



# Bringing water to life –



supporting the lives of people and the  
places they love for generations to come

Annual Performance Report and Regulatory Reporting 2022  
Version 2 – January 2023

## Welcome to South West Water

# Bringing water to life – supporting the lives of people and the places they love for generations to come.

Innovation, new technologies and the pioneering of a holistic approach to water and wastewater management are delivering service improvements and long-term value.



— Isles of Scilly

### OUR APPROACH TO REPORTING

This Annual Performance Report and Regulatory Report provides a summary of our performance against our regulatory outcomes and performance commitments in this the second year of the 2020-2025 regulatory reporting period.

These outcomes and commitments were agreed as part of our business plan. We were the only company to be granted fast track status by the regulator, Ofwat, for the second successive occasion.

The outcomes and commitments themselves were developed following our most extensive customer and stakeholder engagement exercise to date.

### KEY

- Major Water Treatment Works
- Major Wastewater Treatment Works
- Bathing waters
- Shellfish waters

# Inside this report

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### Key stories of the year



#### WaterFit launch

Our plan for healthy rivers and seas launched in April 2022

**WaterFit** pages 56 to 57



#### Green Recovery

Our plan to deliver on improving public health, protecting the environment and addressing climate change

**Green Recovery Appendix**  
[southwestwater.co.uk/report2022](https://southwestwater.co.uk/report2022)

## 14/ Operational performance

We have provided summaries of operational performance against our eight outcomes in the sections of the report below. A two page summary of our performance is on pages 12 and 13.

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### HOW TO USE THIS REPORT

Throughout this report we make reference to different resources both online and within the document. The following key reflects the symbolism of content throughout:

- External link**  
In the interactive PDF these links are clickable
- Page reference**  
Pages where you can find more information on a related subject

Find out more about South West Water:  
[www.southwestwater.co.uk](https://www.southwestwater.co.uk)



## Our operations at a glance

# Purpose led business, trusted to deliver

We all know that water companies have a vital role today and every day, providing customers with safe and clean drinking water, and protecting our region's rivers and coastal waters, and recycling waste water to the highest standard.

We have set stretching performance commitments against our outcomes which are subject to significant Board, customer and other stakeholder scrutiny. Progress against these commitments has been summarised in each section of this report.



## 18,490km

### Drinking water pipelines

Total drinking water pipeline across our operations



## 42

### Drinking water treatment works

Total drinking water treatment works across our operations (including eight treatment works on the Isles of Scilly, which we became licensed to serve on 1 April 2020)

## 23

### Reservoirs

Total reservoirs across our operations



## 653

### Wastewater treatment works

Across our South West Water operations

## 19,197km

### Wastewater network

Total wastewater network across South West Water



## c. 2.3m

### Residents

Residents utilising our water and wastewater services (South West Water: 1.8m and Bournemouth Water: 0.5m)

## 83%

### Customer satisfaction

Overall satisfaction of services received on the Priority Services Register (PSR)



OUR OPERATIONS



**South West Water**

We provide water and wastewater services to South West Water customers in the Isles of Scilly, Cornwall, Devon and parts of Dorset and Somerset.



**Bournemouth Water**

We provide water services to Bournemouth Water customers in parts of Dorset, Hampshire and Wiltshire.

DRIVEN BY OUR VALUES



Trusted



Responsible



Collaborative



Progressive

Our values page 76



**93%**

**Customer bills**

Customers who find their water bills affordable



**53**

**INNS Site Guardians**

Established 53 INNS Site Guardians, who have received training at 31 lakes



**c. 2,000**

**Employees**

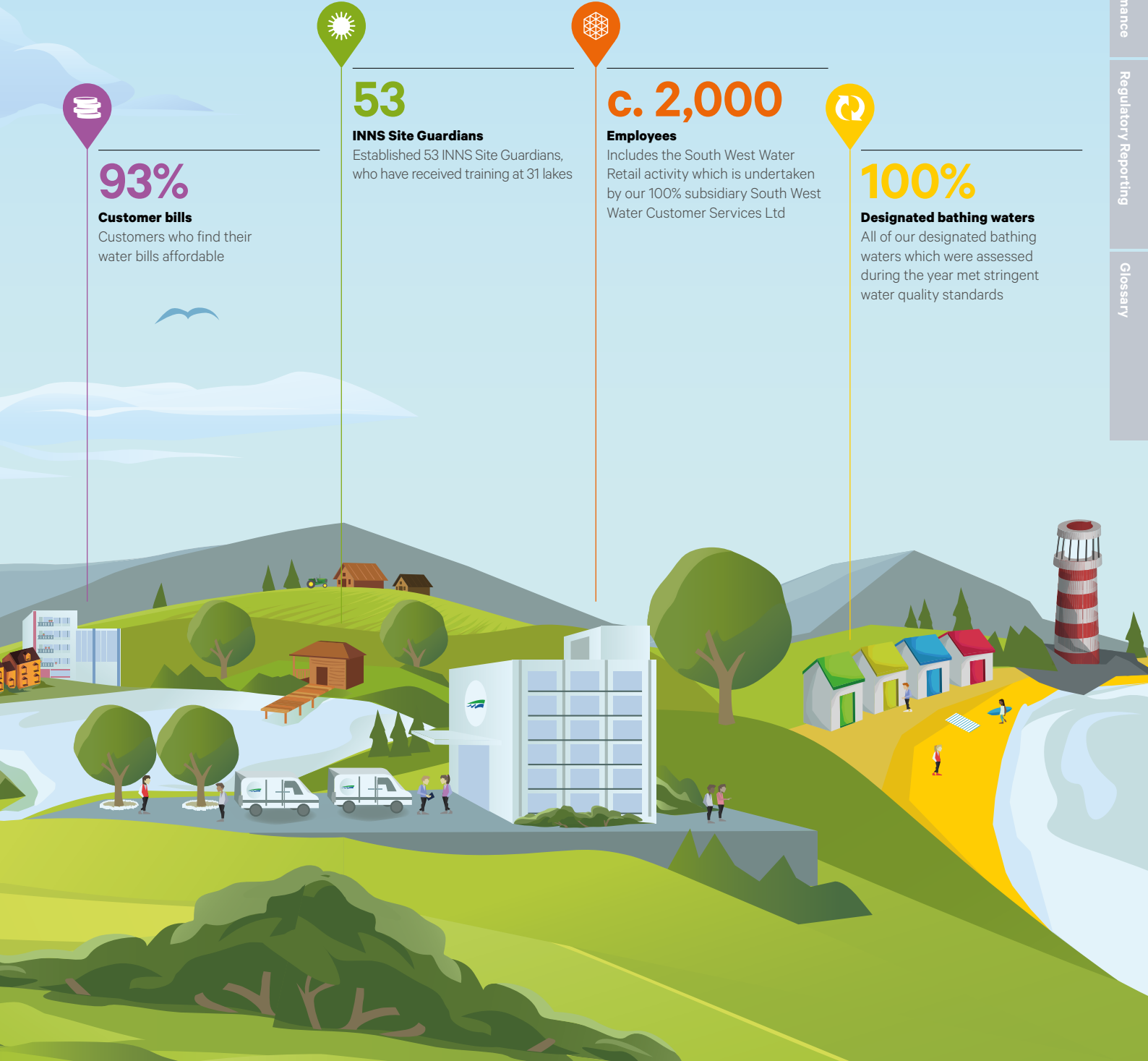
Includes the South West Water Retail activity which is undertaken by our 100% subsidiary South West Water Customer Services Ltd



**100%**

**Designated bathing waters**

All of our designated bathing waters which were assessed during the year met stringent water quality standards



## Foreword

### Focused on delivering for our customers and communities



South West Water is intent on doing what's right.

Reflecting on the year, I have been heartened that our purpose and values have continued to guide us and everyone who works at SWW, underpinning everything we do. This, together with our pioneering spirit, has led us to innovate in a year of challenge, to deliver for our customers and our communities. Whether it's the clean water that comes from the tap, the jobs we create, the communities we support, or the green and blue places that people love, our purpose has been our north star throughout.

Externally, it has been a difficult year dominated by the global conflict in Ukraine and the pandemic, which have continued to create uncertainty for many. With rising inflation and energy prices, the cost of living crisis has been at the centre of many of our customers' worries, and we have responded, announcing in February that, on average, customer bills would reduce to lower than they were ten years ago.

#### Responding to environmental concerns

The world is rapidly changing, and with that, so is the responsibility of businesses to do what's right for our environment. Understandably, the bar is getting higher, expectations on water companies have never been greater, and public sentiment is unrelenting, and rightly so.

We have welcomed the focus, as ultimately we all want the same thing. Whilst accepting that change of this magnitude and scale will take time, SWW is responding with our largest environmental programme in 15 years, and a 25-year partnership with the Centre for Resilience Environment, Water and Waste (CREWW) – a collaboration with Exeter University designed to solve some of the most pressing global environmental challenges.

Our environmental performance was measured by the Environment Agency's (EA's) Environmental Performance Assessment (EPA) for 2021. I need to acknowledge we are not where we need to be, and I am deeply disappointed in the EA's EPA 1-star rating for 2021.

I fully recognise that the EPA is an important way for measuring environmental performance across the sector, and I remain committed to making improvements and reach the highest level of performance in 2024.

From our broader set of environmental measures, c.80% are on track, and in 2021/22, we achieved a significant milestone in 100% of our designated coastal bathing waters achieving excellent, good, or sufficient status during the bathing water season, in line with stretching quality standards.

We also know that in the South West, our services regularly flex to accommodate a population of c.2.5m, rising to 10m as visitors flock to our region. Everywhere you look, we are surrounded by water, be it coastal, rivers, reservoirs, lakes or ponds. With our 860 miles of coastline, abundance of green spaces, it requires significant focus and investment to protect it, and our system regularly now has to cope with around 25% more wastewater and rainwater than it did in the 1980s.

“

It's clear we need to go further and faster, in protecting the environment and restoring customer and public trust. In response, we have launched WaterFit – our plan for healthy rivers and seas.”

## Investment

OUR LARGEST ENVIRONMENTAL INVESTMENT PROGRAMME IN 15 YEARS

## 100%

DESIGNATED BATHING WATERS ACHIEVED QUALITY STANDARDS

## Reduction

WE'VE ANNOUNCED AVERAGE BILLS FOR 2022/23 WILL FALL

## c.£82m

INVESTMENT TO 2025 IN OUR GREEN RECOVERY INITIATIVE

However, as we continue to deploy technology and learn more from our monitors, we discover more about the limitations of the Victorian sewage system, and the use of storm overflows. It's clear we need to go further and faster in protecting the environment and restoring customer and public trust. In response, we have launched WaterFit – our plan for healthy rivers and seas. WaterFit has six aspects, each with measurable commitments, including significant reductions in spills from storm overflows, maintaining bathing water quality standards all year round and reducing our impact on rivers.

In December, we published our Climate Adaptation Report, identifying over 60 risks around climate change, what that might mean for the services we deliver to customers and communities, and mitigating actions. In another first for our region, we have developed our draft Drainage and Waste Water plan, working with stakeholders, NGOs and regulators, setting out how we plan to evolve our water recycling system into one that future generations can be proud of. In co-creating the 25-year plan for the South West, we also aim to unite communities and stakeholders to work together to address the challenges we face for a rapidly changing climate, population growth and increasing tourism.

Last year, we launched our plans to achieve Net Zero by 2030, setting out plans to transform how we produce and reduce energy. Our £82m investment to 2025 for the Green Recovery is well underway, focused on initiatives to improve the environment, deliver for customers and create new jobs. Our Pollution Incident Reduction Plan has helped to achieve our lowest number of pollution incidents for 10 years. However, we accept that there is more to do as targets and expectations rise.

The Board continues to focus significant attention on this, working with our regulators, communities and customers to drive a step change in performance. What we do matters and we are privileged to be in a position to respond.

### Listening and reflecting

Over the course of the year, we have prioritised listening to, and reflecting on the views of others to ensure we are focused on the right things, as well as meeting MPs, regulators, and other stakeholders.

In particular, we've been listening to the views of our customers in our public meetings, as part of WaterShare+, hearing about the things that matter most, whether those are concerns about bills, community investments, thoughts on the use of storm overflows or executive remuneration. With quarterly public meetings, where customers can put questions directly to the Executive, as well as customer research events and a customer Annual General Meeting (AGM), WaterShare+ is evolving into a powerful tool in which to engage, discuss and debate these crucial matters.

The Panel also holds a number of specific meetings with the executive team and, in June 2021, as well as reviewing annual performance, reviewed South West Water's approach to Board leadership and transparency, executive remuneration and dividend policy. It means that customers as shareholders can vote on all important resolutions, from the appointment of the Board, to ensuring that the strategic direction of the Group and the Company's purpose, culture and values are aligned appropriately.

**“**  
**We are on a positive trajectory, going further and faster, delivering the step change demanded for the environment, for the South West, and for generations to come. We won't stop!”**

### Quality first

Our customers consistently identify the provision of a clean, safe and reliable drinking water supply to be their top priority for South West Water. Our continued investment includes major upgrades to two of our largest Water Treatment Works: Alderney and Knapp Mill in the Bournemouth Water area. They will utilise the state-of-art technology first utilised in our new Mayflower Treatment Works in Plymouth, and significantly reduce water quality risks. Underpinning our commitment to drinking water quality is our drinking water transformation programme, focused on delivering consistent quality standards across all of our areas.

### Delivering more for customers

We have had much to deliver for our customers and communities through a period that has seen population swings and increased demand, exacerbated by the pandemic.

As well as our focus on drinking water quality and environmental improvements, South West Water is delivering robust performance in leakage, supply interruptions, unplanned outages, water resilience, mains repairs, priority services and per capita consumption – all things that matter to customers. We are on track or ahead with delivery of c.80% of our business plan commitments for the year, but we know we can do more, and are focused on doing so.

In February 2022, we announced that average bills for customers would reduce at a time when many household bills are rising. Supporting the Board's commitment to eliminate water poverty, we have increased the number of customers on our social tariffs, unlocking almost £18 million of affordability support. We are also ahead of targets to ensure we achieve none of our customers experiencing water poverty by 2025.

### Talented people delivering for customers and communities

We couldn't achieve anything without the pioneering spirit of our people. Our c.2,000 colleagues see opportunities when others see obstacles, and show extraordinary care for customers, communities and each other. For the second year running, as part of the Pennon Group, we were voted by colleagues as a Great Place to Work, and once again, utility peers voted us Britain's Most Admired Utility.

We believe that everyone who works for and with South West Water, should go home safe, every day. With a refreshed focus on HomeSafe, our health and safety strategy, we achieved our best ever year by having the fewest number of lost time injuries. Simply put, it meant fewer employees got hurt on our watch. We also stepped up our support for wellbeing. We became members of the InsideOut Charter, encouraged leaders and colleagues in 'Time to Talk' sessions to be more open about their own experiences of mental health, and launched a comprehensive package of wellbeing support for all employees and their families.

In delivering on our societal commitments and continuing our investment in talent, we are undertaking our most extensive emerging talent recruitment ever. We're ahead of schedule in significantly expanding our apprenticeship programme by 2025, and for the first time, we welcomed our Class of '21 – the first phase of our ongoing graduate programme, our leaders of the future.

Over the past 12 months, we have also made significant progress in creating an inclusive culture where everyone counts, bringing together a greater mix of minds, whether through thought, gender, ethnicity or social mobility. As part of the Pennon Group, ranking 10th in the FTSE 250 Women Leaders Review, we were also recognised as an employer of choice in Great Places to Work 'Women at Work 2021'. Determined to show our support and through our participation in the Social Mobility Pledge, we also welcomed our first intake of Ukrainian citizens, who have fled their country under the most devastating circumstances.

### Outlook

As we look towards our next price review activity, we are focused on continuing to deliver everything we've promised to customers and communities with our existing plans, and ensuring we are on a positive trajectory, going further and faster, delivering the step change demanded for the environment, for the South West, and for generations to come. We won't stop!

# Business model and strategy

## What we do



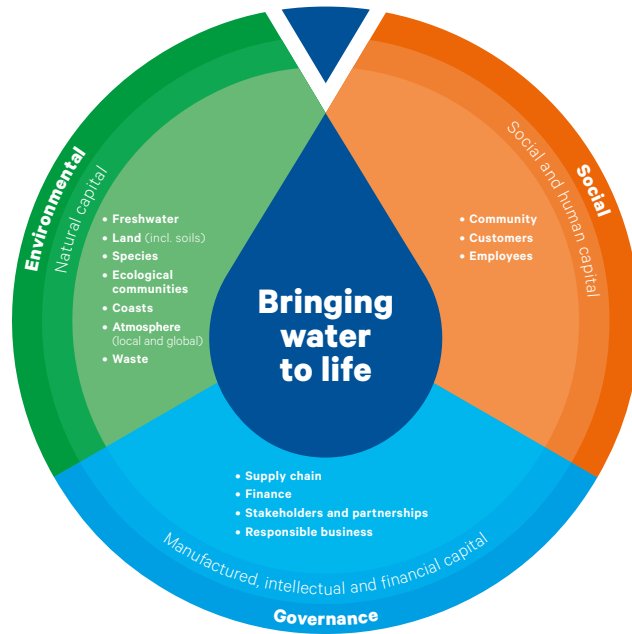
### Water

We provide water and wastewater services to our communities in the most efficient and sustainable way possible.

#### More information

[Our operations at a glance](#) pages 00 and 01

## Our resources and relationships



### ENVIRONMENT

- Waste
- Coasts
- Atmosphere (local and global)
- Freshwater
- Land (incl. soils)
- Ecological communities
- Species

### SOCIAL

- Community
- Customers
- People

### GOVERNANCE

- Supply chain
- Finance
- Stakeholders and partnerships
- Responsible business

#### More information

[ESG strategy](#) pages 85 and 86 of the Pennon Annual Report

## For the benefit of our stakeholders



### Customers

Our high-quality services support households and businesses in the regions we serve.



### Shareholders and investors

Our strong business model ensures shareholders and investors get a fair return.



### Regulators and stakeholders

Our engagement with regulators and key stakeholders ensures transparency in our business approach.



### People

Our employees are highly valued and are integral to our success. Their health and safety is paramount.



### Suppliers and contractors

The relationships we have with our suppliers and contractors are fair and deliver many regional economic benefits.

[Read more on pages 10 and 11](#)



The strengths we rely on

Our Board Pledges to 2025

Our outcomes and other performance

**The best people**

The talent, commitment and hard work of our people is the foundation of our success. As a responsible employer, we are focused on employee retention, training and development, productivity and, above all, an unwavering commitment to health, safety and wellbeing.

**Effective governance**

A strong governance framework provides oversight and support to the Company including robust decision-making and performance management processes.

**High-quality assets**

We invest in the construction of world-class facilities and plants that use state-of-the-art technology. We engage the best people to maintain and operate our assets, to ensure we always maximise returns.

**Efficient financing**

The strength of our proposition, and investor confidence in our performance and reputation, means that we are well funded with efficient long-term financing.

**Environmental stewardship**

We invest in the maintenance and improvement of our services, operations and assets and constantly seek more sustainable ways of working to protect, enhance and reduce our impact on the natural environment.

**Strong relationships with our suppliers**

We work closely with our suppliers and take the steps necessary to ensure their performance meets our expectations. We expect them to uphold our standards, align with our policies, protect human rights and promote good working conditions.

**Well-managed risk**

Comprehensive and fully embedded risk management processes assist us in identifying and managing risks and opportunities to deliver the Company's strategy and objectives.

**1 We will deliver environmental leadership**

**2 We will provide outstanding customer service and water quality**

**3 We will deliver our promises, supporting the regional economy and our communities**

**4 We will deliver efficiency, keeping bills as low as possible and addressing water poverty**

**5 We will empower our customers by giving them a stake and more of a say in our business**

**Protecting places**



**Environment**

[Read more on pages 30 to 33](#)



**Reliable wastewater services**

[Read more on pages 22 and 23](#)

**Supporting people**



**Clean, safe and reliable supply of drinking water**

[Read more on pages 16 and 17](#)



**Available and sufficient resources**

[Read more on pages 18 and 19](#)



**Responsive to our customers**

[Read more on pages 26 and 27](#)



**Benefitting the community**

[Read more on pages 40 and 41](#)

**See also**

**Our people**

[Read more on pages 42 to 49](#)

**Creating value**



**Resilience**

[Read more on pages 34 to 37](#)



**Fair charging and affordability for all**

[Read more on pages 28 and 29](#)

**See also**

**Financial performance**

[Read more on pages 144 to 155](#)

**Our values**



**Trusted**

We do the right thing for our customers and stakeholders.



**Responsible**

We keep our promises to our customers, communities and each other.



**Collaborative**

We forge strong relationships, working together to make a positive impact.



**Progressive**

We are always looking for new ways to improve and make life better.

# Our progress on our Board pledges to 2025

## Our business plan to 2025

focuses on a new deal for customers, the environment and our people. We have made strong progress against our Board pledges to deliver a step change in our relationship with our customers and stakeholders with c.80% of our ODI on track.

While there are a small number of aspects that are not on track this year, we are confident we are on track to deliver our 2025 promises.



### Business Plan 2020-2025

[www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/sww-business-plan-2020-25-071118.pdf](http://www.southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/sww-business-plan-2020-25-071118.pdf)

### Did you know?

Customer engagement is at the heart of our operation and day to day business. Our PR19 customer research and engagement was groundbreaking, and one of the reasons we achieved such high customer acceptance of our plan (88%).



## 1 We will deliver environmental leadership

### 100% wastewater compliance

Although performance is lower than planned at 98.3% (across numeric and descriptive sites), no non-compliances related to potentially major or significant environmental impacts

#### Progress against pledge

⊖ 2021/22 ✓ 2020/21

### Strive to eliminate harmful pollutions to the environment and reduce minor pollutions to record lows in the industry

Although this remains an area of focus, our Pollution Incident Reduction Plan is already seeing strong improvements

#### Progress against pledge

⊗ 2021/22 ⊗ 2020/21

### Upstream Thinking programme improving 80% of our catchments

We have significantly exceeded our 2021/22 target

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

### Targeting industry-leading leakage, delivering 15% reduction from 2020

We are now on track with our targets in this area

#### Progress against pledge

✓ 2021/22 ⊗ 2020/21

### Our largest environmental improvement plan for 15 years to deliver region-wide benefits for the environment and economy

Our plan is on track for delivery by 2025, and we have gone further in launching WaterFit

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

### Deliver our 2050 Environment Plan

We are on track to deliver this plan

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

### Future new water transfer to promote resilience and efficiency

We are part of the West Country Water Resources Group and our Green Recovery Initiative includes additional water resources investment increase our resilience and supports future transfers

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

## 2 We will provide outstanding customer service

### Target: excellent service performance across all areas and sector leading C-MeX performance

South West Water was 12th in the C-MeX measure this year and 10th in the D-MeX measure and has plans in place to improve in both areas

#### Progress against pledge

⊖ 2021/22 ⊖ 2020/21

### Meet stretching service performance commitments in the areas which matter most to customers

We have achieved c.80% of our commitments in 2021/22 and have plans covering areas of focus identified

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

### Continue to provide a resilient service for now and the long term, regardless of any challenges faced

Despite continued challenges, we have excelled in many areas such as internal sewer flooding

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

### Deliver major drinking water quality enhancement programme to deliver wide scale benefits for customers

We have started schemes at six of our treatment works to reduce taste, smell and colour incidents and improve water quality and reduce incidents

#### Progress against pledge

✓ 2021/22 ✓ 2020/21

KEY



On Track



Marginal



Area of focus

# 3

## We will deliver our promises, supporting the regional economy and our communities

### Invest over £1bn in the region to enhance the communities and environment we serve

We have advanced key investments in the year including bathing water enhancements

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Deliver key projects to protect rivers, bathing and shellfish waters for our customers, tourists and businesses who depend on them

We are ahead of schedule in delivering improvements in these areas including bathing water schemes

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Invest in two new water treatment works in the Bournemouth region

Both schemes are on track for delivery as scheduled

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Extend our area of operation to include the Isles of Scilly

We were appointed on 1 April 2020 and have made good progress in establishing services on the Islands

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Provide new employment opportunities through our regional investments

Our Green Recovery Plan has started and we are on track to deliver all 2025 commitments.

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Use our regional supply chain to support regional economic growth

We continue to use suppliers based in our region

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Invest in people, skills and personal development, including our apprenticeship programme

We have recruited extensively this year, including graduates in an expanded graduate scheme, apprentices and through the Kickstart scheme

Progress against pledge

✓ 2021/22 ✓ 2020/21

# 4

## We will deliver efficiency, keeping bills as low as possible and addressing water poverty

### Target: zero customers in water poverty by 2025

We are ahead of our affordability target, with 93.3% of customers finding their bill affordable

Progress against pledge

✓ 2021/22 ✓ 2020/21

### In real terms reduce average customer bills and South West Water customer bills are forecast to be lower in 2025 than they were ten years earlier

On track with bill reductions, aligned with our Final Determination

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Continue to focus on cost control and the use of innovation and markets to drive efficiency

We continued to deliver Totex efficiency through innovative and sustainable solutions

Progress against pledge

✓ 2021/22 ✓ 2020/21

# 5

## We will empower our customers by giving them a stake and more of a say in our business

### Share the benefits of success with customers fairly and transparently, developing our transformational WaterShare+ framework

The independent WaterShare+ advisory panel has met frequently during the year

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Evolve our sharing mechanism for customers to continue to benefit from financing gains

A new framework is in place for 2020-2025, which includes sharing embedded debt outperformance with customers – SWW is the only company to do this

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Receive oversight from the independent WaterShare+ panel

We have held three meetings

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Introduce a first-of-its-kind customer share ownership option from 2020

The WaterShare+ share scheme launched in September 2020. One in 16 of our household customers opted to become shareholders

**Our stakeholders** pages 10 and 11

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Hold customer Annual General Meetings where customers can vote

The first meeting was held during the year and we held further meetings to reflect on our progress in 2021/22

Progress against pledge

✓ 2021/22 ✓ 2020/21

### Hold quarterly public customer meetings chaired by independent WaterShare+ panel

We held three meetings to date. These were positively received

Progress against pledge

✓ 2021/22 ✓ 2020/21

## WaterShare+

### About the WaterShare+ Advisory Panel

The WaterShare+ Advisory Panel is an independent group of customer, business and social representatives.

We have strengthened the membership of the Panel with expert advisors from the Consumer Council for Water, Environment Agency and Natural England. All provide specialist insight and challenge to the Company on behalf of the Panel and customers.

#### WATERSHARE+ ADVISORY PANEL

**Lord Matthew Taylor** – Chair

**Nick Buckland OBE** – Vice Chair

**Adrian Bratt**

**Carole Theobald**

**Mark Duddridge**

**Richard Lacey**

#### WATERSHARE+ EXPERT ADVISORS

**Michael Barnes** – CCW

**Kevin Ward** – Environment Agency

**Fergus Mitchell** – Natural England

Appendix 1 WaterShare+ Advisory Panel biographies.



#### Biographies

(Biographies for members of the Panel can be found in Appendix 1 to the WaterShare+ Annual Report, see: [www.southwestwater.co.uk/SysSiteAssets/watershare/ws-annual-report.pdf](http://www.southwestwater.co.uk/SysSiteAssets/watershare/ws-annual-report.pdf)).

#### What does the panel do?

The purpose of the WaterShare+ Advisory Panel is:

- To boost customer engagement and feedback to help inform the Panel's assessment and response on the Company's performance
- To champion the interests and needs of customers by providing an independent view on the delivery of the Company's business plan, including its performance commitments and Board pledges
- To increase awareness of the WaterShare+ customer scheme of share ownership and a greater say in how the business is run.

The Panel's terms of reference were approved by the Company in October 2020. The Panel works through a regular programme of meetings and engagement with the Company, expert advisors and customers throughout the year.



### Key areas of focus

In December 2021, the WaterShare+ Advisory Panel published its Annual Report (see [www.southwestwater.co.uk/SysSiteAssets/watershare/ws-annual-report.pdf](http://www.southwestwater.co.uk/SysSiteAssets/watershare/ws-annual-report.pdf)).

This report highlighted the key areas of focus for the Panel during the year:

- The impact of Covid-19** – where the Panel recognised the difficult year with continued impact of the pandemic for customers and employees, it noted the Company's proactive help provided to customers including adaptations to affordability measures, and the support the Company provided to its employees. The Panel commended South West Water for its efforts during this time.
- PR19 Outcomes and Performance Commitments** – the Panel provides an independent view on South West Water's business plan, including the performance commitments and Board pledges. South West Water provides the Panel with detailed reports comparing performance against planned performance commitments. In particular the Panel noted recent improvements in wastewater pollution performance, but that the Panel will continue to hold the Company to account in this area.
- Employee Engagement** – the Panel noted the Company has worked hard to ensure its employees have felt supported over a challenging year. It has continued to develop and evolve the opportunities to input their views to ensure employees are represented and were pleased that the Company has been officially recognised as a Great Place to Work.
- Supporting Customers – Affordability** – the Panel noted that South West Water had flexed its approach and delivery of its affordability strategy following the impacts of Covid-19. South West Water implemented its Affordability Toolkit including metering, water efficiency advice and maximising incomes following the application of social tariffs and this was extended for 2021/22.
- Government Contribution** – the Panel reviewed research into the impact and customer views on the importance of the Government Contribution for South West Water customers and established that additional households would immediately be moved into water poverty if the £50 rebate was significantly reduced.
 

As an independent body established to represent the interest of customers, the Panel advocated to Government to continue the £50 contribution next year and for the remainder of the current parliamentary period.
- Customer engagement and research** – one of the key elements of the Panel's purpose is to boost customer engagement and feedback to help the Panel's assessment and response to South West Water's performance, and thus to better inform the Company on customer concerns.
 

With the ongoing Covid-19 pandemic, the Panel initiated virtual public meetings, and when possible started holding in-person customer meetings.

South West Water provided the Panel with ongoing research on customer views on those areas of performance during the year. In the coming year, the Panel will take a role in the commissioning of additional customer research.

- Panel views to Ofwat's proposals for future customer engagement** – the Panel reviewed Ofwat's proposals for future customer engagement, which were published in a discussion paper.
 

The Panel outlined specific questions to be considered as well as concerns over how regional priorities will be assessed and incorporated into business plan assessments. It also pressed for a continued central role for customer panels such as WaterShare+ in the price review process.
- Environmental Leadership** – the Panel, like customers, believes that taking the lead on environmental matters is a priority. It welcomed South West Water outperforming its performance commitments on bathing water quality and the Company's ambition in the area of Net Zero Carbon by 2030.
 

The Panel also concluded South West Water understands that it has a key role in protecting and enhancing the environment, that it is stepping up its actions to do so, and that it has committed to invest £150m in the Company's largest environmental programme for 15 years.

The Panel plans to commission further specific research in this area and views the delivery of the investments and other actions to achieve environmental leadership by South West Water as a key area of the Panel's focus and expect regularly to review the Company's progress.
- Green Recovery** – the Panel was consulted by South West Water on its Green Recovery Initiative which will play a key role in supporting and enhancing the local economy.
 

The Panel is focused on ensuring South West Water delivers on its Green Recovery commitments to customers and welcomed the plans for further enhancing the environment, public health, creating new and better jobs, especially as customers' bills won't be impacted.
- Reporting and assurance** – the Panel recognised the assurance provided on its Annual Performance Report as robust and transparent.
 

The Panel has provided a summary report on page 133 of this Annual Report.

### Current priorities for the Panel

The Panel's priorities for its current year (which runs from October to October) are as follows:

1

#### Wastewater pollutions reductions

2

#### Increasing our own customer engagement and research

3

#### Performance commitments

4


#### Green Recovery initiatives


5

#### Board pledges

#### HAVE YOUR SAY

You can tell the Panel what you think and have your say by asking them a question at:

 **South West Water WaterShare+ meeting**  
[www.southwestwater.co.uk/about-us/watershareplus/meeting/](http://www.southwestwater.co.uk/about-us/watershareplus/meeting/)

 **Bournemouth Water WaterShare+ meeting**  
[www.bournemouthwater.co.uk/about-us/watershareplus/watershare-public-meeting/](http://www.bournemouthwater.co.uk/about-us/watershareplus/watershare-public-meeting/)

# Our stakeholders

## Empowered by our purpose



**The sector we operate in has a high profile with a wide stakeholder group.** The work we do delivers a wide range of benefits to a variety of stakeholders, creating long-term sustainable value.

Our engagement approach involves regular dialogue. We use a wide range of methods to reach our stakeholders, ranging from formal independent research, focus groups and workshops, to real-time conversations.

We engage with our stakeholders in order to understand their needs and priorities. This in turn shapes our strategy and social purpose:

### Innovate and develop our business

By knowing how our business impacts and is perceived and understood by our stakeholders, we can improve our risk profile – an open and transparent approach helps us to see potential problems for us and our stakeholders before they materialise.

### Build loyalty and satisfaction

Engagement, particularly with employees, customers and investors, builds understanding and knowledge of our business.

### Develop advocates

Strong stakeholder relationships mean we have more advocates helping us shape our reputation and the environment in which we operate.

### Our Board

Our Board takes into account stakeholders' interests when making decisions.

## Who they are

### Our Customers

We supply water and wastewater services to around 11 million household customers in the South West and water and wastewater services to end users via retailers in the non-household market.

### Our People

A total of c.1,700 people work for South West Water, in corporate and operational roles. It's our people that keep things moving 24/7 to deliver wastewater services and to ensure our customers receive clean and safe drinking water.

### Our Communities

We operate in the heart of local communities.

### Our Environment

Beaches, bathing waters, rivers, our natural environment set us apart as a region. We recognise that is what makes us unique. It also creates a similarly unique set of challenges and opportunities. We also recognise that to meet these effectively, we need to collaborate and to build strong, value-filled partnerships with the wide range of environmental stakeholders in the region.

### Our Suppliers

As a large organisation we work with a large and diverse supply chain. Our supply chain partners play a vital role in supporting sustainable growth and cost base efficiency across the business.

### Our Regulators

We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Department for Environment, Food & Rural Affairs (Defra), the Environment Agency, Drinking Water Inspectorate and the Health and Safety Executive (HSE).

### Our Policy makers

Our stakeholder strategy includes building an open and transparent relationship with the widest range of policy makers, from local MPS, who seek to reflect the local priorities of their constituents, to UK Government who ultimately set water priorities and policy, through bodies such as Defra, Natural England, and the Environment Agency.

## How we engage

- Regular customer satisfaction surveys
- Customer support centre
- Focus groups
- Co-creation workshops
- Forums

- Annual colleague Great Place To Work trust and engagement survey and work with senior leaders to develop local action plans
- RISE employee engagement forums – Represent, Inspire, Share and Energise
- Trade Union partners (GMB and Unite)
- Two-way communication activities including fortnightly Big Chats, 'Ask Susan' email, monthly senior leadership calls and focus groups

- Regular community outreach meetings across the region
- Print, digital and social media – e.g. engaging our communities in behavioural change campaigns including Love Your Loo, and Think Sink!
- Bi-annual Conservation and Recreation Forum

- Our senior leadership team, including CEO Susan Davy, meets routinely with CEOs and leaders of environmental organisations and charities
- Regular attendance by operational colleagues at local, regional and national working groups, forums and partnership meetings to ensure business position and narrative are represented and that information gathered is fed back into the business

- Regular meetings and communications
- Supplier reviews and audits
- Code of Conduct for Supply Chain Partners
- Sustainable Procurement Policy

- Regular meetings
- Reports and reviews
- Consultations
- Workshops.

- We are a member of Water UK, which works with Government, regulators and stakeholders to develop policy on water and the sustainable delivery of water services in the UK
- At a local level, we meet on a regular basis with MPs, hosting site visits and constituency-based meetings. We also contribute to round table debates as and when relevant
- We regularly respond to all consultations, and over the past 12 months, appeared before the Environmental Audit Select Committee into river water quality

## Key challenges and how we are responding

- Customer AGM (the first of which was held in November 2021)
- Quarterly public customer meetings
- WaterShare+ Advisory panel.

Our customers continue to tell us that the provision of safe drinking water is always considered their most important priority for us. Our aim is to prevent any issues which cause customers to contact us about their water supply. This is the foundation of our customer service strategy. Where there is an issue, we resolve it as quickly as possible. This year, c.95% of contacts were resolved first time – exceeding targets for both drinking water and wastewater contacts.

As part of the nationwide effort for companies to play their part in the green economic recovery from Covid-19, and after consulting with our customers on the challenge faced, South West Water responded with a Green Recovery plan to increase environmental investment by c.£82m with six projects focused on improving public health, protecting the environment and addressing climate change.

- Executive and Board site visits
- Internal communication activities – weekly internal newsletter, social channels e.g. Yammer and intranet
- Monthly ‘Time to Talk’ sessions, primarily focusing on wellbeing, featuring both internal and external speakers
- Regular ‘This is Me’ features including videos and podcasts
- Training programmes, regular appraisals and 1:1s
- Continued essential support through Covid-19.

- Proactively recognising and addressing employees’ mental health and wellbeing by delivering a broad and comprehensive programme of offerings for all employees and their family members
- Maintaining focus on Health and Safety with continued investment through HomeSafe
- Supporting diversity and inclusion by launching our new employee networks

- Involving existing colleagues as we recruit and train the next generation of employees through our apprenticeship, kickstart and graduate programmes
- Addressing employee survey feedback by enhancing group communications and employee pay and bonuses.

- Specific partner engagement to support access to our land and sites for recreation in the South West – e.g. South West Lakes Trust
- ‘Value of Water’ educational programme
- Community outreach programme working directly within the communities we serve – e.g. with local support groups.

- Our region has over a third of all the UK’s bathing waters and it is important that we protect these vital recreational areas – we already support charitable partnerships to provide access through the use of our lakes and reservoirs

We are seeking to go further by making bathing water accessible, within less than an hour’s drive for our communities and visitors, supporting the health and wellbeing of the communities in our region.

- Regular meetings with the Environment Agency as environmental regulator, both at strategic and catchment level
- Regular meetings and liaison with partners such as Surfers Against Sewage and the Wildlife and River Trusts in our operational areas in relation to specific strategic projects and objectives.

- We keep stakeholders abreast of latest news and messaging from the business through regular review and revision of our stakeholder communication and engagement strategy

- We ensure the business keeps abreast of stakeholder news and development through regular review and revision of our engagement strategy.

- Formal contracts and framework agreements
- E-procurement and Risk Management platforms.

- We minimise risk of supplier failure and/or insolvency through comprehensive due diligence checks and we continually seek to strengthen resilience within our supply chain

- We mitigate current market and macro environmental impacts through collaborative working with our suppliers to ensure early awareness and joint resolution of potential issues.

- With technological advances and a heightened focus on the environment, our customers and stakeholders want us to go further to protect the environment by assessing and responding to water quality and water scarcity issues. This is against the backdrop of changing weather patterns,

increased population growth and urbanisation, and wider pressures on household incomes. We are collaborating with our regulators to ensure the regulatory framework can meet these challenges, and support the identification of the right business plans to meet current and future needs.

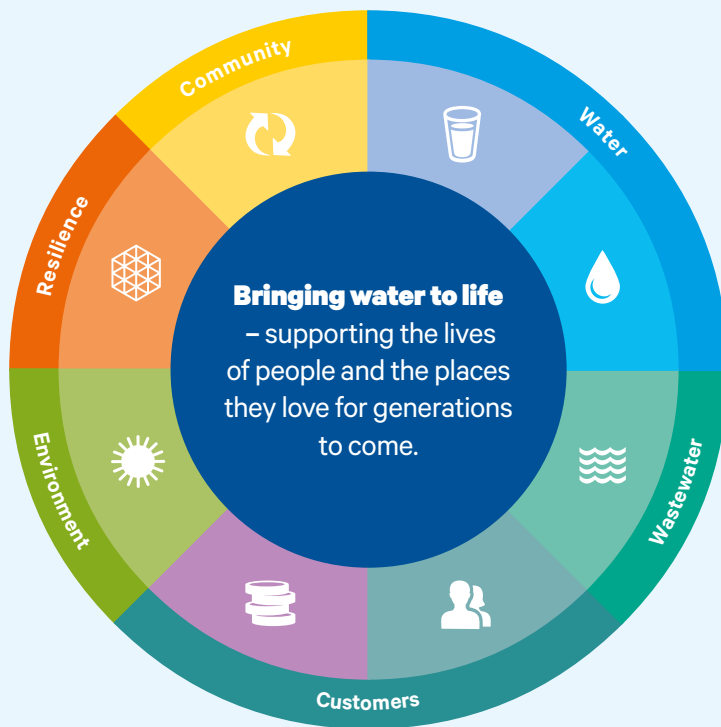
- As part of the Pennon Group, we are one of the founding members of Back the South West campaign, and in July 2021, published our response to the G7 legacy, ‘Levelling Up the Great South West’. This has helped focus our social mobility activity and recruitment opportunities across the region, offering varying roles and opportunities for the range of our communities, providing jobs throughout our operations and bringing talent and diversity into the business.

Over the next 25 years and beyond, the water sector faces challenges from population growth, climate change, rising environmental standards from the Environment Act and evolving customer priorities. These challenges will require further investment, and continuing evolution of the sector’s regulatory framework, to be able to flex to meet changing priorities and meet the needs sustainably, whilst keeping customer bills low.

We continue to work collaboratively with policy makers, to ensure we can deliver these commitments, now and in the future, playing our societal role as well as investing for the future. Examples of this work include South West Water’s c.£82m investment in Green Recovery for the region, our Net Zero plans to 2030, and most recently WaterFit, which sets out our plan to improve river and sea health, working in collaboration with others in the region.

# Performance summary

South West Water has a range of outcome targets which apply across its South West and Bournemouth areas. These targets are based upon extensive research identifying key customer and other stakeholder priorities.



### Key

- Area of excellence
- Outperformance
- On track
- Marginal underperformance
- Area of focus

South West Water has met, exceeded or is within the regulatory deadband/tolerance for 35 of its 44 performance commitments, however there are a number of areas of focus where plans have been developed to ensure performance commitments are achieved in future years.

South West Water's Board has categorised the 35 commitments it has met or exceeded (or within regulatory tolerance) as either areas of excellence, outperformance or on track as defined below.

The remaining nine commitments have been classified by the Board as either marginal underperformance or areas of focus. The Board is targeting achieving all commitments by the end of the 2020-2025 regulatory period.

Section 3 of Regulatory Reporting (pages 169 to 177) contains a full breakdown of current year performance, prior year performance (where applicable) as well as regulatory financial rewards and penalties which are forecast to be applied for the year.

## How we're doing

9

### Area of Excellence

Where performance has significantly exceeded our commitment and we believe the level of performance is sustainable based on measures taken and programmes underway.

14

### Outperformance

Where performance has demonstrably exceeded our commitment and we will continue to work to maintain outperformance.

11

### On track

Where performance has met or slightly exceeded our commitment (and one within the regulatory deadband) and the Board remains confident commitments will be met in future years.

8

### Marginal underperformance

Where the Board believes the Company has plans in place to bring performance back within committed levels quickly.

2

### Area of focus


Where the Board acknowledges significant work is required to achieve committed performance levels and is implementing published Executive-led improvement plans overseen by the Board with more frequent reporting to regulators and other stakeholders.




