarial assumption for the NWPS:

**Actuarial value of liabilities on 31 March 2022:**

|                                    | £'m     |
|------------------------------------|---------|
| 0.25% reduction in discount rate   | 1,195.7 |
| 0.25% increase in inflation        | 1,175.9 |
| 1 year increase in life expectancy | 1,190.2 |

**Maturity profile of the defined benefit obligation for the year ended 31 March 2022:**

|                  | Number of members | Liability split (%) | Duration (years) |
|------------------|-------------------|---------------------|------------------|
| Active members   | 949               | 37                  | 25               |
| Deferred members | 1,072             | 15                  | 22               |
| Pensioners       | 3,158             | 48                  | 12               |

## 25. Related party disclosures

The Company is a wholly owned subsidiary of NWGL, whose publicly available consolidated Financial Statements include the Company. Accordingly, the Company is exempt under the terms of FRS 101 from disclosing transactions with other members of the Group headed by NWGL.

Transactions with related parties outside of the NWGL group comprised purchases of £9.4m (2021: £11.5m) and sales of £0.1m (2021: £112.2m) and tax losses claimed with a value of £0.7m (2021: £0.6m). As at 31 March 2022 £1.3m (2021: £5.5m) is owed from these companies in respect of sales or rebates, and £nil (2021: £nil) is owed to these companies in respect of purchases.

The Company acquires vehicles from Vehicle Lease and Service Limited, an associated company, on a lease basis. During the year, new leases of £4.0m (2021: £4.5m) were entered into and capital repayments of £4.0m (2021: £3.9m) were made. The year end lease creditor was £12.0m (2021: £12.2m) and year end trade creditor was £1.3m (2021: £1.1m).

The companies with which NWL had transactions during the year, included in the above balances, were as follows:

- Vehicle Lease and Service Limited; and
- Wave Ltd.

## 26. Ultimate parent undertaking and controlling party

NWGL is the Company's immediate parent undertaking and, in the Directors' opinion, the Company's ultimate parent undertaking and controlling party. NWGL is incorporated in England and Wales.

The parent undertaking of both the largest and smallest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member, is NWGL. Copies of NWGL's group Financial Statements will be available in due course from its registered office at Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ.

## 27. Prior year adjustment

The Company has reviewed its Intangible Assets following publication of IFRIC guidance to IAS 38 Intangible Assets regarding 'Customer's Right to Receive Access to the Supplier's Software Hosted on the Cloud' and 'Configuration or Customisation Costs in a Cloud Computing Arrangement'.

This has resulted in costs previously capitalised and classified as intangible assets, along with associated amortisation and capitalised interest, being expensed to the statement of comprehensive income.

This change has been applied retrospectively and comparative information has been restated in the statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement. The impact of these adjustments is shown in the table below:

|                                                                 |      |             |               | Restated    |
|-----------------------------------------------------------------|------|-------------|---------------|-------------|
|                                                                 | Note | 2021<br>£'m | Change<br>£'m | 2021<br>£'m |
| <b>Statement of comprehensive income:</b>                       |      |             |               |             |
| <b>Operating costs</b>                                          |      |             |               |             |
| Other operating costs                                           | 3    | (268.5)     | (6.4)         | (274.9)     |
| Amortisation of intangible assets                               | 3    | (11.8)      | 2.5           | (9.3)       |
| <b>Finance costs</b>                                            |      |             |               |             |
| Amounts capitalised on qualifying assets                        | 6    | 10.8        | (0.9)         | 9.9         |
| <b>Taxation</b>                                                 |      | (13.9)      | 0.9           | (13.0)      |
| <b>Balance sheet:</b>                                           |      |             |               |             |
| <b>Non-current assets</b>                                       |      |             |               |             |
| Intangible assets                                               |      |             |               |             |
| Cost                                                            |      | 164.0       | (38.3)        | 125.7       |
| Accumulated amortisation                                        |      | (73.5)      | 3.2           | (70.3)      |
| Carrying value                                                  | 9    | 90.5        | (35.1)        | 55.4        |
| <b>Non current liabilities</b>                                  |      |             |               |             |
| Deferred tax liabilities                                        |      | (459.1)     | 6.7           | (452.4)     |
| <b>Capital and reserves</b>                                     |      |             |               |             |
| Profit and loss account                                         |      | 789.6       | (28.4)        | 761.2       |
| <b>Cash flow statement:</b>                                     |      |             |               |             |
| <b>Net cash flows from operating activities</b>                 |      |             |               |             |
| Profit before interest                                          |      | 195.0       | (3.9)         | 191.1       |
| Depreciation and impairment losses                              |      | 147.8       | (2.5)         | 145.3       |
| Interest paid                                                   |      | (96.0)      | (0.9)         | (96.9)      |
| <b>Investing activities</b>                                     |      |             |               |             |
| Purchase of property, plant and equipment and intangible assets |      | (231.5)     | 7.3           | (224.2)     |

The impact of the above adjustment on retained earnings as at 1 April 2020 was a debit of £24.5m.