**Water**


# 8 of 10

**TARGETS MET/ON TRACK**

 **Clean, safe and reliable drinking water**

- Water supply interruptions
  - Mains repairs
  - Unplanned outage
  - Taste, smell and colour contacts\*
  - Efficient delivery of the new Alderney WTW
  - Water quality compliance (CRI)\*
  - Efficient delivery of the new Knapp Mill WTW\*\*
-  **Read more** on pages 16 and 17

 **Available and sufficient resources**

- Water restrictions placed on customers
  - Leakage
  - Per capita consumption
-  **Read more** on pages 18 and 19

**Wastewater**

# 7 of 9

**TARGETS MET/WITHIN REGULATORY DEADBAND**

 **Reliable wastewater services**

- Internal sewer flooding
  - Sewer collapses
  - External sewer flooding incidents
  - Sewer blockages
  - Odour contacts from wastewater treatment works
  - Treatment works compliance\*
  - Total wastewater treatment works (WWTW) compliance\*
  - Descriptive compliance\*/\*\*\*\*
  - Compliance with sludge standard\*
-  **Read more** on pages 22 and 23

**Customer**

# 6 of 8

**TARGETS MET/ON TRACK**


 **Responsive to customers**

- D-MeX
  - Operational contacts resolved first time – water
  - Operational contacts resolved first time – wastewater
  - Customer satisfaction with value for money
  - British Standard for Inclusive Service Provision
  - Overall satisfaction of services received on the PSR
  - Priority services for customers in vulnerable circumstances
- Sub-measures**
- Priority services for customers in vulnerable circumstances – reached
  - Priority services for customers in vulnerable circumstances – actual contacts
  - Priority services for customers in vulnerable circumstances – attempted contacts
- C-MeX
-  **Read more** on pages 26 and 27

# 4 of 4

**TARGETS MET**


 **Fair charging and affordable bills for all**


- Installation of AMR meters
  - Number of customers on one of our support tariffs
  - Voids for residential retail
  - Percentage of customers who find their water bill affordable
-  **Read more** on pages 28 and 29

**Environment**

# 3 of 6

**TARGETS MET/ON TRACK**

 **Protecting the environment**


- Biodiversity – enhancement
  - Biodiversity – compliance\*
  - Biodiversity – prevent deterioration
  - Pollution incidents\*
  - Number of pollution incidents category 1-3 (water only)\*
  - EPA\*
-  **Read more** on pages 32 and 33

**Resilience**

# 5 of 5

**TARGETS MET/ON TRACK**


 **Resilience**


- Resilient water and wastewater services on the Isles of Scilly
  - Resilience in the round – wastewater
  - Resilience in the round – water
  - Risk of sewer flooding in a storm
  - Risk of severe restrictions in a drought
-  **Read more** on pages 36 and 37

**Community**

# 2 of 2

**TARGETS MET/ON TRACK**

 **Benefitting the community**

- Bathing water quality
  - Abstraction incentive mechanism\*\*
-  **Read more** on pages 40 and 41

\* Calendar Year Incentive

\*\* Two performance commitments have no commitment for 2021/22 but are on track for future years' commitments

\*\*\* Descriptive compliance was not achieved this year, but is within the regulatory deadband and is considered 'on track' for future years.

## Our water



**Our commitment is to always deliver the highest quality for our customers, colleagues, the environment and our stakeholders. We will always put Quality First.**

Our mission is to provide a good, safe drinking water supply that our consumers can always trust and rely on, delivered in a safe, efficient and sustainable way.



**Outcomes**

**Clean, safe and reliable drinking water**

Innovation, partnership working and the use of new technology are key to delivering reliable, high-quality drinking water supplies.

**Available and sufficient resources**

Targeted investments are made to ensure we meet or exceed our regulatory and legislative obligations.

**2020-2025 ODIs**

Our performance commitments include a new drinking water quality measure (CRI) introduced across the industry by the Drinking Water Inspectorate (DWI).

**Risks**

The following principal risks are considered to be relevant to this area.

- The Company's operations and assets are impacted as a result of climate change and extreme weather events (Risk I)
- Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water (Risk J)
- Failure to maintain excellent service or effectively engage with our customers and wider stakeholders (Risk L)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Inadequate technological security results in a breach of the Company's assets, systems and data (Risk P).

**More information** pages 117 to 121

**Accountability**



**Performance key**

- Area of excellence
- Outperformance
- On track
- Marginal
- Area of focus

## Our water continued



# Clean, safe and reliable drinking water

### Water quality compliance (CRI)\*

South West Water is continuing to invest in research and implementation of advanced treatment (including ceramic membranes and granular activated carbon), network optimisation and on-line monitoring (trunk mains conditioning) and working closely with landowners to improve the quality of our rivers and reservoirs. Planning and design of major water quality investment schemes to benefit consumers in Bournemouth, the South Hams in Devon as well as in Mid and West Cornwall are also progressing well and are on-track for delivery before the end of 2025.

Further enhanced maintenance and resilience improvements are being delivered across all our water treatment works as part of our innovative site-based 'MOT' programme ensuring we pro-actively intervene before failures occur.

Two water quality enhancement schemes, in Plymouth and Falmouth, received regulatory sign off during the year having successfully completed their demonstration of benefit. They have outperformed the challenging water quality improvement targets we set ourselves, benefitting over 200,000 consumers.

The Compliance Risk Index (CRI) is the primary mechanism used by the Drinking Water Inspectorate (DWI) to illustrate the risk arising from potable water compliance failures.

South West Water's performance this year has been adversely affected by three failures at a strategic treatment works in the Bournemouth supply area. The failures were associated with the storage tanks on the site that were in the process of being refurbished. The Company's CRI score deteriorated this year from 2.06 in 2020 to 3.86 in 2021.

The Company is delivering an enhanced investment programme specifically focused on the proactive cleaning, inspection, and repair of tanks over the next 24 months to the risk of future failures.

During 2021/22 South West Water were served with notices by the Drinking Water Inspectorate (DWI) which set out measures required to address risk in three key areas. The cleaning and inspection of drinking water storage and chlorine contact tanks, water quality monitoring, control, and investigations and enhanced resilience and maintenance.

South West Water has established a CEO-led governance structure and appointed a Programme Manager to oversee the discharge of requirements within the notices to time and quality. All notices require completion by 2025 and have a number of delivery milestones set out to enable tracking of progress, all milestones to date have been met and all notices are on track for completion by their respective deadlines.

### Water supply interruptions

Customers rely on a continuous supply of high-quality drinking water. The continuing Covid-19 pandemic, and its impacts upon our region including increases in property occupation and tourism, once again continued to emphasise the importance of this service in maintaining both public health and customer confidence.

The previous year of 2020/21 saw us achieve our best ever performance level of an average of 5 minutes 38 seconds (for interruptions of 3 hours or longer), a c.40% year on year reduction for those customers who have an outage for more than three hours.

2021/22 has seen a similar level of underlying performance. However, there have been two large events in the year, which have impacted our customers.

One of these other events related to a complex supply interruption event in East Cornwall. Unfortunately due to the nature of the event, interruptions extended over several days. The impact of the event is included within the reported value of 6 minutes 47 seconds.

The second of the events was due to activity undertaken by a third-party contractor, who was installing electrical cables on land near Truro. In the course of their work, catastrophic damage was caused to both our strategic and duplicate main, resulting in a loss of supply to a significant number of customers in mid and west Cornwall. Following discussions with Ofwat, this has been included within the total reported below and within table 3A (13 minutes 40 seconds). We have also shown the position below excluding the impact of this event (6 minutes 47 seconds).



Our underlying performance without these issues would have been 5 minutes and 56 seconds, which would have achieved our committed performance level.

Alongside our continued development of predictive network analytics, we have benefited again from our Alternative Water Supply (AWS) strategy which has seen the utilisation of a team dedicated to the temporary restoration of supplies during mains bursts or other supply interruption events. This team was used extensively throughout the year including during Storm Eunice in February 2022 where they were used to not only deploy supply restoration equipment but it was also used to distribute power generators to our assets affected by power cuts across the region. The AWS resource is also complemented by investment in our supply chain contracts with additional equipment and resources aligned to rapid response and resolution of issues on our network.

We continue to embrace innovation and have again been working with industry partners. Through our Centre for Resilience in Environment, Water and Waste initiative with Exeter University, we are making sure that we leverage maximum benefit from developments in analytics, preventative maintenance and no-dig repair techniques. We have also opened our state-of-the-art Network Training Centre (NTC) in Exeter which incorporates a fully-functioning mini-version of a pressurised water network including pipes, pumps and fittings found in a typical water supply system. We train our staff here on how to operate these assets in the real world in a calm, controlled way that prevents them inadvertently causing damage or failings through inappropriate or unintentional actions.

# 3.86



**COMPLIANCE WITH WATER QUALITY STANDARD\* CRI score**

<b>2021 Actual</b>	<b>3.86</b>
2020 Actual	2.06
2021 Target	0.00
	2.00 Deadband

# 00:13:40



**00:06:47 (excl. 3<sup>rd</sup> party incident)  
DURATION OF INTERRUPTIONS IN SUPPLY  
Hrs:mins:secs per property per year**

<b>2021/22 Actual</b>	<b>00:06:47</b>	<b>00:13:40</b>
2020/21 Actual	00:05:38	
2021/22 Target	00:06:08	

\* Calendar Year Incentive

### Taste, smell, and colour contacts\*

We recognise that consumers expect their drinking water to look and taste great and that this is important in maintaining consumers' trust in the safety of our supplies. We continue to invest in all aspects of our operations from source to tap to maintain that trust. Investments over the last decade have resulted in an improvement in performance in this measure and contact rates again fell slightly from 1.65 per 1,000 population in to 1.55 meeting our ODI target of 1.59.

Although there was a slight increase in the absolute number of contacts, the rate of contacts has fallen following an increase in population following updated published data and analysis of the impacts of Covid-19 on the population in our regions.

2021/22 was another challenging year with the ongoing change in water usage patterns associated with Covid-19 and an increase in third party damage to our mains. This national problem was exemplified by the accidental damage to both of our strategic water mains supplying mid and west Cornwall this year. Whilst supplies were restored quickly, consumers reported discolouration over the following days and secondary bursts and disruption were seen for several weeks. As a result of this and around 100 smaller events we have launched a 'dial before you dig' campaign to highlight the risk of working around buried assets, which includes the network of water mains as well as other essential services such as power and telecoms. We've also engaged in the National Underground Asset Register project.

Allied to this we are training our staff in the art of calm valving, which is the practice of operating valves in a controlled manner to avoid rapid changes in flow and pressure which could disturb sediment in the mains, causing discolouration as well as putting additional stress on the pipes leading to leaks and bursts. This helps to ensure the increased activity on our network required to reduce leakage and clean and inspect our reservoirs does not result in any disruption.

Our long-established operations and maintenance flushing programmes will be enhanced this year and we continue to progress well in delivering enhanced manganese removal schemes at Restormel and St. Cleer in Cornwall where consumer contact rates remain higher than the regional average. To address taste and smell we are progressing further significant investments in advanced granular activated carbon treatment at Stithians in Cornwall and Littlehempston in South Devon.

**1.55**



**TASTE, SMELL AND COLOUR CONTACTS\***  
No. / 1,000 population

2021 Actual	1.55
2020 Actual	1.65
2021 Target	1.59

\* Calendar Year Incentive

### Mains repairs

Decreasing the number of mains failures is vital as it benefits our customers through fewer supply interruptions as well as reducing the necessity for repairs, which may be locally disruptive.

The work to optimise the operation and control of our network by pressure management and other 'network calming' activities along with targeted replacement of sections of water mains with higher failure rates has led to a significant reduction in mains failures.

As a result, there have been significantly lower repair numbers compared to 2020/21. In 2021/22 we have been able to outperform our target of 147.0 mains repairs per 1,000 km of mains significantly with our year end position of 111.4 per 1,000 km of mains.

We will continue with the activities which have contributed to this improved performance through 2022/23.

### Unplanned outage

Water treatment unplanned outage is a means of assessing asset health (primarily for non-infrastructure – above ground assets) for water abstraction and water treatment activities. It tracks the temporary loss of production capacity across our 42-water treatment works, resulting from unplanned breakdowns and asset failure. Our performance in 2021/22 has remained strong and compares well with the rest of the industry. This is founded on effective investment and maintenance regimes to ensure that unplanned failures are minimised. This in turn minimises the risk of any production outages resulting in service impacts for our customers.

2021/22 has seen continued implementation of our site-based 'MOT' programme, with recruitment of additional maintenance engineers, and embedding of the process into business-as-usual activities. This cyclical programme targets our water treatment works on a prioritised basis assessing asset performance and identifying potential risks to water quality. Identified issues are addressed in the delivery phase or considered as part of the wider planned investment programme.

Our performance for 2021/22 was an unplanned outage figure of 0.96%, achieving a significantly better performance than our target of 2.34%.

**111.4**



**NUMBER OF MAINS REPAIRS**  
Mains repairs per 1,000km mains

2021/22 Actual	111.4
2020/21 Actual	151.8**
2021/22 Target	147.0

**0.96**



**UNPLANNED OUTAGE OF WATER TREATMENT WORKS**  
%

2021/22 Actual	0.96
2020/21 Actual	1.01
2021/22 Target	2.34

\*\* Updated figure – see page 111



#### Did you know?

The upgrade of the Knapp Mill water treatment works is being accelerated as part of our Green Recovery Plan.

## Knapp Mill WTW

For further details see our Green Recovery Annual Report

[www.southwestwater.co.uk/report2022](http://www.southwestwater.co.uk/report2022)

### Efficient delivery of the new Knapp Mill WTW

The works upgrade is proceeding on track, the treatment process design has been finalised and in a major milestone we submitted our application for Planning Permission in May.

We have engaged with the local community and had enjoyed great support for our proposals.

### Efficient delivery of the new Alderney WTW

The works upgrade is proceeding on programme. We received Planning Permission last year and have subsequently started works on site, following a period of ecological mitigation and improvement work.

**Zero (on track)**



**EFFICIENT DELIVERY OF THE NEW ALDERNEY WTW**  
Months

2021/22 Actual	0 (On track)
2020/21 Actual	0 (On track)
2021/22 Target	0 (On track)

**Zero (on track)**



**EFFICIENT DELIVERY OF THE NEW KNAPP MILL WTW**  
Months

2021/22 Actual	0 (On track)
2020/21 Actual	0 (On track)
2021/22 Target	N/A

## Our water continued



# Available and sufficient resources

### Water restrictions placed on customers

This year we celebrated a silver jubilee – the 25th consecutive year without water restrictions at South West Water. Bournemouth Water's track record of no water restrictions was also successfully maintained. Despite another year of high demand, we successfully managed resources and were able to take advantage of the wet periods over the winter to replenish storage. At the end of the year our total storage placed us in the best position possible for what we expect to be a third successive year of very high demand in spring and summer, with an anticipation that the regions we serve will once again be busy with a high number of people taking advantage of a 'staycation' as well as increased population in our existing properties we have seen numbers meeting our 2050 forecast in the 18 months of the pandemic.

Although our reservoirs were at a healthy level, ahead of spring/summer, we anticipate high numbers of people taking holidays within our region again. The Company has publicised the following top 10 tips to help our household customers to save water:

- Turn off the tap while brushing your teeth
- Keep a jug of water in the fridge so you don't have to run your tap cold
- Use a bowl for washing up and rinsing fruit and vegetables – then use this water for plants
- Have a short shower instead of a bath or long shower
- Only use your dishwasher or washing machine when you have a full load
- Only fill the kettle with as much water as you need
- Fix leaking taps and toilets
- Use a watering can instead of a hose in the garden
- If your garden needs watering, do so early morning or evening to reduce evaporation
- Use a bucket and sponge instead of a hose to clean your car.

This was the second year of supplying water on the Isles of Scilly. Although this commitment does not apply to the Isles of Scilly, the Company is working to strengthen resilience into the water supply on the islands, where restrictions were required to be imposed more recently in 2014.

## Zero



**WATER RESTRICTIONS PLACED ON CUSTOMERS**  
Number

2021/22 Actual	0
2020/21 Actual	0
2021/22 Target	0

### Leakage

We continue to recognise that preventing loss of water in leakage from our pipes and assets is a key issue for our customers. Following on from the increased investment made in 2020/21, we've continued this year with significantly higher investment to find, fix and prevent leaks on our network.

Consequently, our leakage performance for the year has resulted in us achieving our three-year average target of 116.7 MI/d, a 6.0% reduction from the 2019/20 baseline. This also represents an 8.0% reduction on the 2020/21 three-year average performance of 126.8 MI/d. On an annual basis, leakage fell from 136.0 MI/d in 2020/21 to 90.6 MI/d in 2021/22.

Our network was once more tested throughout the year by very high demand due to changes in customer behaviour during the Covid pandemic, from the mass influx of visitors during holiday and summer periods and from a higher-than-normal resident population arising from the large proportion of second home ownership in our region.

Following the record number of leaks found in 2020/21, we increased this again in 2021/22 by a further 10%. We also significantly reduced our 'workbasket' of leak repairs (leaks found and awaiting repair) by increasing the number of repair crews directed towards leakage related activities. This enhancement more than halved the number of jobs in our repair workbasket at any one time.

Overall leakage-related expenditure increased again to c.£27.3m (£22.2m in 2020/21). We've increased our resources and accelerated our activities on leak find and fix (more resource), leak prevention (significantly expanding our pressure management and network optimisation workstreams) and further developed our business intelligence software tools (Leaksure and Waternet) for leakage reporting and targeting. We've also increased the number and types of leak detection technologies we employ (acoustic loggers, fixed-location flow and pressure sensors, use of satellite technology).

## 6.0% (116.7)



**LEAKAGE LEVELS**  
Reduction from baseline (MI/d)

2021/22 Actual	116.7 (6.0% decrease)
2020/21 Actual	126.8 (2.1% increase)
2021/22 Target	116.7 (6.0% decrease)

Most importantly, during 2021 we instigated a major leakage recovery plan across all key areas of leakage-related activity to reduce our reported leakage significantly. Areas of intensive focus include:

- CEO led governance and assurance meetings to monitor progress
- Realignment of leakage related structures and processes to provide an optimal business framework
- Employing extra repair crews to reduce the basket of outstanding leak repair jobs. This has more than halved the backlog of jobs and therefore similarly reduced the volume of leakage contained within that job backlog
- Employed extra leak detection staff to find more leaks
- Significant investment in technology and equipment, acquiring more leak detection equipment for our technicians and increasing the number of leak sensors installed permanently within our water network
- We've increased our use of technology which analyses satellite imagery for a treated potable water 'signature' to derive points of interest for further leak detection. Analysis covers large areas quickly
- Extensive investment in pressure management and 'network-calming' activities to control excess pressures that lead to more leaks and bursts and higher leakage
- Collaboration/knowledge-share with other water companies and leakage experts to establish and implement best practice
- Software/business intelligence tools – enhancing the platforms that we use to report on leakage and target leak detection
- Water-use audits on our own sites – surveys on our own sites to find leaks, wasting water or inefficient water-use.

The above activities have enabled us to make the large reductions in leakage during 2021/22 and we are confident that our enhanced measures will continue to achieve significant step-change improvements going forward into 2022/23 and beyond.



**Per capita consumption**

In 2021/22 we have again seen the population in our region increase significantly, with growth almost meeting our 2050 forecasts during the last 18 months. This has been driven by higher occupancy of our existing properties as we have seen a continued increase in usage of second homes – whether individuals are now working from this area or are indeed maximising occupancy through holiday lets – all of which has resulted in household demand remaining high.

There has also been a varied pattern of demand on the network, placing additional strain upon it during certain periods.

South West Water again commissioned external analysis to review the household population, including where second homes are the main places of residence, using additional data such as mobile phone analysis that shows significant increases in population – particularly in West Cornwall.

Per capita consumption for the year increased slightly to 143.6 litres per person per day (2020/21: 138.6 l/p/d). This results in a three-year rolling average for the performance commitment of 142.1 l/p/d (2.7% reduction) against a target of 2.3% decrease.

- Released a Water-Saving Community Fund to support reduction in water use
- Implemented virtual water audits
- Delivered a Programme of commercial water audits.

**2.7% (142.1)**

**PER CAPITA CONSUMPTION**  
Reduction from baseline (Litres / person / day)

2021/22 Actual	142.1 (2.7% decrease)
2020/21 Actual	144.9 (0.8% decrease)
2021/22 Target	142.6 (2.3% decrease)

**Drought Plan**

In the South West, we have successfully avoided water restrictions since the mid 1990s, through a combination of careful investment and by managing our precious water resources in a responsible way. Bournemouth Water has never had to impose water restrictions.

Our Water Resources Management Plan published in 2019, and updated every five years sets out our strategy for managing supply and demand for South West Water and Bournemouth customers for the next 25 years and we are proud of our track record in ensuring a safe and continuous public water supply for all.

Droughts are rare and natural events caused by a serious lack of rain over several months, and therefore the risk of a severe drought is low. However, climate change has increased volatility in our weather patterns, including global warming, flooding, droughts and heat waves.

Our revised draft drought plan was published on 21 September 2021 following extensive consultation. It outlines how we would react to a developing drought, the actions we would take and how we would communicate with customers and stakeholders, and work with other water companies, to maintain a water supply to customers. Our final drought plan is due to be published in Autumn 2022, following approval from Defra.



**Drought Plan**  
[www.southwestwater.co.uk/drought-plan](http://www.southwestwater.co.uk/drought-plan)

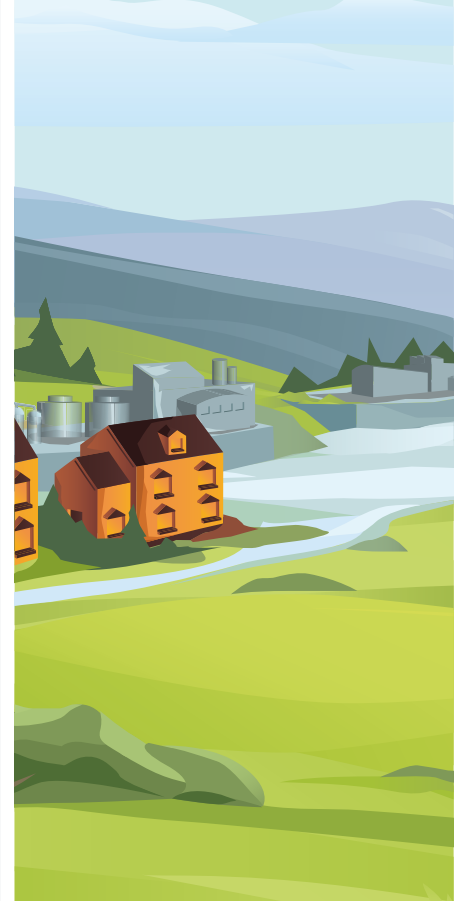
**Did you know?**

**90%**

of the water in our area is from rivers and reservoirs

**25-30°C**

Our area is predicted to be the hottest region in the UK from 2050 with temperatures of 25-30°C



## Our wastewater



# Protecting the environment – robust wastewater delivery through innovation, enhancing governance and working with others.

This focus area includes key commitments to reduce events which impact our customers and the places they love such as sewer flooding, blockages and collapses as well as metrics evaluating the compliance of our sites.





## Outcomes

### Reliable wastewater services

The health of the natural environment is essential.

### 2020-2025 ODIs

As well as continuing to include ODIs relating to pollution incidents, our 2020-25 plan includes ODIs in respect of biodiversity. This reflects increasing customer and stakeholder priorities in supporting habitats and conservation and improving the wider environment.

### Risks

The following principal risks are considered to be relevant to this area.

- The Company’s operations and assets are impacted as a result of climate change and extreme weather events (Risk I)
- Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions (Risk K)
- Failure to maintain excellent service or effectively engage with our customers and wider stakeholders (Risk L)
- Non-delivery of regulatory outcomes and performance commitments (Risk N).

**More information** pages 117 to 121

### Accountability



### Performance key

- Area of excellence
- Outperformance
- On track
- Marginal
- Area of focus

Our wastewater continued



# Reliable wastewater services

**Did you know?**

## Further investment

As part of the Green Recovery ‘Storm overflows’ initiative, we’re extending our overflow monitoring and investigations programme, developing an inland river bathing water pilot and trialling surface water separation. These investments are aimed at improving our wastewater performance and providing further opportunity for the South West region in respect of river and sea water quality.

See more in our Green Recovery appendix [www.southwestwater.co.uk/report2022](http://www.southwestwater.co.uk/report2022)



### Internal sewer flooding

During 2021/22 the number of internal sewer flooding cases decreased again from the previous year with a total of 60 internal sewer flooding events (or 0.76 per 10,000 sewer connections). This is a significant outperformance against target and places us as one of the best performers in the industry on this measure.

Following on from the initiatives of 2020/21, we’ve continued with a multi-faceted approach to improve our performance on sewer flooding. Key activities included the installation of sewer depth monitors at key points within the network to alert us to potential issues, enhanced data and the use of HYBACS technology to increase resilience at times of peak demand.

We’ve also developed new processes and tools such as the implementation of a new App on our mobile workers’ devices (smartphones/tablets) which facilitates enhanced data collection and reporting that’s relayed instantly to our back office teams for analysis. This informs our forward plans for identifying repeat flooding risk areas and locations that require further sewer cleansing and defect remediation.

### External sewer flooding incidents

Corresponding to the positive internal sewer flooding performance, during 2021/22 the number of external sewer flooding cases decreased again compared to the previous year, resulting in a total of 1,407 events. This again represents an outperformance against the target for the year. Our performance over recent years has improved. The application of measures to combat internal sewer flooding (described left) also contribute to the reduction in external sewer flooding incidents.

In addition to other measures which reduce the risk of both internal and external sewer flooding, we’ve increased funding on improvements and remedial works on our sewer network to prevent further sewer flooding.

### Odour contacts from wastewater treatment works

In 2021/22 odour contacts were received in line with the 155 ODI target. We liaise proactively with a very small number of these customers through a managed process or part of active liaison groups. This year we have maintained Liaison Groups linked with Menagwins and Hayle wastewater treatment works. We have also had specific communication with customers regarding Countess Wear, Marlborough and Helebridge wastewater treatment works.

We deal with each odour contact by reviewing the operation of the treatment works to ensure that odour control methodology and equipment is functioning effectively. This is supported by a programme of investment in the replacement of odour control media and equipment in addition to investment in monitoring equipment such as wind direction and boundary odour monitors. We use this equipment to investigate each odour contact to ensure we are diligently operating the treatment works and being good neighbours.

**0.76**



**INTERNAL SEWER FLOODING INCIDENTS**  
Incidents per 10,000 sewer connections

2021/22 Actual	0.76
2020/21 Actual	1.34
2021/22 Target	1.63

**1,407**



**EXTERNAL SEWER FLOODING INCIDENTS**  
Number

2021/22 Actual	1,407
2020/21 Actual	1,499
2021/22 Target	1,530

**155**



**ODOUR CONTACTS – WASTEWATER TREATMENT WORKS**  
Number

2021/22 Actual	155
2020/21 Actual	219
2021/22 Target	220

### Sewer collapses and sewer blockages

During 2021/22 we've continued the excellent performance seen in the previous year on both blockages and collapses. In both measures we have outperformed our targets again. Blockages have further reduced with 6,458 cases against a target of 7,280. For collapses our performance is 6.75 cases per 1,000km of sewer against a target of 16.27.

Sewer blockages are a lead indicator for flooding and pollution from our network.

This historically low performance demonstrates the continued good performance of our programmes of work on the network through investigating, cleaning, and repairing sewers.

Once Covid-19 restrictions were relaxed, the South West saw a huge influx of visitors increasing the load on the water and sewerage networks, while also compounding the risk of sewer misuse and incorrect disposal of fat, oil, and grease (FOG), wipes and other materials. Despite this we were able to maintain our excellent performance on these performance measures.

The Covid pandemic had restricted our interactions with customers with some scaling back of our award-winning 'Love Your Loo' and 'ThinkSink' awareness campaigns aimed at educating customers on sewer misuse. These are a key campaigns, as a large proportion of blockages are due to inappropriate products being disposed of in the sewer network.

We innovated and moved to utilise digital delivery of these initiatives, including working with partners, such as holiday parks and campsites.

These campaigns are now fully back up and running. The value of 6,545 reflects a 1% adjustment on the value initially published in July 2022, following further review and discussions with Ofwat where repeat blockages due to significant misuse of the system were subsequently included within the performance results.

**6.75**



**SEWER COLLAPSES**  
Collapses per 1,000km sewers

2021/22 Actual	6.75
2020/21 Actual	9.76
2021/22 Target	16.27

**6,545**



**SEWER BLOCKAGES**  
Number

2021/22 Actual	6,545
2020/21 Actual	6,484
2021/22 Target	7,280

### Wastewater treatment works compliance commitments

South West Water's wastewater treatment works have permitted discharges governed by either numeric or descriptive conditions.

Numeric permits place measurable conditions on the final effluent discharged to the environment, whereas descriptive permits place narrative conditions upon the quality of final effluent discharge, avoiding environmental impact or the equipment deployed in the treatment process.

South West Water reports performance for each calendar year within each of these categories as well as the percentage of population service by non-compliant works.

#### Treatment works compliance\* (covering numeric discharge permits)

In 2021 wastewater discharges from water treatment works in the Bournemouth Water region were included in this metric for the first time.

The inclusion of these sites as well as a slight increase in the number of failing wastewater treatment works discharges resulted in a small deterioration in our performance in this area. In 2021, 307 of the 315 numerically permitted treatment works were compliant (97.46%), with discharges at six wastewater treatment works and two water treatment works deemed non-compliant by the Environment Agency (EA). Our performance commitment of 100% compliance was therefore not achieved.

**97.46**



**TREATMENT WORKS COMPLIANCE (NUMERIC)\***  
%

2021 Actual	97.46
2020 Actual	99.04
2021 Target	100.00

**99.1**



**DESCRIPTIVE COMPLIANCE\***  
%

2021 Actual	99.1
2020 Actual	98.8
2021 Target	100.0

\* Calendar Year Incentive

### Descriptive compliance

This metric covers the assessment of permit compliance at our 320 wastewater sites with descriptive discharge permits.

Unfortunately, three descriptive permitted treatment works were deemed failing sites following Environment Agency assessments resulting in 99.1% compliance. All of these three sites were classified this way following assessments identifying potentially minor environmental effects or no environmental effects of the matters found. None of these sites had issues identified which had potentially major or significant environmental effects.

The performance of 99.1% is within the regulatory deadband/tolerance (99.0%-100.0%). The Board remains confident this commitment will be met in future years.

#### Treatment works compliance

This performance commitment is an average of compliance with numeric and descriptive permits, which for 2021 also therefore declined slightly to 98.3%.

#### Compliance with sludge standard\*

South West Water recycles treated sludge known as biosolids, for agricultural fertiliser on agricultural land. Biosolids are produced through anaerobic digestion, lime stabilisation and composting.

Biosolids recycling is a regulated and closely monitored practise with 2020 seeing the introduction of the Biosolids Assurance Scheme (BAS). Due to the Covid-19 pandemic during 2020, some of the biosolids recycling processes associated with the scheme were impacted, with the Environment Agency notifying the industry that compliance reporting with the sludge standard was to be suspended for 2020.

During 2020 South West Water has successfully transferred the management of field disposal to a new contract supplier and performance during 2021 has delivered 100% compliance with the sludge standard. In January 2022 we were successful in regaining our BAS assurance certification.

**98.3**



**TOTAL WASTEWATER TREATMENT WORKS (WWTW) COMPLIANCE\***  
%

2021 Actual	98.3
2020 Actual	98.9
2021 Target	100.00

**100.00**



**COMPLIANCE WITH SLUDGE STANDARD\***  
%

2021 Actual	100.00
2020 Actual	98.39
2021 Target	100.00

\* Calendar Year Incentive

## Our customers



**Striving for service excellence, our aim is to offer the best experience to our customers.**

Meeting our customers' needs and ensuring value for money is critical to our success as a business.



## Outcomes

### Responsive to customers

Meeting our customers’ needs and ensuring value for money is critical to our success as a business.

### Fair charging for all

We optimise efficiency and make prudent investment decisions to ensure our charges are fair.

### 2020-2025 ODIs

For this new regulatory period, there is increased range of customer service ODIs which we are measured against. These include the new C-MeX metric, replacing the Service Incentive Mechanism, which focuses more on the whole end to end customer journey. There is also a new ODI in respect of our developer services activities (D-MeX) and a range of ODIs relating to services provided to vulnerable customers.

### Risks

The following principal risks are considered to be relevant to this area.

- Changes in Government policy (Risk A)
- Regulatory reform (Risk B)
- Non-compliance with laws and regulations (Risk C)
- Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments (Risk D)
- Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase (Risk F)
- Non-recovery of customer debt (Risk G)
- Macroeconomic risks impacting on inflation, interest rates and power prices (Risk H)
- Failure to maintain excellent service or effectively engage with our customers and wider stakeholders (Risk L)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Inefficient or ineffective delivery of capital projects (Risk O)
- Inadequate technological security results in a breach of the Group’s assets, systems and data (Risk P).

**More information** pages 117 to 121

### Accountability



### Performance key

- Area of excellence
- Outperformance
- On track
- Marginal
- Area of focus

## Our customers continued



# Responsive to customers

### Operational contacts resolved first time – water and wastewater

Preventing any operational issues which cause customers to contact us for resolution is the foundation of our customer service strategy. When there is an issue, our aim is to resolve it as quickly as possible.

This continued to be our focus with our people working 24/7 to keep taps running and toilets flushing during 2021/22. This included during the summer and other holiday periods, when once again our networks experienced high levels of demand with increased numbers of people taking ‘staycations’ as well as higher occupation of second homes in our region.

Strong operational drinking water performance alongside our continued customer service focus has seen South West Water exceed the annual operational drinking water contacts resolved first time target for the sixth year in a row, resolving 95.5% of contacts first time.

We also continued to resolve a high percentage of operational wastewater contacts first time, at 95.2% again, exceeding this target for the second year in a row.

We are optimising our field schedules and communications to ensure we further enhance our customer service and make sure we keep our customers updated on response times.

# 95.5



**OPERATIONAL CONTACTS RESOLVED FIRST TIME – WATER**  
%

2021/22 Actual	95.5
2020/21 Actual	96.0
2021/22 Target	95.0

# 95.2



**OPERATIONAL CONTACTS RESOLVED FIRST TIME – WASTEWATER**  
%

2021/22 Actual	95.2
2020/21 Actual	95.1
2021/22 Target	95.0

### C-MeX

The Customer Measure of Experience (C-MeX) is an industry-wide measure of customer satisfaction designed to incentivise companies to improve the experience they provide to customers.

South West Water’s annual C-MeX score has decreased slightly year on year and we remain ranked in the position of 12th overall, marginally below the industry average.

Although South West Water is ranked in the median position for its customer satisfaction score in the customer service survey, it has a below average score in the customer experience survey (these two surveys are combined to form the annual C-MeX score).

Improvements made this year included:

- Modernising the navigational experience and appearance of the Company’s ‘MyAccount’ platform, including simplifying billing information
- Introduction of WhatsApp messaging, meeting the expectation of our customers to use additional digital channels
- Enhancements to the billing system to allow improved proactive customer contact where measured billing plans see increases

The lower customer experience survey score is in part influenced by some customers having no opinion/being ambivalent. We have increased our efforts to connect with customers and the communities we live in, through initiatives such as WaterShare+ (see pages 08 and 09) and increased promotion of added value services such as facilities available via the South West Lakes Trust, an enhanced free educational programme at Roadford Reservoir and co-ordinated community partnerships.

### Customer satisfaction with value for money

In recognition of the value for money of the services we deliver for them, customers’ satisfaction levels have increased again to 73% and we have achieved our committed performance level.

As we delivered 77% of our performance commitments for 2021/22 and target achieving all 2025 commitments, South West Water has announced that the average bill for 2022/23 will fall in comparison to 2021/22 in both our operational areas.

# Below median (78.48)



**C-MeX – CUSTOMER MEASURE OF EXPERIENCE**  
C-MeX score

2021/22 Actual	Below median (78.48)
2020/21 Actual	Below median (80.96)
2021/22 Target	Median

### D-MeX

The Developer Measure of Experience (D-MeX) is the industry-wide measure of customer satisfaction for the experience provided to developer services (new connections) customers.

South West Water’s annual D-MeX score has decreased slightly from 85.88 to 84.99 over the past year which has resulted in a drop within the industry performance table just behind the industry’s median performing company.

Although there was a slight relative fall, a number of improvements were made in the year, including:

- New insight tools to help us analyse real time customer feedback and proactively intervene when possible and useful
- Development of our online channels, allowing customers to apply and pay online. This is now our customers’ preferred method
- Opening new communication channels for our customers, helping to extend our opening hours
- Improved access for customers to our help desk when customers require it

We will continue to develop our service offerings, using both internal and external resources, to meet the increasing expectations of our customers and to ensure that we continue to support the competitive market, whether that be through a New Appointment and Variation (NAV) or water mains laid by a self-lay provider (SLP).

# 73



**CUSTOMER SATISFACTION WITH VALUE FOR MONEY**  
%

2021/22 Actual	73
2020/21 Actual	70
2021/22 Target	71

# Below median (84.99)



**D-MeX – DEVELOPER MEASURE OF EXPERIENCE**  
D-MeX score

2021/22 Actual	Below median (84.99)
2020/21 Actual	Median (85.88)
2021/22 Target	Median

### Supporting customers in vulnerable circumstances

We understand how important it is that customers in vulnerable circumstances are not limited in the way they access or receive our services because of their vulnerability. We strive to understand the needs of our customers in vulnerable circumstances to ensure that our services are inclusive and that we provide additional support as needed, both during the normal course of business and during events or emergencies.

For example, our:

- website contains software that greatly improves accessibility, permitting consumers to tailor the view of the site to meet their needs, and can translate our web pages to several languages
- priority services register (PSR) allows us to help customers who may need additional support during events or emergencies, and to provide alternate format bills for those who need them
- contact centre staff are trained to listen for and respond to triggers that a customer may be in vulnerable circumstances and offer appropriate, tailored support accordingly. Training includes for example dementia awareness.

To demonstrate our commitment to providing support to customers in vulnerable circumstances, our 2020- 25 business plan contains several challenging performance commitments which highlight the quality of service we provide. We have achieved or exceeded all of these for 2021/22.

#### Priority services for customers in vulnerable circumstances

Our priority services for customers in vulnerable circumstances measure comprises three sub-measures. We are deemed to have met the overall commitment if we meet our targets for all three sub-measures, as we have once again this year.

- **Reach**

We now have 58,073 customers on our PSR, 5.5% of all households that we serve, and are on track to exceed our 2025 target of 7%. We continue to promote and encourage our customers to join our PSR through services via our contact centre, social media and in local newspapers, and one-way data-sharing with the electricity Distribution Network Operators who overlap our service areas to simplify registration to multiple PSRs for customers who register with them.

- **Attempted contacts**

For the second year in a row, we have also exceeded our targets for contacting customers every two years to ensure they continue to receive the right support. We have attempted to contact 90.4% of customers whose details are due to be checked. This exceeds our performance commitment level of 90.0%.

- **Actual contacts**

We have updated or confirmed the details of 55.5% of customers on the priority services register, exceeding the 2021/22 performance commitment levels 35.0%.



## Achieved

### PRIORITY SERVICES REGISTER

2021/22 Actual	Achieved
2020/21 Actual	Achieved
2021/22 Target	Meet the three sub-measures

#### SUB-MEASURES

# 5.8

### PRIORITY SERVICES REGISTER – REACH

2021/22 Actual	5.8
2020/21 Actual	4.6
2021/22 Target	3.0

# 55.5

### PRIORITY SERVICES REGISTER – ACTUAL CONTACTS

2021/22 Actual	55.5
2020/21 Actual	39.1
2021/22 Target	35.0

# 90.4

### PRIORITY SERVICES REGISTER – ATTEMPTED CONTACTS

2021/22 Actual	90.4
2020/21 Actual	51.2
2021/22 Target	90.0

#### Overall satisfaction of services received on the priority services register

We proactively monitor customers' satisfaction with services received under the PSR to ensure that those in vulnerable circumstances are satisfied with the support they receive. For 2021/22 we have maintained our high levels of satisfaction, reaching 83% satisfaction, ahead of the target of 78%, and demonstrating that we are well positioned to meet our 2025 target of 93%.

#### British Standard for Inclusive Service Provision

We maintained our certification under BS 18477:2010, the British Standard for Inclusive Service Provision, the scope of which includes identifying and responding to consumer vulnerability for the supply of water and wastewater services. Assessment covered not only the quality of services for PSR customers, but also our wider service provision to all customers in vulnerable circumstances, regardless of whether they are registered for the PSR.

# 83

### OVERALL SATISFACTION OF SERVICES RECEIVED ON THE PSR

2021/22 Actual	83
2020/21 Actual	89
2021/22 Target	78

## Maintained

### BRITISH STANDARD FOR INCLUSIVE SERVICE PROVISION

2021/22 Actual	Maintained
2020/21 Actual	Achieved
2021/22 Target	Maintained

Our customers continued



# Fair charging and affordable bills for all

## Number of customers on one of our support tariffs

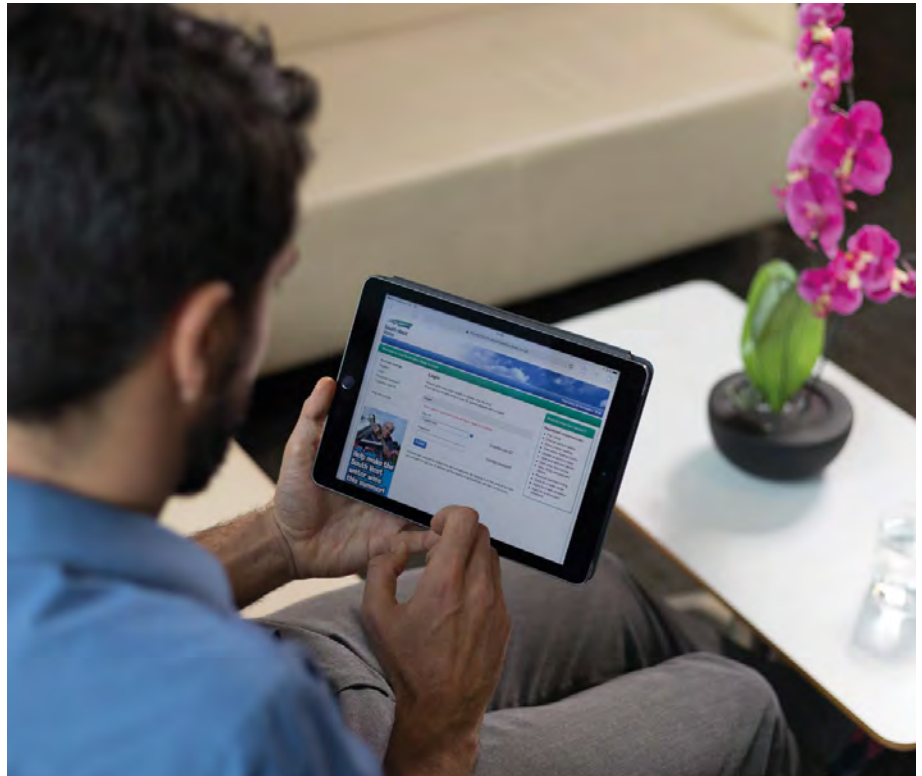
As a company we continue to focus on delivering services as efficiently as possible to keep bills low for all of our customers. We also understand and recognise that some customers may not find their bill affordable, so we have developed an industry-leading toolkit of support for customers with affordability or debt issues.

For some of our customers, affordability of their water bills is not likely to be an isolated concern and can often be an indicator of broader issues. Although the average South West Water bill will fall for 2022/23, South West Water believes no-one should worry about their water bill, especially when other utility bills and inflationary increases are on the rise, putting pressure on households.

We know that through our affordability toolkit we can have a broader impact, which is why our toolkit of measures goes beyond just providing help with water bills. We proactively support customers to identify and claim additional income, improving the whole of the household financial situation, with associated social and economic benefits.

To further demonstrate our commitment to keeping bills as low as possible for all our customers, our Board has pledged to address water poverty by 2025, five years ahead of the water industry commitment. We are monitoring this through our performance commitment to increase the percentage of customers who find their water bill affordable. Households that spend less than 5% of their income (equivalised and after housing costs) on their bill are classified as having an affordable bill.

Our innovative WaterCare+ programme, introduced in 2007, continues to offer support to customers through several initiatives including direct account reviews and benefit entitlement checks, in addition to working in partnership with organisations such as Social Housing Providers and Carer Organisations to ensure that our schemes are promoted and easy for our customers to access.