# Independent Auditor's report to the members of Northumbrian Water Limited

## Report on the audit of the Financial Statements

### 1. Opinion

In our opinion the financial statements of Northumbrian Water Limited (the 'Company'):

- Give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its loss for the year then ended;
- Have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- The income statement;
- The statement of comprehensive income;
- The balance sheet;
- The statement of changes in equity;
- The cash flow statement; and
- The related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other 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.

### 3. Summary of our audit approach

|                                            |                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Key audit matters</b>                   | <p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Provision for bad and doubtful debts.</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>⚠ Newly identified</li> <li>⬆ Increased level of risk</li> <li>↔ Similar level of risk</li> <li>⬇ Decreased level of risk</li> </ul> |
| <b>Materiality</b>                         | <p>The materiality that we used in the current year was £11.4m which was determined based on 3.5% of the Company's Earnings Before Interest, Tax and Amortisation (EBITDA).</p>                                                                                                                                                                                                                                         |
| <b>Scoping</b>                             | <p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.</p>                                                                                                                                                                                                                                                                                                 |
| <b>Significant changes in our approach</b> | <p>There have been no changes to our approach from the prior year's.</p>                                                                                                                                                                                                                                                                                                                                                |

### 4. Conclusions relating to going concern

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

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

- Assessing financing facilities including availability and access at the balance sheet date, the nature of facilities, repayment and expiration terms and associated covenants and ability to raise new debt as will be required in the next 12 months;
- Assessing management's ability to raise funds to finance the £350m bond falling due in February 2023;
- Evaluating management's going concern assessment and the linkage to the business model and medium-term risks including effects of changes in water availability and usage and potential changes in regulation;
- Challenging assumptions used in the forecasts, including the effects of AMP 7 from the Ofwat final determination and the subsequent CMA final decision;
- Evaluating the amount of headroom in the forecasts focusing on cash and covenants associated with financing activities;
- Performing sensitivity analysis to assess how the headroom within the forecasts is affected by variations within the assumptions; and
- Assessing the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts, and assessing historical accuracy of forecasts prepared by management.

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

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

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter which was identified in the prior year which is not identified as a key audit matter in the current year is:

- Classification of capital and operating expenditure.

We have assessed the above matter as part of our current year audit and have concluded that this is no longer a key audit matter. This is due to low level of historic errors coupled with the fact that the regulator, OFWAT, does not focus on capital expenditure as a key measure for regulatory compliance but rather on total expenditure and hence is not a significant area of focus.

### 5.1 Provision for bad and doubtful debts ⓘ

#### Key audit matter description

As stated in the critical accounting judgements and key sources of estimation uncertainty in note 1(q) of the Financial Statements, the value of the bad debt provision is determined by applying a range of percentages to debt of different ages with higher percentages applied to different categories of debt depending on an assessment of the level of risk of default. There is a significant customer base, and regulations do not allow the Company to interrupt water supply to domestic customers. The valuation of the bad debt provision is sensitive to the specific percentages applied, which are judgemental.

At 31 March 2022 the bad debt provision was £94.2m (2020: £111.0m) and is therefore a significant balance.

The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. The provision for bad and doubtful debts is complex in nature and subject to high amount of management judgement and hence we have considered this to be a key audit matter.

Due to the complexity in calculating the provision, in conjunction with the additional considerations for the cost-of-living crisis, we deemed this as a potential fraud risk for our audit.

Further details are included within notes 1(q) and 13 to the Financial Statements.

#### How the scope of our audit responded to the key audit matter

- We obtained an understanding of management's relevant controls surrounding the estimate;
- We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data;
- We tested a sample of bad debt write offs occurring throughout the year as well as instances where the provision has been utilised;
- We tested a sample of bills included within the bad debt provision in order to challenge the accuracy of the aged debtor balance and the ageing categories applied;
- We assessed the reasonableness of any judgements made in respect of likely future events;
- We evaluated disclosures made in the financial statements;
- We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data. We also tested any bad debt write offs and utilisation of the provision during the year and tested a sample of bills included within the bad debt provision to confirm accuracy of the aged debtor balance and the ageing categories applied;
- We performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rate; and
- We assessed the receivables ageing report to help assess whether overdue debtors are appropriately provided for.