The impact of these activities should not be understated. Each benefit check that we do identifies on average an additional £54 per week to the household and 32,255 customers currently benefit from one of our support tariffs – ahead of our 2021/22 target of 30,000. Our FreshStart fund helps customers who are new to debt and who find themselves in vulnerable circumstances, through bereavement, long-term illness, or loss of a job. Last year £130k of financial support was provided to customers, bringing the total amount to over £1.78m since it was introduced.

Throughout the Covid-19 pandemic we have reviewed and adapted the support we offer to customers who are experiencing affordability issues and will continue to do so as the economic effects of the pandemic continue. This year we expanded our continued to include to include higher bill discounts in our WaterCare Tariff for customers who need a greater depth of support to take them out of water poverty. We also introduced our intuitive Single Application form and Online Benefits Calculator which are designed to make support more accessible for our customers.

Our efforts to support customers through this period have helped to mitigate the impact of external challenges which could impact the number of customers paying an affordable bill. We have exceeded our 2021/22 target, with 93.3% of households paying less than 5% of their income on their water and wastewater bill.

South West Water is continuing to work hard to keep the £50 Government Contribution (GC) applied to customer bills, to maintain fairness.

**32,255**



**NUMBER OF CUSTOMERS ON ONE OF OUR SUPPORT TARIFFS**

Number

2021/22 Actual	32,255
2020/21 Actual	30,565
2021/22 Target	30,000

**93.3**



**PERCENTAGE OF CUSTOMERS WHO FIND THEIR WATER BILL AFFORDABLE**

%

2021/22 Actual	93.3
2020/21 Actual	89.4
2021/22 Target	92.8





### Installation of AMR (Automated Meter Reading/Smart) meters

Our customers have told us that it is important we have performance commitments that ensure bills are fair and affordable for all. Our customers tell us they want us to help them use less water to protect valuable resources and support household budgeting. They also want us to be proactive and reduce leakage to as low as is practical and affordable.

Based on this feedback we have developed four performance commitments around affordability and fair bills. One of these is the replacement of visual read household meters with meters which can be read remotely (AMR).

More than four in five of our residential customers are on a water meter. AMR meters reduce the cost of meter reading and allow for more regular readings to be taken. This improves the quality of data for the customer, allowing them better to control their use and for the Company to optimise actions in response to demand. It also improves the accuracy of bills for customers.

We have been installing AMR meters since 2015 and our commitment for the 2020-25 period is to continue installing AMR to give a total of 245,964 installed by 2025. This will help identify and reduce leakage and put more customers in control of their water usage. In the second year of this period, we are slightly ahead of track having exceeded our 2021/22 target.

As part of our approved 'Smarter, healthier homes' initiative within our Green Recovery Plan, we have started installation of advanced metering infrastructure in North Devon.

**GR annual report**  
[www.southwestwater.co.uk/report2022](http://www.southwestwater.co.uk/report2022)

### Voids for residential retail

Investigating and reducing the number of properties that do not pay for the services they receive helps us reduce the bills that all customers pay.

South West Water contacts customers who may be in occupancy to encourage them to get in touch, uses commercially available data and makes visits to properties to ensure that charges are applied where services are used.

This has meant that we have been able to keep the percentage of households which are correctly noted as vacant with no charges levied under the 0.89% performance commitment level at 0.83%.

**0.83**



**VOIDS FOR RESIDENTIAL RETAIL**  
%

2021/22 Actual	0.83
2020/21 Actual	0.84
2021/22 Target	0.89

**186,113**



**INSTALLATION OF AMR METERS**  
Number

2021/22 Actual	186,113
2020/21 Actual	165,685
2021/22 Target	183,364

### Did you know?

We're installing smart meters on the Isles of Scilly benefitting customers

**> 1,000 smart meters installed**

When we took on management of the Isles of Scilly we immediately noticed the challenging nature of the water resources situation and concluded we needed much better data to help us manage the water network. Customers were previously paying fixed unmeasured charges, but as part of obtaining that data, we identified the need to install meters for customers. We have worked closely with our new customers and the island communities.

With their help and support we have installed over 1,000 new water meters for customers. In order to help, we offered a system called Dual Billing, which some of our customers took up. This allows a meter to be installed, but sends a comparison statement of metered and unmetered charges to the customer so they can be sure they are paying the lowest tariff.

These meters are all remotely read via a radio system, which also makes this one system one of the first in the country. It now gives us a significant advantage, enabling us to spot issues and rectify them before they become big problems, protecting the Islands' precious water resources.



## Our environment



**We care deeply about sustainability. We take our guardianship of the natural environment very seriously and want to do more.**

Our 'New Deal' Business Plan includes our largest environmental programme in 15 years, recognising that a healthy environment is vital for the long-term sustainability of the services we provide to customers. We're also making significant investment and new commitments to deliver for the benefit of all.



## Outcomes

### Protecting the environment

In every aspect of our operational activity we seek to minimise our impact on the environment while making enhancements to it where possible.

### Consistency measures from 2020

As well as continuing to include ODIs relating to pollution incidents, our 2020-25 plan includes ODIs in respect of biodiversity. This reflects increasing customer and stakeholder priorities in supporting habitats and conservation and improving the wider environment.

### Risks

The following principal risks are considered to be relevant to this area.

- Changes in Government policy (Risk A)
- Regulatory reform (Risk B)
- Compliance with laws and regulations (Risk C)
- The Company's operations and assets are impacted as a result of climate change and extreme weather events (Risk I)
- Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions (Risk K)
- Non-delivery of regulatory outcomes and performance commitments (Risk N).

**More information** pages 117 to 121

### Accountability



### Performance key

- Area of excellence
- Outperformance
- On track
- Marginal
- Area of focus

## Our environment continued



# Protecting the environment

### Biodiversity – Enhancement

Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe drinking water without the need to provide additional infrastructure. It is supported by our customers as part of SWW's commitment to protect and enhance the environment in the catchments in which we operate. This performance commitment is designed to incentivise an increase in the area of land under active improved catchment management as part of 'Upstream Thinking' project interventions. The annual target is 10,000 hectares of new land under active improved catchment management (50,000 more hectares over the five-year regulatory period).

In 2021/22 a further 10,353 hectares of land were added to our Upstream Thinking projects taking our cumulative position to 95,453ha of new areas under active catchment management since April 2015. This is above our performance commitment position of 84,209ha.

Our catchment management schemes have been extended under our Green Recovery Plan. Schemes delivered under that plan are included in here and in the standalone Green Recovery Annual Report [southwestwater.co.uk/report2022](https://southwestwater.co.uk/report2022) and the 84,209ha target includes 1,000ha in respect of our Green Recovery plan.

### Biodiversity – Compliance\*

The purpose of this performance commitment is to incentivise the Company to avoid pollution that harms special wildlife conservation areas. It measures pollutions that occur in freshwater locations that are designated in any of the following ways:

- as a Site of Special Scientific Interest,
- as a Special Area of Conservation,
- as a Special Protected Area, or
- as a County Wildlife Site.

During 2021 there were no pollutions events any such locations and therefore as in the previous year, we met the target.

# 95,453



**BIODIVERSITY – ENHANCEMENT**  
Hectares

<b>2021/22 Actual</b>	<b>95,453</b>
2020/21 Actual	85,100
2021/22 Target	84,209

### Biodiversity – prevent deterioration

This measure is to incentivise the delivery of biosecurity installations at South West Water sites to prevent the introduction of new and spread of existing Invasive Non-Native Species (INNS). INNS can impact on all aspects of the business with significant operational, compliance, reputational and financial risks and are considered to be one of the most significant causes of biodiversity loss globally.

This programme has been accelerated. We are exceeding our targets:

- our commitment was to install signs at 100 sites – 20 signs a year over the five years 2020-25. However, we are ahead of schedule having installed signs at 60 sites over the first two years of the regulatory period,
- we also committed to install 12 biosecurity wash down facilities over the five year period. Again we are ahead of schedule and have installed eight facilities last year and two further wash downs this year – a second angling dip at Burrator reservoir and the Roadford wash down watercraft facility.

Covid-19 has driven us to accelerate this programme as more people are seeking outdoor activities. We continue to work closely with South West Lakes Trust who are still seeing an increase in site use and new visitors. The risk for spreading INNS is high and requires additional measures to ensure the protection of water supply, hobbies and wildlife.

# Zero



**BIODIVERSITY – COMPLIANCE\***  
Number

<b>2021 Actual</b>	<b>0</b>
2020 Actual	0
2021 Target	0

\* Calendar Year Incentive

# 70



**BIODIVERSITY – PREVENT DETERIORATION**  
Number

<b>2021/22 Actual</b>	<b>70</b>
2020/21 Actual	46
2021/22 Target	44



### Did you know?

Installing biosecurity wash down facilities requires stakeholder engagement to adopt new measures and we are delighted to have had such great support from a range of stakeholders. Highlights include:

- The Roadford biosecurity wash down facilities were officially opened by TV presenter Nick Baker (see photo) who said: "Britain has some wonderful wildlife, but invasive species can have such a negative impact. I have opened many events, but I think this is the most important one. It's a very positive spin in a negative narrative."
- The AQUA (Aquatic Quality Award), a pilot EU biosecurity accreditation scheme run in the South West granted the first and only gold award to the Roadford biosecurity facilities.
- Key stakeholders to work with are anglers and watercraft users (boats, canoes, wind surfers, stand up paddleboarders) and we have held a series of workshops for these target audiences, with specialists such as the Angling Trust, Green Blue and Apem. SWW, liaising with Bristol and Wessex Water, have produced the first regional angling and boating Pathway Action Plans (PAPs), highlighting risks and facilities to prevent the spread of INNS not just on our sites but within the region.



**Pollution incidents\***

Our performance in respect of wastewater pollution incidents did not fully achieve the targets we set ourselves, however we did significantly improve in this area with a 33% reduction in the overall number of category 1-3 incidents compared to 2020.

While this step change demonstrates our commitment to the Pollution Incident Reduction Plan and the effectiveness of targeted interventions, we recognise there is still more that needs to be done.

We will continue to improve by maintaining the interventions already delivered and identifying other opportunities to enhance performance. This includes a revised and strengthened governance structure for all environmental issues, including pollutions.

We are targeting a transition towards a more proactive operating model by deploying a significant number of sensors and real-time monitoring technology across our wastewater network. Other key initiatives are:

- Completion of ‘hotspot’ investments identified for 2021 and creation of a new Programme of further work at other problematic locations
- An increase in resource available for a 24/7 response to potential pollution incidents
- Collaborating with others in the industry to share best practice and operational insights
- Changing the way sampling is conducted to provide a quicker assessment of potential impact to inform the response
- Enhancing the root cause analysis processes to deliver greater insight into developing risks
- Changes to maintenance regimes for key assets to ensure reliability
- Helping customers to understand how their behaviour impacts on our assets and ultimately their local environment
- Renewed focus on culture, training, and standards with our workforce to make a step-change in the way we work.

In line with version 9 of the EPA methodology, the 2021/22 reported performance commitment reflects a more up-to-date value for the length of sewer.

**EPA\***

The EPA is the Environment Agency’s assessment of environmental performance. It includes the following measure for 2021:

- total pollution incidents (sewerage)
- serious pollution incidents
- self-reporting of pollution incidents
- discharge permit compliance numeric
- delivery of the WINEP
- supply demand balance index (SDBI).

South West Water has historically been a 1/2 star Company and the EA has assessed us as 1 star in its assessment for 2021. We recognise that there is still more to do in this area as our targets become more stringent. The investments and interventions we are making support our target to improve our overall position, achieving 4 star EPA rating by the end of 2024. Our steadfast focus remains in this area to deliver a meaningful step change in performance.

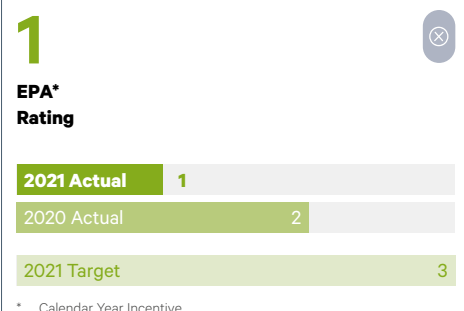
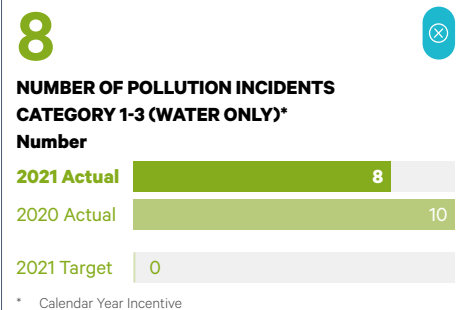
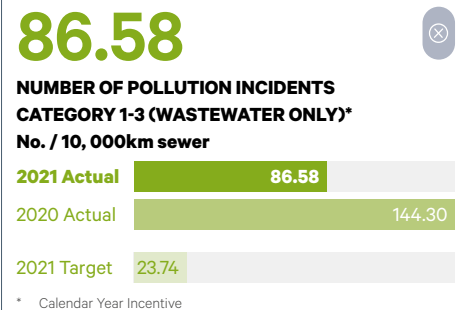
In addition to the significant focus on reducing pollution incidents (see left), which has started to make a significant impact reducing pollution incidents, South West Water is also taking action to improve performance across all areas of the EPA. These include:

- A proactive rising mains replacement programme aimed at reducing the risk of more serious incidents
- Hotspot investment on wastewater treatment works, recruitment of additional senior operational area managers and a ‘Site Pride’ initiative
- Improved telemetry to target improvements in the percentage of self reporting, which have already seen a significant improved percentage in 2022
- Implementation of an improved governance and reporting structure to ensure WINEP schemes are evidenced as complete on schedule in all cases.
- A continued focus on our Leakage Reduction Plan, which will further secure our SDBI position
- Extensive plans to improve environmental performance are being implemented as part of our ‘WaterFit’ plans – see pages 56 and 57.

**Number of pollution incidents category 1-3 (water only)\***

The number of pollution incidents arising from our drinking water assets was eight, which unfortunately exceeded our target of zero. All of the incidents were in the less serious ‘category 3’ and we largely due to escapes of water from burst pipes across our water network.

This performance is a slight year-on-year improvement. Our culture and training programme for internal and supply chain staff has continued throughout the year. We will continue this programme in 2022 as part of our ‘Quality First’ programme of works and will leverage benefit from our new state of the art Network Training Centre (NTC). We will continue to drive improvement through continuous development of our processes and procedures and will continue to invest in innovative plant and equipment that better manages losses of water from our assets.



**Our WaterFit commitments**

We have always been committed to delivering for the environment and have already taken steps in the right direction. However, we recognise the need to go further and faster. In April 2022, WaterFit was launched to deliver this ambition.

**WaterFit** see pages 56 to 57 for further information

**1. Nurturing healthy rivers and seas**

**2. Putting nature on everyone’s doorstep**

**3. Creating and restoring habitats**

**4. Inspiring our local champions**

**5. Creating a sustainable future**

**6. Putting people in control**

## Our resilience



# Committed to ongoing investment in the maintenance and improvement of our network and assets.

Customers expect us to provide services that are secure, safe and reliable even in extreme conditions. We are committed to ongoing investment and planning to ensure we maintain resilient services and operations now and in the future.



## Outcomes

### Resilience

We are committed to improving the quality and responsiveness of the services customers depend on.

### 2020-25 ODIs

There is an increase in the number of commitments in respect of resilience for 2020-25 to reflect the importance of this area and the long-term importance of our business to our customers and other stakeholders.

The increase in number of ODIs recognises service as being broader than just extreme conditions and therefore our 'resilience in the round' metrics for both water and wastewater reflect priority areas to ensure the current resilience of our services.

### Risks

The following principal risks are considered to be relevant to this area.

- The Company's operations and assets are impacted as a result of climate change and extreme weather events (Risk I)
- Non-delivery of regulatory outcomes and performance commitments (Risk N)
- Inadequate technological security results in a breach of the Group's assets, systems and data (Risk P).

**More information** pages 117 to 121

### Accountability



### Performance key

- Area of excellence
- Outperformance
- On track
- Marginal
- Area of focus

## Our resilience continued



# Resilience

### Resilience in the round – wastewater

This measure relates to the ability to protect and quickly recover treatment processes at wastewater treatment works in the case of extreme weather events.

It is measured as the number of resilience action plans put in place for the wastewater treatment works.

South West Water has developed plans for 223 treatment works during the 2021/22 year, significantly more than the target of 40.

The plans have been produced in line with our business plan to improve the response and recovery of each wastewater site following any flooding incident. They will be reviewed and updated following flood events or when new information is available.

### Resilience in the round – water

This measure reports the number of properties affected by unplanned interruptions to supply of greater than 12 hours' duration.

In 2021/22, 478 properties were affected by an unplanned supply interruption greater than 12 hours. This number was higher than our performance in 2020/21 (197 properties) but still achieved our performance target for the year of 673 properties.

The performance for 2021/22 reflects the year-on-year volatility of this measure, where a single event can significantly impact the overall performance. In this case, one complex supply interruption event in East Cornwall occurred and unfortunately due to the nature of the event, interruptions extended over several days. These interruptions accounted for 387 of the total 478 properties reported as affected this year in this measure for South West Water.

Separately to the above, we experienced another major interruption event due to activity undertaken by a third-party contractor, which was installing electrical cables on land near Truro. Catastrophic damage caused to duplicate strategic mains in the course of their work, saw 3,305 properties in mid and west Cornwall interrupted for more than 12 hours.

The response by our staff and partners to this major incident was outstanding with a 'round-the-clock' effort over several days needed to carry out the necessary repairs to these large water mains and restore customers' supplies. In line with the treatment of supply interruptions (see page 16), the third party-caused supply interruptions in the event near Truro are shown below both included and excluded from the resilience in the round – water metric.

The value reported in table 3A now includes the impact of this event.

This measure generally continues to be favourably impacted by South West Water's proactive response when we become aware that supplies may be affected, including mobilising alternative temporary water supply measures quickly when they may be needed. Without this response, the property count affected here would be considerably higher.

For further details on our response to supply interruptions, see page 16.

### Resilient water and wastewater services on the Isles of Scilly

South West Water was appointed and began operating the water and sewerage services on the Isles of Scilly in April 2020, at the start of the Covid-19 pandemic.

During 2021/22 investments have been delivered on the islands that include improved communication and control systems on key assets, an enhanced water sampling programme providing improved water quality data that will be used to design our new required treatment systems. We have also recruited locally and strengthened the on island-based team that provide these services.

All specified targets agreed with the DWI and the Environment Agency have been met, in addition to extra commitments made to the DWI based on further water quality data that has been gathered since April 2020.

The programme is now moving to the next stage of detailed design regarding replacement treatment processes that provide water supply resilience targeted on-island and deliver environmental resilience during necessary abstraction and discharge.

We have been successful in agreeing an extension in timescales in the construction of the emergency storm tank on New Grimsby, Tresco so we can work closely with the Tresco Estate team and construct this when they are carrying out major refurbishment and changes to the main arrival quay on Tresco. This will help ensure that the storm tank blends into its environment, is agreeable to the islanders and delivered in the most efficient way.

**223**



**RESILIENCE IN THE ROUND – WASTEWATER**  
Number

2021/22 Actual	223
2020/21 Actual	104
2021/22 Target	40

**3,783**



**478 (excl. 3<sup>rd</sup> party incident)**  
**RESILIENCE IN THE ROUND – WATER**  
Number

2021/22 Actual	478	3,783
2020/21 Actual	197	
2021/22 Target	673	

**Appointed**



**RESILIENT WATER AND WASTEWATER SERVICES ON THE ISLES OF SCILLY**

2021/22 Actual	Appointed
2020/21 Actual	Appointed
2021/22 Target	Appointed



**Risk of sewer flooding in a storm**

This metric has been designed to measure the resilience of South West Water’s drainage systems to assess existing and future resilience to extreme wet weather events causing sewers to flood. The aim is to prioritise investment, engage more extensively in partnership working and with customers, and, importantly, to focus the development of long-term planning strategies with a view to reducing the chances that residential and business customers will be flooded in future.

We currently have a 2021/22 commitment to have no more than 30.30% of the region’s population at risk from internal hydraulic flooding, and we are currently forecasting well below this figure at 9.83%.

**Risk of severe restrictions in a drought**

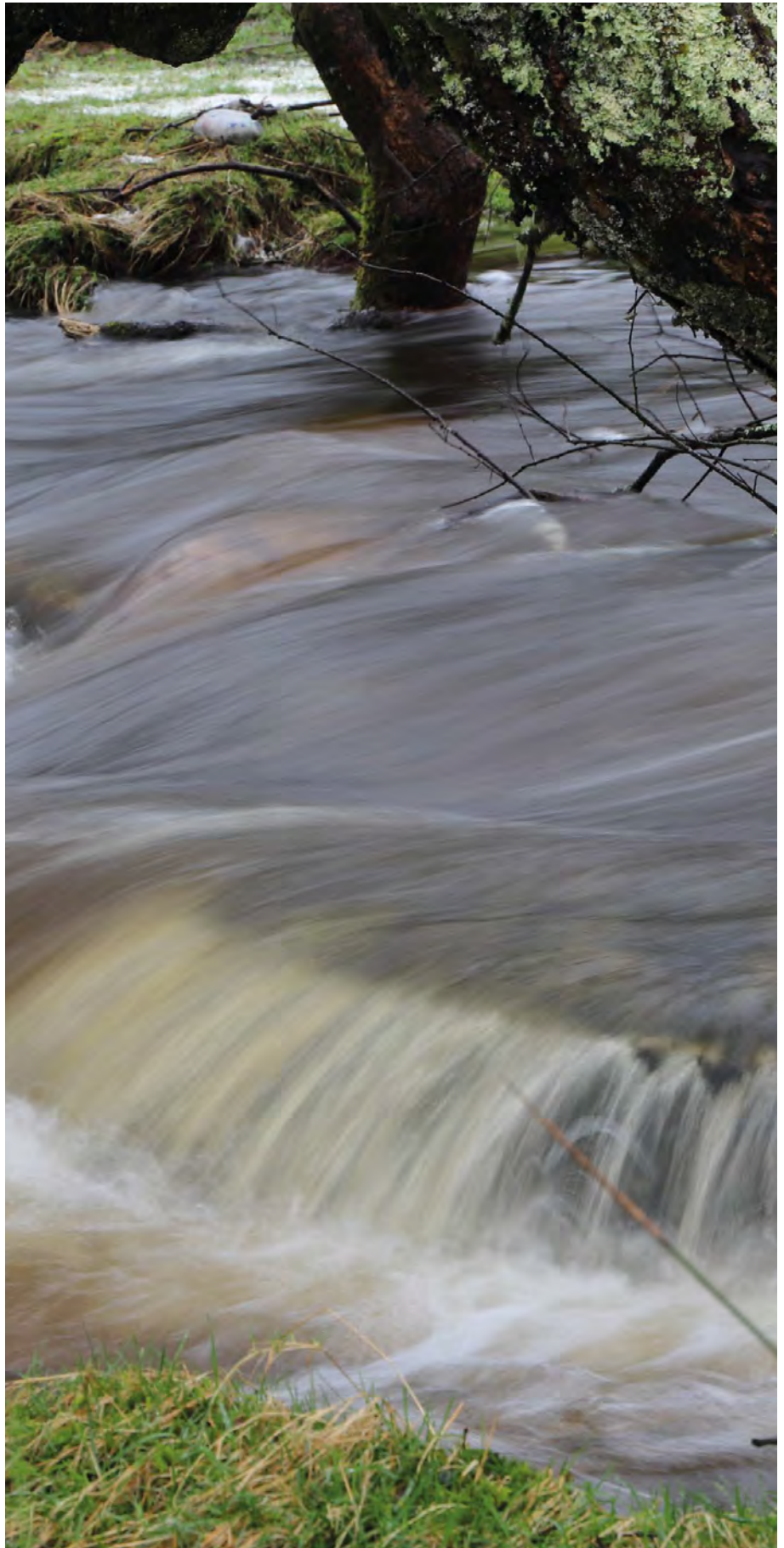
This measure looks at the long-term risk of customers experiencing severe supply restrictions.

Our 2020-25 business plan forecast was that we did not expect any customers to be at risk from severe restrictions in 1 in 200 year drought events.

There were no significant changes to the underlying data which would suggest any change to this assessment.

2021/22 was another year of high demand, especially in one of our three water supply zones in the South West of England, and we continue to actively monitor potential challenges and mitigate supply risks in advance of them emerging (for example through transfers between our water supply zones).

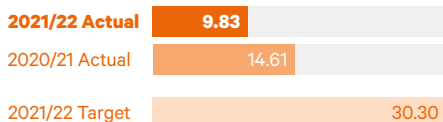
In the longer term, we are working to address further supply risks in specific areas of our region, and our Green Recovery annual report provides details of a project ‘Water Resources Grid Enablement’. This project will provide an increased ability for transfers around our region and supporting the transfer of water to areas in supply deficit across Southern England.



**9.83**



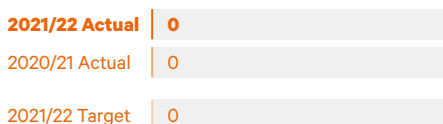
**RISK OF SEWER FLOODING IN A STORM**  
**% of population at risk of sewer flooding in 1 in 50 year storm**



**Zero**



**DROUGHT RISK**  
**% of the population that would experience severe supply restrictions in a 1 in 200 year drought**



# Our communities



# We are committed to making a positive contribution to the communities we serve.

Beyond the core services we provide we are committed to playing a positive role in the communities we serve including supporting and promoting health and wellbeing.



100 years ago, each person used just 85 litres of water a day to drink, wash and cook. Today we use 100 litres of water each day. Every litre of tap water we use is a litre of water that is removed from our rivers and streams, which means that it is no longer available to other people.

We take our access to water for granted but if the water that comes from the tap is not clean, it can be dangerous to drink.

**Ever wondered...**  
You might be surprised to learn that a single cotton t-shirt uses a staggering 11,000 litres of water.

**Guessing...**  
1kg of cotton fibre alone uses 10,000 litres of water.

**By the way...**  
The number of people on earth goes up by around 80 million each year, placing even more demand on our supplies.

Showering with the tap running uses 12 litres of water a minute.

Traditional methods of generating electricity produce high amounts of carbon dioxide, also known as CO2, which is bad for our planet. Renewable energy is better for the environment.

Life on earth relies on a constant cycle of carbon through air, water and land. Every time you breathe in oxygen, it comes out of your lungs as CO2 and nature removes it by using plants and trees to turn it back into oxygen again.

Many human processes such as refining oil, burning coal or gas, or flying on an airplane, produce high levels of CO2 which the earth cannot process.

**HOW MUCH WATER YOU USE IN A DAY**



### Outcomes

**Benefitting the community**  
 Our people strategy is designed to attract, retain and develop the right people with the right skills.  
 We are also committed to making a positive contribution to the communities we serve.

**2020-25 ODIs**  
 Our 2020-25 ODIs will continue to consider bathing water quality as well as a new 'abstraction incentive mechanism' ODI in line with regulatory and customer feedback.

**Risks**  
 The following principal risks are considered to be relevant to this area.

- Non-compliance or occurrence of an avoidable health and safety incident (Risk E)
- Tax compliance and contribution (Risk F)
- Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities (Risk M)
- Non-delivery of regulatory outcomes and performance commitments (Risk N).

[More information](#) pages 117 to 121

**Accountability**

```

    graph TD
        People[People Committee] --> SWWB[South West Water Board and Committees]
        ESG[ESG Committee] --> SWWB
        Health[Health and Safety Executive Committee] --> SWWB
        Group[Group Executive Management] --> SWWB
    
```

**Performance key**

Area of excellence	Outperformance
On track	Marginal
Area of focus	

## Our communities continued

# Benefitting the community

### Bathing water quality

The purpose of this performance commitment is to incentivise the Company to improve water quality at the beaches designated for swimming within our region, in line with our Water Industry National Environment Programme (WINEP) commitments. By encouraging the improvement of bathing water quality, this performance commitment will enhance coastal environments, whilst also supporting the continued development of the leisure and tourism industries in the South West region.

There are currently 150 designated bathing waters in the South West Water region. This follows Defra's de-designation of Ilfracombe (Wildersmouth) at the beginning of the 2020 bathing season. Of these, 148 were monitored and classified by the Environment Agency.

The Environment Agency's bathing water classification confirms that all of these sites met or exceed the minimum standard 'sufficient' for the 2021 bathing season delivering 100% compliance, for the first time ever. This compares to 98.7% compliance for the 2019 bathing water season.

NB. No classification was issued by DEFRA for 2020 due the Environment Agency being unable to collect sufficient samples because of Covid-19 restrictions.

The achievement of 100% of our designated bathing waters being classified as meeting the stringent standards follows targeted investment and decades of partnership work which has now delivered some of the best bathing waters in Europe.

This performance commitment is based on the following factors:

- the number of bathing waters meeting, or exceeding Environment Agency requirements identified in the WINEP
- the number of bathing waters downgraded during 2020-25 (based on Environment Agency annual classification data) where the cause is solely attributable to South West Water

- the number of bathing waters where South West Water is investigating the potential for improved status under the WINEP and delivering an improved bathing water classification because of improvement actions identified in those investigations (and agreed with the Environment Agency) directly or through partnership activities.

During 2021/22, four further schemes relevant to our performance commitment were completed (at Budleigh Salterton, Coombe Martin, Dawlish and East Looe), with four having been completed in the previous year.

In 2021 five bathing waters improved in line with the European standards. These were: Combe Martin from 'poor' to 'sufficient'; Porth and Goodrington from 'sufficient' to 'good'; and Porthminster and Towan from 'good' to 'excellent'. Ten bathing waters were classified as having deteriorated by one categorisation level, although all of these continue to achieve at least 'sufficient' standards. In none of these cases, was the cause of the downgrade solely attributable to South West Water assets. In line with our performance commitment, this assertion has been subject to review by the WaterShare+ Advisory Panel, following audit by our technical assurer.

Bathing water quality can be influenced by many factors, including storm overflows, run-off from agricultural land, sewage from privately owned treatment works, septic tanks, boats and even animals, such as dogs and birds. These factors are made worse by heavy rainfall. Through our 'BeachWise' partnership and other regional groups and initiatives, we continue to support sustainable catchment-wide improvements in bathing water quality across the region. Our partners include local councils, beach managers, community groups, non-governmental organisations (NGOs), landowners, conservation organisations and the Environment Agency.

During the rest of the 2020-25 regulatory period, further investments will be made in improvements to the performance of our assets. These include:

- investigations to improve our understanding of current bathing water quality issues
- as well as improvement measures at existing assets to reduce the impact of storm overflows
- three additional Event and Duration Monitors to complete the monitoring coverage of all storm overflows at bathing water locations.



### Abstraction incentive mechanism

As part of the 2020-25 regulatory period, we included an Abstraction Incentive Mechanism, or AIM, for a key groundwater source in East Devon. The purpose of the AIM is to promote the switch of water resource mix if groundwater levels are low. Groundwater levels were again high going into the spring and the AIM scheme was not triggered this year.

The AIM scheme was not triggered in the year. Despite this, we endeavoured to operate as if it has been and to minimise the associated abstraction. We adopted this approach to both minimise the impact on the environment in case it had been a dry year and to test our capability to operate the local supply system with reduced water available from Dotton Water Treatment Works. In the event, we abstracted at an average rate which was marginally better than the target set for the scheme.

We are therefore confident in our ability to achieve the objectives of the AIM in future years.



### BATHING WATER QUALITY Number

2021/22 Actual	0
2020/21 Actual	-4
2021/22 Target	-6

\* 0 represents a net improvement of 8 from the -8 baseline (see commentary above)



### ABSTRACTION INCENTIVE MECHANISM Megalitres

2021/22 Actual	N/a – on track
2020/21 Actual	N/a – on track
2021/22 Target	365

“

The announcement is a milestone moment as our region’s beaches proudly take their place as amongst the best in Europe. This is as a result of significant, targeted investment and decades of partnership work, meaning residents and millions of visitors each year can safely enjoy the bathing spots right across our 860 miles of beautiful coastline.”

**CASE STUDY: 100% OF OUR BATHING WATERS PASS STRINGENT STANDARDS**

**Defra has announced updated bathing water results. These show that for the first time<sup>1</sup>, 100% of the classified bathing waters in the South West have passed their stringent standards, with 98% rated as or ‘Good’ or ‘Excellent’.**

There has been significant investment in infrastructure and partnership work which has delivered some of the best bathing waters in Europe. South West Water’s ‘Clean Sweep’ project resolved the legacy practice of discharging untreated raw sewage into the sea by creating new infrastructure across the region. This, alongside sustained partnership work and continued investment, has significantly improved bathing waters across the region.

**Susan Davy, Chief Executive Officer**, has said: “The announcement is a milestone moment as our region’s beaches proudly take their place as amongst the best in Europe. This is as a result of significant, targeted investment and decades of partnership work, meaning residents and millions of visitors each year can safely enjoy the bathing spots right across our 860 miles of beautiful coastline.”

“This is the first time under the latest standards that we have had 100% bathing water quality, and we intend to keep it this way. However, I recognise that we must go further and not only build on and maintain the progress we have delivered on bathing water quality, alongside tackling our impact on river water quality. We are committed to reducing our impact on rivers by one third by 2025 and will go further as we run pilots to help understand the wider influences on water quality in our region so we can deliver the lasting change and improvements we all want to see.”

**100%**  
**BATHING WATERS MEETING STRINGENT STANDARDS**

**98%**  
**RATED ‘GOOD’ OR ‘EXCELLENT’**

**Reduce by 1/3<sup>rd</sup>**  
**OUR COMMITMENT TO REDUCE OUR IMPACT ON RIVERS BY 2025**

<sup>1</sup> 2021 was the first time 100% of the monitored bathing waters in the SWW region have reached the tighter standards introduced by Government under the 2006 EU directive, which came into effect in 2015



## Our people strategy

Our people strategy is all about, ‘talented people doing great things for customers and each other’.



### Recruiting the next generation of employees

# 100

**GRADUATES BEING RECRUITED TO 2025. WE'RE HALFWAY THERE WITH 28 RECRUITED IN 2021 AND 22 OFFERS MADE SO FAR IN 2022**

# 112%

**OVER ACHIEVED AGAINST OUR KICKSTART TARGET TO OFFER 50 PAID 6-MONTH WORK PLACEMENTS BY SUPPORTING 56**

# 500

**APPRENTICESHIPS TO BE CREATED BY 2025. STRONG PROGRESS WITH 209 APPRENTICES CURRENTLY IN TRAINING**

# x2

**DOUBLED THE NUMBER OF PLACEMENTS OFFERED ON THE 10,000 BLACK INTERNS PROGRAMME FROM 6 TO 13**

This means that we are focused on doing everything we can to recruit, train, develop and support all of our employees, whatever their background, experience or outlook, unlocking their potential now and for the longer term.

At South West Water, we believe our people are our most valuable asset. We are proud of the values we live by in all that we do.



As part of the Pennon Group, we were delighted to be recognised as the winner in the longest-running annual survey of corporate reputation in the UK – Britain's Most Admired Companies awards (Utilities) for the second year in a row. This award demonstrates our commitment to engaging employees in our strategy and the important role they play in delivering it.

During the year, we have made significant step-change improvements in the following people activities:

- Emerging talent programmes
- Leadership development
- People engagement
- Employee wellbeing.

### Supporting the development of our talented people

#### Training and development

We have a strong commitment to investing in the development of our employees and in building and recognising talent across the business. Training and development is available for employees at all levels and is actively encouraged. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders and employees with appropriate knowledge, skills and the competencies they need to thrive.

To demonstrate our commitment to investing in the next generation further we signed up to the 5% Club, committing to have at least 5% of our employees on structured apprenticeship or graduate programmes. We are delighted to report that we currently exceed this target with over 10% of Group employees on these programmes.

During the year, we delivered 12,981 training days for our 1,710 employees, ensuring that on average each employee has received 56 hours of training.

# 12,981

**EMPLOYEE TRAINING DAYS**

# 60

**NEW SENIOR LEADERS TALENT DEVELOPMENT PROGRAMME**

# £789,000

**INVESTED IN APPRENTICESHIP TRAINING**

# 782

**NEW APPRENTICES SINCE 2017**

#### Launching our new Graduate programme

In 2021, we successfully launched our brand-new Graduate Programme, committing to graduate recruitment for many years to come. We set a commitment to recruit 100 new graduates on a structured two-year programme of training, work experience and career development by 2025.

In year one, we set out to recruit 20 high calibre graduates largely undertaking placements rotating across Drinking Water, Wastewater, Engineering and Customer Services to ensure they develop a broad understanding of these vital functions of the business and develop their operational and managerial knowledge. The quality and diversity of applicants was high so we extended the number of placements to 28. More business functions have been keen to join the programme which has supported the increase. 57% of the graduates are female and 54% are from ethnic minority backgrounds or from outside of the UK which is supporting our aim to make our workforce more diverse.



**CASE STUDY: FROM KICKSTARTER TO APPRENTICE**

**David is a new Operational Apprentice Technician within the Wastewater Services team.**

David is 20 years old and joined us in October 2021 on the Government supported Kickstart scheme that offered paid work experience to help young people get into work. David excelled on his work experience placement, and his passion and enthusiasm was clear so we offered him a permanent position and an apprenticeship. Based at South Molton, David works on 25 wastewater treatment sites within North Devon whilst undertaking a Level 3 Water Process Technician apprenticeship.

He chose to do the apprenticeship because it offers structured training alongside very interesting and varied work experience and enables him to work outdoors in a part of the country he loves. David loves the roles as there is lots to learn and many options for him to grow and develop new skills and progress his career with South West Water. He has incredibly supportive colleagues who help with his training and development and have made him feel like part of the team. He really likes the combination of work and training as it allows him to develop practical skills, whilst learning key principles within the formal training sessions.

David is expected to complete his apprenticeship in around 18 months and we wish him well with his studies and progression through his course and in becoming a fully qualified Wastewater Treatment Technician. Keep up the excellent work!

**KICKSTART SCHEME**

**Kickstart**

We continued to live our values and demonstrate we are a responsible employer during the year, doing what we can to support communities in the South West.

South West Water was one of the first water companies and the first in the South West to sign up to participate in the Government's new Kickstart scheme in 2021, offering 16-24 year olds, deemed at risk of long-term unemployment, six-month paid work placements. We committed to offering 50 placements and we are delighted to have exceeded this number, offering a total of 54. It is also very pleasing that over half of those completing their training and work placements have chosen to take up offers of employment with us.



**Apprenticeships**

We continue to embrace apprenticeships. 92 new apprentices started with South West Water in the last year. This brings the total number of new apprentices we have supported since 2017 to 782 across the Group. We continue to have a strong focus on recruiting operational apprentices to ensure we have the future skills to deliver our essential services. To demonstrate our ongoing commitment to apprenticeships further, we set a target in 2021 to offer 500 new apprenticeships across the Group by 2025. We are ahead of schedule with 209 currently in training.

**Leadership development**

We have continued to invest in our senior leaders talent development programme to provide structured assessment and development workshop opportunities for our top 60 leaders. This programme was rolled out across the whole company during the year.

**Listening and acting on employees' views**

Over the course of this year, we have continued to develop and evolve the opportunities for employees' views and input. Employee forums have also been enabled to ensure employees are represented and have opportunities to understand and feed into discussions on matters that impact them and the work they do.

**Creating the best place to work**



Responsible and trusted businesses today have a duty to make a positive societal contribution – whether that's through promoting social mobility, addressing racial and gender inequality, or in providing secure and meaningful employment where all employees are paid fairly for the work they do.

We know that companies with high trust cultures enjoy better financial results, outperform the market by 2-3% a year over a 25-year period, have strong leadership, a talented workforce and are more collaborative and innovative.

We are officially a 'Great Place to Work' for a second year. We asked employees how it feels to work for South West Water using the Group-wide Great Places to Work Best Workplace Survey™. We achieved our highest ever participation rate of 85% and again passed the threshold to become accredited as a Great Place to Work for the second year in a row.

The survey measures effectiveness in a range of categories including Innovation, Maximising Human Potential, Values, Leadership Effectiveness and Wellbeing. We were extremely pleased to see very high scores supporting our diversity, equity and inclusion priorities with employees believing people are treated fairly regardless of race (92%) or their sexual orientation (91%) and gender (89%). This is strong recognition of the Company's approach to diversity, equity and inclusion. Equally, our unwavering determination to further improve health and safety was supported in the employee responses to the questions, 'my manager takes health and safety seriously' (91%) and 'my safety related responsibilities have been explained' (89%). It was also pleasing to hear colleagues believe 'the organisation has supported me well during Covid-19' (85%).

These results show we have made good progress during the year in embedding the Group's people strategy and ensuring our employees have felt supported.

## Our people strategy continued



### Employee engagement

#### Employee forums



The South West Water Employee Engagement Forum is a well-established forum which meets regularly to create two-way communications between senior managers of the Group and employees. During the year the forum has been relaunched and rebranded as RISE. It will be more inclusive and employee led, with each area of the business establishing its own forum that feeds into the broader, group wide forum chaired by the Chief Executive Officer. We received 72 employee applications from colleagues to join RISE, pleasingly significantly higher than our initial target of 50. This forum helps to influence and support business changes and ensures that our employees are front and centre in all that we do, including being the employee voice in the evolving changes to working arrangements in response to Covid-19 during the year.

We also have trade union recognition agreements in place for our Craft and Industrial employees and continued to meet frequently across the year to discuss relevant topics including employee health, safety and wellbeing, pay awards, business planning, employee survey and engagement, IT system developments and innovation. During 2021/22, we refocused our employee forums to ensure they remain relevant to employees, focus on the key activities which impact employees and effectively engage with the wider workforce.

#### CASE STUDY: LAUNCHING OUR NEW EMPLOYEE NETWORKS

**We recognise and appreciate the importance of creating an environment in which all employees feel valued, included and empowered to do their best and share new ideas.**

Employee networks play a key role in encouraging and supporting employees in bringing the best version of themselves to work, contributing to an inclusive environment and building a sense of community.

Our employee networks provide:

- Peer to peer support, providing psychological support to the group's members
- Awareness, sharing stories and learning opportunities with the wider business
- Accountability, providing support and contributing to the broader Diversity, Equity and Inclusion strategy, especially through lived experience.

The nine employee network groups support:

- Race, Ethnicity and Cultural Heritage
- LGBTQ+
- Women
- Menopause
- Grief
- Financial Wellbeing
- New Parents
- Carers
- New Starters.

#### Speak Up

Our Speak Up whistleblowing policy continued to operate throughout 2021/22, providing another engagement channel. Speak Up helps to create an open, transparent and safe working environment, where workers feel able to speak up and are supported if they do so.

#### Enhancing our employee communications

During the year, we developed a new employee communications and engagement programme reflecting improved and multiple approaches. Our Big Chat – our regular all employee virtual meeting via Microsoft Teams – where all employees have the opportunity to attend, enabled all employees access to the Executive. It created opportunities to ask questions and suggest topics that employees would like to hear more about. The new fortnightly frequency ensures regular and timely updates are provided to employees. We continued to receive positive feedback from employees who welcomed the opportunity to hear from the Executive team and ask them questions on key business matters.

Throughout the year and in line with Government guidelines, where possible, many of our office-based teams have been working from home, placing greater importance on supporting our employees with regular communications. Discussions have largely focused on health and safety, Covid-19 working arrangements, employee wellbeing, business plan delivery, investments in graduates, apprenticeships and Kickstarters and future workforce development.

For our remote teams, working tirelessly during the pandemic, we hosted regular virtual breakfast briefings with the Chief Executive Officer and other senior leaders. These have proved to be helpful in promoting more effective two-way communication. Additionally, all employees are invited to pose questions or comments to our Chief Executive Officer following the introduction of 'Ask Susan', and this has developed into a popular route for further engagement.

During the year, our employee communication enhancements have delivered:

- New Hub Intranet launch for all colleagues – making connecting with the latest updates, news and sharing files across teams easier
- Increased frequency of Big Chats, accessible for all colleagues. More varied topics and wider speaker programme including the Board and CEO, for the most important business updates
- Virtual colleague and leadership meetings to showcase the improvements in Microsoft Office 365 tools and the new digital spaces we have
- Weekly news roundup for all colleagues across multiple channels and developing how we tell the internal business story
- Yammer launch as a way for all colleagues to engage socially with each other in a less formal setting but with all the security, accessibility and ease of use that 365 offers
- Internal recruitment campaigns with spotlight vacancies and highlighted opportunities across apprenticeship, graduate and Kickstart programmes



## Our wellbeing strategy

### Mental

Taking care of our minds, coping effectively with life and creating satisfying relationships

### Financial

Taking care of our financial wellbeing, being in control over our financial future



### Community

Encompassing the major external and internal factors such as social health

### Physical

Taking care of our bodies, acknowledging the importance of activity, nutrition and sleep

- Continuous colleague updates on Covid-19 and measures to ensure every colleague can carry out their role in a safe manner
- Ensured that our business vision and values were prominent in communications as we launched our 'Uniting colleagues against climate change' Yammer community and focused on the work that our Net Zero Pioneers are doing
- Celebrated our achievements through 2021 with a roundup of the good work we've done through the pandemic – showcased every colleague's hard work, dedication and drive to be able to bring water to life
- HomeSafe Heroes launch to celebrate the work of our colleagues across the business who make sure that everyone goes home safe every day.

## Prioritising health and wellbeing

### Our wellbeing strategy

As a responsible employer, we have a vital role to play in ensuring colleagues' wellbeing and mental health is the best it can be. During the year, we made significant progress on our wellbeing strategy. Our activities are based on four wellbeing pillars: mental, community, financial and physical.

Our wellbeing strategy is about developing a culture where health, wellbeing and safety are as important as anything else we do and we want to make sure everyone goes home safe and well each day. Positive interventions around health and wellbeing have been proven to be an effective way of driving employee engagement and reducing absence levels and form the cornerstone of our approach.

Mental health remains an important issue in society, and is one of our top five reasons for absence, requiring continued focus, engagement and prioritisation.

### 2021/22 achievements

We have launched a number of initiatives this year to position us as a leader in health and wellbeing and create a culture where mental health is an everyday conversation. Our achievements include:

- signed up to the InsideOut Charter – a social enterprise providing a tangible way of demonstrating leadership and action to the mental health agenda by committing to a number of core, actionable principles
- trained 55 new Mental Health First Aiders in the year. We now have the same ratio of MHFAs to employees as we do for physical first aid at around 1:40
- redelivered our e-learning module on mental health to all employees
- delivered 'Mental Wellbeing in the Workplace' training for managers to help them gain a broad understanding of stress, mental wellbeing and mental health conditions as well as tools and techniques to assist them in promoting positive mental wellbeing and discussing mental wellbeing with individuals and their teams
- took part in national wellbeing events with external speakers to support in educating our teams and provide tangible actions to improve wellbeing. These included: Mental Health Awareness Week and November. During Mental Health Awareness week all colleagues were sent a 'Bee Bomb' (handmade wildflower seed balls) to encourage them to support the 2021 theme of spending time in nature

- established our 'Time to Talk' and 'This is Me' sessions to encourage open conversations between colleagues and break down the stigma that surrounds mental ill health. The aim is to encourage open discussions and improve attitudes and behaviours towards people with mental ill health, dispelling myths and crucially, raise the importance of mental wellbeing. In the monthly Time To Talk sessions, internal or external speakers focus on topics that are of interest to employees including sessions on Mental Health and Wellbeing and WaterAid, our charitable partner. The This is Me initiative explores mental health challenges where internal and external speakers explain the challenges they have faced and how they have dealt with them
- launched an internal Wellbeing Champions network. The purpose of this group is to deliver campaigns, increasing awareness of all aspects of wellbeing; and
- launched the new Champion Health portal for all employees – a wellbeing platform that covers every area of health, complementing existing wellbeing services and campaigns. It covers mental health, women's health, men's health, financial wellbeing, performance, activity, energy levels, parenting, nutrition, musculoskeletal health, leadership, cardiovascular health, cognitive functioning and much more. The data from the platform will be used to identify trends, gaps and opportunities and help focus our wellbeing activities in the right areas.



### What's next

Whilst we have made excellent progress this year, we have further plans for the coming year with initiatives including the launch of our Wellbeing Awards, a focused Group-wide Wellbeing Survey, the expansion of the Champion Health app, the development of our training and speaker programmes and the introduction of our first Mental Health focused annual reporting.

## Our people strategy continued



### HomeSafe – our flagship health and safety programme

Our flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities. HomeSafe is built on the six strategic pillars; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient.

We are developing a culture where every person takes ownership to ensure they and their colleagues go HomeSafe every day. In pursuit of this, Rich Rogers joined us in March 2021 as Director of Health and Safety, bringing 30 years of operational water sector experience and a track record for delivering best in class health and safety cultural change programmes, translating to sector-leading performance. Within four months of Rich joining us, we had refreshed our HomeSafe strategy, targeting the key areas against each strategic pillar to improve risk management and reduce harm.

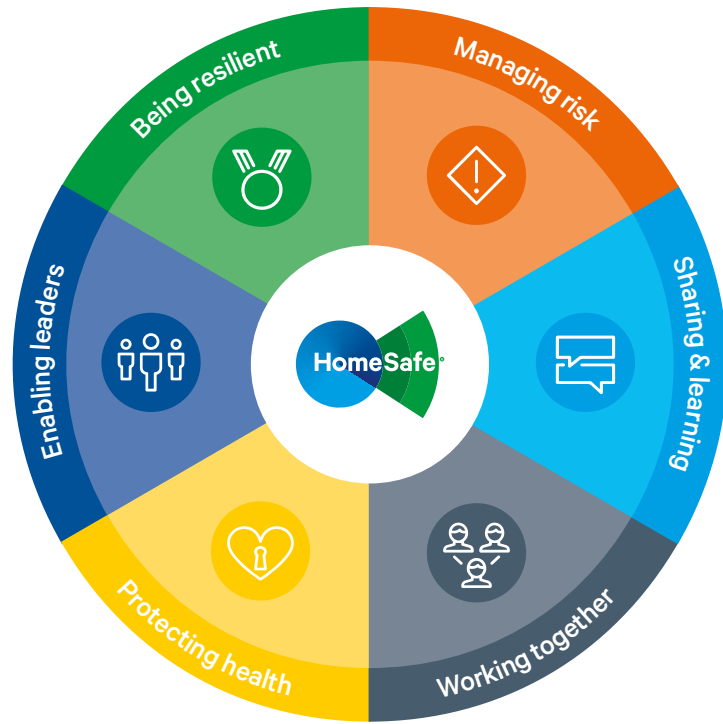
At Board level, we set out the ambition to have our best year ever on health and safety, measured by delivering our lowest ever injury numbers. We set out to achieve this through increasing Senior Manager engagement, improving incident investigations leading to better learning and sharing, improving collaboration through the new HomeSafe working group comprised of employee representatives at all levels to help shape, test and drive our strategy, increasing local ownership through hazard identification and our highest ever investment levels.

Reconnecting with our employees face to face has seen over 210 Senior Manager site visits across our region in the year providing leaders with the opportunity to see work as it is done and better support a healthier and safer working environment. 97% of visits have been described as useful or very useful by the hosts. We trebled investment to improve the safety of our working environments and targeted specific improvement programmes as a direct result of comprehensive learning from incidents.

To showcase the great behaviours seen in many areas, we launched our HomeSafe Heroes scheme, where an employee can nominate a colleague for an award for any activity or intervention in support of our HomeSafe principles and ambition. We have seen 48 nominations in the six months since launch and this is increasing as more people celebrate the great work their colleagues are doing, sharing great ideas and behaviours encouraging others to join the HomeSafe revolution.

Lost Time Injury Frequency Rate (LTIFR) continues to be our primary measure of H&S performance. Against our ambition of our best year ever (no more than 23 LTIs across the Group), we outturned at 22 Lost Time Injuries compared to 29 reported last year, delivering this ambition.

### Our health and safety strategy



### Our eight HomeSafe modules

- 1 HomeSafe big picture
- 2 HomeSafe beliefs and behaviours
- 3 Follow the Rules
- 4 Assess all risks
- 5 Take ownership
- 6 Lifesaving rules
- 7 Measuring success
- 8 Embedding HomeSafe behaviours

### Engagement programme

Building on the HomeSafe six strategic pillars, we launched a Group-wide engagement programme, bringing HomeSafe to life for everyone. This was built on a new multimedia platform, broken into eight bitesize modules, providing a full HomeSafe education programme. This was designed to set us up to deliver our best year ever again.



**CASE STUDY: HOMESAFE HERO SPOTLIGHT**

**Dave is one of our Wastewater catchment operators based in Launceston.**

Dave was nominated by a colleague to be recognised as a HomeSafe hero because, in the words of his colleague, “Dave is a consistent champion of HomeSafe and provides support to anyone and everyone”. He works tirelessly with colleagues to help understand any health and safety concerns, develop solutions, arrange for new safe working methods, and provides training to his colleagues. Dave embodies the HomeSafe values and demonstrates what “Putting the me into HomeSafe” really means, by taking ownership of HomeSafe and supporting his colleagues to go HomeSafe every day.

On receiving his award Dave said “I’m very honoured and appreciative of this award, I’ve been trying to improve the workplace for colleagues across the Group, and I have the full support of my managers, allowing me the time and funding to help ensure everyone goes HomeSafe everyday”.

A true HomeSafe Hero!

**Our HomeSafe roadmap to 2025**



**Managing risk**

We’re implementing effective assurance programmes and getting up to speed with the ISO 45001 managing standards.



**Sharing & learning**

Improving health and safety at Pennon depends upon all of us building our skills and understanding to better protect ourselves and each other.



**Working together**

Collaborating effectively means we’ll bring everyone with us on our safety journey, including our contractors. Our HomeSafe Network will keep everyone engaged with this vital work.



**Protecting health**

We’re introducing a range of measures to support everyone. This will reduce absences from work and enable everyone to perform at their best.



**Enabling leaders**

Leaders have a central role to play in keeping everyone safe and well, so we’re providing extra focus to boost their skills.



**Being resilient**

To keep everyone safe, we need robust business continuity plans. And everyone needs to take a lead in ensuring the security of our sites.

Our targets are ambitious, however ensuring everyone who works for us, with us or interacts with us goes HomeSafe everyday is paramount, and that requires us to have ambitious plans.

**Future Plans**

HomeSafe is not a project to be completed in a specific time frame with an end date. HomeSafe is how we work and deliver all our performance commitments. We recognise any injury is one too many, and have very ambitious HomeSafe 2025 plans to improve health and safety across the Group, requiring us to have our best year ever, year-on-year. We have set out our roadmap to 2025, built on the six strategic pillars of HomeSafe, to move us towards being leaders in health and safety in the water sector.

## Our people strategy continued

### Diversity, equity and inclusion

#### Creating a diverse workforce

We have continued to make progress in this area through strong leadership and our gender diversity has improved for the third year running. With a workforce of over 1,700 employees, the gender split is 78% male and 22% female.

South West Water operate in the South West of England, an area which traditionally has some of the lowest proportions of ethnic diversity in the country. However, as a responsible business, we believe we have an important role in ensuring we support mobility of all types. Over the last year, we have increased our proportion of ethnically diverse employees significantly, from less than 0.5% to 1.23%. This increase has come from our more targeted recruitment approaches clearly acknowledging we welcome applications from ethnically diverse applicants. Despite the good progress we have made during the last year, we recognise there is still much more to do if we are to achieve our ambition to have a much more diverse workforce.

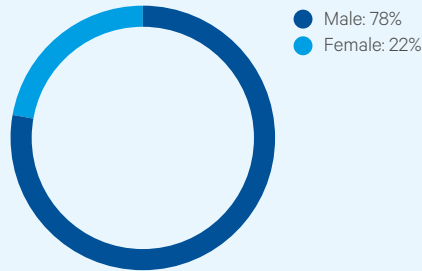
We have continued to make progress in this area through strong leadership and our gender diversity has improved for the third year running. With a workforce of almost 3,000 employees, the gender split is 70% male and 30% female.

### Gender Diversity dashboard

As a business with both a female CEO and Chair, we are delighted as part of the Pennon Group to have reached the top 10 in the FTSE Women Leaders Review and continue to make progress in gender diversity.

#### GENDER - EMPLOYEES

2021/22



2020/21



2019/20

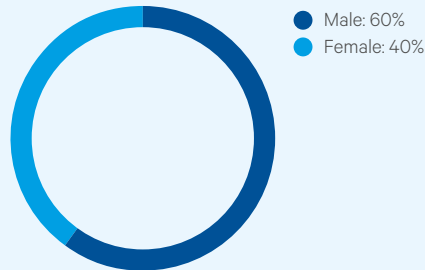


2018/19



#### GENDER - SENIOR MANAGEMENT

2021/22



2020/21



2019/20

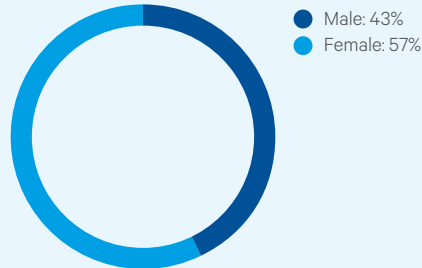


2018/19



#### GENDER - BOARD

2021/22



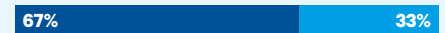
2020/21



2019/20



2018/19



**Accessibility Audit**

In 2021/22, we carried out access audits across our Head Office in partnership with EMBED who will support us on our Diversity, Equity and Inclusion journey. Being part of an inclusion journey means feeling included and part of conversations to review existing services, policies and procedures, alongside knowledge and information sharing to create and build up inclusive workplaces and services. As part of that journey, we are looking at how accessible we are as an employer, particularly in the locations and facilities we make available for all our colleagues. Ensuring our sites are inclusive is important as they represent the collective services and practices which customers, colleagues and potential talent identify and engage with. The sites can indicate to customers and employees what the organisation’s commitment is to accessibility and inclusion throughout the physical building and how services are understood and initiated to be inclusive. We are now working with EMBED following the outcome of the audit to create an action plan to improve further our locations and facilities. We have recently installed a multi-faith prayer room in our Peninsula House office.

But it doesn’t stop there. We recognise that our offices are not the sole representation of South West Water. Colleagues out in the field are a vital part of serving our customers and are critical to the conversation of understanding lived experience and in identifying what positive actions are required to improve accessibility and inclusion for all. Therefore, whilst we started with these two buildings, we will be auditing other locations throughout 2022.



**CBI Change the Race Ratio initiative**

In 2020, as part of the Pennon Group, we pledged its support to the CBI Change the Race Ratio initiative, a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels and was the first water company to do so. During 2021/22, our pledge and ongoing commitment continues to help shape our business activities and decisions.



**10,000 black interns initiative**

We are proud to be a supporter and sponsoring business of the 10,000 Black Interns initiative. We initially set out to offer six paid work experience internships. We were so impressed with the quality of applicants and the wider support from the business that we have offered 13 placements with the hope that many of these talented graduates will continue to work for us beyond their placements. This important scheme not only offers black students an opportunity to understand our business but also to improve the levels of ethnic diversity across our industry.

**Recruitment**

Changing our approach to diversity and inclusion has also changed the way we monitor diversity in all Group job applications. We use a software gender decoder tool which allows us to check all of our job advertising for masculinity to reduce the potential risk of alienating female applicants. In addition, we have refreshed our equal opportunities forms to be included in all onboarding packs. The new version allows us to monitor, analyse and utilise diversity data to inform and shape our business activities to become a more diverse workplace. We also refreshed our job adverts to ensure they clearly demonstrate that we are a diverse employer and welcome applications from all ethnicities. Our recent success is most notably seen in our 2022 Graduate Programme recruitment which received 1,064 applications with 56% of them coming from ethnically diverse applicants.

**Training**

We have continued our programme of Unconscious Bias training and have rolled this out to the majority of our senior leadership and hiring managers during the year.

We held Lived Experience group sessions to understand what it is like to work at South West Water for employees from minority groups. The outputs have been shared with our Diversity Committee to understand these perspectives and consider appropriate actions when issues are raised.

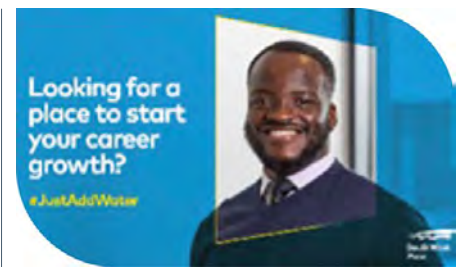
**Women in Water network**

South West Water is part of the Women in Water network, supported by Water UK, and aims to encourage women into the water industry, support their development into more senior roles and ensure that their industry voices are heard.

**Our gender pay gap**

The mean gender pay gap for South West Water in 2021 stood at 6.7%.

During 2021, we recognised colleagues’ loyalty and dedication to customers with an additional discretionary bonus. This was not subjected to pro-rating for part-time employees and has contributed to a negative mean bonus pay gap of -28.4%. The median bonus gap which compares the male and female employee at the 50% percentile of each gender group was 0%.



**CASE STUDY: REFRESHING OUR RECRUITMENT BRAND**

**Launching our new Graduate Programme during the year provided us with the opportunity to rethink and refresh our employment brand with a stronger focus on diversity and inclusion.**

Building on last year’s success, we asked our current graduates to be the face of the campaign. Our new campaign is called #JustAddWater and also sees the expansion of the universities we are working with.

We are delighted to have received well over 1,000 applications and extremely pleased that 56% of them are from ethnically diverse candidates. The diversity successes we have achieved through our graduate recruitment are now being incorporated into our wider recruitment activities.

**Social mobility pledge**

We continue to be a signatory of the Social Mobility Pledge, the cross-party campaign to improve social mobility in the UK established by the former UK Cabinet Minister, Rt Hon. Justine Greening, and UK entrepreneur David Harrison. This pledge reflects our social commitments through our partnerships with local schools, our open-door approach to visitors and our provision of work experience opportunities. As part of our Social Mobility Pledge, we are undertaking a gap analysis to help us develop a detailed action plan to drive further improvements during this year. Our head office and customer call centre are based in Exeter, providing jobs and investment to the local community. In addition to employing 1,710 employees directly, South West Water employs up to a further 100 temporary employees and contractors during certain times of the year.

## Supporting Effective Markets



Customers in England and Wales receive their wholesale and household retail services from 11 regionally appointed water and wastewater companies, alongside six water-only companies.

Today they operate alongside new appointees which are licensed to serve specific geographic areas, predominately new developments.

The non-household retail market opened in 2017, allowing businesses and other non-household customers across the country to choose which retailer they buy their water and wastewater services from.

In the medium-term we expect the sector to undergo a step-change in how it delivers services to customers. We welcome the development of market mechanisms within the sector to drive innovation and value for customers, the environment and stakeholders.

### Business Retail

Our aim is to support the market in delivering excellent services to our end customers. Our plan is to make sure we are easy to do business with and that we provide a service which supports what our consumers and retailers need, especially now, recognising the economic pressure the non-household market faces.

South West Water continues to have dedicated structures in place which continually focus on engaging with market trading parties, co-creating solutions which matter most, build trust, and add value.

The market performance framework provides confidence that market trading parties are complying with their obligations and that performance is being continually monitored and improved for the benefit of our end customers.

Following the introduction of 'The Retail Measure of Experience' which provides retailers with an opportunity to review the services received by their wholesaler, South West Water was ranked in joint fourth place amongst water and sewerage wholesalers.

We are determined to work collaboratively within the business retail market for the benefit of our customers, ensuring we meet their needs through the application of the industry's Good Practice Guides and our own service levels.

We have also continued to operate our internal market data review programme to improve data quality, targeting items which impact customers or financial settlement. This activity has underpinned our upper quartile industry position in Market Performance Standards (MPS) and Operational Performance Standards (OPS). A significant reduction in complaint has also been achieved this year.

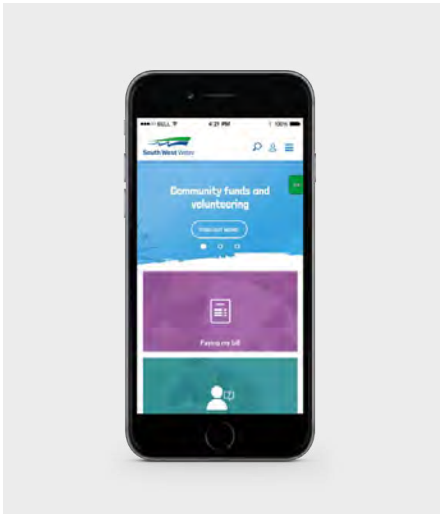
### Developer Services

We remain committed to promote competition and developer choice through the Self-Lay Provider (SLP) and New Application and Variation (NAV) markets as well as giving our developers the ability to utilise approved groundworkers to undertake excavation and reinstatement of service trenches on their sites thus allowing them to control these costs and programming rather than having to rely upon us and our contractors.

As the market has continued to grow and develop, we have taken steps to ensure that we continue to communicate the choices that our developer customers can take. This includes:

- having a dedicated team who manage all interactions with NAVs and self-lay providers
- operating within our area to provide separation from services provided to developers by the Company and our incumbent contractor
- holding regular meetings with SLPs to provide an opportunity for them to provide us with feedback on our procedures to help us to continue to make improvements to make it easier for these providers to deliver services within our operating area
- ensuring that our developer customers are aware of their choices to allow them to decide who they want to provide new water mains and connection services to their sites
- ensuring that we proactively communicate the choices that our customers have by continually refreshing our website and literature so that the choices remain prominent
- engaging with the regulator on Industry consultations to support the further development of the self-lay market
- exploring opportunities to allow SLPs to utilise our material procurement arrangements to help them to take advantage of economies of scale where appropriate.

We have continued to see a higher proportion of SLPs operating within Bournemouth and have therefore recently undertaken an engagement exercise with SLPs and representative bodies to understand the reasons for this to help us to continue to proactively promote the competition market across all our operating areas.



**NAVs**

During the last 12 months new appointee (NAV) activity in our area continued to increase, resulting in the greatest volume and diversity of interactions between ourselves and NAVs to date. We welcome this.

We are committed to maintaining and evolving our programme of NAV Advocacy in line with market developments and have continued to build on our relationships with existing NAVs in our region, and forge new ones with those entering it. To ensure that we meet NAVs’ and their stakeholders’ needs efficiently and effectively we subject our processes to ongoing review and refinement, and we will continue to do so as the market and associated activity evolves over the coming year.



**Water Resources**

During 2021/22 we rolled out a range of activity for developing emerging markets. For non-households we again ran a water efficiency fund to allow retailers to bid for investment for their customers. We have taken feedback from the last year and updated our process to allow smaller projects in the bid assessment framework. We have also delivered our role in water efficiency for non-households across the sector by chairing the Retail Working Group.

As part of the West Country Water Resources Regional Group, we have promoted the need for possible future options to come forward for the draft plan.

Our Green Recovery Initiative, ‘Water resource grid enhancement,’ has now commenced its initial stages, aiming to be completed in 2025. It aims to support water transfers within our region, helping address the growing pressure on water resource availability.

We continue to look for strategic value enhancing opportunities in this area having recently procured a site for development of a new reservoir on Bodmin Moor, Devon.



**Bioresources**

During 2021/2022 we have engaged proactively with the wider industry and regulators to develop a pragmatic outcome to the Farming Rules for Water (FRFW) consultation and changes to the regulatory marketplace.

We have worked with farmers and our supply chain partners to increase the land holding available for agricultural recycling and have increased the number of and resilience of bioresource storage locations prior to full recycling to land.

We have identified and started investments that will ensure our compliance with FRFW and provide enhanced product for recycling into the market.

The transfer of land management from one partner to another has embedded further this year with enhanced sampling and record keeping has helped us achieve 100% compliance with the sludge disposal metric this year.

We have continued to seek innovative solutions to enhance our treatment and utilisation of bioresources, this has included working closely with Bennamann in Cornwall to explore the application of their biomethane technology to our existing sludge assets and also to help shape future opportunities. We plan to pilot these technologies during 2022/23.

In the later part of the year, we have commenced the development of the Bio-resources Bid Assessment Framework ahead of publication and consultation later in 2022/23.

# Net Zero

In 2021, we set our ambitious plans to reduce our operational carbon emissions and hit our Net Zero target by 2030. Since then we have gone further, adding a Race to Zero commitment to reduce greenhouse gas emissions (GHG) across our entire value chain by 2045.

As a Group, we have also committed to setting both near and long-term Science Based Targets (SBT) in accordance with the Science Based Targets Initiative (SBTi) criteria and Corporate Net Zero Standard.

We have published our Net Zero 2030 plans on our company websites.



**Carbon-busting Net Zero Plan**  
[www.pennon-group.co.uk/sites/default/files/attachments/pdf/OurPromiseToThePlanet.pdf](http://www.pennon-group.co.uk/sites/default/files/attachments/pdf/OurPromiseToThePlanet.pdf)

- South West Water Race to Zero (2045)
- South West Water Net Zero (2030)

<b>Scope 1</b>	Water and wastewater treatment process and fugitive emissions
	Own and leased vehicle emissions
	On-site fossil fuel combustion
	Refrigerant gases (F-gases)
<b>Scope 2</b>	Electricity
<b>Scope 3</b>	Outsourced activities
	Power transmission and distribution
	Business travel
	Grey fleet (private vehicles used on company business)
	Waste
	Employee commuting
	Well-to-tank emissions
	Embedded carbon:
	<ul style="list-style-type: none"> <li>• Purchased goods and services</li> <li>• Capital goods</li> </ul>







### Leading the way with our Net Zero pioneers

The way to Net Zero will be led by our brilliant people. In November 2021, many responded to our invitation to become Net Zero Pioneers. Our pioneers will be crucial in shaping and delivering our plan and helping to galvanise the business to deliver the change necessary to reach Net Zero.

## Net Zero continued

### Our Net Zero strategy

Our Net Zero strategy is driven by three pillars:

- **Sustainable living** – reducing emissions through operational practices, including our on-site water usage, increasing energy efficiency and using lower carbon fuel sources
- **Championing renewables** – investment is underway to support the achievement of 50% renewable energy generation at our sites by 2030
- **Reversing carbon emissions** – working in partnership to deliver natural carbon sequestration through peatland restoration and tree planting. We restored around 500 hectares of peatland in K7, and we are now targeting planting 250,000 trees by 2025 after having achieved our initial five-year plan of 100,000 trees in 2021.



#### Sustainable Living

**We use standalone power generators at our operational sites as back up so that we can provide an uninterrupted continual service in the event of a power cut.**

The majority of these generators run on diesel. As part of our Net Zero fuel switching strategy, we have undertaken a trial of the use of Hydrotreated Vegetable Oil (HVO) biofuel, as a diesel substitute. The trial demonstrated using HVO reduced GHG emissions as well as reducing air quality emissions (NOx, CO), when compared to diesel. Importantly the trial demonstrated no adverse impact of the generators' operation. As a result of the successful trial, we are exploring roll out of HVO to all our wastewater sites.

Our strategy also depends on communication and engagement with all our stakeholders. We've made great progress in our first year which will continue but we cannot get there alone.

Our strategy is about doing the right thing for the environment and the planet. We also recognise that as a regulated business managing the region's water resources, we have to balance our Net Zero ambitions with other important priorities for our customers and the environment. Net Zero objectives may sometimes be challenged by the need to deliver environmental improvements. For example, achieving higher environmental standards may demand increased energy intensity, and new capital investments may increase carbon impacts. Our capital carbon programme will ensure we seek capital carbon reductions where possible.



#### Championing Renewables and innovation

**Achieving our Net Zero plan will require significant expansion of renewable energy across our sites.**

This will include tried and tested technology which we already use, for example, Solar PV and Hydropower but will also require new and innovative solutions. Our first year of championing renewables has focused on both. We've approved investment in a large expansion of our solar schemes with an additional 4MW to be deployed during 2022. The projects are a mixture of rooftop and ground mount schemes across our sites including a 440kW array at Lords Meadow wastewater treatment works in Crediton. We are also investigating the potential role of hydrogen, geothermal energy and floating solar in our future energy mix. Where we cannot generate enough to meet all our needs ourselves, 100% of the electricity we purchase will be from renewable sources.

We are already seeing the impact of climate change on our operations as well as associated energy use and GHG emissions. Our strategic planning frameworks seek to actively manage these risks now and in the future.



#### Park Pit – a new woodland for biodiversity and carbon sequestration benefit

**In March 2022, a group of colleagues from across Estates, Commercial, Property, Drinking Water, Asset Management, Communications and Natural Resources teams went out to Park Lake on Bodmin Moor in Cornwall on a mission to plant 335 trees.**




Professional arborculturalist, Steve Evans from Tree Investment, gave a lesson on how to plant the trees to encourage growth and diversity successfully. The gorgeous location, a field very close to Colliford Lake, is now home to oaks, hawthorns, willows and birch trees and is one of many tree planting initiatives we have planned.

**OUR PROGRESS**

In July 2021, we launched our Net Zero plans, pledging to reduce our carbon footprints and move toward more sustainable ways of operating.

It's been a progressive first year of Net Zero action. In addition to mobilising for the delivery of our Net Zero plans, we have also taken steps to better understand our impacts across the value chain, in particular through engagement with our key suppliers.

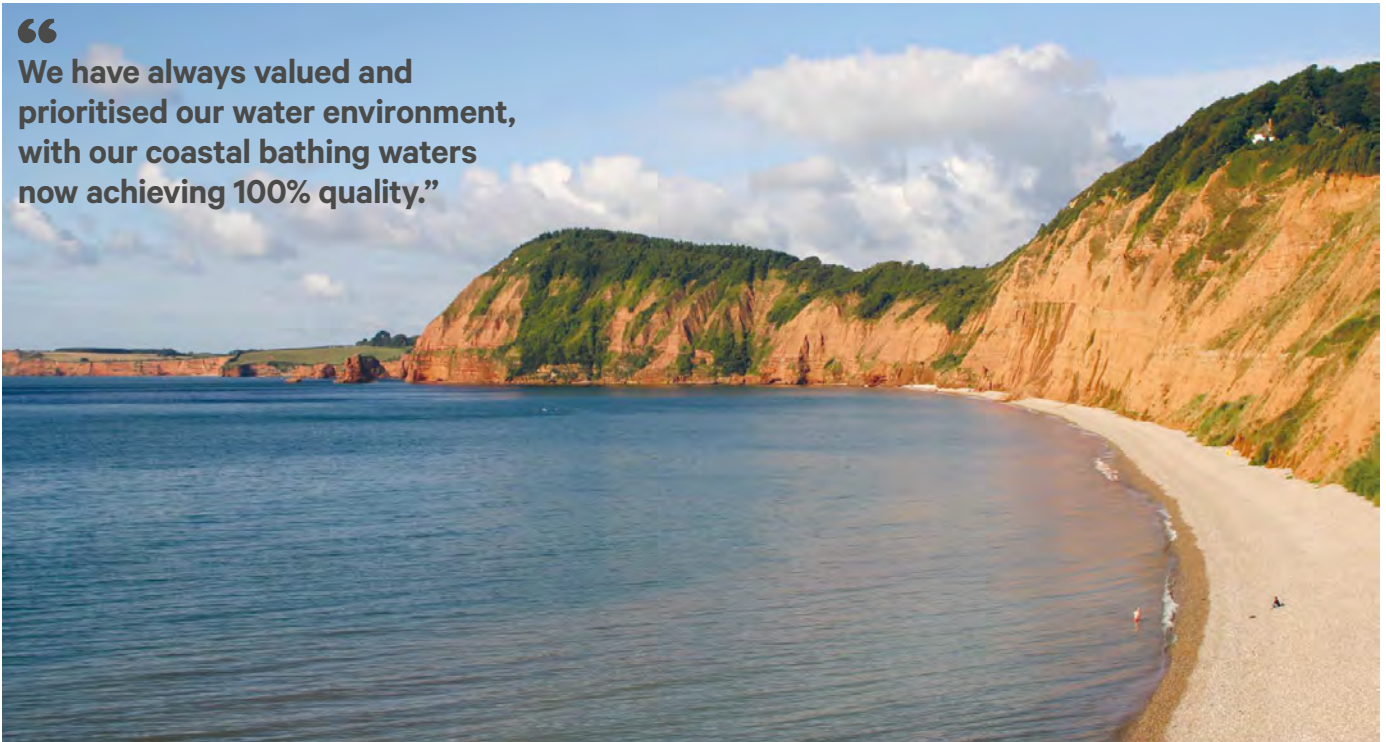
Our continued engagement with customers and communities on water efficiency will yield carbon savings towards our Net Zero goals, an issue we know from our recent materiality assessment is a priority for them. Read more on our Materiality Assessment on page 30 of the [Pennon Annual Report](#).

PILLAR	PROGRESS	NEXT STEPS
 <p><b>1. Sustainable Living</b></p> <ul style="list-style-type: none"> <li>Reducing emissions through changes to operational practices, increasing energy efficiency, and switching to lower carbon fuel sources</li> <li>Meeting our commitments to reduce leaks and help customers to use less water – protecting the environment and saving carbon.</li> </ul>	<ul style="list-style-type: none"> <li>Extension of existing energy and water efficiency programmes</li> <li>Launched Net Zero pioneers programme.</li> <li>First trial of 'HVO' bio-fuel for standby generation</li> <li>Established new governance to drive and manage our Net Zero delivery</li> <li>Delivered and embedded carbon and energy training across the business with energy management programme rolled out to c. 1,000 colleagues</li> <li>Engaged our top suppliers on our Net Zero plans and how they can support and align.</li> </ul>	<ul style="list-style-type: none"> <li>First 53 EV vans to be rolled out in 2022</li> <li>Deploy new 'capital carbon' tool to model life cycle carbon impact of different investment choices</li> <li>Expand Net Zero research opportunities with the University of Exeter through our CREWW partnership and further international research collaboration on fugitive emissions</li> <li>Working with key partners to support and align our shared journeys to Net Zero.</li> </ul>
 <p><b>2. Championing Renewables</b></p> <ul style="list-style-type: none"> <li>Maximising self-generation from renewables at our sites across the South West – working with partnerships and utilising our expertise</li> <li>Where we cannot generate enough electricity to meet all our needs ourselves, 100% of what we purchase will be from renewable sources.</li> </ul>	<ul style="list-style-type: none"> <li>Agreed renewables delivery plan</li> <li>Approved first business case for new solar schemes</li> <li>Health check and optimisation of existing renewables assets</li> <li>Actively explored opportunities for further third-party renewables supply agreement</li> <li>Developed strategy for biomethane as part of developing enhanced bioresource strategy.</li> </ul>	<ul style="list-style-type: none"> <li>15 new solar schemes to be installed in 2022/23 doubling our solar installed capacity</li> <li>New Renewable Energy Guarantees of Origin (REGOs) contract started in April 2022 guaranteeing 100% power purchased is green</li> <li>Progress exciting collaboration with Welsh Water and Thames Water on 'cold-digestion' through Ofwat's Innovation fund</li> <li>Investigations of biomethane applications within operational sites and transport.</li> </ul>
 <p><b>3. Reversing Carbon Emissions</b></p> <ul style="list-style-type: none"> <li>Reversing carbon emissions from our core activities</li> <li>Working in partnership to ensure our core activities reverse carbon emissions through solutions such as peatland restoration</li> <li>Supporting the development of innovative solutions to develop low carbon footprint processes through research and development.</li> </ul>	<ul style="list-style-type: none"> <li>First tree planting schemes through Woodland Code verification</li> <li>Committed to additional 1,000 Ha of peatland restoration by 2025</li> <li>Research collaboration at Water UK and UKWIR including development of land-based carbon sequestration model.</li> </ul>	<ul style="list-style-type: none"> <li>Continue tree planting programme towards our ambitious 250,000 trees by 2025 target</li> <li>Modelling of wider environmental and societal benefits from nature-based activity.</li> </ul>

# WaterFit

“

**We have always valued and prioritised our water environment, with our coastal bathing waters now achieving 100% quality.”**



## Delivering for the environment

In the last few years, we have seen an increased focus on the need to improve river and sea quality. The popularity of water-based activities, such as wild swimming and paddle boarding has increased, and through the pandemic, we saw greater appreciation for our green and blue spaces.

Alongside this, since we submitted our last business plan, there has been a broader policy shift with the Government's 25-year Environment Plan, COP26, the race to Net Zero, and the new Environment Act 2021.

We have always valued and prioritised our water environment, with our coastal bathing waters now achieving 100% quality.

We have always been committed to delivering for the environment and have already taken steps in the right direction. South West Water were early pioneers of catchment management through our award-winning Upstream Thinking programme – working with local stakeholders to restore habitats, protect river water quality, reduce flooding and reverse climate change through managing agricultural land use practices and restoring peatlands across the catchments. Since 2015 over 95,000 hectares of land have been improved with schemes that have delivered low cost, low carbon ways of reducing harmful nutrient run-off (phosphates and ammonia) into rivers. South West Water's Green

Recovery initiative outlined c.£82m of investment, including pilots for storm overflows, improving river quality, smart metering, water resource development and peatland restoration.

We have set out our Net Zero ambitions, outlining our commitment to transform how we produce and use energy to become carbon neutral by 2030 through our three pillars – sustainable living, championing renewables and reversing carbon emissions. Initiatives such as planting trees are an important part of this strategy and we plan to plant 250,000 trees by 2025, more than doubling our original target achieved four years early. To date we've planted c.150,000 trees.

Over 10 million visitors come to the South West every year, in addition to the 2.3 million people that live in the region. We want the South West to be the destination for water quality.

South West Water is reducing pollutions year on year, with 2021's performance the best ever and lowest for 10 years. However, it's clear there is a need to go further and faster now to reduce spills from our sewage system and reduce our impact on river water quality. Launched in April 2022, WaterFit has been developed, to build on existing plans to ensure we can deliver this ambition of going further and faster across a wider range of commitments. By front-loading and rebalancing c.£330m of investment, we will focus on those projects that will deliver multiple benefits, focused on a catchment by catchment, community by community investment approach, ensuring all areas in our region are benefiting with no additional impact on bills.

Overall, WaterFit will enable to us to deliver a step-change in both river and coastal water quality. It will enable us to expand our 100% excellent bathing water quality standards all year round, allowing everyone to enjoy our 860 miles of coastline. We'll also reduce our impact on river water quality by one-third by 2025, reducing spills from storm overflows to an average of 20 per year per overflow, increasing capacity in our infrastructure to the equivalent of 20 Olympic swimming pools. And we'll target delivering zero serious pollutions by 2025, with year-on-year reductions in all pollutions.

We have engaged with our customers through focus groups, to explore reaction to our plans and commitments. All of those who took part expressed support for WaterFit, with support strongest for our commitments on coastal bathing waters and reducing storm overflow spills. The focus on rivers and lakes was welcome and customers recognise the wider benefits that the plan can deliver, for the economy, jobs, health and wellbeing.

We therefore know that our plans meet the wants of customers and communities and we will be seeking continued feedback and engagement with all our stakeholders on our plans, about what we prioritise, and what we do first in each community, ensuring all areas in our region benefit.

Our plans involve a total investment of c.£330m over the next three years in our wastewater assets to deliver on our six WaterFit commitments.

## Our WaterFit commitments



### 1. NURTURING HEALTHY RIVERS AND SEAS

**We will:**

- Reduce our impact on rivers by 2025 by one third and put forward plans to target zero harm by 2030
- Reduce spills from storm overflows to an average of 20 per year by 2025
- Maintain our excellent bathing water quality standards, all year round, so that everyone can enjoy our 860 miles of coastline, whatever the time of year
- Deliver zero serious pollutions by 2025 and target a year-on-year reduction in all pollutions.



### 2. PUTTING NATURE ON EVERYONE'S DOORSTEP

**We will:**

- Make bathing water accessible, less than an hour's drive, for 100% of our residents and visitors
- Provide access to our 40 inland lakes and reservoirs, so that local communities can continue enjoying them for health and recreation
- Achieve the region's first bathing quality river, using lessons from our current pilots on the Rivers Dart and Tavy.



### 3. CREATING AND RESTORING HABITATS

**We will:**

- Stop pollutants from 120,000 hectares of regional farmland getting into rivers and seas by 2025, by working with local partners
- Restore an additional 1,000 hectares of peatlands by 2025, to create new habitats, improve river quality and reduce flooding
- Plant a quarter of a million trees by 2025, to help combat climate change, support river health and create new wildlife habitats.



### 4. INSPIRING OUR LOCAL CHAMPIONS

**We will:**

- Donate 25% of our Community Fund to local groups that share our passion for river and sea health
- Launch our WaterFit Warriors programme, to inspire thousands of water quality champions in schools and communities across the region
- Share progress with our customers through our unique WaterShare+ scheme at quarterly public meetings and our annual Customer AGM.



### 5. CREATING A SUSTAINABLE FUTURE

**We will:**

- Work collaboratively on the building of new developments in our region to help us manage our network
- Back the ban on non-flushable or plastic-containing wet wipes to help prevent blockages
- Work with our 10 million visitors, and 2.3 million customers, so they understand the important role they play in protecting our region, through our Love Your Loo campaign.




### 6. PUTTING PEOPLE IN CONTROL

**We will:**

- Work with partners to provide water quality information for residents and visitors, making it easily accessible on our website by the end of this year
- Help people understand river health, by sharing real-time river water quality information, just as we do for our bathing waters, by 2023
- Provide 100% monitor coverage at our treatment works and on our storm overflows, by 2023.

South West Water's base plans for 2025 were already delivering much of WaterFit but by going further and faster we are reinvesting efficiency achieved over the last two years to deliver this. By doing this customer bills will not be affected.

 **WaterFit plan and wider environmental commitments**  
[www.southwestwater.co.uk/waterfit/](http://www.southwestwater.co.uk/waterfit/)

# Innovation

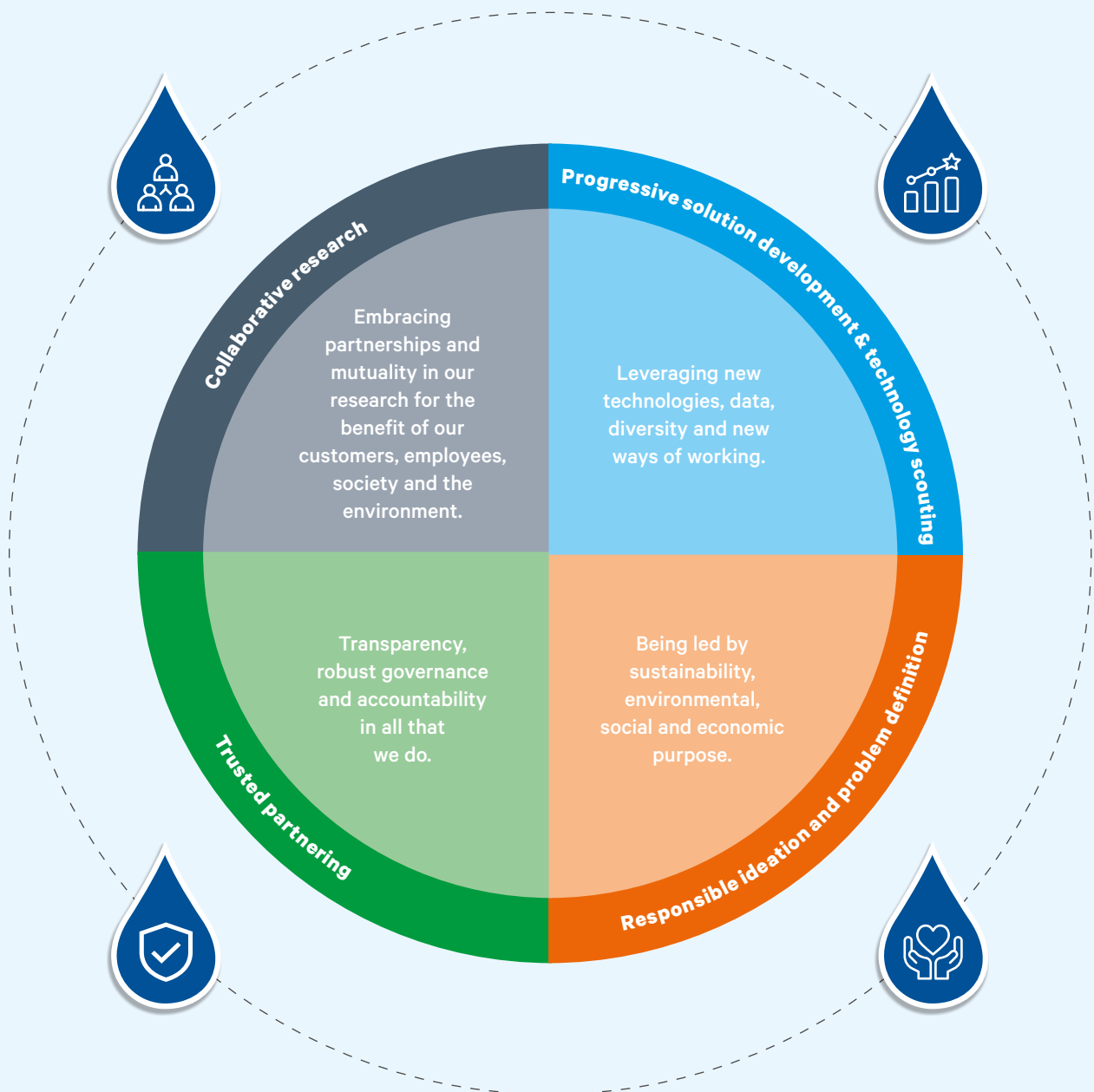
With the expectations of our customers and stakeholders increasing, the impact of climate change, uncertainty in world economic markets and the importance of the environmental agenda, the need for us to innovate is critical.