#### Key observations

The results of our procedures were satisfactory. We have concluded that management's judgements are appropriate and that the provision for bad and doubtful debts was appropriately stated.

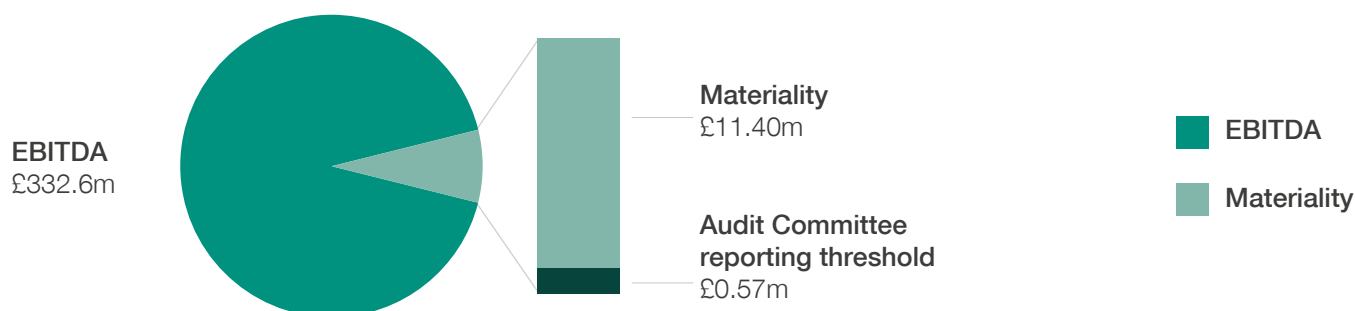
## 6. Our application of materiality

### 6.1 Materiality

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

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

|                                            |                                                                                                                                                      |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Materiality</b>                         | £11.4m (2021: £11.8m)                                                                                                                                |
| <b>Basis for determining materiality</b>   | The materiality is based on 3.5% of the Company's Earnings Before Interest, Tax and Amortisation (EBITDA) (2021: 3.5% of EBITDA).                    |
| <b>Rationale for the benchmark applied</b> | EBITDA was selected as the appropriate measure on which to determine materiality as it is considered an area of focus for the users of the accounts. |



### 6.2 Performance materiality

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

- The quality of the control environment;
- The low turnover of management or key accounting personnel; and
- Our cumulative knowledge of the Company.

### 6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £570,000 (2021: £590,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. There have not been any changes in our scoping compared to the prior year. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### 7.2 Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Company's IT systems. As planned and reported to the Audit Committee, we did not adopt a controls reliance approach in the current and prior years.

### 7.3. Our consideration of climate-related risks

As part of the audit, we made enquiries of management to understand the process they have adopted to assess the potential impact of climate change on the financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Company to evaluate management's assessment. We particularly considered how climate change risks could impact the assumptions such as capital expenditure. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with the financial statements and our knowledge from our audit.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## 10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

### 11.1 Identifying and assessing potential risks related to irregularities

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

- The nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- The Company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board in the March 2022 meeting;
- Results of our enquiries of management, internal audit, other individuals included in the financial reporting process and the audit committee about their own identification and assessment of the risks of irregularities;
- Any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- The matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Provision for bad and doubtful debt, and revenue recognition relating to the valuation of unbilled revenue accrual. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, OFWAT Pricing and customer service requirements, Health and Safety regulations and the Employment Act.

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

### 11.2 Audit response to risks identified

As a result of performing the above, we identified the classification of capital and operating expenditure and the provision for bad and doubtful debt as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the audit committee and 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, reviewing internal audit reports and reviewing correspondence with any relevant regulatory authorities; and
- In addressing the risk of fraud in revenue recognition, we have performed the following procedures:
  - Obtained an understanding of management's relevant controls over the unbilled revenue accrual;
  - Performed testing of the accrued revenue calculation and assessed the appropriateness of accounting estimates made by management;
  - Challenged management's retrospective review on the March 2021 balance;
  - Assessed the accrued revenue balance for any potential recoverability issues by tracing a sample to subsequent bill and cash payment; and
  - Performed substantive analytical procedures on the year-end balance by forming an expectation compared to the prior year.
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

#### 13.1 Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

#### 14. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



David Johnson FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds  
United Kingdom  
15 July 2022

**NORTHUMBRIAN**  
**WATER** *living water*

**ESSEX & SUFFOLK**  
**WATER** *living water*

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Northumbrian Water Limited (registered in England and Wales with Company No. 02366703) trades and operates as 'Northumbrian Water' in the North East of England and as 'Essex and Suffolk' in the South East of England.