Fast, flexible innovation, coupled with long-term research is essential if we are to respond to this changing landscape and meet the needs of our customers, stakeholders and environment now and for the future.

Fostering an innovative mindset is at the heart of our business. Using innovation to drive efficiency, we can make significant improvements to performance. We have a dedicated innovation team that works to support our business and external partners who deliver and realise the benefits from our latest innovations.

## Our innovation strategy

Innovation, new technologies and a progressive approach underpin our commitment to delivering service improvements and long-term value. Our innovation strategy is mapped to our core values to guide not just how, but ultimately for what purpose and towards what aims we innovate. These core values form the pillars of our strategy.





“  
**It has never been more important for us to innovate. The heightening external challenges that face us, for example from climate change, alongside the increasing targets and expectations we set for ourselves, will not be met if we do things the same as we always have.**”

**Why we innovate**

We need to be resilient to the changes happening around us and meet the demands asked of us by our customers and Government. To do this, we need to not only continuously improve our processes and the quality of our services, but actively seek new solutions with long reaching and cross cutting benefits, for example, innovations that deliver a step-change in reducing carbon emissions, make environmental improvements, secure a resilient service and where possible, lower our costs.

**Our priority areas**

Our innovation strategy sets out our key themes and challenges. We need to balance our innovation activity across these priority areas to realise our long-term ambitions.

- Clean drinking water for everyone, all the time**

Focusing on the management of catchments upstream of drinking water abstraction points, and how different management practices affect water quality.
- Predicting and preventing pollution**

Exploring approaches for predicting pollution, and developing technologies and practices that minimise the likelihood of it occurring.
- Safe treatment and disposal of wastewater**

Understanding the risks associated with sewer discharges and developing technologies and practices to ensure wastewater is collected, treated and disposed of without harming the public or environment.
- Sustainable water supply and demand**

Focusing on the widest range of nature-based, behavioural, economic and engineering based measures to protect precious natural resources and promote sustainable consumption.
- Protecting the water supply network**

Understanding the factors that influence leakage, supporting early detection and identifying new solutions to minimise water loss, prevent supply disruptions and reduce operating costs.
- Building resilience into natural systems**

Understanding the interactions between the hydrological cycle and soils, geomorphology, ecology, climate and land use to inform and lead to more effective interventions by water and land managers, industry and regulators.

## Innovation continued

### Day-to-day innovation

#### Meniscus – rainfall prediction and CSO (combined storm overflows) pollution prevention tool for wastewater

In early trials, the Meniscus platform successfully predicted the performance of our wastewater network in controlling pollution events. Seven significant pollution events have been prevented since the trial began in August 2021. We are now in the latter stages of scaling up and planning wider deployment in our effort to predict storm events more accurately and prevent Combined Sewer Overflows (CSOs) and outfalls flooding within the hydraulic network.

#### I-Phyc – Phosphorus removal using algae – Broadwoodwidge Wastewater Treatment Works trials

We continue to research and optimise the phosphorus removal process, using live algae cultures, through our trials at Broadwoodwidge wastewater treatment works. We have found that learning about the algae lifecycle is key to efficient phosphorus removal. For example, we have learned that algae work best when in a “hungry” state. An added benefit found in the trials was that algae can also remove other unwanted pharmaceuticals and toxins present in the waste stream. There is still some way to go to achieve full roll-out but these trials have already improved our understanding of how natural systems can clean our waste.

### Strategic Research Projects

#### The Centre for Resilience in Environment, Water and Waste – CREWW

CREWW is both a collaborative research centre and programme of activity set over a 25-year partnership term with the University of Exeter, which will see more than £20m of funding from South West Water. The centre and the accompanying research programme are designed to solve some of the most pressing global environmental challenges of our time, conducting world-leading research into the provision of safe and resilient water services in the UK and overseas.

The Joint Venture agreement was signed between the University of Exeter and South West Water in November 2021, and the CREWW research centre will be operational from spring 2023. This dedicated research and innovation hub will include 760m<sup>2</sup> of laboratory space, housing new, world-leading analytical, field-monitoring and computing facilities, plus 430m<sup>2</sup> training and collaboration space. It has been designed to promote interaction between researchers from a range of academic disciplines including geography, biosciences, engineering, economics, psychology, and data science, as well as experts and industry colleagues from South West Water and our supply chain.

The associated Research, Development and Innovation (RD&I) programme will transform innovation for us. It will deliver tangible benefits to customers and the environment, and drive transformational change in the way we innovate, bringing research excellence and collaborative innovation to bear as we co-design and co-develop solutions to some of the operational challenges we face across five key themes.

Research will be based around five themes:

1. Drinking Water Quality
2. Wastewater Quality
3. Pollution Incidents
4. Resilience
5. Leakage.

The global challenges of climate change and population growth, together with increasing expectations of environmental quality and operational efficiency, will not be addressed by a business as usual approach. A new approach is needed, one that looks not only to engineering solutions and the built environment, but also one which leverages nature, behaviour, technology and finance-based management solutions that deliver multiple benefits to the environment, society and the economy. For us, CREWW provides this ability to make a positive difference, supporting the lives of people and the places they love for generations to come.

BELOW IS A SNAPSHOT OF SOME OF THE OUTCOMES AND IMPACT WE WILL BE LOOKING TO ACHIEVE THROUGH CREWW BY 2027:

# 10

**COLLABORATION CASE-STUDIES DEVELOPED BY NOVEMBER 2026. CO-LOCATION OF RESEARCHERS AND SOUTH WEST WATER COLLEAGUES BY SEPTEMBER 2023**

# 10

**UK TECH FIRMS WORKING WITH SOUTH WEST WATER AND OTHER WATER INDUSTRY PARTNERS, VIA THE CENTRE, TO OPERATIONALISE RESEARCH-LED SOLUTIONS BY 2027**

# 5

**INDUSTRY-ORIENTED EXAMPLES OF RESEARCH-LED SOLUTIONS BY APRIL 2026**

# >£20m

**WORTH OF RESEARCH AND INNOVATION PROJECTS DELIVERED IN COLLABORATION BY 2027**

# 250

**COLLEAGUES UPSKILLED AND 100 HIGHLY SKILLED JOBS CREATED WITHIN SOUTH WEST WATER AND ITS SUPPLY CHAIN BY 2027. WIDER KNOWLEDGE EXCHANGE PROGRAMMES TO BE IMPLEMENTED BY 2027, THAT WILL BE RECOGNISED AND PROMOTED BY LEPS**

# 2

**SPIN-OUT COMPANIES ESTABLISHED BY 2027**



## Ofwat innovation fund projects

In 2021, we joined with other water companies and industry leading partners to apply for funding from the £200m Ofwat Innovation Fund. We have successfully partnered on four winning bids. These research projects cover: advanced smart systems that autonomously control both clean and wastewater networks; upstream catchment advance modelling and citizen science data gathering; a novel low power cold wastewater treatment process; a novel approach to open data in the water sector; and community rainwater incentivisation. Further details of the larger projects and how they contribute to our innovation themes and ODIs are provided below.

### Safe Smart Systems

#### Business area – Drinking Water Services

This three-year £8.7m research project will build a prototype smart water system to predict, control and self-configure the clean water network to reduce supply interruptions, manage supply pressures, ensure water quality, reduce energy use and maintain continuous service for our customers. The project moved through its mobilisation phase in January 2021 and is currently researching the necessary elements to create the Artificial Intelligence decision engine and smart sensory technology needed to run a systems-wide approach to network calming.

#### Innovation Themes

- Delivering resilient infrastructure systems
- Protecting and enhancing natural systems
- Taking a whole life approach to responsible consumption and production.

#### ODIs

- Supply interruptions
- Leakage
- Net Zero
- Water quality.

### Artificial intelligence of things

#### Business area – Wastewater Services

This three-year £2.8m research project will design an artificial intelligent 'brain' to automatically compute the best sequence of controlling pumping and control gates to manage capacity in the wastewater network. Using near live data fed to it from smart sensors deployed on the network, the AI brain will predict flood events and take actions to control flows, reduce pollution events, reduce overall energy consumption and help plan improvements.

The project began in January this year and we are in the early stages of collaborating with project partners to research the data and system architecture needed to feed the AI engine. A major part of this project will be taking our operational colleagues on this innovation journey, so that they have faith in and trust the automatic decisions made by the AI engine.

#### Innovation Themes

- Delivering resilient infrastructure systems
- Protecting and enhancing natural systems
- Taking a whole life approach to responsible consumption and production.

#### ODIs

- Pollution
- Wastewater treatment works quality
- Net Zero.

### Catchment Systems Thinking Co-operative

A 2.5 year £71m advanced Upstream Thinking project on a national scale, engaging the public in data gathering (citizen science) and modelling the best targeted interventions for economic future investment (PR24+).

#### Innovation Themes

- Providing the services society needs, expects and values
- Taking a whole life approach to responsible consumption and production
- Providing Clean Water for All.

#### ODIs

- Water treatment works quality (CRI)
- Biodiversity improvements.

## Mayflower Water Treatment Works, Plymouth

Harnessing innovation and new technologies, South West Water has been able to increase its fundamental knowledge of ceramic membranes to improve water quality and scale down the footprint and energy needed to treat the city of Plymouth's drinking water as well as reduce treatment costs, enabling us to pass savings on to our customers. The knowledge acquired through our innovative Mayflower project has also accelerated our progress into pilot trials for our upgraded flagship water treatment facilities for Bournemouth at Alderney and Knapp Mill.

Our pioneering track record meant we were the utility company of choice for the first UK trials of the emerging ceramic membrane technology, which is now being used at Mayflower WTW. Thanks to our global research alliances with leading utilities such as Singapore PUB, PWN and DeWatergroup, as well as with academia and technology providers, we continue to provide shared insight in water industry challenges and embed the latest innovation and technologies that benefit our customers and the environment.

### Outlook

The future is bright for research, development and innovation as we continue to make substantial investment into local, sector-wide and global partnerships that bring forward solutions to our most pressing operational challenges and bring benefits to our customers, society and the environment.

## Finance Director's report



**Resilient business performance despite the challenges of Covid-19** and a fast start business plan for customers.

### Financial highlights

**£203m**

**SIGNIFICANT CAPITAL INVESTMENT**

**3.4%**

**EFFECTIVE INTEREST RATE**

**61.7%**

**SUSTAINABLE GEARING**

**c.80%**

**ODIS ACHIEVING TARGET**

Performance across the South West Water continues to be operationally resilient, delivering against our business plan commitments and realising benefits for all stakeholders.

### Overview

Our existing environmental plans to 2025 are already delivering significant benefits for the environment. We are well underway with the delivery of our c.£1.2 billion capital programme for 2020-25 across the Company – our largest environmental investment programme in 15 years. This includes our Green Recovery and Net Zero 2030 plans, delivering nature-based solutions and pilots to shape future investment plans, along with accelerating renewable energy generation to c.50% by 2030. Alongside this, our WaterFit programme will see us invest £330m over the next three years to deliver a step change.

South West Water's New Deal business plan 2020-25 was developed with customers, for customers. In helping to shape our business plan, customers told us they want a resilient and reliable service, and a fair and affordable bill. During Covid-19, many of our customers have seen significant additional pressures on their finances, and teamed with the current rising inflationary environment, together with our commitment to support customers has never been more important.

We have worked hard to deliver quality services at an efficient cost, so that bills remain as low as possible. During the year we announced that bills for 2022/23 would fall, meaning that whilst the majority of utility prices are increasing, our average bill will be falling at this critical time. South West Water's bills are lower in real terms than they were 10 years ago thanks to our continued focus on driving efficiency through innovation.

In 2021/22, there was a c.4% increase in customers benefiting from one or more of South West Water's affordability initiatives, bringing the total to c.70,000. These initiatives include discounts to bills or a level of bill certainty to suit customers' circumstances. We are targeting a further increase in 2022/23 as we work to address water poverty for our customers by 2025, in line with South West Water's Board Pledge.

South West Water's strong operational and financial performance has contributed to a sector-leading RORE of 9.2% with outperformance in all areas in 2021/22.

In 2021/22 South West Water achieved c.80% of its ODIs across a broad range of challenging bespoke, common and comparative measures – in line with performance in 2020/21. We have plans in place to achieve all of our 2025 targets.

Ten ODIs continue to represent areas of excellence having achieved our 2025 target early or achieved maximum reward, with a further 25 outperforming their 2021/22 target or on track.





We have delivered a significant step change in pollutions performance in line with our Pollutions Incident Reduction Plan, reducing wastewater pollution incidents by over a third, and whilst still an area of focus, the financial penalty is substantially reduced from 2020/21.

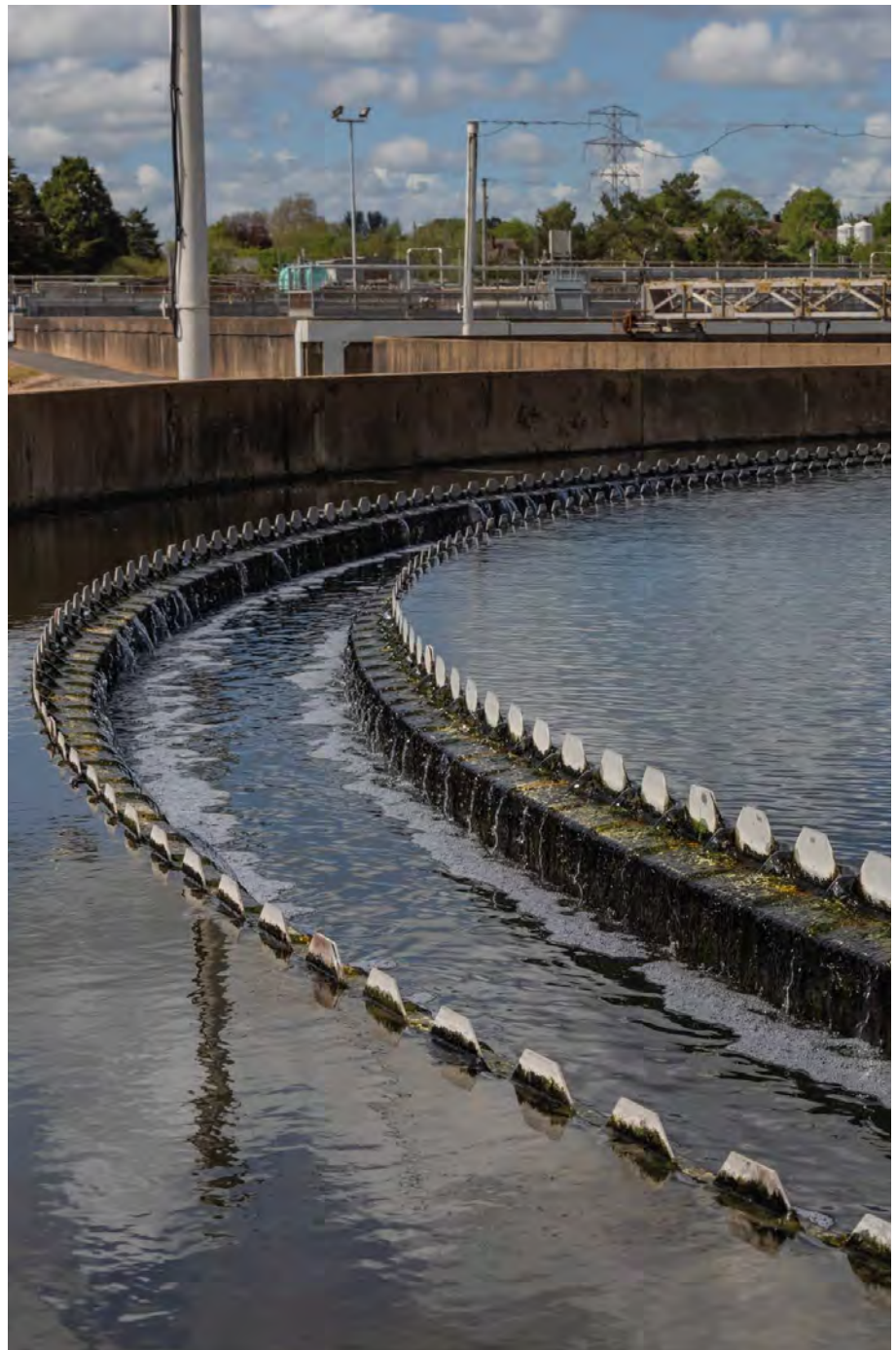
Overall, financial ODI performance for South West Water for 2021/22 has improved significantly from the prior year, resulting in a net reward of c.£0.7m (2020/21 net penalty of c.£10.4m), reflecting an annual equivalent RORE outperformance of 0.1%.

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate at 3.4% (2020/21 2.5%), lower than Ofwat's nominal cost of debt. While recent increases in inflation are driving an increase in finance costs of index-linked debt, we continue to outperform the cost of debt allowances through our flexible financing strategy and the company's diverse debt portfolio, with a lower level of index-linked debt compared to the industry average.

Whilst the elevated inflationary environment is placing pressure on costs, we continue to focus on efficient totex delivery, supported by our pioneering approach to innovation across the Company.

**Key Metrics**

-  **Tax strategy** on page 146
-  **Dividend policy** on page 141
-  **Financial position (table 1A)** on page 148
-  **Financial metrics (table 4H)** on page 182



**WATERSHARE RORE 2021/22<sup>1</sup>**

**8.7%<sup>2</sup>**

Base	3.9%
Totex	0.9%
ODIs	0.1%
Financing	3.8%

<sup>1</sup> WaterShare RORE – financing outperformance is based on the outturn effective interest rate translated into an effective real interest rate using K7 forecast CPIH of 2.0% (consistent with the FD)

<sup>2</sup> This excludes the impact of the 3<sup>rd</sup> party incident

**OFWAT RORE 2021/22<sup>3</sup>**

**8.5%**

9.2% (excl. 3<sup>rd</sup> party incident)

Base	3.9%
Totex	0.8%
ODIs	-0.6% / 0.1% (excl. 3 <sup>rd</sup> party incident)
Financing	3.9%
Tax	0.5%

<sup>3</sup> Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

## Chair's introduction to governance



On behalf of the Board, I am pleased to introduce our governance reporting for 2021/22. This report provides detail around our governance practices and processes, our application of the principles of best practice corporate governance, our key focus areas and achievements for 2021/22 and how the Board continues to support the strategy and operations of the Company.

I'd firstly like to thank the Board and the c.2,000 colleagues that make up the Company, whose hard work and dedication allow us to continue to support our customers and communities, deliver on our strategy and continue to drive environmental change.

In a year where we were all still very much impacted by the Covid-19 pandemic, the Board has continued to convene and maintain a regular dialogue to discuss key areas of focus and maintain strong governance.

Strong governance remains central to the successful management of South West Water and provides the framework for effective delivery of our strategy, fulfilment of our purpose, the creation of value for all our stakeholders and the ongoing development of our sustainable business. We continue to operate to the highest standards of corporate governance, with our Board composition ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review, whilst our ESG targets, incorporating our commitment to Net Zero by 2030, are already well ahead of many in the FTSE 250. Our refreshed H&S Committee and HomeSafe programme also see us well placed to deliver on our ambitious targets in this area.

The table on pages 78 and 79 will help you to navigate our reporting and evaluate our performance against the Ofwat's Board leadership, transparency and governance – principles (January 2019) and, as is explained (see right) processes and procedures are in place to safeguard the independence of decision making by the South West Water Board.

### Purpose and values

Our purpose reflects what we have heard from customers. Our customers tell us that we have the opportunity to improve their lives across the region. Their top priority is to have safe, clean water – it's vital for life. The next four priorities are around improving the water environment – improving bathing waters and rivers and reducing pollution events – as this can impact and enhance their lives, communities and society. Top 10 priorities include boosting reliability – we need to bring water to them all day, every day without interruption, no matter the weather. Our purpose needs to reflect these customer needs, and we think our purpose does indeed encapsulate perfectly what our customers tell us is important to them.

Through the WaterShare Panel we tested our purpose – **Bringing water to life** – which had evolved from Bringing Resources to Life, which stakeholders thought better reflected South West Water and, the re-orientated, Pennon Group as a whole.

**Bringing water to life:** supporting the lives of people and the places they love for generations to come

Our new full vision and purpose, 'Bringing water to life', and our purpose, 'supporting the lives of people and the places they love for generations to come', demonstrates the unique role we play in providing a vital service for the public good. These statements, together with our well-embedded core values (trusted, responsible, collaborative and progressive), guide the Board in all of its activities and decision making.

### Monitoring the Company's culture

Organisations that embody a clear sense of vision and purpose deliver good results and the most successful workplace cultures are built on trust. The Board relies on employee engagement as a way of monitoring the organisation's culture, most notably our Trust Index score.

### Role of the Board and its effectiveness

It is my view that the Board continues to be highly effective with a good understanding of South West Water's opportunities as well as the threats facing the business. This view is supported by the results of this year's Board and Committee performance evaluations, which are reported on pages 87 and 88. We keep under constant review the threats to the future success of the business. Other risks identified and reviewed are contained in our risk report on pages 114 to 122.

### Board independence

In accordance with Ofwat's principles on Board leadership, transparency and governance, the Group maintains separate and independent Boards for Pennon and South West Water and for Bristol Water plc following its acquisition by Pennon on 3 June 2021.

Our system of governance remains appropriate and effective, whilst continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making process. The South West Water Board shares a Chair and the four Independent Non-Executive Directors with Pennon, convenes on the same day as each Pennon Board meeting and considers all key issues separately.

This arrangement allows full operational oversight and governance by the Boards over South West Water's interests, whilst the Pennon Board continues to focus on strategic forward-looking matters for the Group as a whole.

### Promoting diversity

I strongly believe that a diverse Board and a diverse workforce brings significant value to the growth and success of an organisation. As an organisation with a female Chair and CEO, we continue to ensure South West Water is inclusive and diverse. I am pleased to see we continue to be ahead of the targets for women on Boards (now set out in the FTSE Women Leaders Review) and that we have met the target of at least one Director from a minority ethnic background (as set out in the Parker Review).

### Stakeholder engagement

Engaging with all of our stakeholders has never been more vital, particularly with the national and global issues we are facing. As a sector, we face much scrutiny around our environmental impacts, and it is important that we listen to and respond to our stakeholders' views. We ensure that all decisions and the impacts on our stakeholders are carefully considered. Our stakeholder engagement programme ensures that there continues to be an opportunity to provide feedback to the Board.

We continue to foster an open and transparent feedback culture within the business, with colleagues having the opportunity to share feedback in a number of ways with the Executive team and Board, including Big Chat, the Great Place to Work survey and our new Employee Forum RISE.

You can read more on how we are engaging with our stakeholders on pages 10 and 11.

### Compliance with Ofwat's principles and the UK Code

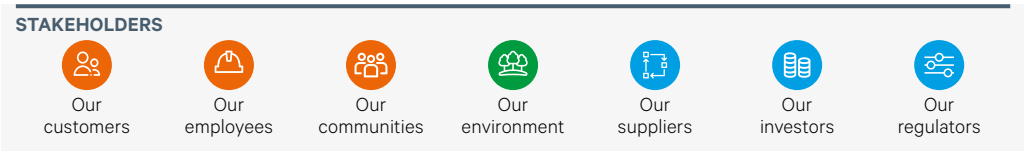
South West Water complies with the UK Corporate Governance Code (the 'UK Code') as fully as possible, within the context of being a subsidiary of a listed company, Pennon Group plc, which itself fully complies with the UK Code. The UK Code is published on the Financial Reporting Council (FRC) website, [www.frc.org.uk](http://www.frc.org.uk).

Given the Group structure, there are a limited number of areas in which South West Water does not comply with specific Code provisions. These areas are described on pages 81 to 82 of the South West Water Annual Report and Financial Statements alongside any additional mitigations deemed necessary.

Gill Rider

Chair  
South West Water Limited

14 July 2022



The following table sets out some of the most significant decisions taken by the Board during the year and how stakeholder interests were taken into account:

KEY DECISION	STAKEHOLDERS AFFECTED	STRATEGIC FACTORS TAKEN INTO CONSIDERATION	OUTCOME
<b>Green Recovery</b>		<ul style="list-style-type: none"> <li>Generating new jobs in the South West</li> <li>Improving public health and water quality</li> <li>Protecting the environment</li> <li>Addressing climate change</li> </ul>	Board approval of Green Recovery Initiative
<b>Pollution Incident Reduction Plan</b>		<ul style="list-style-type: none"> <li>Financial and regulatory impact of pollution incidents</li> <li>Impact of pollution incidents on customers, communities and the environment</li> <li>Reputational matters</li> </ul>	Board approval of Pollution Incident Reduction Plan and monitoring progress of Plan
<b>Drinking water quality</b>		<ul style="list-style-type: none"> <li>Ensuring the provision of a clean, safe and reliable drinking water supply</li> <li>Upgrading Water Treatment Works to reduce water quality risks</li> <li>Ensuring consistency of quality standards across all of our areas</li> </ul>	Board approval of our Transformation Programme and Water Quality investment
<b>WaterFit</b>		<ul style="list-style-type: none"> <li>Planning to ensure healthier rivers and seas</li> <li>Developing measurable commitments to assess our performance</li> </ul>	Board approval and launch of our long-term WaterFit plan
<b>Net Zero strategy</b>		<ul style="list-style-type: none"> <li>Government commitment to Net Zero by 2050</li> <li>UK-wide water sector and Water UK commitment to Net Zero by 2030</li> <li>Positive impact on the environment</li> <li>Regulatory and environmental compliance</li> </ul>	Board approval of strategic plan and roadmap agreed
<b>WaterShare+</b>		<ul style="list-style-type: none"> <li>Delivery of outperformance value to customers</li> <li>Giving customers a greater say in our business</li> <li>Enabling customers to become shareholders in the business</li> <li>Delivery of commitment in PR19 business plan</li> </ul>	Board approval of WaterShare+ scheme
<b>Drainage and Wastewater Management Plan</b>		<ul style="list-style-type: none"> <li>Developing plans to evolve our wastewater system into one future generations can be proud of</li> </ul>	Board approval of our draft Drainage and Wastewater Management Plan
<b>Climate change</b>		<ul style="list-style-type: none"> <li>Identifying climate change risks to the services we deliver and implementing mitigating actions</li> <li>Working with stakeholders and communities to address the challenges</li> </ul>	Board approval of and publication of our Climate Adaptation Report
<b>Covid-19 response</b>		<ul style="list-style-type: none"> <li>Health, safety and wellbeing of employees and customers</li> <li>Continued delivery of essential services</li> <li>Helping vulnerable customers</li> <li>Financial security for employees</li> </ul>	Strong Board support for measures introduced by the management team which was maintained throughout the year
<b>Capital investments</b>		<ul style="list-style-type: none"> <li>Delivering our regulatory outputs</li> <li>Protecting the environment</li> <li>Improving public health and water quality</li> </ul>	Board approval of key and strategic investments
<b>Upstream Thinking – further investment</b>		<ul style="list-style-type: none"> <li>Positive environmental impact</li> <li>Improving water quality and catchment predictability</li> <li>Regulatory compliance</li> <li>Return of value from further investment</li> </ul>	Board approval of further investment in Upstream Thinking project
<b>Dividend policy and its application</b>		<ul style="list-style-type: none"> <li>Ensuring the policy is transparent and recognises our commitment to our customers and the environment</li> </ul>	Board approval of dividend policy and payment of dividend
<b>New borrowings</b>		<ul style="list-style-type: none"> <li>Maintaining a sustainable and solid funding and liquidity position</li> <li>Continued delivery of high standards of service to customers</li> </ul>	Entry into new funding facilities
<b>Tax Strategy</b>		<ul style="list-style-type: none"> <li>Maintaining Fair Tax Mark status</li> <li>Corporate and social responsibilities in relation to tax affairs</li> <li>Legal and regulatory compliance</li> </ul>	Board approval of annually published Tax Strategy
<b>Modern Slavery Statement</b>		<ul style="list-style-type: none"> <li>Health, safety and wellbeing of our employees and the workers in our supply chain</li> <li>Reputational matters</li> <li>Legal compliance</li> </ul>	Board approval of Modern Slavery Statement published on website

## Board of Directors

### Trusted leaders



#### Gill Rider

Chair

E HS N R

CB, PhD, CCIPD

#### Appointed

Gill was appointed to the Board on 1 April 2016 and became Chair on 31 July 2020.

Gill has been a member of the Pennon Group Board since 1 September 2012.

#### Skills and experience

- Gill has a wealth of experience in leadership and governance across a broad range of sectors including professional services, education, not for profit and Government.
- Gill was the senior independent director of Charles Taylor plc until its sale in January 2020.
- Formerly, she was head of the Civil Service Capability Group in the Cabinet Office, reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture LLP, culminating in the post of chief leadership officer for the global firm. She was previously president of the Chartered Institute of Personnel and Development and chair of the council of the University of Southampton.

#### Other appointments

- Gill is currently a non-executive director of Intertek Group plc where she is also chair of their remuneration committee. In addition to her PLC roles, Gill is also the President of the Marine Biological Association.

#### Susan Davy

Chief Executive Officer

PS E HS

BSc Hons, ACA

#### Appointed

Susan was appointed Chief Executive Officer for South West Water and Pennon Group on 31 July 2020.

Having previously served on the South West Water Board as Finance and Regulatory Director from 31 August 2007 until 31 January 2015, Susan has been a member of the Pennon Group Board since appointment initially as Chief Financial Officer Pennon Group on 1 February 2015.

#### Skills and experience

- Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy which has included the value creating acquisition of Bournemouth Water in 2015 and now Bristol Water, as well as the successful Viridor disposal process, all of which she has led. In her 25 years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water.
- Under her guidance South West Water is the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.
- Susan is highly respected in the City and has been instrumental in building Pennon's reputation.

#### Other appointments

- Susan is a Non-Executive Director and Audit Chair of Restore Plc, a member of the CBI President's Committee, deputy Chair of the CBI South West, having served as Chair from 2018-2021, a Water UK Board member, member of the Energy & Utilities Skills Partnership Council and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.

#### Louise Rowe

Finance Director

E

BSc Hons, ACA

#### Appointed

Louise was appointed South West Water Finance Director on 1 February 2015.

In October 2020 she was also appointed Pennon Sustainability Director.

#### Skills and experience

- Louise is a chartered accountant and has been with South West Water for over 13 years holding a range of managerial roles within Finance prior to her appointment as Finance Director.
- Louise holds a number of directorships with South West Water Group companies and is a key member of several Executive subsidiary Committees including the ESG Executive Committee.
- Prior to joining South West Water, Louise qualified with KPMG following completion of her physics degree.

#### Other appointments

- None.

**COMMITTEE MEMBERSHIP KEY**

- PS Pennon & SWW Executive
- A Audit Committee
- E ESG Committee

- HS Health and Safety Committee
- N Nomination Committee
- R Remuneration Committee

- Chair of Committee
- Member of Committee

**Neil Cooper**

4

Senior Independent Director  
(Non-Executive)

- E A HS N R

BSc Hons, FCMA

**Appointed**

Neil was appointed to the Board on 1 April 2016.

Neil has been a member of the Pennon Group Board since appointment on 1 September 2014.

**Skills and experience**

- Neil brings to the Board extensive experience in a wide variety of corporate and financial matters.
- Previously, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc. He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.
- As chair of the Audit Committee, Neil has been influential in directing the Company's approach on a number of significant matters including internal control, governance and financial reporting.

**Other appointments**

- Neil is currently the chief financial officer of Currencies Direct, a foreign exchange broker and international payment provider.

**Iain Evans**

5

Non-Executive Director

- A E HS N R

CBE, BSc Hons, FCA, MBA

**Appointed**

Iain was appointed to the Board on 31 July 2020.

Iain has been a member of the Pennon Group Board since appointment on 1 September 2018.

**Skills and experience**

- Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy.
- In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries.
- Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.
- As chair of the ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of our strategy.

**Other appointments**

- Iain is a non-executive director of Bologna Topco Limited and continues to act as an independent corporate strategy consultant.

**Jon Butterworth**

6

Non-Executive Director

- A E HS N R

MBE, MSc, Flod

**Appointed**

Jon was appointed to the Board on 28 September 2017.

Jon was also appointed to the Pennon Group Board on 8 July 2020.

**Skills and experience**

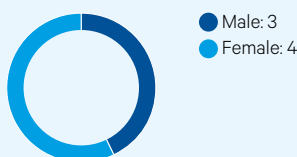
- Jon is the Chief Executive Officer of the UK Gas Business for National Grid Plc and a member of the National Grid Executive Committee.
- Jon has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 44 years ago as an apprentice in British Gas.
- He has been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group Safety, Resilience and Environmental Director of National Grid Plc and formerly CEO of National Grid Ventures, building (£3bn) of growth in renewables across the USA and Europe.
- Jon's Utility background makes him keenly aware of the importance of maintaining a balance between performance and safety, and he constructively challenges the Board and management to constantly raise the bar in this area.

**Other appointments**

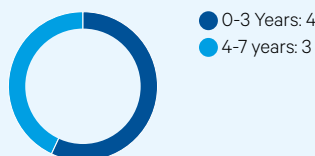
- Jon is a Fellow of the Institute of Directors and is a Director of National Grid Gas, National Grid Metering Limited, E.Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited. He is also an Ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.

**OUR BOARD**

**BOARD COMPOSITION**



**TENURE**



**The Board and its governance** see page 72 for details of the Board's areas of experience

**Claire Ighodaro**

7

Non-Executive Director

- PS A HS N R

CBE, BSc Hons, FCMA, DUniv (Hon)

**Appointed**

Claire was appointed to the Board on 31 July 2020.

Claire has been a member of the Pennon Group Board since appointment on 1 September 2019.

**Skills and experience**

- Claire has held a number of senior roles and directorships of UK and international organisations and has extensive board experience, serving on audit and governance committees.
- Claire is a past president of CIMA and was the first woman to lead this organisation.
- She spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including governance committee chair of Bank of America's Merrill Lynch International, audit committee chair of Lloyd's of London, Flood Re, The Open University and various UK public bodies including UK Trade & Investment and the British Council.
- As chair of the Remuneration Committee Claire continues to steer the Company's approach on executive remuneration, ensuring that it is aligned with and supports the strategy.

**Other appointments**

- Claire is non-executive Chair of the Board and the Governance Committee for Axa XL – UK entities and non-executive chair of the Audit Board of KPMG LLP.

**IN ATTENDANCE**

**Paul Boote**

8

Group Finance Director

- PS E

BSc, FCA

Paul is a chartered accountant with over 20 years' experience having also held Senior financial roles at companies operating in the sport, construction and environmental infrastructure industries. He was appointed Pennon Group Finance Director on 8 July 2020. Paul had previously held a number of senior roles at Pennon, most recently as Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintains a responsible approach to tax, as well as leading on financial reporting matters.

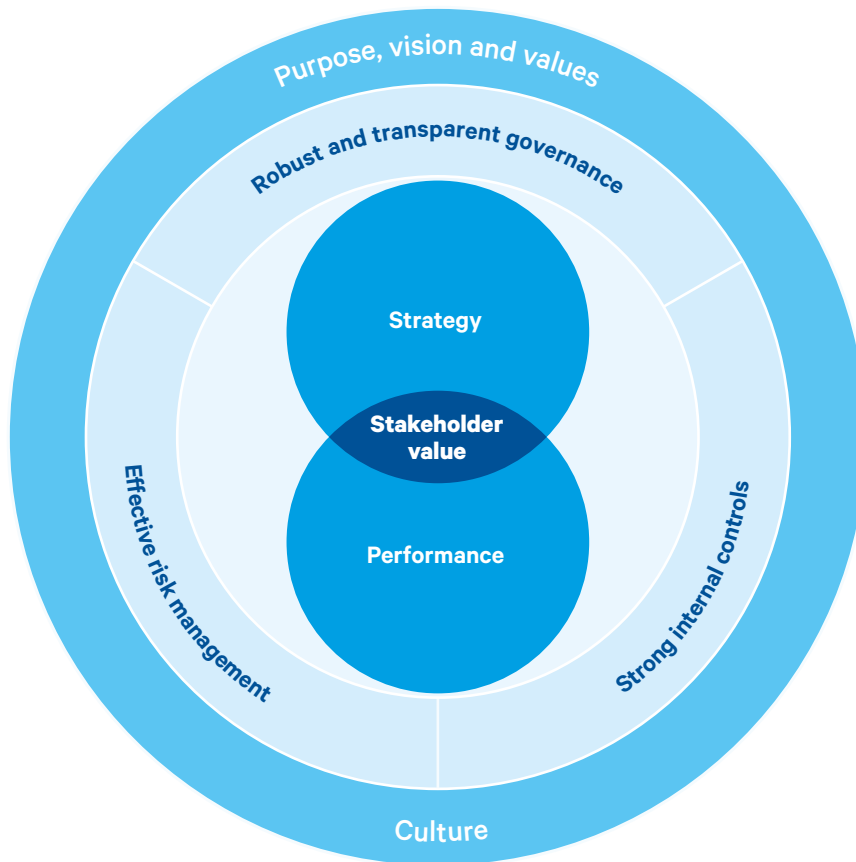
Over the past year, Paul has been instrumental in the development and successful implementation of the Group's recent strategic review.

Paul chairs the Executive Finance Committee.

# The Board and its governance framework

**The Board acts as the main governing body for the purpose of oversight** for the Company's regulated business.

Our approach to governance is an integral part of our culture, guiding how we do business and create value for our stakeholders.



## GOVERNANCE FRAMEWORK

### Stakeholder value

We deliver sustainable value for our stakeholders by providing high-quality environmental infrastructure and customer services.

### Strategy

Our strategy is to lead in the UK's water and wastewater sectors, invest for sustainable growth and drive value through efficiency.

### Performance

Our financial and operational performance is driven by our strategic sustainability objectives.

#### Robust and transparent governance

We are committed to operating to the highest standards of corporate governance.

#### Effective risk management

We have a mature, integrated risk management framework which is embedded into existing governance structures and ways of working.

#### Strong internal controls

We keep the effectiveness of our internal control environment under regular review and seek continually to improve our approach.

### Purpose, vision and values

Our purpose – bringing water to life, supporting people and the places they love for generations to come – and its supporting values of trusted, collaborative, responsible and progressive, will help drive our strategic priorities over the long term.

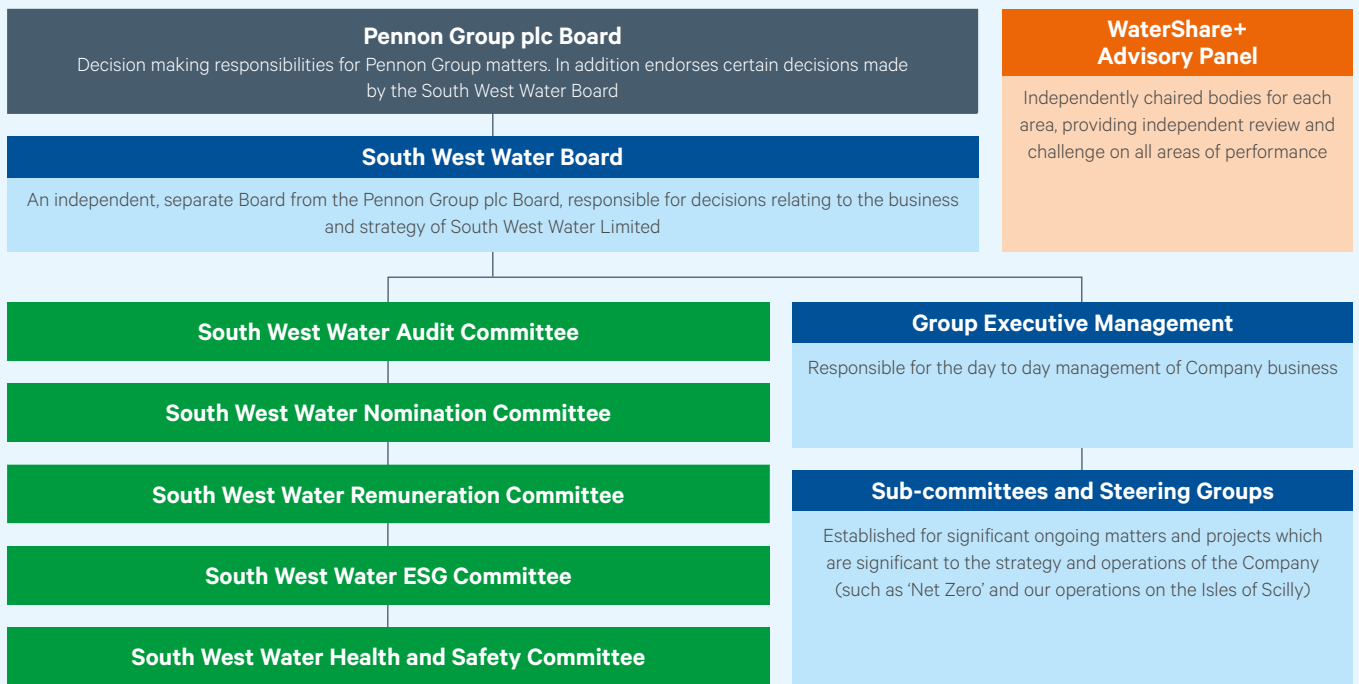
### Culture

We are developing a culture that can be lived throughout the Company with integrity and transparency, ensuring South West Water is trusted and valued by all its stakeholders.



## Board structure summary

The following diagram summarises the context and structure which the South West Water Board operates aligned with the governance approach of Pennon Group plc:



### Subcommittees and Steering groups

No	Title	Purpose
1	Health and Safety Executive Committee	Established to oversee South West Water’s approach to health and safety (including broader staff welfare)
2	Drinking Water Quality Committee	Established to ensure the high quality of our drinking water is maintained and prompt improvements are taken when necessary
3	Pollutions Committee	Established to ensure pollutions incidents are minimised and to oversee the pollution incident reduction plan
4	Net Zero Committee	Oversees our ongoing programme in line with our commitment to achieve net zero status by 2030
5	Outcome Delivery Incentive Committee	Oversees the Company’s plans to deliver the performance commitments it has made to customers and stakeholders
6	Isles of Scilly Steering Group	Established to ensure we meet our obligations since being appointed the licensee in April 2020
7	Investment Planning Committee	Effective owner of procedures controlling and approving capital investment. Ensures principles of proper financial control
8	Procurement Strategy Group	Oversees strategies and policies to promote effective working practices for strategic contracting relationships
9	People Committee	Oversees the People Strategy considering all people matters including culture within the Company
10	ESG Executive Committee	Oversees the implementation of the ESG strategy and ongoing ESG framework
11	Audit Executive Committee	Established to review the implementation of Audit Committee outputs and the ongoing controls framework
12	Risk and Energy Committee	Reviews the principal and business risk assessments as well as the controls and mitigations in place and assurance activities, including in the area of Energy
13	PR24 Steering Group	Established to develop the Company’s preparation and plans for PR24
14	Innovation Committee	Established to develop and oversee South West Water’s innovations within its operations
15	Regulatory Affairs Committee	Established to oversee the Company’s response to regulatory matters
16	Compliance Committee	Established to oversee ensure South West Water’s compliance with our obligations

## The Board and its governance framework continued

All of the Non-Executive Directors are considered by the Board to be independent. None of the relationships or circumstances set out in the UK Corporate Governance Code (the UK Code) applied to the Non-Executive Directors listed on pages 66 and 67.

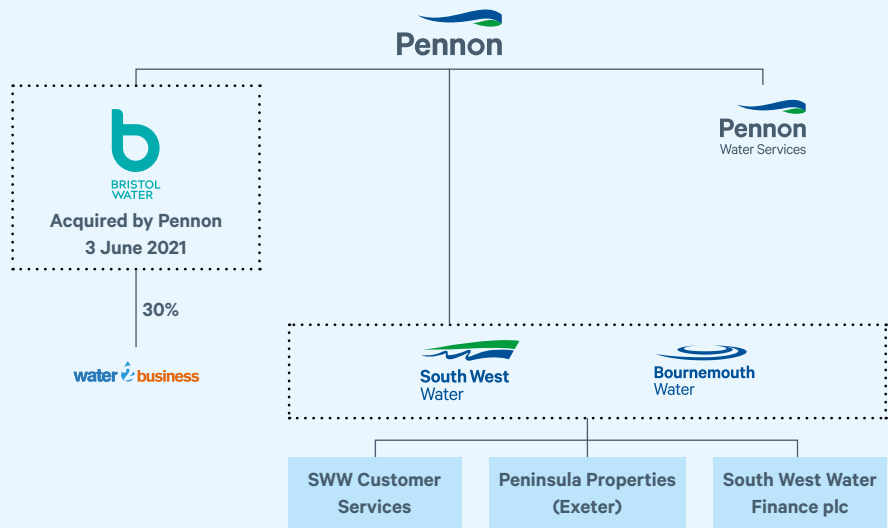
Notwithstanding their directorships of Pennon Group plc, Gill Rider, Neil Cooper, Jon Butterworth, Iain Evans and Claire Ighodaro are considered to be independent in character and judgement given that they were appointed to the South West Water Board in order to facilitate the Group's revised governance framework, rather than to represent the interests of the shareholder.

Susan Davy continued as a non-executive director of Restore plc throughout 2021/22. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of a Director.

At year end, the Board had 57.1% female representation, which exceeds its 33% female representation target. Further details of gender diversity within the Company are described on pages 48 and 49.

All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 66 and 67 demonstrate collectively a broad range of business, financial and other relevant experience.

### SOUTH WEST WATER'S GROUP CONTEXT



South West Water provides regulated water and wastewater services across Cornwall, Devon and parts of Dorset and Somerset, and water services in the Bournemouth Water area of operation (covering areas of Dorset, Hampshire and Wiltshire). From 1 April 2020, South West Water's licence was extended to provide water and wastewater services on the Isles of Scilly.

The Company also provides a small number of non-appointed services.

#### Our parent company – Pennon Group plc

Pennon Group plc is a UK FTSE listed company and owns 100% of the share capital in South West Water Limited. Further details of the governance arrangements are provided in this section of the Annual Performance Report and Pennon Group plc's Annual Report and Accounts [annualreport.pennon-group.co.uk](https://annualreport.pennon-group.co.uk)

#### South West Water's subsidiaries:

**South West Water Customer Services Limited** manages South West Water's billing, collections and customer contact activities. (formerly Source Contact Management Limited)

**Peninsula Properties (Exeter) Limited** advises South West Water on property development opportunities.

**South West Water Finance plc** acts as a financing company, raising borrowings for South West Water.

#### Other significant associated companies:

##### Bristol Water:

On 2 June 2021, Pennon approved the acquisition of Bristol Water Holdings UK Limited, including its subsidiary Bristol Water plc, which provides water only services to c.1.2 million customers in the Bristol region. Bristol Water Holdings has a 50% holding in Bristol Wessex Billing Services Limited, which provides debt collection services and a 30% holding in water2business Limited, which is a retailer of non-household water and wastewater services.

The acquisition was completed on 3 June 2021 and the Competition and Markets Authority published their clearance for a merger between South West Water and Bristol Water on 7 March 2022.

##### Pennon Water Services:

Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

**DIRECTORS' ROLES AND ACCOUNTABILITY**

<p><b>Chair</b> Gill Rider</p>	<ul style="list-style-type: none"> <li>• Leading the Board and setting its agenda</li> <li>• Promoting the highest standards of integrity and probity and ensuring good and effective governance</li> <li>• Managing Board composition, performance and succession planning</li> <li>• Providing advice, support and guidance to the Executive Directors</li> <li>• Representing the Company and being available to stakeholders</li> <li>• Discussing separately with the Non-Executive Directors performance and strategic issues.</li> </ul>
<p><b>Chief Executive Officer</b> Susan Davy</p>	<ul style="list-style-type: none"> <li>• Managing South West Water and providing executive leadership</li> <li>• Leading the operation of the Company in accordance with the decisions of the Board</li> <li>• Co-ordinating with the Chair on important and strategic issues of the Company and providing input to the Board's agenda</li> <li>• Contributing to succession planning and implementing the organisational structure</li> <li>• Managing stakeholder relations.</li> </ul>
<p><b>Senior Independent Director</b> Neil Cooper</p>	<ul style="list-style-type: none"> <li>• Assisting the Chair with stakeholder communications and being available as an additional point of contact for Stakeholders</li> <li>• Being available to other Non-Executive Directors if they have any concerns that are not satisfactorily resolved by the Chair.</li> </ul>
<p><b>Finance Director</b> Louise Rowe</p>	<ul style="list-style-type: none"> <li>• Supporting the Chief Executive Officer in providing executive leadership and developing strategy</li> <li>• Reporting to the Board on performance and developments across the business</li> <li>• Implementing decisions of the Board</li> <li>• Managing specific business responsibilities.</li> </ul>
<p><b>Non-Executive Directors</b> Jon Butterworth Iain Evans Claire Ighodaro</p>	<ul style="list-style-type: none"> <li>• Critically reviewing the strategies proposed for the Company</li> <li>• Critically examining the operational and financial performance of South West Water</li> <li>• Evaluating proposals from management and constructively challenging management's recommendations</li> <li>• Contributing to corporate accountability through being active members of the Committees of the Board.</li> </ul>

## The Board and its governance framework continued

### Board meetings and attendance

The Directors and their attendance at the six scheduled meetings of the Board during 2021/22 are shown below:

Position	Member	Attendance	Experience									
			Water sector	Governance & Regulation	Finance Accounting	Strategy	Transformation	Health, Safety & Wellbeing	ESG including climate change	Data, Technology & Digital	Remuneration	People
<b>Chair</b>	Gill Rider	6/6	✓	✓		✓	✓				✓	✓
<b>Non-Executive Directors</b>	Jon Butterworth	6/6	✓	✓		✓	✓	✓	✓	✓		✓
	Neil Cooper	6/6	✓	✓	✓	✓	✓					
	Iain Evans	6/6	✓	✓	✓	✓	✓	✓	✓			
	Claire Ighodaro	6/6	✓	✓	✓	✓	✓			✓	✓	✓
<b>Executive Directors</b>	Susan Davy	6/6	✓	✓	✓	✓	✓	✓	✓	✓		✓
	Louise Rowe	6/6	✓	✓	✓	✓	✓		✓			✓

### Directors' roles

Neil Cooper is chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.11 he has recent and relevant financial and accounting experience (as set out in his biography on page 67). The Board is satisfied that the Committee as a whole has competence relevant to the operations of South West Water.

There is a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while they of course maintain a close working relationship.

All the Directors are equally accountable for the proper stewardship of South West Water's affairs but they have specific roles including those set out in this report.

### Managing South West Water

The South West Water Board continues to operate as a separate independent board – albeit with all but one of its Board members also serving on the Board of Pennon Group plc – in accordance with its schedule of matters reserved (see right) to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The Pennon Group Board's responsibilities include overall leadership of the Group, setting the Group's values, policies and standards, approving Pennon's strategy and objectives and providing oversight of the Group's operations and its performance.

Because the two Boards are run concurrently, the Directors are well-positioned to ensure that matters reserved to each respective Board are appropriately scrutinised and undertaken in compliance with each business' regulated obligations. A rigorous conflicts of interest process also safeguards the South West Water Board's ability to set and take accountability for all aspects of the regulated business strategy and to strengthen South West Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved to the Board include:

- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees
- Approval of the Annual Reports and Financial Statements and the Annual Performance Report and Regulatory Reporting.

Without reserving to itself the final decision-making power, the Pennon Group Board also endorses certain decisions taken by the South West Water Board, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets, and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed by the South West Water Board.

Approval of South West Water's dividend policy and the declaration of dividends to be paid by South West Water also remain reserved to the South West Water Board.

The Executive team meets in advance of each meeting of the Board in order to ensure clear ownership and management of the operations of the business prior to the formal Board and Committee meetings.

In addition to the six scheduled Board meetings, a strategy day is held in September each year, and extra ad hoc Board meetings are arranged as required.

### Board support and training

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, in order to fulfil their duties, may seek independent professional advice at the Company's expense. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors, the Board and the Committees.

Newly appointed Directors receive a formal, tailored induction, which includes, inter alia, an explanation of the Company and wider Group structure, regulatory and legal issues, the governance framework and policies, the approach to risk management and its principal risks (financial and non-financial, including environmental, social and governance (ESG) risks), duties and obligations (including protocols around conflicts of interest and dealing in shares of the parent company), and the current activities of the Board and its Committees. Newly appointed Directors are also invited to visit different operating facilities across the business and to meet with employees in order to understand key processes and systems better. Gill Rider received a specific induction covering her duties as Chair of South West Water, including a refresher on specific ringfenced arrangements (this was in addition to her induction as Chair of Pennon Group plc).

Claire Ighodaro and Iain Evans had previously received tailored inductions when appointed as Pennon Group plc directors and as such received refreshers when appointed as South West Water Directors.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisors and also internal presentations from senior management.

### Board Committees' terms of reference

In accordance with policies, a range of key matters are delegated to the Board's Committees.

The terms of reference of each of the Board's Committees are set out on the Company's website (<https://www.southwestwater.co.uk/about-us/documents/terms-of-reference/>) and are also available from the Group Company Secretary upon request.

The terms of reference, as well as the Board's schedule of matters reserved, were reviewed and updated during the year to ensure that they remained appropriate and relevant.

### Operation of the Board

The Board operates by receiving written reports circulated in advance of the meetings from the Executive Directors on matters within their respective business areas. The Board also receives presentations on key areas of the business and undertakes site visits to meet employees and gain a better understanding of the operation of business initiatives. In light of the continuing Covid-19 restrictions in place for much of the year, one physical full Board site visit took place.

The Board visited Crantock and Newquay in Cornwall, as part of their strategy day in September 2021.

The purpose of the visit was to see one of the areas where significant investment is planned to improve the existing sewage treatment capability in the area. Topics discussed at the strategy session included testing of strategic objectives, understanding and refining opportunities, key priorities and themes to take forward and our relationship with key stakeholders. The Board hopes following the relaxation of Covid-19 restrictions, to carry out more in-person visits in the 2022/23 year.

Under the guidance of the Chair, all matters placed before the Board are discussed openly. Presentations and advice are received frequently from senior executives and from external advisors to facilitate the decision-making of the Board. In 2021/22, the Board has considered a wide range of matters in order to meet its obligations. More detail on the key activities of the Board can be found on pages 129 to 132. Due to Covid-19 restrictions, Board and Committee meetings were held both physically and online, as required, throughout the year, allowing the usual high standards of governance to be maintained.

In arriving at decisions, the Board always considers the impact they might have on stakeholder groups when considering what is in the best interests of stakeholders as a whole.

The Chair and Non-Executive Directors take particular care to ensure that the Board considers the interests of customers in all matters discussed by the Board, reflecting a very real understanding of the particular pressures on South West Water's customers. In addition to a regular review of customer contact and complaint analysis, the Board is regularly updated on customer satisfaction surveys.

South West Water has monitored customer satisfaction with service and value for money quarterly for over 20 years, and has also facilitated focus groups to discuss local and regional investment. Findings from all methods of customer consultation are fed back to the Board and incorporated into Company plans.

All Directors are equally accountable for the stewardship of the Company's affairs with the Non-Executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business are critically reviewed. The Non-Executive Directors also examine the operational and financial performance of the Company and fulfil a key role in corporate accountability through their membership of the governance Committees of the Board.

During 2021/22, refresher training was provided to the Board on Directors' duties and the Audit Committee received a technical briefing from the external auditor, which included an update on IFRS changes and an update on financial reporting.

## The Board and its governance framework continued

### Executive Management

The role of the Executive is to define and drive the business priorities that will achieve delivery of the strategy. It is responsible for ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of resources to create and maximise value whilst protecting the interests of the wider stakeholder group.

Chaired by the Chief Executive Officer, the Executive meets formally fortnightly to manage the performance of the Company and to review and refine recommendations to be presented to the Board.

Further details concerning the Executive Management and its sub-groups are provided on page 69.

### Dealing with Directors' conflicts of interest

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers that this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of Pennon Group's defined benefit scheme. No other conflicts of interest arose during the year.

### Related parties

The processes outlined left in relation to conflicts of interest, together with the commissioning of frequent share register analysis, enable the Board to monitor related parties so that any related party transactions may be quickly identified and compliance with the Listing Rules ensured.

### Risk management and the system of internal control

The Board is responsible for maintaining the system of internal control to safeguard shareholders' investment and the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by South West Water that has been in place throughout 2021/22 and up to the date of the approval of this Annual Performance Report.

The Group's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC's Internal Control Guidance, which brings together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 114 to 122 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. ESG risks identified and assessed by the Board cover areas such as health and safety, climate change, and tax compliance. Details of the key risks affecting the Company are set out in the strategic report on pages 114 to 122.

Key performance indicators are in place to enable the Board to measure the Company's ESG performance (pages 101 and 102) and a number of these are linked to remuneration incentives (page 93).

As part of the review of the effectiveness of the system of risk management and internal control under the Pennon Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and other procedures.

The processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout South West Water and that the Company is in a position to react appropriately to new risks as they arise.

### Code of Conduct and policies

The Pennon Group Code of Conduct was refreshed during the year and adopted within South West Water. It and related policies set out our commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and policies include our impact on the environment and our communities, our workplace and our business conduct.

The Group's policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires proper due diligence checks of third party suppliers or contractors doing business with the Group, including a corruption risk assessment by the relevant unit, to examine the nature of the proposed work or transaction. The policy sets the framework for our clear requirement that everyone who works with or for us must act honestly and with integrity at all times. It has been rolled out comprehensively into all parts of the Group, with training provided into business units by the dedicated Group legal compliance team. Enforcement of the policy is achieved through planned and ad hoc checks, the training mentioned, and detailed investigations into allegations or whistleblows received from employees, customers and suppliers around potential wrongdoing.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcome and details of any action taken, and will be disclosed to our external auditors. To date there have been no fines, penalties or significant issues reported or found in relation to bribery, corruption or fraud.

In March 2021, the Board approved an updated version of the Group's Code of Conduct and associated policies following an extensive review and refresh. A comprehensive programme of training and internal communications is now underway with targeted messaging and interactive training sessions. This programme addresses the business' key compliance and principal risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing.

The Group also has policies in place, adopted by South West Water, covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as employees. Our Code of Conduct and our policies are available on our website at [www.pennon-group.co.uk/about-us/policies](http://www.pennon-group.co.uk/about-us/policies).

Specific risk assessments undertaken by the Group internal audit function identify more vulnerable areas of the Company. In order to try and mitigate risk wherever possible, targeted authorisation and oversight processes apply to the areas identified as being more vulnerable and additional training is provided.

The Group legal compliance team likewise actively assesses high risk areas based on information gained through their close working with business functions and Group internal audit. Assessments are undertaken using a number of entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Foreign trading operations, procurement activities and business development/commercial back-office areas continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the confidential whistleblowing (Speak Up) service. There were no confirmed cases of bribery or corruption, and no confirmed business ethics incidents, during the year.

#### SPEAK UP

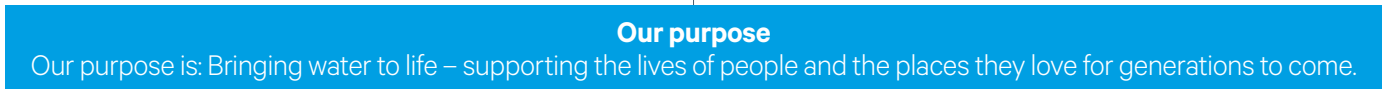
The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how this should be done and ensures that they are able to do so without fear of reprisals. The Pennon Group's whistleblowing policy specifically includes and encourages reporting of:

- Bribery or corruption
- Stealing or fraud
- Corrupt or dishonest activity
- Anything else contrary to the law.

The Speak Up service comprises telephone and web-based reporting channels operated by an independent provider Navex Global. Following receipt, the allegation will be assessed and an investigation started promptly. The investigation process will be undertaken fairly, impartially and thoroughly, and maintaining strict confidentiality at all stages of the investigation and any subsequent action taken.

## The Board and its governance framework continued

### Our vision, purpose, values and culture



#### Development of our purpose

We are committed to listening, engaging and reflecting our stakeholders' needs and priorities in our business plans and operations. Our engagement approach involves regular dialogue that is timely and open, building meaningful relationships based on trust and transparency. We use a wide range of methods to reach our stakeholders, ranging from formal independent research, focus groups and workshops to real-time conversations. We engage with our stakeholders in order to understand their needs and priorities, which in turn shape our strategy and social purpose.

Our Board regularly reviews stakeholder feedback to ensure that our Company purpose reflects the expectations of our stakeholders, our role, as they see it, as a provider of an essential public service and a custodian of the environment, ensuring we meet our customers' needs and maintain services for future generations.

Last year we refreshed our purpose, reflecting the wider social contract we have with all our stakeholders and the region we support. Our new purpose, Bringing water to life – supporting the lives of people and the places they love for generations to come, shows the importance we place on operating in the public interest for the benefit of our customers and our employees, now and into the future underpinned by our core values, which guide everything we do.

Our purpose reflects what we have heard from customers. Our customers tell us that we have the opportunity to improve their lives and the environment across the region. Customers top priority is to have safe, clean water – it's vital for life. The next four priorities are around improving the water environment – improving bathing waters and rivers and reducing pollution – as this can impact and enhance their lives, communities and society. Top 10 priorities include boosting reliability - we need to bring water to them all day, every day without interruption, no matter the weather. Our purpose needs to reflect these customer needs, and we think our purpose does indeed encapsulate perfectly what our customers tell us is important to them.

Through the WaterShare Panel we tested our evolved Purpose – Bringing Water to Life – which evolved from Bringing Resources to Life, which stakeholders thought better reflected South West Water our the re-orientated, Pennon Group as a whole.

#### Aligning and monitoring values and culture with our vision and purpose

We have eight core operational outcomes, which were developed through our business planning process, reflecting the priorities of our customers and other stakeholders.

Our business model is underpinned by strong governance and is designed to ensure we:

- deliver value for money services while keeping bills affordable for customers
- achieve or exceed the high quality standards set by our regulators
- safeguard our existing investments (e.g. networks, treatment works, operational assets and systems)
- minimise the impact of our activities on the environment
- ensure fair returns for our investors
- are able to meet future challenges such as climate change, resilience, population growth and new legislation.

Our purpose, strategy and values are areas that we actively monitor to ensure that they remain appropriate for the needs of those we provide services to, and the wider society.

Our values define the culture in which we all operate and are aligned to our overall purpose. Our Company values (trusted, responsible, collaborative and progressive) are clear and ensure that everyone knows how we operate as a regulated business and carry out our day-to-day operations. The values were co-created with our employees and we discuss how each function and each role contributes to them.

We regularly undertake reviews of our Board's objectives, including matters reserved to the Board, to ensure that the Board continues to focus on appropriate areas and priorities.

Two-way employee engagement is key to encouraging the right behaviours and we do this through a variety of channels and activities, for example, people committee and employee engagement forums where function representatives meet regularly with the executive team. Regular team meetings take place, where our values are reinforced. Employees have regular 1:1s and annual appraisals to review job role objectives, how activities and duties have been carried out and where improvements can be made. Senior management hold regular 'Big Chat' broadcasts where our Executive Team talk about issues facing the business in a live environment and are available for Q&As.

The Board and Executive Management routinely interact with employees as part of their site visit programme. This allows the Board to understand first-hand the key issues identified by our workforce and provide feedback directly. During the year the Board reviews and considers the outcomes of the Employee Engagement annual survey carried out by 'Great Places to Work'. The Board discusses the results and the plans to address the areas of focus identified. We have a Pennon Group-wide 'Speak Up' programme, the outcomes of which are reviewed by the Board on an ongoing basis.



## How governance supports strategy

The Board has overseen and led a number of initiatives supporting our Board Pledges in line with the Company’s strategic focus areas during the year:

### Our outcomes and other performance

### Our Board Pledges to 2025

### Board activity in 2021/22

#### Protecting places



##### Environment

[Read more on pages 30 to 33](#)



##### Reliable wastewater services

[Read more on pages 20 to 23](#)

#### Supporting people



##### Clean, safe and reliable supply of drinking water

[Read more on pages 16 and 17](#)



##### Available and sufficient

[Read more on pages 18 and 19](#)



##### Responsive to our customers

[Read more on pages 26 and 27](#)



##### Benefitting the community

[Read more on pages 40 and 41](#)

See also

##### Our people

[Read more on pages 42 to 49](#)

#### Creating value



##### Resilience

[Read more on pages 34 to 37](#)



##### Fair charging and affordability for all

[Read more on pages 28 and 29](#)

See also

##### Financial performance

[Read more on pages 144 to 155](#)

## 1 We will deliver environmental leadership

- The Board has overseen the commencement of implementation of its Green Recovery Initiative plans, following approval in the prior year for the c.£82m of additional environmental investment. As detailed in the Green Recovery Annual Report [southwestwater.co.uk/report2022](https://southwestwater.co.uk/report2022), we have started work in all areas of the plan and are on track to deliver the benefits as per our its planned timetable.
- Improvements delivering benefits to specified bathing waters in line with the water industry national environment programme (WINEP) are ahead of schedule and completed schemes exceed our business plan targets. 2021 saw all designated bathing waters in the area in which we provide wastewater services passing the stringent standards for the first time.
- The Board have continued to place significant focus on its Pollution Incidents Reduction Plan, and pollutions have reduced by a third year-on-year, although they continue to be an area of focus for the Board.

## 2 We will provide outstanding customer service and water quality

- The Board oversaw improvements to customer experience, including modernising the ‘MyAccount’ platform, simplifying billing information and introducing ‘WhatsApp’ messaging. Our Customer Measure of Experience (C-MeX) score has improved year-on-year.
- There has been a continued focus on our Drinking Water transformation approach to improving performance on sewer flooding, which has again seen continued improvements in this area of excellence and improved our water quality for our customers

## 3 We will deliver our promises, supporting the regional economy and our communities

- In addition to the environmental benefits in our business plan, our Green Recovery Initiative plans have also begun to see enhanced investment in the regional economy, which was one of the key focuses of the Initiative.
- The Board approved further financing through our Sustainable Financing Framework

## 4 We will deliver efficiency, keep bills as low as possible and address water poverty

- For 2021/22, the Board approved an expansion of our WaterCare tariff to include higher bill discounts for customers who need a greater depth of support to take them out of water poverty.
- The Board has continued to monitor and scrutinise the Company’s financial performance to ensure it remains efficient

## 5 We will empower our customers by giving them a stake and more of a say in our business

- The Board continues to monitor the WaterShare+ scheme through the WaterShare+ Advisory Panel and has held the first Customer Annual General Meeting.
- The Board has approved plans (subject to Pennon Group approval) for an expansion of the WaterShare+ scheme with the issuance of a second issuance of shares for South West Water customers under the scheme

## The Board and its governance framework continued

### Compliance with Ofwat's principles and the UK Code – analysis by objective/provision and principle

South West Water is providing a detailed analysis of how we comply with Ofwat's Board principles of Board leadership, transparency and governance as well as the 2018 UK Corporate Governance Code (in the context of being a subsidiary of a listed company).

Details of how the Board has addressed Ofwat's principles (including links to more detailed sections of the Annual Performance Report and Regulatory Reporting) are provided below.

A summary of explanations of measures the Company has taken in areas where South West Water is unable to achieve full compliance with the 2018 UK Code due to its group context is provided on pages 106 to 108 of the Annual Report and Financial Statements. A full summary of compliance by provision of the 2018 UK Code is provided in South West Water's Annual Report and Financial Statements (pages 106 to 108 of the South West Water Annual Report and Financial Statements).

### Ofwat Board leadership, transparency and governance – principles (January 2019)

From 1 April 2019, Ofwat revised 'Board leadership, transparency and governance' principles have applied to South West Water. These were published following consultation by Ofwat in January 2019. The following table details how we comply with these principles, where we have taken additional steps during the year to comply, or indicates elsewhere in this Annual Performance Report where this detail is provided.

#### Objective 2.1 purpose, values and culture

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.

<p><b>Provision i.</b> 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.</p>	<p>Our purpose is laid out in the 'Our Business model and strategy' on pages 4 and 5. This is developed to align with our regulatory business plans which are themselves based around the eight outcomes which our customers and other stakeholders have identified as their top priorities.</p>
<p><b>Provision ii.</b> The board makes sure that the company's strategy, values and culture are consistent with its purpose.</p>	<p>'Our Business model and strategy' on pages 4 and 5 lays out our strategy, values and culture which have been developed in line with our purpose and the linkage is outlined in that section.</p>
<p><b>Provision iii.</b> 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.</p>	<p>All employees are provided with our Code of Conduct which outlines the behaviours expected in line with the values and culture which we expect.  An independent 'Speak Up' whistleblowing process is made available to all staff to raise any relevant matters. These are reviewed by the Head of Legal Compliance and summaries of matters raised are then reviewed by the Board and corrective actions to any matter requiring correction are also reviewed.  Further details are provided on page 74.</p>
<p><b>Provision iv.</b> Companies' 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.</p>	<p>The activities of the Board are detailed on page 77 and linked to strategic focus areas on pages 129 to 132. Pages 10 and 11 details continued employee engagement.  The Risk and Compliance Statement on pages 108 to 111 focuses on how the Company has set its aspirations and performed for all those it serves.</p>

#### Objective 2.2 standalone regulated company

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

<p><b>Provision i.</b> The regulated company sets out any matters that are reserved for 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.</p>	<p>The Board leads the Company both in terms of accountability and legitimacy and is responsible for the setting of and ownership of the Company's strategy together with the ability to make ongoing strategic and sustainable decisions in the interests of the Company for the long term.  Pennon endorses significant decisions impacting Group strategy.  These are detailed within the Governance section alongside detail of the operation of the South West Water Board. We believe this approach is compatible with this provision.</p>
<p><b>Provision ii.</b> 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.</p>	<p>Pages 87 and 88 details the operation of South West Water's Audit, Remuneration, Nomination, Health and Safety and ESG Committees, each of which reports into the Board.  Other than in areas identified in this report as reserved for the parent company, final decisions are made by South West Water's Board and Committees.</p>
<p><b>Provision iii.</b> 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.</p>	<p>The role of the Board and updates on its activity during the year are detailed on pages 129 to 132 and it is fully focused on the activities of South West Water.  The approach to conflicts of interest including in respect of third parties is detailed on page 74.</p>

## Ofwat Board leadership, transparency and governance – principles (January 2019) continued

### Objective 2.3 Board leadership and transparency

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions. Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:

<b>Provision i.</b> An explanation of group structure;	See page 70.
<b>Provision ii.</b> An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	See page 141.
<b>Provision iii.</b> An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	See 'Managing our risks' pages 114 to 122.
<b>Provision iv.</b> The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	These are included in the summary of Board activity on pages 129 to 132 and within the reports of the respective committees on pages 80 to 93.
<b>Provision v.</b> 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.	See pages 94 to 107.

### Objective 2.4 Board structure and effectiveness

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

<b>Provision i.</b> Boards and board 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.	See pages 64 to 93 for summaries of the Board and Committees.
<b>Provision ii.</b> Independent non-executive directors are the largest single group on the board.	See pages 66 and 67. The majority of the Board is comprised of independent Non-Executive Directors (five of a total of seven Directors, including the Chair).
<b>Provision iii.</b> 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 Chair is independent of management, although is also the Chair of the parent company Pennon Group plc. Further details in this regard are provided on page 71. There is a clear and explicit division of responsibilities between the Board and Executive, and a summary of their roles is provided on page 71.
<b>Provision iv.</b> 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.	See page 87.
<b>Provision v.</b> There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.	See pages 86 to 88.
<b>Provision vi.</b> 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.	No new appointments have been made this year. When they are made, new Board members are provided with inductions. The Board receives training, including in respect of the roles of Non-Executive Directors throughout the year. Further details of their support and training are provided on page 73.
<b>Provision vii.</b> There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.	Summaries of Committee membership and attendance is provided in pages 80 to 92. Each of these Committees has a majority of Independent Non-Executive members.

# Audit Committee report

## Ensuring sound financial management and robust controls



During the year, these key risk deep dives covered a wide range of topics including the risks to the delivery of capital projects, customer service performance and how that relates to our regulatory targets, supplier resilience, health & safety, water leakage and the risks to the Company from UK macroeconomic demand fluctuation. More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 114 to 122.

As well as this focus on our risk processes, we formally review the output of the Company's financial resilience and health assessments; for a 12-month period through our assessment of the Company's going concern status and over a period to 2030 to assess the Company's continuing viability. Whilst the worst of the Covid-19 pandemic now fortunately appears behind us in the UK, the viability assessment has considered a range of financial projections arising from the current challenging and complex external environment, with most recent developments in relation to economic growth, inflation, and the indirect impact of the Ukraine crisis. These are modelled through internal scenarios around the deployment of cash reserves. South West Water has continued to use a longer assessment period to 2030, since we have a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on page 112.

As part of the half-year and year-end reporting review process, we carefully consider the key financial reporting judgements of management as set out on page 81. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report.

Looking ahead to 2022/23, we expect the global economy to be volatile reflecting the geopolitical situation in Ukraine with macroeconomic developments compounded by the recovery from the impacts of the Covid-19 pandemic. The Committee remains alert and continues to monitor developments and adapt its approach where necessary, to best support the Company's stakeholders and strategy.

**Neil Cooper**  
Audit Committee Chair

### AUDIT COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Audit Committee	Attendance
<b>Committee Chair</b>	Neil Cooper	April 2016	4/4
<b>Committee members</b>	Jon Butterworth	July 2020	4/4
	Iain Evans <sup>(2)</sup>	July 2020	4/4
	Claire Ighodaro <sup>(2)</sup>	July 2020	4/4

The purpose of the report is to provide an insight into the work carried out by the Committee, and in doing so, outline our areas of focus.

As in previous years, the Committee continue to be focused on three key areas:

- Firstly, ensuring the quality and integrity of the Company's financial reporting; this is done through the assessment of the application of accounting policies given underlying standards, challenging management and intellectually testing the use of accounting judgements made in preparing financial reporting and the assessment of the reporting of the Company in terms of whether its presentation is fair, balanced and understandable
- Secondly, we seek to review and challenge the ongoing effectiveness of the internal control environment
- And finally, challenging ourselves as to the scope and adequacy of risk management processes across the Company. In doing this, we monitor the expression of the Company's risk appetite and undertake 'deep dive' reviews of higher risk areas.

These responsibilities are discharged throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad hoc basis of events as they have arisen.

Monitoring and reviewing the effectiveness of the external auditor and the internal audit function is an equally important ongoing element of the Committee's assurance activities.

In regards to risk, the process starts with the Group's executive risk committee formulating their risk appetite as well as their ongoing monitoring of key risks and their mitigation. The Committee considers this formally, as well as focusing in on key risk areas.

**Audit Committee composition**

All members of the Committee served throughout the year.

Other regular attendees of Committee meetings during the year included: the Chair, Chief Executive Officer; Group Finance Director; Group General Counsel and Company Secretary; South West Water Finance Director, Director of Risk and Assurance; Group Financial Controller and the external auditor.

The Board is satisfied that Neil Cooper, Iain Evans and Claire Ighodaro have recent and relevant financial experience and have competence in accounting or auditing. Details of each Director’s significant current and prior appointments are set out on pages 66 and 67.

All of the Committee members are also members on the Remuneration Committee, which enables them to provide input to both Committees on any Company performance matters and on the management of any risk factors relevant to remuneration.

**Significant matters considered by the Committee**

A calendar of business sets in place a framework for ensuring that the Committee manages its affairs efficiently and effectively throughout the year and is able to concentrate on the key matters that affect the Company.

The most significant matters that the Committee considered and made decisions on during the year and, where appropriate, since the year end, are set out below:

**Priorities as committee chair**

The Audit Committee Chair guides colleagues to ensure the Committee supports the Board in fulfilling its key responsibilities: the monitoring of the quality and integrity of financial reporting, the adequacy of its risk management processes and its internal controls processes.

The year has been a successful one for the Company. The business carried on against the backdrop of the pandemic, and accelerating macroeconomic volatility, particularly in regards to energy prices and inflation.

Key considerations for the Committee can be summarised as follows:

**Covid-19 pandemic and the macroeconomic outlook**

Throughout the year, the Committee continued to closely monitor the impact of Covid-19 on our financial control environment and on the Company’s financial results.

The impacts on the supply chain of the recovery from the pandemic in large parts of the world, allied to continuing lockdowns in China, are testing longstanding global logistics structures. Rising power prices and overall higher levels of inflation are becoming a feature, allied to global geopolitical volatility, and this requires careful monitoring.

<p><b>Financial reporting</b></p>	<ul style="list-style-type: none"> <li>• Monitored the integrity of the financial statements of the Company and the half-year and full-year results relating to the Company’s financial performance. This included reviewing and discussing significant financial reporting judgements contained in the statements, later outlined in this report</li> <li>• Reviewed the internal assessment of Going Concern and longer term viability on behalf of the Board</li> <li>• After a detailed review in accordance with its established process, advised the Board that the presentation of the annual report and accounts is fair, balanced and understandable in accordance with reporting requirements and recommended their approval for publication</li> <li>• Reviewed Internal control processes, systems and levels of compliance</li> <li>• Reviewed internal audit reports on core systems and processes across the Company.</li> </ul>
<p><b>External auditor</b></p>	<ul style="list-style-type: none"> <li>• Considered auditor’s report on its audit of the annual results focusing on key findings</li> <li>• Assessed external auditor effectiveness in respect of the previous year’s external audit process</li> <li>• Considered the auditor’s report on control themes and observations for the year, which did not identify any significant deficiencies.</li> </ul> <p>Note, in line with the structure of the Group, certain activities such as recommending reappointment of the statutory financial auditor and assessment of effectiveness of the statutory financial auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the <a href="#">Pennon Group Annual Report</a> (pages 80 to 83).</p>
<p><b>Risk management</b></p>	<ul style="list-style-type: none"> <li>• Reviewed the Company’s risk management framework and compliance with that framework during the year and after the year end until the publication of the Company’s annual report</li> <li>• Reviewed the assessment of the risks by the Executive Directors and considered risk appetite and risk profile of the Company</li> <li>• Reviewed the Company risk register and considered appropriate areas of focus and prioritisation for the audit work programme for the year</li> <li>• Assessed information security across the Company in mitigating key IT risks, including specific consideration of the potential risk of cyber security breaches or related items that may have any material impact on the financial statements.</li> <li>• Considered the annual report on whistleblowing as part of the risk management review</li> <li>• Carried out deep dives at Committee meetings on principal risk areas.</li> </ul>
<p><b>Governance</b></p>	<ul style="list-style-type: none"> <li>• Considered and approved Company accounting policies, including the impact of new accounting standards, used in the preparation of the financial statements</li> <li>• Reviewed and considered internal financial policies</li> <li>• Confirmed compliance with the UK Code</li> <li>• Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.</li> </ul>

## Audit Committee report continued

### Significant matters considered by the Committee continued

In respect of the monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2022, are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditor's report on pages 134 to 136. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non statutory performance and financial measures.

During the year, the Committee's areas of focus included:

AREA OF FOCUS	HOW THE MATTER WAS ADDRESSED BY THE COMMITTEE
<b>Revenue recognition</b>	Given the nature of the Company's revenue, the areas of judgement continue to be in respect of revenue recognition relating to income from water services. Whilst the Committee relied on South West Water's evolving processes for assessment of water into supply, it scrutinised their track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
<b>Bad and doubtful debts</b>	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against both South West Water's historical collection record and the track record of other companies in the sector. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macro economic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses was reasonable.
<b>Going concern basis for the preparation of the financial statements and viability statement</b>	A report from the Pennon Group Finance Director on the financial performance of both the Pennon Group and South West Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Pennon Group Finance Director prepares for consideration by the Committee a report focusing on the Group's liquidity over the 12-month period from the date of signing of either the annual report or half-year results. The Committee also reviewed a report from the Pennon Group Finance Director on the Company's financial viability over an appropriate period, which the Board considers to be up to 2030, in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board.  Similarly, this report also considered the viability of the Company and the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 114.

### Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process and approval by shareholders at the Company's 2014 AGM. Its reappointment was approved at the 2021 Annual General Meeting. Christabel Cowling is the audit partner and has held the role since 2019.

The external auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's annual report and financial statements and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken as part of the Committee's annual performance evaluation which also examines the relationship and communications between the Committee and the external auditor. Further details of the performance evaluation are provided on page 82. No issues were raised during that review.

The Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee considered that it is appropriate that the external auditor be reappointed and has made this recommendation to the Board. The Committee chair has also met privately, with the external auditor to discuss key matters.

### Auditor independence

The Committee carefully reviews on an ongoing basis the relationship with the external auditor to ensure that the auditor's independence and objectivity are fully safeguarded.

The external auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

### Provision of non-audit services

The Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts and certain non-audit fees for services that are required to be performed by the auditors are excluded from the assessment. The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the external auditor.

The level of non-audit fees payable to the external auditor for the past year is 11% of the three-year average audit fee, which is within the Company's 70% non-audit fee limit.

The Group Finance Director regularly reports to the Committee on the extent of services provided to the Company by the external auditor and the level of fees paid. The fees paid to the external auditor's firm for non-audit services and for audit services are set out on page 192 of South West Water's Annual Report and Financial Statements.

### Internal audit

The internal audit activities of the Company are a key part of the internal control and risk management framework of the Company. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities.

Following the establishment in 2019 of a new directorate of Risk and Assurance, encompassing Group risk reporting and internal audit, the Group's internal audit function has continued to operate effectively. The current Group and Company internal audit plan was approved in March 2021, following a thorough review to ensure it provided adequate coverage over the Company's key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the external auditor, and the Company's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company. Looking ahead, the intention of the Committee is to establish formal internal audit plans covering each six month period, given the volatility of the operating environment.

The Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Director of Risk and Assurance and the Committee chair.

During the year, following a competitive tender process, the Committee approved the appointment of BDO to perform an external independent assessment of the internal audit function's effectiveness, the last one having been undertaken in 2016. This concluded that the function is fit for purpose and is operating efficiently and effectively, in line with good practice and conforms to IIA (Chartered Institute of Internal Auditors) standards. Where opportunities for continued improvement have been identified, these have been adopted. Their success will be monitored by the Committee as part of its annual assessment of the effectiveness of the internal audit function. The next cyclical external review of the internal audit function will be undertaken within the next five years, as required by IIA standards.

### Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report & accounts is fair, balanced and understandable (FBU) on page 119 of South West Water's Annual Report and Financial Statements, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the annual report & accounts. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 134 to 136.

In preparing and finalising the 2022 Annual Report and Financial Statements, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Executive.

This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the annual report & accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

### Statement of compliance with CMA order

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Following the rotation of the senior statutory auditor in 2019, the Committee considers a full tender for the Pennon Group's external audit services, including the statutory audit of South West Water, subject to its annual reviews, likely in the year ending March 2024. This allows for any potential new audit firm to take up the role for the year ending March 2025.

The Committee believes this approach is in the best interest of shareholders, as over this period the Pennon Group will benefit from an efficient and effective audit, while receiving fresh challenge from a new senior statutory auditor.

### Looking forward

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board. It will ensure that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business, with a particular focus on the Company's principal risks, control environment and approach to financial reporting, noting the volatility in the global economy, and taking into account developments in reporting responsibilities including those recommended by the TCFD (Task Force on Climate-Related Financial Disclosures), the consideration of climate risk in preparation of the financial statements and potential changes in the governance environment.

### Integrated Assurance Framework

Throughout the year South West Water had in place an effective integrated assurance framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

#### (i) Group independent internal audit

South West Water utilises the Pennon Group's independent Internal Audit function, to provide effective risk-based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan is summarised above.

#### (ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a technical auditor to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

#### (iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

- ISO 9001: 2015 (quality management)
- ISO 14001: 2015 (environmental management)
- ISO 27001: 2013 (information security)
- ISO 17025: 2005 (laboratories and sampling)
- ISO 50001: 2011 (energy management)
- BS 18477: 2010 (inclusive service provision)
- MCERTS (the Environment Agency's monitoring certification scheme).

In March 2022, South West Water was successful in being recommended for certification in line with ISO 55001: 2014 Asset Management.

These specific areas are also subject to periodic external reviews (such as ISO external reviews).

### South West Water's 2021/22 Board Assurance Statement

Pages 123 to 133 detail assurance work which has been performed in areas which have been identified following consultation as significant areas for assurance, which includes annual reporting. This detail supports the Board Assurance Statement.

# Environmental, Social and Governance Committee report

## Ensuring responsible business practice



### Environmental, Social and Governance Committee report

Sustainability is at the heart of our business and is part of everything that we do. During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference.

To deliver on our strategy, we have undergone an extensive materiality assessment in partnership with our stakeholders to identify their most important ESG matters. The results have informed our updated ESG targets framework and support us in aligning our approach and priorities for PR24. You can read more on the outcomes of the materiality assessment on page 126 of the [Pennon Annual Report](#).

Over the past year, work to deliver our ESG Capitals programme has continued at pace as we develop ways of measuring our contribution and impact across the ESG agenda.

From a governance perspective, we welcomed the enhanced ESG disclosure for this year’s reporting cycle and we have developed our very first SASB (Sustainability Accounting Standards Board) disclosure as well as our very first ESG data book. We have also made significant progress with the TCFD (Task Force on Climate-Related Financial Disclosures) recommendations after our parent company, Pennon Group plc, produced our first TCFD disclosures voluntarily in 2020/21.

As the global climate agenda increases, South West Water published both their Net Zero plan – Our Promise to the Planet, and a new Climate Change Adaptation plan.

This annual report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

**Iain Evans**  
ESG Committee Chair

#### ESG COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to ESG Committee	Attendance
<b>Committee Chair</b>	Iain Evans	September 2018	4/4
<b>Committee members</b>	Gill Rider	September 2012	4/4
	Claire Ighodaro	July 2020	4/4
	Neil Cooper	July 2020	4/4
	Jon Butterworth	September 2019	4/4
	Louise Rowe	September 2021	4/4
	Susan Davy	July 2020	4/4
	Paul Boote	August 2020	4/4





**Committee remit and activities**

During the year, the Committee reviewed its remit and responsibilities, to ensure they remain appropriate.

**ESG performance**

The ESG Committee continues to assess performance against a range of challenging targets for the Company, set as part of the business planning process.

In addition, it provides assessment and oversight of South West Water’s performance against sustainability targets that are core to the successful delivery of its five year business plan. This is consistent with Ofwat’s requirement for independent governance of the regulated business.

As at 31 March 2022, South West Water achieved or is on track for 23 of the 26 targets. We continue to target significant improvements in these areas.

**Materiality assessment**

During the year, we undertook an extensive materiality assessment in partnership with our stakeholders to identify their most important ESG matters. This involved interviewing a range of external stakeholders to get their views on what matters most as well as undertaking a desktop review, peer comparisons, activity mapping and horizon scanning in addition to one-to-ones with some of our internal teams.

**Capitals programme**

The focus of our Capitals programme this year has been to continue developing appropriate performance measures, benchmarking our approach, and identifying tools and methodologies to help us value these metrics. These Capitals measures will form part of our investment decision-making framework to ensure the total value and positive impact of our investments is captured. Our first Capitals Net Impact report will be published in Autumn 2022.

**KEY ACTIVITIES AND ACHIEVEMENTS DURING THE YEAR**

During 2021/22, the Committee has considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Successfully achieved majority of 2021/22 ESG targets
- Delivery of ESG Capitals plan as we look towards our first Capitals report to be published in Autumn 2022
- Completion of updated materiality assessment to inform our future ESG targets
- Continued delivery of TCFD recommendations including detailed appraisal of transition risks and opportunities and scenario analysis
- Enhanced ESG reporting including our first disclosures aligned to the Sustainability Accounting Standards Board (SASB) reporting framework and new ESG DataBook
- Improvements across external ESG ratings including our Sustainalytics ESG rating
- Implementation of new community impact tool (B4SI) across our key community programmes and activities
- Approval of updated Sustainable Financing Framework and Impact Report.

**Enhanced reporting and assurance**

With a growing focus on ESG reporting, South West Water’s ESG reporting is integrated throughout the report and specifically in the following sections:

- Introduction, pages 2 and 3
- Business model, pages 4 and 5
- Key performance indicators, pages 12 and 13
- Our stakeholders, pages 10 and 11
- Our people, pages 44 to 49
- Our operations, page 1

South West Water’s sustainability performance and reporting has been audited by Jacobs (a global provider of technical, professional and scientific services, including engineering, architecture, construction, operations and maintenance) as part of its audit of performance data contained within the Annual Performance Report. Jacobs utilise water industry specialists in the audit of our non-financial data.

South West Water considers that Jacobs’ method of verification – which includes testing the assumptions, methods and procedures that are followed in the development of data and auditing that data to ensure accuracy and consistency – complements the best practice insight gained through South West Water’s membership of Business in the Community.

Jacobs’ technical auditor’s report is published within this report on page 110.

**Benchmarking**

It’s important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. These leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice. The Pennon Group (including South West Water) is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, Dow Jones Sustainability Index and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards.

**Focus areas for 2022/23**

- Develop and publish first Capitals net impact report in Autumn 2022
- Validation of Group Science Based Targets (SBTs)
- Further integration of ESG across entire Company
- Expansion of community impact evaluation and reporting
- Preparatory work on upcoming ESG reporting including TNFD (Taskforce on Nature-related Financial Disclosures) and SDR (Sustainability Disclosure Requirements).

# Nomination Committee report

## Promoting diversity and ensuring ongoing leadership effectiveness and stewardship



This year, the Committee has focused on reviewing the effectiveness, size and composition of the Board to meet future requirements, in line with the strategy and in advance of the Audit Chair's end of tenure planned for 2023.

Additionally, the Committee has taken an active interest in championing diversity, whether gender, ethnicity, or social mobility.

The Nomination Committee met four times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Nomination Committee meetings, although other regular invitees to Committee meetings during the year included the Chief Executive Officer, the Chief People Officer and the General Counsel and Company Secretary. Committee members are also excluded from participating when their own positions are under discussion.

Further information on the Board leadership biographies, can be found on pages 66 and 67.

### Board diversity






At South West Water we believe that a diverse and inclusive culture is a strategic imperative, treating it in the same way as we do each strategic priority – setting the tone from the top, holding leaders accountable and delivering against a clear action plan.

We know that balanced teams are better at solving complex problems, delivering innovative solutions, spotting new opportunities as well as being a powerful driver of resilience.

As at the 31 March 2022, the Board's gender diversity stood at 57% female with Executive gender diversity at 100% and for senior management at 18%. This focus on diversity throughout the company, resulted in our parent company, Pennon, being ranked 10th in the most recent FTSE Women Leaders report (FTSE 250) and 1st in the Utility Category.

As advocates of Sir John Parker's review for ethnic board diversity, meeting the target ahead of the required date, we were also early signatories of the Change the Race Ratio and we have published diversity targets in line with this. We will be publishing our ethnicity pay gap during 2022. The Company wider workforce diversity is currently 1.42%. Championing Diversity, Equity and Inclusion will remain an important priority of the Nomination Committee.

### NOMINATION COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Nomination Committee	Attendance
<b>Committee Chair</b>	Gill Rider <sup>(1)</sup>	April 2016	 4/4
<b>Committee members</b>	Neil Cooper	April 2016	 4/4
	Claire Ighodaro	July 2020	 4/4
	Iain Evans	July 2020	 4/4
	Jon Butterworth	July 2020	 4/4

**Board diversity policy**

The Committee is required by the Board to review and monitor compliance with the Board’s diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year.

The Board’s diversity policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board with endeavour to achieve and maintain:
  - A minimum of 40% female representation on the Board
  - A minimum of 40% female representation on the Company’s senior management team
  - At least one member of diverse ethnicity on the Board
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior leadership
- Maintain an appropriate balance of skills and experience within the Company and on the Board.
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior leadership
- Maintain an appropriate balance of skills and experience within the Company and on the Board.

**Talent management and succession planning**

In 2020/21, a review was carried out of the capability and potential of the members of the Executive, supported by leadership advisory Heidrick and Struggles.

The Committee, supported by the Group Chief People Officer, reviews both the Executive and Non-Executive leadership as part of a regular agenda. Horizon scanning externally has also become a more frequent activity, to ensure that the Board remains flexible in responding to changing priorities.

**Board effectiveness review**

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

This year’s evaluation was conducted internally, via an online questionnaire created by the Group General Counsel and Company Secretary in consultation with the Chair and respective Committee Chairs, in February 2022.

This year, there was greater focus on treating the evaluation as a strategic health check and forward-looking review, whilst also including questions that enabled the Board to reflect on its performance. However, specific focus was also on the following:

- The processes that enable the business to meet its new challenges

- How the Board can best respond to and lead the strategic direction of the Company
- The maturity of, and appropriate flex within, our current governance
- Board composition, numbers, and attributes required for new appointments
- The ways in which the Board can equip itself to respond to and lead in the context of increased complexity, uncertainty, opportunity and risk in the UK water business environment
- How we can better achieve and explain current and long-term corporate performance
- How we can operate more effectively and strategically.

The questionnaire focused on the ongoing effectiveness of the Board during the year in setting the strategy, promoting the Company’s culture and values, ensuring that the Company’s obligations to its stakeholders were understood and met, overseeing the use of the Company’s resources, managing the risks inherent in the strategy, plans and the operating environment, and ensuring that the Executive had managed all the activities of the Company well.

The outcome of the review concluded that the Board, its Committees and individual Directors continued to demonstrate a high degree of effectiveness and collaboration, and that the Board had a good understanding of opportunities for growth and risks facing the business, with the following positives, negatives and/or actions suggested:

**Summary of Evaluation**

AREA OF ASSESSMENT	FEEDBACK	COMMENTARY AND RELATED ACTIONS
Board	<p><b>Board operation</b></p> <ul style="list-style-type: none"> <li>• Works well, with open collaboration, with potential for further NED support.</li> </ul>	<ul style="list-style-type: none"> <li>• Assess need for further NED and progress accordingly.</li> </ul>
	<p><b>Board leadership</b></p> <ul style="list-style-type: none"> <li>• The Board provides entrepreneurial leadership.</li> <li>• There are constructive relationships between executive / senior management and Non-Executive Directors.</li> <li>• The Board takes the lead in driving a strong health and safety culture throughout the Company.</li> <li>• The Board is strong, diverse, supportive, well-structured and appropriately positioned.</li> <li>• On health and safety matters, it was commented that, whilst the Board drives this, health and safety performance can always be improved.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to focus on driving improved health and safety performance.</li> </ul>
	<p><b>Board oversight</b></p> <ul style="list-style-type: none"> <li>• Good oversight of the Company’s business.</li> <li>• The Board offers good strategic direction and governance.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to ensure appropriate processes for monitoring, reporting and addressing pollution incidents.</li> </ul>
	<p><b>Company strategy and governance</b></p> <ul style="list-style-type: none"> <li>• Continues to provide helpful support to management, in addition to strategic direction and governance.</li> </ul>	<ul style="list-style-type: none"> <li>• Key themes are strategic reviews of climate, delivering for the environment, growth.</li> </ul>
Audit Committee (operation and effectiveness)	<ul style="list-style-type: none"> <li>• The Audit Committee provides useful support to the Board and management.</li> <li>• The Committee operates good governance, is up to date with changing legislation and has a strong relationship with financial management.</li> <li>• Overall, it was felt that the Audit Committee functions well, with multiple members with deep finance experience.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue with existing processes.</li> </ul>

## Nomination Committee report continued

### Summary of Evaluation continued

AREA OF ASSESSMENT	FEEDBACK	COMMENTARY AND RELATED ACTIONS
<b>ESG Committee</b> (operation and effectiveness)	<ul style="list-style-type: none"> <li>Relationships and communication between the ESG Committee and key executives are open and constructive</li> <li>The Committee makes effective use of KPIs and benchmarking to understand ESG performance, with external sustainability performance reported on regularly</li> <li>Overall the Committee provides good direction in an ever-evolving area and has developed well over the last 18 months</li> <li>Environmental issues particularly around CSOs have emerged more prominently this year</li> <li>The Committee and the Board have work to do, to deal with the pollutions and CSO challenges, with the right executive support.</li> </ul>	<ul style="list-style-type: none"> <li>Ensure sufficient flexibility to improve net zero activities and outcomes further</li> <li>Continue the vital focus on environmental issues and CSOs</li> <li>Continue to review and assess processes in this area.</li> </ul>
<b>Remuneration Committee</b> (operation and effectiveness)	<ul style="list-style-type: none"> <li>The Remuneration Committee has performed well, with well-honed processes.</li> </ul>	<ul style="list-style-type: none"> <li>To continue to evolve the framework as required, and build on existing processes.</li> </ul>
<b>Nomination Committee</b> (operation and effectiveness)	<ul style="list-style-type: none"> <li>The Nomination Committee has performed well and needs to continue its track of Board succession planning and Executive succession activities.</li> </ul>	<ul style="list-style-type: none"> <li>Continue with existing processes.</li> </ul>
<b>Health and Safety Committee</b> (operation and effectiveness)	<ul style="list-style-type: none"> <li>The H&amp;S Committee provides effective support to both the Board and management</li> <li>The Committee is now well established and focused on supporting the Board's aspirations with recent reports on investigations felt excellent.</li> </ul>	<ul style="list-style-type: none"> <li>A developing Committee that should continue its deep dive into H&amp;S performance and incidents.</li> </ul>

A key area for focus in 2022/23 will be recruiting up to two new Non-Executive Directors as part of ongoing Board succession and effectiveness. To support this activity, Russell Reynolds Associates have been appointed following a robust selection process to ensure that an extensive and robust search can be made for suitable candidates.



**Gill Rider**  
Chair



**MATTERS CONSIDERED BY THE COMMITTEE DURING THE YEAR**

- Overseeing the effectiveness of the Board's internal succession plan, ensuring that the board has the appropriate mix of skills, experience and diversity
- Reviewing terms of reference for the Committee to ensure they continue to be appropriate
- Overseeing the annual review of Board Effectiveness and Board composition
- The annual review and approval of the Company's policy on Diversity, Respect and Inclusion and the Group's progress on diversity in line with the Parker review, including the outcome of the FTSE Leaders Survey and the Group's position on Gender Pay
- Ongoing review, development and evolution of the Executive Leadership team, including succession planning
- Overseeing the appointment process of an external search consultancy, to assist in future non-executive appointments

# Health & Safety Committee Report

## Driving a robust health and safety culture



I am pleased to provide an update on the Health & Safety (H&S) Committee’s activities during the year.

I believe the key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it’s about culture, leadership and accountability.

Establishing a separate Board Committee focused purely on Health and Safety was an important step forward in Pennon’s journey as part of our HomeSafe strategy and to support the Group’s vision to ensure that everyone goes home safe every day. We aim to be a leader of Health and Safety in our sector by 2025, and leadership from the top is critical. The Board has dedicated time to discuss and review performance, offer support, encourage learning and meet leaders and employees from across the business.

Reviewing the Group’s health and safety performance, effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe strategy, has been core, with significant improvements already noted.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned and getting to the root cause, encouraging a learning mindset. We also reviewed external benchmarking of our performance against water peers, the results from our Engagement survey and employees’ perception of Health and Safety as well as sharing good practice.

### H&S Committee composition

All Board members are attendees and served throughout the year, with support from the Group Chief People Officer and Pennon’s H&S Director.

### Reporting

In addition to the regular board report by the Group Chief Executive Officer, detailed performance is reviewed six monthly, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health and working environment. The corresponding improvements in outcome metrics have been noted, with the Lost Time Injury Frequency Rate (LTIFR) falling consistently across the period, with a 24% reduction in the year.

The HomeSafe strategy has been reviewed for the next three years, to support significant year on year reductions required in injury rates. The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions, with a detailed roadmap to 2025 built on six key pillars.

**Jon Butterworth**  
H&S Committee Chair

### HEALTH & SAFETY COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Health & Safety Committee	Attendance
<b>Committee Chair</b>	Jon Butterworth	November 2020	3/3
<b>Committee members</b>	Gill Rider	November 2020	3/3
	Susan Davy	November 2020	3/3
	Claire Ighodaro	November 2020	3/3
	Iain Evans	November 2020	3/3
	Neil Cooper	November 2020	3/3
	Paul Boote	November 2020	3/3

## HomeSafe strategy

The Group’s flagship health and safety programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. HomeSafe is built on the six strategic pillars; Managing Risk, Sharing & Learning, Working Together, Protecting Health, Enabling Leaders and Being Resilient.

 **Our people strategy** pages 42 to 49



### MATTERS CONSIDERED BY THE COMMITTEE DURING THE YEAR

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Six monthly comprehensive reviews of the Group’s Health and Safety performance
- A review of the next phase of the HomeSafe strategy through to 2025
- A deep dive into the wellbeing strategy with a focus on mental health
- A review and challenge of potential near-miss events to ensure lessons are learnt
- Visiting operational sites to engage with front line staff and the wider Health and Safety teams.

# Remuneration Committee report



Ensuring executive reward supports resilient performance, sustainable growth and the step change needed in environmental outcomes for the benefit of all

“Average bill reductions for 2022, lower now than ten years ago.”

I am pleased to present the Directors’ remuneration report for the year ending 31 March 2022.

Delivering on our largest environmental investment in 15 years, as well as achieving 100% excellent, good or sufficient coastal bathing water quality for the first time, we acknowledge there is more to do to protect our environment and our rivers and coastal waters. Our pollutions reduction plan has achieved our best performance for ten years, reducing pollutions by one third. However it’s not yet where we need to be and there is more to do. And in line with our planned trajectory to achieve four-star EPA 4 status by 2024 we recognised there is much to continue to focus on. We have therefore reflected this in the annual bonus revised outturns, applying downward discretion.

In a year when rising living costs are front of mind, South West Water announced average bill reductions for 2022, lower now than ten years ago, as well as unlocking over £18m of affordability support and expanding the number of customers on social tariffs.






We are reporting resilient performance, thanks to the hard work and commitment of our teams. South West Water is on track or ahead of ODI delivery.

A key focus for the Company has been to continue to support colleagues during the pandemic, including a commitment to provide full pay during periods of illness or self-isolation. In addition, following a comprehensive review of our wellbeing strategy, a rounded package of measures, designed to support both the physical and mental wellbeing of our colleagues, was introduced.

The continued implementation of our reward strategy means that our employees now have greater flexibility in the benefits that matter to them most, with a more dynamic and flexible approach to pension arrangements and the ability to buy and sell holiday. During the year, we held a number of employee reward focus groups as part of engaging colleagues to help inform our 2021/22 pay award decision, and more can be read on page 99. Importantly, to recognise and reward colleagues for their ongoing support and dedication to our customers, the 2021 employee bonus was significantly enhanced. In addition Pennon (including South West Water) became a Living Wage Foundation accredited employer.

We continue to promote the benefits of employee share ownership with c.60% of our colleagues participating in HMRC approved schemes.

## REMUNERATION COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Remuneration Committee	Attendance
<b>Committee Chair</b>	Claire Ighodaro	July 2020	 4/4
<b>Committee</b>	Gill Rider	September 2012	 4/4
	Neil Cooper	September 2014	 4/4
	Iain Evans	September 2018	 4/4
	Jon Butterworth	July 2020	 4/4



### Performance metrics for incentives

As noted in last year's report, the timetable for target setting for the Chief Executive Officer was adapted in response to the timing of the Bristol Water acquisition and the subsequent CMA referral.

No changes were made to the incentive arrangements for the South West Water Finance Director, with environmental and customer measures remaining at 70% of the bonus weighting.

The performance measures for the annual bonus for the Chief Executive Officer were reviewed and simplified. Operational objectives, including pollutions and bathing water quality were upweighted with personal objectives removed and replaced with a scorecard of ESG goals weighted to 20%. The financial measures were weighted to 50%.

Modest changes were made to the financial measures shifting from RoCE to RORE and the introduction of a basket of customer experience metrics. The RORE targets were set taking into account the parameters set by Ofwat for the 2020 to 2025 review cycle. Inclusion of customer experience measures aligns with the expectations and demands of Ofwat and trends in the water sector. The aspirational objectives target a market leading position. Investor feedback to the changes was generally positive.

### Incentive outcomes

In line with normal practice, the Committee reviewed annual bonus outcomes from various perspectives, including the impact of macroeconomics on final results. The Committee opted against making any adjustment to the original targets. Therefore, no payment was made under the financial element of the annual bonus.

Robust performance was delivered across a range of operational, customer and ESG elements of the bonus scorecard. Despite delivering on our largest environmental investment in 15 years, as well as achieving 100% coastal bathing water quality for the first time, we acknowledge there is more to do to protect our environment and our rivers and coastal waters. Although the EPA score was reflected in the formulaic outturn, the Committee opted to exercise downward discretion to reduce the formulaic result by a further 10% of the overall bonus outcome.

The net impact of the above decisions was that the bonus outcome for the year was 31% of maximum for the Chief Executive Officer and 36% for the South West Water Finance Director. Although the business outperformed in a number of regards, arguably warranting a higher bonus outcome for the year, the Committee concluded that it was appropriate to cap outcomes at this level.

Share awards granted (in our parent company Pennon Group plc) under the long-term incentive plan (LTIP) in 2019 will be eligible for vesting in 2022. This award was made prior to the sale of Viridor for £3.7bn in net cash proceeds in 2020 and adjusted to reflect the changing Group structure. This award was based on EPS growth (40%), dividend growth and cover (40%) and RoCE (20%), as well as an 'underpin' evaluation, including consideration of safety, ESG factors and financial performance.

Awards are expected to vest at 88.2% of maximum as shown on page 102. This level of vesting is reflective of performance over the three year performance period. The Committee is satisfied that the outcomes are fully warranted based on performance. Vested shares for Executive Directors will remain subject to an additional two-year holding period.

### Policy review

No major changes in approach are proposed for the coming year and the policy continues to operate as intended. This will however be kept under review as South West Water and Bristol Water continue to be integrated. During the course of 2022/23 a key focus will be reviewing policies, to ensure they continue to align with the strategy and take account of best practice. Further detail of pay arrangements is provided in the main body of the remuneration report and in the [Pennon Annual Report](#).



**Claire Ighodaro CBE**  
Remuneration Committee Chair

### THE COMMITTEE'S FOCUS FOR 2022/23

- Consider the remuneration and terms of engagement of the Executive Directors, senior executives and Chair and the remuneration of the wider workforce
- Determine targets that remain stretching, relevant to South West Water's strategy and values and reflect best practice and wider stakeholders' views
- Consider the appropriate remuneration arrangements following integration of Bristol Water and the licence.

All Committee members served throughout the year.

In accordance with the Code, all of the Committee members are independent Non-Executive Directors. The Chief Executive Officer also attends meetings when invited except for such part of a meeting when matters concerning her own remuneration are to be discussed.

The Committee is advised by Deloitte, an independent remuneration consultant, to ensure remuneration is determined impartially. Aside from the provision of tax services to the Group, Deloitte has no other connection with the Company or any Director. The Committee is also supported by the Group Chief People Officer and the Group General Counsel and Company Secretary.

# Directors' remuneration report

## Remuneration at a glance

### Our strategy



### Link between KPIs and remuneration

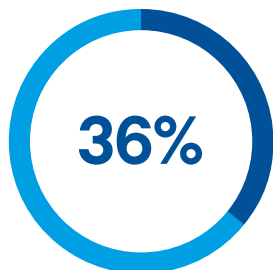
#### Group KPIs

LONG-TERM	ANNUAL BONUS	LTIP
Dividend per share		✓
Return on Regulated Equity (RORE)		✓
ANNUAL	ANNUAL BONUS	LTIP
Profit before tax (PBT)	✓	
ODI Performance	✓	
SUSTAINABLE BUSINESS	ANNUAL BONUS	LTIP
Customer satisfaction with overall service	✓	✓
ESG	ANNUAL BONUS	LTIP
	✓	

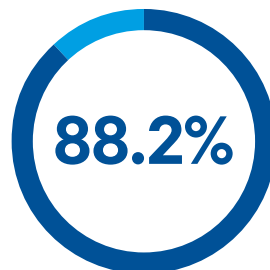
**Remuneration aligned to delivery for our customers**  
**Significant portion of executive remuneration is linked to performance:**



**2021/22 BONUS – 36% OF MAXIMUM<sup>1</sup>**



**2019 LTIP – 88.2% OF MAXIMUM VESTING**



<sup>1</sup> Final outturn after the application of discretion

**2021/22 – Performance highlights and outcomes**

**South West Water performance and strategic highlights**

**c.70,000**

**CUSTOMERS BENEFIT FROM SOUTH WEST WATER'S AFFORDABILITY INITIATIVES**

**c.£0.6m**

**NET REWARD POSITION OF C.£0.6M**

**9.2%**

**CONTRIBUTION TO RETURN ON REGULATED EQUITY OF 9.2%<sup>1</sup>**

**c.£87m**

**NET EFFICIENCY SAVINGS IN THE REGULATORY PERIOD TO DATE ARE C.£87M<sup>2</sup>**

**Lower**

**CUSTOMER BILLS LOWER IN REAL TERMS THAN 10 YEARS AGO**

<sup>1</sup> Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

<sup>2</sup> Based on Ofwat's approach to RORE using average actual inflation (2020/21 – 0.8%, 2021/22 – 3.7%)

**2021/22 SINGLE FIGURE OUTCOME £000**

**Louise Rowe**  
 South West Water Finance Director

**£449k**



**Susan Davy**  
 Chief Executive Officer

**£802k**



- Variable
- Fixed

# Annual report on remuneration

## Summary of Directors' remuneration policy and implementation in 2022/23

The current Directors' remuneration policy was approved by shareholders at the Company's AGM held on 22 July 2021. The full policy is displayed in its entirety on the Company's website at [www.pennon-group.co.uk/about-us/governance-and-remuneration](http://www.pennon-group.co.uk/about-us/governance-and-remuneration) and is available upon request from the Group Company Secretary. A summary of the policy is set out below alongside detail on how we intend to implement the policy in 2022/23.

Susan Davy is Chief Executive Officer of South West Water and Pennon Group plc. Her remuneration is based on a combination of financial and customer/operational metrics relating to South West Water Limited as well as additional metrics relating to the performance of Pennon Group and other Pennon Group companies in her capacity as Group Chief Executive Officer of Pennon Group:

- Pennon plc
- Pennon Water Services
- South West Water
- Bournemouth Water
- Bristol Water
- Water2business (30% stake).

The Group Chief Executive Officer's remuneration has therefore been apportioned as:

- South West Water 50%
- Bristol Water 20%
- Pennon Water Services 5%.

As the Group Chief Executive Officer of a publicly listed company, Susan Davy's remuneration must be set in accordance with the Pennon Group Remuneration Policy, approved by shareholders, at yearly AGMs. For 2021/22, the Group level was based on a combination of financial metrics (50% weighting), customer and operational metrics (30% weighting) and ESG metrics (20% weighting). ESG metrics were introduced as a direct replacement for personal objectives in line with best practice and the Corporate Governance Code.

The multi-faceted role of a Group CEO – in particular for a Group which has a number of distinct and independent business activities – along with the components that make up remuneration for that role mean that the performance metrics of the annual bonus apply in different proportions to the relevant businesses.

For example, in 2021/22, a significant part of Susan Davy's activities as Group CEO were focused on the successful execution of the acquisition of Bristol Water, and phase one clearance with the CMA and with it the focus on additional shareholder value for Pennon Group shareholders created by that transaction (and therefore a disproportionate part of the financial performance metrics in the overall bonus would be related to wider Pennon Group activity either related to activities for Pennon Group or Pennon Water Services Limited, but in any case unrelated to South West Water or Bristol Water).

In relation to customer and operation metrics (including measures relating to customer service scores, bathing water failures, leakage and wastewater pollution incidents, interruptions to supply and asset reliability) and ESG (including targets relating to carbon emission reduction goals, the working environment for our employees and diversity) are significantly, or in some cases exclusively, weighted towards the performance of the South West Water and (following its acquisition) the Bristol Water businesses.

The Company recognises the important focus placed by the regulator on customer and environmental outcomes. When assessed in a reasonable manner as described above, the Group considers that the element of Group remuneration for Susan Davy as it relates to the regulated business activities carried on by South West Water and Bristol Water is in accordance with Ofwat 'best practice' of 60% of annual variable remuneration being linked to positive customer outcomes.

ELEMENT	OPERATION	IMPLEMENTATION IN 2022/23				
<b>Base salary</b>						
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	Salaries are generally reviewed annually, and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.	<p>The Finance Director received an increase of 4.6%, effective from 1 April 2022.</p> <p>The Group Chief Executive Officer was awarded an increase of 3% for 2022/23, which she respectfully declined.</p> <table border="1"> <tr> <td>Finance Director<sup>1</sup></td> <td>£180,269</td> </tr> <tr> <td>Group Chief Executive Officer<sup>2</sup></td> <td>£475,000</td> </tr> </table> <p>1. An increase of 1% was reported in the 2020/21 annual report for the Finance Director. The final pay settlement agreed in November 2021 for all colleagues was 2% increasing the pay for the FD to £172,341</p> <p>2. The Group Chief Executive Officer was awarded an increase of 3% for 2021/22, which she respectfully declined</p>	Finance Director <sup>1</sup>	£180,269	Group Chief Executive Officer <sup>2</sup>	£475,000
Finance Director <sup>1</sup>	£180,269					
Group Chief Executive Officer <sup>2</sup>	£475,000					
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a Company vehicle, fuel, health insurance, income protection and life assurance. Other benefits may be provided if the Committee considers it appropriate.	Benefits remain unchanged for 2022.				
<b>Pension-related benefits</b>						
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is in line with the contribution available to the wider population.	The FD receives benefits of 15% of salary. The Group Chief Executive Officer receives benefit of 10% of salary, which is aligned with the maximum rate available to the wider workforce.				

ELEMENT	OPERATION	IMPLEMENTATION IN 2022/23																
<b>Annual bonus</b>																		
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	The maximum bonus potential is 125% of salary. A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Malus and clawback provisions apply.	Maximum opportunity of 75% of salary for the Finance Director and 125% for the Group Chief Executive Officer. Deferral of 50% of any bonus into shares for three years. For the Finance Director, customer and operational measures and ESG measures will account for 70% of the bonus weighting. The annual bonus for 2022/23 will be based on a combination of customer and operational measures, financial measures and environmental, social and governance measures (ESG). Given the planned merger of South West Water and Bristol Water, consideration will also be given to the appropriate bonus construct for the combined water business in consultation with wider stakeholders.																
<b>Long-Term Incentive Plan (LTIP)</b>																		
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value.	Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period.  An underpin applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply.	Maximum award of 80% of salary for the Finance Director and 150% for the Group Chief Executive Officer.  The 2022 LTIP award for the Finance Director will be unchanged and based on: <ul style="list-style-type: none"> <li>• 1/3 Return on Regulated Equity (RoRE) – measure based on outperforming the Final Determination (FD) year on year metric</li> <li>• 1/3 sustainable dividend measures (Pennon)</li> <li>• 1/3 C-MeX (median moving to upper quartile)</li> </ul> The performance targets for 2022 LTIP grants for the Group Chief Executive Officer can be read in the Pennon Group Annual Report on page 164.																
<b>Discretion</b>																		
In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that it will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance). The Committee will disclose the use of any such discretion.																		
<b>Shareholding requirements</b>																		
Create alignment between executives and shareholder and promote long-term stewardship.	During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to a percentage of salary.	Shareholding guideline of 100% of salary for the Finance Director and 200% for the Group Chief Executive Officer.																
<b>All-employee share plans</b>																		
Align the interests of all employees with Company share performance.	Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.  The maximum is as prescribed under the relevant HMRC legislation governing the plans.	No changes.																
<b>Non-Executive Director fee policy</b>																		
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as chair of a Committee or occupying the role of Senior Independent Director.  Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses). The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of her duties.  The Non-Executive Directors' fees are set by Pennon Group plc and 50% of these fees are recharged to South West Water through Group recharges. A further portion is cross-charged to other subsidiaries of the Group. The fee structure was amended in 2020.	A 3% uplift to the fee policy will be implemented in 2022/23 as shown below: <table border="1" style="width: 100%; margin-top: 10px;"> <tbody> <tr> <td>Chair fee</td> <td style="text-align: right;">£115,875</td> </tr> <tr> <td>Basic Non-Executive Director fee</td> <td style="text-align: right;">£31,183</td> </tr> <tr> <td colspan="2"><b>Additional fees</b></td> </tr> <tr> <td>Senior Independent Director</td> <td style="text-align: right;">£5,150</td> </tr> <tr> <td>Chair of Audit Committee</td> <td style="text-align: right;">£7,725</td> </tr> <tr> <td>Chair of Remuneration Committee</td> <td style="text-align: right;">£6,700</td> </tr> <tr> <td>Chair of ESG Committee</td> <td style="text-align: right;">£6,700</td> </tr> <tr> <td>Chair of Health and Safety Committee</td> <td style="text-align: right;">£2,575</td> </tr> </tbody> </table>	Chair fee	£115,875	Basic Non-Executive Director fee	£31,183	<b>Additional fees</b>		Senior Independent Director	£5,150	Chair of Audit Committee	£7,725	Chair of Remuneration Committee	£6,700	Chair of ESG Committee	£6,700	Chair of Health and Safety Committee	£2,575
Chair fee	£115,875																	
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<b>Additional fees</b>																		
Senior Independent Director	£5,150																	
Chair of Audit Committee	£7,725																	
Chair of Remuneration Committee	£6,700																	
Chair of ESG Committee	£6,700																	
Chair of Health and Safety Committee	£2,575																	

## Annual report on remuneration continued

### Remuneration approach for wider employees

Consistent with best practice, the Remuneration Committee spends considerable time on matters relating to remuneration arrangements across the wider workforce. This provides important context when making decisions regarding remuneration for the Executive Directors as well as ensuring that consistent approaches are being adopted across the organisation.

To provide greater transparency of remuneration for the wider workforce we have provided expanded disclosure. The Remuneration Committee is kept informed of wider workforce remuneration through the Pennon Group Pay Dashboard, which incorporates South West Water and is reviewed twice a year. This has evolved during 2020/21 to provide oversight of how the Reward Strategy is being implemented and more insight to colleague remuneration.

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other, and creating the best place to work. Responsible and trusted businesses today have a duty to make a positive societal contribution – whether that’s through promoting social mobility, addressing racial and gender inequality, or in providing secure and meaningful employment where all employees are paid fairly for the work they do.

During 2020 a specific Reward Strategy was created for the Group to complement the People Strategy. The Reward Strategy had three aims:

- To deliver a broad reward package to engage and motivate employees to want to perform at their best
- To ensure that reward decisions support business delivery and promote long-term wealth creation, in line with our People Strategy and values
- To communicate to stakeholders our approach to rewarding and recognising employees and their contribution.

A critical aspect of the design work was in understanding employees’ view of reward, the benefits most valued and what aspects could be improved. Listening sessions and focus groups were held during this process as well as incorporating themes from the engagement survey.

The Reward framework is centred around four key pillars which build into a Total Reward proposition, ensuring a mix for employees at every stage of their career lifecycle.

The framework was reviewed and endorsed by the Pennon People Committee and Remuneration Committee and the success of the strategy measured through the engagement survey and colleagues’ feedback. This is regularly reviewed and shared with the Remuneration Committee.

## Reward Framework

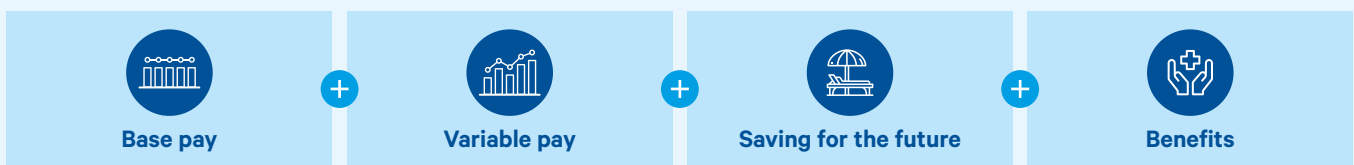
Our reward framework supports our people strategy

### Talented people doing great things for our customers and each other



### Rewarded by our framework

Total reward =



### Underpinned by our Values



Supported by: Strategy & Governance, Job Evaluation & Benchmarking, Systems & Data

PILLAR	PROGRESS
 <p><b>Base pay</b></p>	<p>Importantly, the Pennon Group (including South West Water) has formalised its approach to adopting the Living Wage Foundation standards by becoming an accredited employer in April 2021.</p> <p>The Group's overarching principles for basic pay are that it should:</p> <ul style="list-style-type: none"> <li>• Be competitive to support attraction and retention</li> <li>• Be fair, meeting all legislative requirements</li> <li>• Reflect the market and region in which the role operates</li> <li>• Be reviewed annually – we engage with employee forums and trades unions as appropriate.</li> </ul> <p>Employee feedback on the 2021 pay increase was sought during the pay discussions through a series of focus groups alongside the traditional negotiations with the trades unions. The feedback was influential in setting reward priorities for the year as well as an increase pay settlement in 2021. The pay settlement for 2022 is 5% for employees and 4.6% for the South West Water Finance Director. The Group Chief Executive Officer respectfully declined her award of 3%. During the first quarter of 2022, we have implemented changes in our base pay for many of our lower paid roles, lifting the minimum hourly rate further above the Living Wage Foundation rate by c.6%. This supports our reward strategy and our focus on building the reward for our wider workforce, particularly those who operate in essential customer facing roles.</p>
 <p><b>Variable pay</b></p>	<p>The Company operates a number of variable pay schemes and all employees and temporary workers are eligible to participate. Throughout the main bonus schemes, there is strong correlation in the targets, to align the whole organisation on customer, quality, service and ESG goals.</p> <p>All employees in South West Water are entitled to participate in annual bonus arrangements. The maximum bonus levels are based on seniority and level of responsibility.</p> <p>In July 2021, we applied positive discretion to the annual bonus for colleagues below leadership paying at an enhanced level in recognition of the dedication colleagues have continued to show in delivering our essential services to our customers, during the pandemic.</p> <p>From 2021, colleagues below senior management in South West Water have had their bonus opportunity increase, bringing the opportunity to receive a greater share of company success. Local incentives are also paid to drive specific operational targets.</p>
 <p><b>Saving for the future</b></p>	<p>Membership of the Group pensions scheme remains strong with c.95% participation rate in our Defined Contribution (DC) scheme. Within the scheme a great number of employees access the full 10% employer contribution available. During 2022 we have increased flexibility to adjust contributions during the year providing the opportunity for colleagues to build on their pension savings as and when they have additional funds to do so.</p> <p>As part of our Saving for the future, all employees are able to participate in our HMRC approved ShareSave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. We continue to have strong take-up of this benefit at 51% of South West Water colleagues having an in-flight scheme. Following shareholder approval at a General Meeting on 5 July 2021, Pennon's share capital was consolidated into shares of 61.05p each on a 3:2 basis, reducing direct holdings by one third. Shareholders received a special dividend of £3.55 per share on 16 July as a return of capital. As many employees are currently participating in an in-flight ShareSave and Share Incentive Plan arrangements as well as those who are an employee shareholder, we felt it important that we provided employees with an understanding of the rationale for these transactions, what it meant for their share interests and reassurance for their in-flight schemes. Dedicated web pages, literature and booklets were created and the Group Finance Director chaired focus meetings to explain the details, impact for tax and to hold Q&amp;A sessions. These were well attended with over 300 employees accessing a session and many more receiving 1:1 response to individual questions.</p> <p>We will continue to run the popular ShareSave in 2022 with the maximum discount permitted.</p>
 <p><b>Benefits</b></p>	<p>The fourth pillar of our framework covers the benefits available to employees. During 2021, a number of additional benefits were implemented to support employees' physical and mental wellbeing in line with our reward strategy and in response to the challenging environment the pandemic has brought.</p> <ul style="list-style-type: none"> <li>• We have launched an online health programme providing self-assessment and guidance for a healthy life plan</li> <li>• Total reward statements are now available through our online Reward Hub</li> <li>• We have implemented our buy and sell holiday scheme giving employees the opportunity to have either more holiday to suit their lifestyle or more cash reward to use as they prefer</li> <li>• Building on our wellbeing offering has been a particular focus for 2021. There are now nine colleague-led wellbeing support groups in place, bringing those with shared experiences and characteristics together to support and learn from one another. We also positively support colleague attendance to our Time to Talk sessions with wellbeing experts. This is a key focus for our leadership calls so they have the skills to support their teams.</li> </ul>

## Annual report on remuneration continued

### Pennon Group pay dashboard

In accordance with the 2018 UK Corporate Governance Code, the Committee has also reviewed the level of information provided on pay matters in the wider organisation. Key activity in this regard included the Pennon Group pay dashboard:

- The Pennon Group (incorporating South West Water) has established a pay dashboard to help support the Committee in reviewing workforce remuneration and related policies and this has been developed to provide greater insight for 2022
- The dashboard provides an overview of pay arrangements across the business and provides key statistics on pay in different areas of the business and progress on our planned framework implementation
- The dashboard covers information on workforce demographics, employee engagement, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas of the business
- The Committee intends to keep the content of the dashboard under review to ensure that it continues to provide suitable information for the Committee.

### Gender pay gap

South West Water's gender pay gap stood at 6.7% for 2021. During 2021, we recognised colleagues' loyalty and dedication to customers with an additional discretionary bonus. This was not subjected to pro-rating for part-time employees and has contributed to the negative mean bonus pay gap of -28.4%. The Company continues to build on the pipeline to improve gender alignment in middle manager and senior positions and is seeing strong progress in this area. We have been delighted with the successful recruitment of our female graduates and apprentices who will bring diverse thinking to our operations. We remain an active supporter of the Women in Water Initiative.

During the year Pennon Group has been recognised in gender equality by external bodies. South West Water is the largest employer within the Group, and so makes a valuable contribution to these results. In early 2022, Pennon was recognised in the FTSE Women Leaders report (previously the Hampton Alexander survey). Pennon was placed 1st in the Utilities sector, placed 10th overall in the FTSE 250 group compared with 23rd in 2021, and positioned 16th as a Best Workplace for women. Our performance in the Bloomberg Gender Equality Index also showed improvement. The index measures gender equality across five key areas. The report showed the Group had built on its performance in 2021 with an overall score of 64.87% up from 59.9% in 2021. Within the European Women in Boards survey, our ranking within the UK improved to 41st up from 44th in 2021.

### Employee engagement

Across Pennon we endorse the principle of strengthening opportunities for employees to engage in two-way dialogue at all levels. We have launched our new people panel RISE, replacing the South West Water Employee Engagement Forum. We are very excited that the new panel will build on the solid foundations to extend open, two-way communication between senior managers and our people. Colleagues have been invited to RISE to the challenge as one of 50 representatives with over 70 applications to stand in this capacity. This group will be a key source of dialogue and employee views for shaping future reward developments.



# 50

**COLLEAGUES HAVE RISEN TO THE CHALLENGE AS ONE OF 50 REPRESENTATIVES**

# 85%

**PARTICIPATION RATE IN OUR ANNUAL ENGAGEMENT SURVEY**

We have been keen to ensure we are able to reflect on feedback we receive from employees. This year, we were pleased to see the high participation rate continue with a response rate of 85% in our annual engagement survey. As a Group we maintain our accreditation as a Great Place to Work. We have welcomed the feedback that has been provided through these routes and employees' openness in participating in these activities.

### Looking ahead

We will be awarding our highest employee pay award for recent years of 5% in 2022, as we support employees during the current financial challenges of high inflation and additional National Insurance contributions. For 2022/23 we will continue to review and refine our approach to reward, continuing our development of the roll out of Total Reward Statements in the summer and enhancing our recognition platform and launch of the discount portal. We will be working to ensure our core proposition for our family friendly policies remain relevant and attractive to colleagues.

### Single total figure of remuneration table (audited information)

	Louise Rowe (£000)		Susan Davy <sup>1</sup> (£000)	
	2021/22	2020/21	2021/22	2020/21
<b>Base salary</b>	<b>172</b>	169	<b>238</b>	228
<b>Benefits<sup>3</sup></b> (including ShareSave)	<b>18</b>	18	<b>14</b>	15
<b>Pension-related benefits<sup>4</sup></b>	<b>26</b>	26	<b>28</b>	40
<b>Total fixed pay</b>	<b>216</b>	213	<b>280</b>	283
<b>Annual bonus</b> (cash and deferred shares)	<b>47</b>	53	<b>91</b>	219
<b>Long-Term Incentive Plan<sup>2,5</sup></b>	<b>186</b>	200	<b>431</b>	464
<b>Total variable pay</b>	<b>233</b>	253	<b>522</b>	683
<b>Total remuneration</b>	<b>449</b>	466	<b>802</b>	966

1 Susan Davy was appointed as Group Chief Executive Officer of Pennon Group plc and South West Water as of 31 July 2020. The figures provided reflect 50% of her remuneration, which is rechargeable to SWW through Group recharges. Reflecting the nature of Susan's position as Chief Executive of the Group, all subsidiaries receive a cross-charge. The full single total figure of remuneration tables are shown on page 169 of the Pennon Group plc Annual Report and Accounts 2021

2 For 2021/22 the 2019 LTIP has been valued based on the average share price during the three-month period to 31 March 2022 of 1063.96 pence and a vesting outcome of 88.2%, as referred to on page 102, together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, 29.25% relates to share price appreciation over the performance period

3 Benefits comprise a car allowance, fuel allowance, and medical insurance

4 See page 96 for further information on retirement benefits

5 For 2020/21, the 2018 LTIP value reflects the share price at the date of vesting of 1176.98 pence and a vesting outcome of 89.9%, as referred to on page 104 together with the accrued dividends payable on the vesting shares. LTIP awards are subject to a two-year holding period



## Notes to the single figure table

### Fixed pay – Annual bonus outturn for 2021/22

The Remuneration Committee recognises the market positioning against FTSE peers and intends to keep salary levels for both Executive Directors under review in future years, to ensure that they suitably reflect both development and experience in the role and the evolving size and nature of the Group's operations.

Retirement benefits for the Chief Executive Officer were set at 10% of salary on appointment in 2020. This is aligned to the rate of the wider workforce. Further detail on pension arrangements is set out in the Pennon Group Annual Report on page 172. The Finance Director continues to receive 15% of salary.

#### Louise Rowe

For 2021/22, the Finance Director participated in the annual bonus plan which was based on a combination of operational and ESG measures, which were weighted to 70% of the bonus. Financial targets accounted for the remaining 30%.

In line with the Committee's policy, 50% of any bonus is payable in shares, the release of which is deferred for a three-year restricted period. The performance targets set and performance achieved have been set out below:

South West Water Annual Bonus Scheme measures	Target	Actual	Range	Bonus outturn (% of max)
<b>PBT</b>	£155.0m	£137.5m	-2% to +5%	0%
<b>Net debt</b>	£2,204.3m	£2,305.2m	-2% to +5%	0%
	Target	Actual outturn	Target achieved	Bonus outturn (% of max)

### Service and Customer Metrics

Bathing water quality improvements	2 Cumulative	8 Cumulative	Yes	
Wastewater pollution incidents, per 10,000km sewer	23.74	86.58	No	
Internal Sewer Flooding no./10k connections	1.63	0.76	Yes	
Sewer Collapses per 1000km	16.27	6.72	Yes	
Leakage (3 year rolling average) Megalitres per day	116.7	116.7	Yes	44%
Environment Agency EPA*	3 star	1 star	No	
CRI (water quality score)*	2	3.86	No	
Interruptions to supply per property	6 mins 08 seconds	6 mins 47 seconds	No	
C-Mex	Median (9th)	12th	No	

\* Subject to Regulator confirmation in July

### ESG metrics

Reduce carbon emissions in support of our strategy to meet net zero by 2030	3% reduction	4%	Yes	
Increase renewable generation	10%	8%	No	
Reduce onsite water usage	6Ml/d	6Ml/d	Yes	
Great Place to Work Accreditation	Maintain	Maintained	Yes	
Reduce lost time injuries	23 LTIs (18% reduction)	22 (24% reduction)	Yes	89%
Achieve FTSE Women Leaders rating (previously Hampton Alexander survey)	23rd	10th	Yes	
Achieve a sustainability ESG	75	78	Yes	
New debt through Sustainable Financing Framework	50%	100%	Yes	
Fair Tax Accreditation	Maintain	Maintained	Yes	

Susan Davy is Chief Executive Officer of South West Water and Pennon Group plc. Her remuneration is based on the metrics above relating to South West Water Limited as well as on additional metrics relating to the performance of other Pennon Group companies in her capacity as Chief Executive Officer of Pennon Group. Details of her remuneration can be found on pages 160 to 180 of the Pennon Group Annual Report 2022.

#### Summary of bonus outcome

When reviewing performance in the year, the Committee noted there have been improvements in our pollutions record and the achievement of 100% coastal bathing water quality, in a year which continued to be challenged by the pandemic.

However, in recognition that there is more to do to achieve the planned trajectory to achieve 4\* EPA by 2024, the Committee proposed a reduction to the overall payout of 10% which was supported by the Group Chief Executive Officer.

	Bonus outturn	
	Weighting	Finance Director
South West Water financial measures	30%	0%
South West Water service measures	50%	22.2%
Group ESG measures	20%	17.8%
Downward Discretion		-4.0%
<b>Total outturn</b>	<b>100%</b>	<b>36.0%</b>

## Annual report on remuneration continued

### Long-term incentive outturn for 2021/22

The LTIP targets for the South West Water Executive were reviewed for the 2020 and subsequent awards as shown in the policy table on page 97.

The awards in the single figure table relate to the awards granted on 4 July 2019, which are due to vest on 3 July 2022. These share awards were subject to Pennon performance targets previously set as relating to Earnings per Share, a sustainable dividend measure and Return on Capital Employed (RoCE).

Full details can be read in the Pennon Group Annual Report on page 171.

Measures		Threshold (25% of maximum vests) <sup>2</sup>	Maximum (100% of maximum vests)	Achievement <sup>3</sup>	Vesting outcome (% of max)
EPS growth (40% of award)	Combined Group (Period to FY20)	57.2p	61.6p	61.7p	100%
	Continuing Group (FY21)	45.3p	47.0p	50.2p	
Sustainable dividend measure (dividend growth and dividend cover) (40% of award)	Combined Group (Period to FY20)			3.2x	87.5%
	Continuing Group (FY21)	2.6x	3.6x	3.8x	
RoCE (average) <sup>1</sup> (20% of award)	Combined Group (Period to FY20)			9.5%	65.9%
	Continuing Group (FY21)	8%	10%	8.8%	
<b>Total</b>					<b>88.2%</b>

1 Average of opening and closing capital employed

2 For below threshold performance for any of the performance conditions, 0% vests in respect of that performance condition

3 Straight-line vesting between points

Vesting of the award is subject to an 'underpin' relating to overall Company performance including environmental, social and governance factors and safety performance, as well as financial performance. The Committee has determined, to the date of this report, that this underpin has been satisfied.

### Retirement benefits and entitlements (audited information)

Details of Directors' pension entitlements and pension related benefits during the year are as follows. Effective 1 August 2021, the maximum pension contribution made by the Company to newly appointed Directors is 10% of salary:

	Value of defined benefit pension <sup>2</sup> (£000)	Company contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)	Accrued pension at 31 March 2022 <sup>4</sup> (£000)
Susan Davy <sup>3</sup>	12	3	40	55	65 (17 May 2034)	30
Louise Rowe <sup>1</sup>	–	2	24	26	65 (15 January 2047)	–

1 Louise Rowe is a member of Pennon Group's defined contribution arrangement and received an overall pension benefit from the Company equivalent to 15% of her salary

2 The value of the defined benefit pension accrued over the period comprises the total pension input amount (which has been calculated in line with regulatory requirements) less the pension contributions paid by the Director

3 Susan Davy received an overall pension benefit from the Company equivalent to 10% of her salary. For 2021/22 this comprised an employer's contribution of £11,737 and a cash sum of £40,353. She is a member of Pennon Group's defined contribution pension arrangements and is entitled to access the retirement fund in the Master Trust from age 55. Accrual in the defined benefit scheme ceased from 1 July 2021

4 Accrued pension is based on service to the year end final pensionable salary at that date

**Non-Executive Directors' remuneration****Single figure of remuneration (audited)**

	2021/22			2020/21		
	Fees <sup>1</sup> (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider	113	–	113	88	–	88
Neil Cooper	43	–	43	40	–	40
Iain Evans	37	–	37	37	–	37
Claire Ighodaro	37	–	37	34	–	34
Jon Butterworth <sup>2</sup>	33	–	33	39	–	39

1. 50% of fees are recharged through Pennon Group plc

2. Jon Butterworth joined the Pennon Board on 1 August 2020 and his fees were subsequently recharged through Pennon Group plc. Prior to that he was a Non-Executive Director of South West Water and fees were fully attributed to South West Water

**Non-Executive Directors' fees and benefits**

The fee for the Chair and Non-Executive Directors were increased by 3% from 1 April 2022. No increases were accepted by any member of the Board in 2021.

When appropriate for the efficient carrying out of her duties the Chair is provided with a driver and a vehicle. She is entitled to expenses on the same basis as for other Non-Executive Directors.

The fee structure is set out in full on page 97.

**Directors' service contracts and letters of appointment**

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of service contract	Notice period
Susan Davy <sup>2</sup>	31 July 2020	12 months
Louise Rowe	1 February 2015	12 months

Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
Gill Rider	1 April 2016	31 August 2024 <sup>1</sup>
Neil Cooper	1 April 2016	31 August 2023
Iain Evans	31 July 2020	31 August 2024
Claire Ighodaro	31 July 2020	31 August 2022
Jon Butterworth	28 September 2017	31 July 2023

1 Gill Rider was appointed as Chair of the Board as of 31 July 2020 and as such is providing ongoing strategic support and continuity of the Board for up to three years

2 Susan Davy held a previous service contract dated 1 February 2015 in respect of her appointment as Chief Financial Officer, Pennon

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

**Outside appointments**

Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2021/22. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

## Annual report on remuneration continued

### Additional contextual information

#### Historical Chief Executive Officer remuneration

The table below provides historical single figure information based on the most appropriate senior executives of the Company.

From 2014/15 to 2016/17, this reflected the remuneration of the South West Water CEO, Chris Loughlin.

From 2017/18 to 2019/20, the remuneration reflected the Managing Director of South West Water.

From 2020/21, this reflects the Chief Executive Officer.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 <sup>1</sup>	2021/22
	CEO	CEO	CEO	MD	MD	MD	CEO	CEO
Managing Director/Chief Executive Officer single figure of remuneration (£000)	666	761	660	493	663	1,094	966 <sup>1</sup>	669 <sup>1</sup>
Annual bonus payout (% of maximum)	78.2	84.0	84.1	85.0	90.0	78.0	78.1	79.2
LTIP vesting (% of maximum)	0.0	34.5	43.7	0.0	44.0	86.6	89.9	89.9
								<b>CEO</b>
								<b>802</b>
								<b>30.7</b>
								<b>88.2</b>

<sup>1</sup> Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer

### Percentage change in Directors' remuneration

#### Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2020/21 and 2021/22 in base salary, benefits and annual bonus of all Directors, including both Executive Directors and Non-Executive Directors, and all employees.

	Percentage change in salary/fees 2021/22	Percentage change in benefits 2021/22	Percentage change in pension 2021/22	Percentage change in annual bonus 2021/22	Percentage change in salary/fees 2020/21	Percentage change in benefits 2020/21	Percentage change in pension 2020/21	Percentage change in annual bonus 2020/21
<b>Executive Directors</b>								
Louise Rowe	1.8%	0%	0%	-11.3%	1.5%	0%	2.1%	-40.4%
Susan Davy <sup>1</sup>	4.4%	0%	-30%	-58.4%	10.7%	0%	-32.2%	34.8%
<b>Non-Executive Directors</b>								
Gill Rider <sup>2</sup>	27.8%	-	-	-	126.0%	-	-	-
Neil Cooper <sup>3</sup>	7.5%	-	-	-	16.0%	-	-	-
Iain Evans	1.4%	-	-	-	4.0%	-	-	-
Claire Ighodaro <sup>4</sup>	8.8%	-	-	-	97%	-	-	-
Jon Butterworth <sup>5</sup>	-15.4%	-	-	-	-	-	-	-
<b>All employees</b>								
South West Water	2.2%	-10.1%	-11.8%	2.8%	4.28%	4.38%	2.2%	-0.08%
UK employees	2.0%	-19.5%	-11.4%	-14.3%	1.22%	5.7%	2.5%	-17.8%

<sup>1</sup> The remuneration for Susan Davy for 2021/22 is for the full year as Chief Executive Officer, having been appointed to the role on 31 July 2020. The year on year change in salary and benefits from 2021/22 reflects the pro-rated remuneration for Susan's current and previous role as Chief Financial Officer for the Group in 2020/21

<sup>2</sup> The remuneration for Gill Rider for 2021/22 is for the full year as Chair having been appointed on 31 July 2020. The year on year change reflects that the remuneration in 2020/21 was pro-rated for Gill's current role as Chair and previous service as a Non-Executive Director and Chair of the Remuneration Committee

<sup>3</sup> The fee for Neil Cooper for 2021/22 is for the full year as Senior Independent Director, having been appointed on 31 July 2020. The year on year change reflects that the remuneration in 2020/21 was pro-rated for Neil's current role as Senior Independent Director and previous service, prior to his appointment as Senior Independent Director

<sup>4</sup> The fee for Claire Ighodaro for 2021/22 is for the full year as Chair to the Remuneration Committee having been appointed on 31 July 2020. The year on year change reflects that the remuneration in 2020/21 was pro-rated for Claire's current role and previous service, prior to her appointment as Chair to the Remuneration Committee

<sup>5</sup> The fee for Jon Butterworth for 2021/22 has reduced reflecting the cross charge to South West Water from Pennon plc. Prior to Jon's appointment to the Pennon Board, Jon served on the South West Water Board for which 100% of his fees were charged

### Relative importance of spend on pay

	2021/22 £m	2020/21 £m	Percentage change
Overall expenditure on pay <sup>1</sup>	69	69.8	-1.1%
Distributions to parent company (excluding special dividend) <sup>2</sup>	88	100.4	-12.4%
Net interest charges	76.8	56.5	35.9%
Purchase of property, plant and equipment (cash flow)	197.3	161.1	22.5%

<sup>1</sup> Excludes employer's social security costs and non-underlying items

<sup>2</sup> 2021/22 includes payment of the outperformance dividend based on the cumulative outperformance for 2020/21 of £430m that has been deferred to August 2022 (2020/21 includes payment of the outperformance dividend based on the cumulative outperformance for 2019/20 of £581m that was deferred to August 2021). 2020/21 excludes dividend payment of £12 million to parent in October 2020 as part of the WaterShare+ customer rebate scheme

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The distributions to parent company, interest charges and the purchase of property, plant and equipment (cash flow) have been included as these were the most significant outgoings for the Company in the last financial year.

**Chief Executive Officer pay ratio**

Our CEO pay ratio stands at 43:1 for the median employee. This is considerably lower than the ratio in preceding years and reflects the lower remuneration of Susan Davy compared to her predecessor. This is the first year the ratio has reflected Susan's remuneration alone as the 2021 calculation reflected the pro-rated remuneration of the two CEOs in post over the year.

Year	Method	25th percentile (P25) pay ratio	Median (P50) pay ratio	75th percentile (P75) pay ratio
<b>2021/22</b>	<b>A</b>	<b>56:1</b>	<b>43:1</b>	<b>36:1</b>
2020/21	A	93:1	69:1	55:1
2019/20	A	91:1	64:1	53:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2021 to 31 March 2022.

- Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.
- Estimated values for employee P11D data have been used to establish the ordering of employees, given the timing of publication. This will be validated and amended in due course to account for any variances.

The total remuneration of 2021/22 for the employees identified at P25, P50 and P75 is £28,467, £37,165, and £45,196, respectively. The base salary of 2021/22 for the employees identified at P25, P50 and P75 is £25,164, £25,662, and £40,185, respectively.

The CEO pay ratio calculation on the same compensation elements as the wider workforce, (i.e. excluding LTIP) would be:

P25	26:1
P50	20:1
P75	17:1

**Share awards and shareholding disclosures (audited information)****Share awards granted during 2021/22**

The table below sets out details of share awards made in the year. Details of the Chief Executive Officer share awards are included in the [Pennon Annual Report](#) on pages 176 to 179.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date
Susan Davy	LTIP	150% of salary	713	25% of maximum	30 June 2024
Louise Rowe		80% of salary	137		
Susan Davy	Deferred bonus	50% of bonus awarded	219	n/a	29 June 2024
Louise Rowe			27		

LTIP awards were calculated using the Pennon Group plc share price of £11.408 (being the average closing price over the five dealing days preceding the date of grant, which was 1 July 2021). LTIP awards are subject to an additional two-year holding period. Deferred bonus awards were calculated using the average Pennon Group share price at which shares were purchased on the market on 28 June 2021 in order to satisfy the award, which was £11.5045.

The targets for the Pennon 2022 LTIP award are detailed in the [Pennon Annual Report](#) on page 164.

**Directors' shareholding and interest in shares**

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2020/21, this guideline was 100% of salary for the Finance Director and 200% for the Chief Executive Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis.

The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

The beneficial interests of the Executive Director in the ordinary shares (61.05p each) of Pennon Group plc as at 31 March 2022 and 31 March 2021, together with their shareholding guideline obligation and interest are shown in the table below. Following shareholder approval at a General Meeting on 5 July 2021, the Company's share capital was consolidated into shares of 61.05p each, on a 3:2 basis, so direct holdings were reduced by a third, compared with the position prior to this date:

	Share interests (including connected parties) at 31 March 2022	Share interests (including connected parties) at 31 March 2021	Vested LTIP awards in holding period <sup>1</sup>	Deferred bonus shares	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Susan Davy	<b>77,486</b>	86,206	152,920	38,967	2,047	208,330	200%	Yes
Louise Rowe	<b>18,396</b>	15,799	32,964	9,160	2,047	45,364	100%	Yes

<sup>1</sup> These share awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis

Since 31 March 2022, 28 additional ordinary shares in Pennon Group have been acquired by Louise Rowe as a result of participation in the Pennon Group's Share Incentive Plan. The interests of the outgoing Chief Executive Officer can be seen on page 176 of the [Pennon Annual Report](#).

## Annual report on remuneration continued

### Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and stepchildren, in the ordinary shares of the Pennon Group, are shown in the table below. Following shareholder approval at a General Meeting on 5 July 2021, the Company's share capital was consolidated into shares of 61.05 pence each, on a 3:2 basis, so direct holdings were reduced by a third, compared with the position prior to this.

Director	Shares held at 31 March 2022	Shares held at 31 March 2021
Gill Rider	2,407	3,612
Neil Cooper	-	-
Iain Evans	-	-
Claire Ighodaro	-	-
Jon Butterworth	-	-

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2022 and 30 May 2022. There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

### Details of share awards

The Chief Executive Officer's share awards can be seen on pages 176 to 178 in the [Pennon Annual Report](#).

#### (a) Long-term incentive plan

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (61.05p each) of Pennon Group plc shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full:

Director and date of award	Vested awards held at 1 April 2021 <sup>1</sup>	Conditional awards held at 1 April 2021	Conditional awards made in year	Market price upon award in year	Vesting in year <sup>2</sup>	Value of shares upon vesting (before tax) £000	Vested awards held at 31 March 2021 <sup>3</sup>	Vested awards released in year <sup>5</sup>	Conditional awards held at 31 March 2022	Date of end of period for qualifying conditions to be fulfilled	Expected date of release <sup>4</sup>
<b>Susan Davy</b>											
10/07/16	15,557			920.00p		115		17,258		30/06/19	30/06/21
25/08/17	74,045		-	802.70p		747	74,045	-		24/08/20	24/08/22
02/07/18	-	76,653	-	790.12p	78,875	928	78,875	-		01/07/21	01/07/23
04/07/19	-	82,062	-	752.72p	-	-	-	82,062		03/07/22	03/07/24
03/08/20	-	63,812	-	1071.9p	-	-	-	63,812		02/08/23	02/08/25
01/07/21	-	-	62,456	1140.80p	-	-	-	62,456		30/06/24	30/06/26
<b>Louise Rowe</b>											
10/07/16	4,467			920.00p		33		4,955		30/06/19	30/06/21
25/08/17	15,961		-	802.70p		161	15,961	-		24/08/20	24/08/22
02/07/18	-	16,524	-	790.12p	17,003	200	17,003	-		01/07/21	01/07/23
04/07/19	-	17,692	-	752.72p	-	-	-	17,692		03/07/22	03/07/24
03/08/20	-	15,705	-	1075.49p	-	-	-	15,705		02/08/23	02/08/25
01/07/21	-	-	11,967	1140.80p	-	-	-	11,967		30/06/24	30/06/26

1 32% of the award shares granted on 1 July 2016 vested on 1 July 2019 at a market price of £7412 per share. 86.86% of the award shares granted on 25 August 2017 vested on 25 August 2020 at a market price of £10.085 per share

2 89.9% of the award shares granted on 02 July 2018 vested on 1 July 2021 at a market price of £11.7698 per share. In respect of (1) and (2) above, the total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the three-year performance period. The balance of the award lapsed

3 Vested award; no longer subject to performance conditions

4 Awards granted from 2015 onwards are subject to a two-year holding period following vesting

5 Awards released in year at a market price of £13.04 per share, inclusive of additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the two-year holding period

**(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)**

The following Director has or had a contingent interest in the number of ordinary shares (61.05 pence each) of Pennon Group plc shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the annual incentive bonus plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 1 April 2021	Restricted awards made in year	Market price of each share upon award in year	Restricted awards post-share consolidation (restated) <sup>2</sup>	Released in year <sup>1</sup>	Value of shares upon release (before tax) £000	Restricted awards held at 31 March 2022	Date of end of restricted period
<b>Susan Davy</b>								
25/07/18	22,746	–	761.36p	15,163	15,163	194	–	24/07/21
24/07/19	24,449	–	755.5386p	16,299	–	–	16,229	23/07/22
14/07/20	15,011	–	1079.47p	10,007	–	–	10,007	13/07/23
30/06/21		18,993	1150.45p	12,661			12,661	29/06/24
<b>Louise Rowe</b>								
25/07/18	6,803	–	761.36p	4,535	4,535	58	–	24/07/21
24/07/19	7,317	–	755.5386p	4,877	–	–	4,877	23/07/22
14/07/20	4,102	–	1079.47p	2,734	–	–	2,734	13/07/23
30/06/21	2,325		1150.45p	1,549			1,549	29/06/24

<sup>1</sup> These shares were released on 6 August 2021 at 1278.0 pence per share

<sup>2</sup> All shares under the AIBP were adjusted on 5 July to reflect the share consolidation activity at a ratio of 3:2 into shares of 61.05 pence each. A special dividend of £3.55 per share was paid on 16 July 21 as follows:  
Louise Rowe £72,941

During the year the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows: Louise Rowe £4,309.

**(c) ShareSave Scheme**

Details of options to subscribe for ordinary shares (61.05 pence each) of the Company under the all-employee ShareSave Scheme were:

Date of award	Options held at 1 April 2021	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2022	Options held at 31 March 2022	Exercise period/maturity date
<b>Susan Davy</b>								
03/07/18	2,834	–	2,834	635.00p	1133.00p			
06/07/21		2,047		879.00p		1075.0p	2,047	01/09/24-28/02/25
<b>Louise Rowe</b>								
03/07/18	2,834	–	2,834	635.00p	1133.00p			
06/07/21		2,047		879.00p		1075.0p	2,047	01/09/24-28/02/25

**The Remuneration Committee and its advisors**

Claire Ighodaro, Gill Rider, Neil Cooper, Iain Evans and Jon Butterworth were members of the Remuneration Committee for the full year.

During the year the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Pennon Group Chief People Officer) and from Deloitte LLP. During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

## Risk and Compliance Statement – Summary

In line with the information outlined in the Risk and Compliance Statement section of this Annual Performance Report and Regulatory Reporting, the Board confirms:

- 1 We have a full understanding of, and we meet all of, our relevant statutory, licence and regulatory obligations in all material respects (see more below)
- 2 We have taken appropriate steps to understand and meet customer expectations (see more below)
- 3 We have sufficient processes and internal systems of control to meet our obligations fully (see more on page 114)
- 4 We have appropriate systems and processes in place to identify, manage, mitigate and review our risks (see more below)
- 5 We meet the Ofwat objectives on Board leadership, transparency and governance and ensure that we explain clearly how we meet those objectives (see more on page 116)
- 6 We have reviewed our governance to ensure we conduct the regulated company as if it were a public limited company separate from any other business (see more below)

## Regulatory Statements including support for the Risk and Compliance Statement

### Governance

The 2021/22 South West Water Annual Performance Report and Regulatory Reporting highlights Company performance for the second year of the five-year 2020-25 regulatory period (AMP7) and provides detail on operational performance metrics throughout the period.

The Outcome Delivery Incentives (ODIs), which are South West Water's Key Performance Indicators, incorporate the metrics used by the South West Water Board and Ofwat, our economic regulator, to monitor performance. They were developed in line with customer and other stakeholder priorities following South West Water's most comprehensive engagement exercise to date in developing its 2020-25 business plan.

In line with Ofwat's Regulatory Reporting requirements, this risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.

The South West Water Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

### Statutory obligations

The Company has a number of statutory obligations including those detailed within the Water Industry Act, the Companies Act, the South West Water Licence, and the Competition Act.

Since privatisation, the Company has developed and established processes and procedures for ensuring obligations are adhered to in all material aspects.

Compliance with obligations and performance against targets are outlined through Regulatory Reporting. This year's performance is again summarised in the Company's Annual Performance Report and Regulatory Reporting.

The South West Water Board has received reports from the business detailing the applicable statutory licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for 2021/22.

### Customer expectations

The Company has developed approaches and appropriate processes for engaging with customers to ascertain priorities and expectations.

The Company continually gathers customer feedback and engages with customers in order to understand

their expectations. South West Water has considered how communications adhere to Ofwat's information principles with the aim of ensuring information is accurate, transparent, clear, accessible and timely.

Our Codes of Practice meet licence conditions G and H, providing information to customers describing the nature of the services to domestic customers, giving guidance to domestic customers who have difficulty paying their bills and advising customers of their options and rights about the help available when they have a leaking supply pipe.

Our approach for producing and reviewing customer information is consistent with Ofwat's information principles. Customer research and feedback is acquired through our quarterly tracking survey and on specific topic areas to support the quality of our communications.

### South West Water Board statement

The South West Water Board confirms that in its opinion sufficient processes and systems of internal control were in place to meet the Company's obligations for the 12 month period to 31 March 2022 for ensuring that the Company complied in all material respects with its legal and regulatory obligations as a water and sewerage undertaker.

It also confirms that in its opinion the Annual Performance Report covers the issues it considers to be material to the Company, gives a fair, balanced and understandable view of the Company's performance and compliance with the relevant obligations.

### Statement of Directors' responsibilities for regulatory information

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

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
- confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company

- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker
- report to Ofwat changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities, undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements. In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act 2006 the following applies:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Company performance

The South West Water Board monitors and controls the performance of the Company against the targets and expectations within the Final Determination and statutory obligations by:

- Setting targets and reviewing performance against key levels of performance indicators and financial measures on a monthly basis at Board and Executive Management level
- Implementing Investment Planning & Control procedures to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of capital investment



- Encouraging a culture of openness, where issues can be openly discussed, continuing to support a 'Whistleblowing' policy (see details of our 'Speak Up' programme on page 75).

Performance against targets is measured and reported using key performance indicators which are aligned with those highlighted in this Annual Performance Report.

There are appropriate systems and processes in place to identify, manage and review any potential material exceptions to the delivery of outputs or changes in circumstances to those assumed within our 2019 Final Determination. These include those which might lead to an adjustment to price limits through the revenue price caps or performance measures.

South West Water has not identified any circumstances that have resulted in a material variance to the Final Determination expectations. Where areas of focus have been identified, plans overseen by the Board to ensure outcomes are achieved as soon as possible.

### Board leadership, transparency and governance

The South West Water Board is dedicated to developing and improving the governance structures and activities in accordance with best practice and Ofwat's Board Transparency and Governance requirements.

For 2021/22 South West Water had a fully functioning and standalone Board and Committees. The business of the Board with associated Audit, ESG, Remuneration and Nomination Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.

The members of the Board are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations and to represent customers' interests.

The Company has complied with the UK Corporate Governance Code 2018 subject to a number of exceptions which relate to certain responsibilities being reserved by the Board and Committees of Pennon Group plc (the parent company), which itself fully complies with the UK Corporate Governance Code. The exceptions are explained in the South West Water Annual Report page 108.

During 2021/22 and in accordance with the established governance framework, the South West Water Board convened before each Pennon Group Board meeting to consider South West Water strategy, performance and regulatory planning.

The governance framework is set out in the governance section on page 68. The regulatory ring-fence around the South West Water business is protected through efficient and transparent decision making.

The Board has a 'matters reserved' schedule setting out its responsibilities. Each Committee has detailed terms of reference setting out its responsibilities and accountabilities. Further details of the responsibilities of each of the Committees are set out in the report of each Committee on pages 80 to 93 of this report and are complemented by details in the Annual Report and Financial Statements. These, together with the risk management and internal controls frameworks, form an effective and robust governance structure.

The South West Water Board includes the Chair, the Chief Executive Officer, the Senior Non-Executive Director, three further Non-Executive Directors and the

South West Water Finance Director, convened before each Pennon Board meeting, and considers South West Water strategy, performance and regulatory planning.

The Pennon Group Chief Financial Officer, also attends the South West Water Board.

Pennon and South West Water Boards have consistent Chair and Non-Executive Director memberships in line with the revised focus of the Group.

### Risk management

The Company has robust systems and processes in place to identify, manage, mitigate and review its risks.

The system for profiling and monitoring key risks is embedded in our normal business practices. We regularly review how we have sustained specific risk control measures, to decide if the probability and consequence of certain risks has changed, and if necessary to recommend further actions or investment to ensure the effectiveness of our corporate governance.

For the purposes of assessing and managing risk within South West Water, the individual departments review risks to the business associated with their accountabilities and responsibilities within the Company's strategy. An overall risk register is updated on an ongoing basis as a result of any changes in the nature and extent of risks.

Throughout the year the refreshed Risk Committee (attended by members of the Executive Management and senior management) formally review and update the risk register on a quarterly basis, with a particular emphasis on assessing and challenging, where necessary, the controls and mitigating factors recorded on the risk register. Risks are also formally reviewed as part of the quarterly forecasting and annual business planning processes. The Risk Committee considers deep dive reports of particular risk areas in advance of the Audit Committee reviewing these areas. It also considers a refreshed suite of Key Risk Indicators to ensure that risks reported internally and externally are fully benchmarked in line with the most appropriate quantitative data where appropriate.

Executive Directors and senior managers are required to complete an annual 'Certificate of Effective Internal Control' prior to the finalisation of the financial statements and before publishing any annual performance data. The Audit Committee considers the resources for carrying out internal audits in key Company specific areas – this activity is carried out by the Independent Pennon Internal Audit team.

The South West Water Audit Committee endorses and acts on audit findings from these audits carried out within the Company. There is also a programme of internal audits coordinated by the Risk and Compliance team as part of the Company's ISO and British certifications. South West Water currently holds and held the following accreditations/certifications throughout the year:

- ISO 9001:2015 (quality management)
- ISO 14001:2015 (environmental management)
- ISO 50001:2011 (energy management)
- ISO 27001:2013 (information security)
- ISO 17025:2005 (laboratories and sampling)
- BS 18477:2010 (inclusive service provision)
- MCERTS (flow monitoring).

In addition, in March 2022, South West Water was recommended for certification to the international standard, ISO 55001:2014 (asset management) by our external certification body. This reflects the importance the Board places on the systematic approach to asset management being crucial to the long term performance of South West Water.

### Section 172 (Companies Act 2006)

We have complied with the requirements of S172 and our full statement can be found on page 134 of the South West Water Annual Report.

### Delivering for everyone who depends on South West Water's services

South West Water's targets are ambitious and include both:

- our performance commitments in respect of the outcomes laid out in our 2020-25 Business Plan, which were set following extensive customer and other stakeholder engagement to reflect the priorities of our stakeholders
- a limited number of additional KPIs which have been included to provide performance information in respect of South West Water's performance in other areas deemed important to stakeholders (such as our 'Engagement Index' and performance in respect of our Lost Time Injury Frequency Rate (LTIFR) which are important to our people).

The targets are reviewed and monitored on a monthly basis with the Executive Management level 'Outcome Delivery Incentive (ODI) Committee' preparing performance updates and plans to ensure targets are delivered. This group reports to the Executive and the Board.

Our performance is challenged by the WaterShare+ Panel as described on page 133. We have also discussed our performance for 2021/22 with customers to obtain their views.

This report includes performance against all of the performance commitments as well as our additional KPIs. All performance data has been externally assured (as summarised on pages 125 to 128). It also demonstrates the linkage between our purpose and values, our business outcomes, our business model and the risks to achieving these.

The majority of South West Water's outcomes have annual committed performance levels which are designed to achieve year-on-year improvements in performance.

Executive Director remuneration is linked to Company performance via the performance related bonus arrangements. This linkage is summarised on page 94 and comprehensive disclosures of Director remuneration are provided, including the specific performance targets used in the bonus calculations on page 101.

### Green Recovery Initiative

The Board has satisfied itself that all the elements of our approved Green Recovery initiative:

- Are on track to meet the commitments set out in our Green Recovery
- Progress has been fairly reflected in our Green Recovery Annual Report (see: [southwestwater.co.uk/report2022](https://southwestwater.co.uk/report2022)) and associated reporting data has been collated in line with our established reporting and assurance processes.

## Regulatory Statements including support for the Risk and Compliance Statement continued



### Jacobs

#### Technical assurer's statement on the Risk and Compliance statement

Jacobs UK Ltd (Jacobs) has reviewed South West Water's (SWW) Risk & Compliance Statement as part of our assurance of the technical elements of SWW's 2021/22 Annual Performance Report (APR). Ofwat requires companies' statements to confirm compliance with all relevant statutory, licence and regulatory obligations and to demonstrate they have appropriate controls to identify, manage and mitigate risks.

Throughout Jacobs' assurance activity we had visibility of SWW's risk framework and how this links to Pennon Group's risk framework (Pennon Group is the parent company). SWW's integrated assurance framework is embedded 'top down' within the organisation from Board level through the Risk Committee (attended by members of the Executive Management and Senior Management) which provides oversight. Risks and mitigations are reported to Audit Committee.

Individual departments regularly undertake a 'bottom up' review of risks to the business associated with their activities, accountabilities and responsibilities. This assessment uses a risk-based approach to ensure risks are identified, updated and appropriate mitigations are in place.

The Company's risk register is updated on an ongoing basis as a result of any changes in the nature, extent of risks, and any emerging through horizon scanning. The Risk Committee formally reviews and updates the risk register on a quarterly basis whilst challenging the controls and mitigations to ensure their robustness.

SWW's assurance framework uses three lines of defence which is well established and good practice to ensure an appropriate level of assurance is provided depending on the assessed level of risk. Our audits have confirmed the top down and bottom-up risk processes to be robust.

Responsibility for internal audit, risk management, and assurance activities within Pennon Group sits with Pennon Group's Director of Risk & Assurance. Responsibility for coordinating the production of the APR sits with SWW's Regulation Department. APR audit and assurance was overseen by the Group Risk and Compliance Manager who reports to the Group Director of Risk & Assurance providing independence from SWW's Regulation Department.

Jacobs concludes that SWW's risk management processes are well established and embedded in the organisation with direction provided by SWW's Board, Executive Management cascading into the Risk Committee and to the individual departments. Risk owners, Senior Managers and Directors are responsible for the bottom-up identification and ownership of risks.

Through our audit planning and assurance activities for APR 2022 we are satisfied that SWW:

- understands the Company's relevant statutory obligations
- has appropriate systems and processes to identify, review, mitigate and manage risks and has sight of emerging risks to the business
- has provided a statement, signed by the Board members, stating that the data and information which the company has provided to Ofwat in the reporting year and published in the APR is accurate and complete
- has articulated its risk processes and governance, and those of the wider Pennon Group, in the APR and Risk & Compliance Statement.

We presented the findings of our assurance work on the APR to SWW's Audit Committee and Executive Management.

**G D Hindley**  
Technical Assurance Director  
Jacobs UK Ltd

## Departures from the statement

As described on page 108, the Board has concluded that it has a full understanding of, and meets all, of our relevant statutory, licence and regulatory obligations in all material respects, with exceptions as listed below.

Although these have been assessed by the Board to have a low impact, these have been disclosed for transparency and in line with our values.

Description of duty/obligation	Purpose of duty/obligations	Disclosure
<b>Environmental Permitting (England and Wales) Regulations 2010</b>	Water abstraction licence compliance – to ensure that abstraction of water is monitored and controlled	South West Water has been responsible for water and sewerage provision to the majority of households and businesses on the Isles of Scilly since April 2020.  When South West Water became responsible for these services, abstractors of water on the islands were exempt from the need to hold licences to abstract.  Following this exemption ending and a detailed assessment of South West Water's applications, the Environment Agency issued six licences to South West Water, covering abstractions from 21 wells and boreholes across the islands.
<b>Environmental Permitting (England and Wales) Regulations 2010</b>	Water discharge licence – full flow to treatment (FFT) condition compliance – to ensure wastewater treatment works can treat minimum levels in their permits at any given time	South West Water is under investigation by the Environment Agency with regard to its compliance with environmental permits and by Ofwat with regard to its compliance with section 94 of the Water Industry Act 91 regarding flow to full treatment permit conditions. Both investigations are at early stages and South West Water is fully cooperating with the Environment Agency and Ofwat in that respect.
<b>Environmental Permitting (England and Wales) Regulations 2010</b>	Water discharge licence compliance – to ensure that the discharges to water are monitored and controlled	During the year, two water treatment works and six wastewater treatment works were classified as non-compliant with their discharge permits.  Further detail is provided on page 23, including overall compliance percentages with numeric compliance of 97.46% and total wastewater treatment works compliance of 98.3%.
<b>2020/21 mains repairs reported figure</b>	Annual reporting of our performance in respect of the mains repairs performance commitment	In last year's annual performance report, we reported a figure of 150.4 mains repairs per 1,000km of drinking water mains.  Following a post-publication query, and clarification of the regulatory guidance, an internal review was performed identifying a limited number of additional repairs which would be included in the reported value reflecting this clarification. The updated prior year value of 151.8 has been included on page 17.  It was not deemed necessary to update the prior year published APR given the prior year target was still met and the change to the reported value was small.
<b>Ongoing litigation in line with Environmental Permitting Regulations</b>	Legislation to ensure clean water and wastewater quality	There is ongoing litigation in relation to a prosecution by the Environment Agency for seven incidents at five separate sites over a five year period; each of which were fact specific.  There is also ongoing litigation in relation to a prosecution by the Drinking Water Inspectorate for a taste and odour event in North Devon in the summer of 2018 caused by an algal bloom in one of our reservoirs.
<b>Water Industry Act 1991 Information provisions</b>	Water Industry Act Section 199 places an obligation on wastewater companies to maintain maps of their sewers	South West Water complies with this obligation, however notes that historically not all sewers have been mapped. We update our maps when we identify any such unmapped sewers.

## Board statement on accuracy and completeness of data and information

The Board is satisfied that the data and information which South West Water has provided to Ofwat in the reporting year 2021/22 (including annual reporting data provided following the year end in respect of 2021/22) is accurate and complete.

The Board is also satisfied that other data which the Company has published in our role as a water and sewerage undertaker is accurate and complete.

This statement is underpinned by the operation of our Integrated Assurance Framework (see page 83) and our response to how the Board is able to make this statement in line with each of the areas of our Assurance Plan identified as 'significant areas for assurance'. For each of these areas the Board has reviewed how it has:

- engaged and challenged the assurance approaches which have been taken;
- taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed;
- satisfied itself that approaches have appropriately identified and addressed any risks to the provision of accurate and complete data in particular areas; and
- utilised individual Directors and committees in carrying out its activities in this area.

The statement is not limited to these significant areas for assurance. However these are the areas which the Board deems most significant to provide clear and detailed descriptions of the specific procedures performed in line with our Integrated Assurance Framework.

The Board is committed to reviewing its plan for assurance at least annually. However where circumstances change during a year the Board also acts to provide a greater degree of focus and assurance as it deems necessary. As a result, and as performance has not improved as quickly as anticipated in certain areas, the Board has added these areas as specific significant areas for assurance going forward (see pages 129 to 132) and additional scrutiny and oversight of recovery plans will be provided.

We have confirmed that sufficient assurance activity has been performed, including assurance commissioned from independent external assurance providers, to allow the Board to make this statement.

The Board also notes the report of the WaterShare+ advisory panel in respect of their role providing an independent review of our business plan commitments and Board Pledges (see page 121).

Further, this Annual Performance Report and Regulatory Reporting has been reviewed by the Board which has considered both the assurance performed over the data we are reporting as well as the consistency of the narrative throughout the report with the data, our performance, how the Company operates and any descriptions of assurance undertaken.

# Licence condition compliance and statements

## Licence of Appointment – statement relating to Condition F

In addition to internal assurance performed over the viability statement and external assurance in line with EY's role as statutory external auditor of the financial statements, the Audit Committee has provided extensive oversight and review of South West Water's long-term financial resilience (see pages 86 to 89 of the Annual Report and Financial Statements) and we commissioned further specific 'Agreed Upon Procedures' to be performed by EY covering the calculations and assessments made as well as challenge of the underlying assumptions and judgements. The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming:

1. That in the opinion of the Directors, the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment)
2. That in the opinion of the Directors, the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

In making this declaration, the Directors have taken into account:

- The net worth of the Company and the strength of key performance indicators as shown in the Company Annual Performance Report for the year ended 31 March 2022 and the Company's Business Plan for the remaining K period
- Borrowing facilities which include significant committed undrawn bank facilities
- Parental support provided by the holding company which will provide financial support to the Company to enable it to meet its liabilities as they fall due
- The Company's formal risk management process which reviews, monitors and reports on the Company's risks and mitigating controls and considers potential impact in terms of service, compliance, value, people, society and partners
- The Company's employment policies and strategy.

The Directors also declare that in their opinion all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6 of Condition F of the Instrument of Appointment. This opinion has been formed following examination of the documents in question.

## Licence of Appointment – statement to Condition P: Regulatory ring-fence

This certificate is provided in line with our requirement to do so under our licence of operation. The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming that in the opinion of the Board it will have available to it sufficient:

- financial resources and facilities to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted
- management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted

- rights and resources other than financial resources.

The Board also confirms that all contracts entered into between South West Water (SWW) and any associated companies include the necessary provisions and requirements in respect of the standard of service to be supplied to SWW, to ensure that SWW is able to carry out the Regulated Activities.

## Statement to Condition P 26

It is also the opinion of the Board that South West Water would be able to maintain an Issuer Credit Rating which is an Investment Grade Rating. In making this declaration, the Board has received external independent assurance over this assessment and has taken into account the following main factors:

- financial resources currently available to the business
- non-financial rights and resources available to the business and management
- key financial metrics including: adjusted interest cover; net debt/RCV; FFO/net debt; and RCV/net debt
- ownership and availability of assets where assets are held outright in perpetuity
- the capital programme over the current and future regulatory period as a proportion of the regulated asset base contracts which the Company has entered into the Company's risk profile
- financial policies, including dividend policy
- stability and predictability of the regulatory environment.

South West Water's approach to producing a quality certificate is to perform an internal assessment which is externally assured and an independent credit assessment with a recognised credit rating agency.

The Company has performed a synthetic rating analysis utilising all relevant financial ratios aligned to specific credit rating guidelines and benchmarked against investment grade criteria. This looks back to the most recent financial year and future years to the end of 2030, in line with South West Water's approach to assessing viability.

The forecast is based on the PR19 Final Determination for 2020-25 including South West Water's view on potential outperformance and its internal strategic plan through to 2030.

The assessment is then stress tested by analysing the potential impact of principal risks, the combined Ofwat scenario including any potential further impact arising from the Covid-19 pandemic. The source data and calculations are subject to additional external assurance. The Board believes that this is an appropriate approach to complying with Condition P due to the dual approach in making internal and external assessments, by considering a long-term time frame aligned with viability assessment, including stringent stress testing and due to the external assurance obtained. The assessments conclude that South West Water would be able to achieve an investment grade at least three levels above investment grade. Supporting leverage and coverage metrics and their calculations for 2021/22 are shown on page 221.

## Licence of Appointment – statement relating to Condition R and Market Codes in respect of the non-household market

At 31 March 2022 the Company had in place an Access Code compliant with paragraphs 3 to 6 of Condition S of the Licence and South West Water has complied with this Code.

South West Water has also ensured that every transaction between itself and a related licensed water supplier is at arm's length and does not preferentially make available to the related licensed water supplier any of its other assets. South West Water has complied with other aspects of Condition R and Market Codes in respect of the non-household retail market. In making this assessment, the Directors have taken into account:

- South West Water's Compliance Code (available on [southwestwater.co.uk](https://southwestwater.co.uk))
- Internal processes for monitoring compliance against South West Water's Code
- Internal and external assurance provided as part of the Company's preparations for the opening of the non-household retail market (prior to its opening on 1 April 2017).

## Long-term resilience and viability statement

The Directors of South West Water are responsible for ensuring the long-term viability of the company. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of longer-term viability of the Company is an extension of the strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

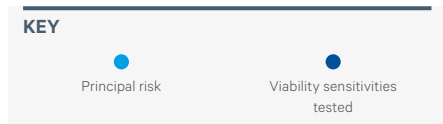
The viability assessment has been made with reference to the Company's current position and prospects, including consideration of the ongoing impacts of the Covid-19 pandemic, climate change, the latest assessment of the impacts of the Ukraine crisis, its longer-term strategy, the Board's risk appetite and the company's principal risks and how these are managed, as detailed on pages 114 to 122 of the risk report.

## Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability remains unchanged until the end of 2030, which recognises the longer term visibility in the regulatory environment of the South West Water business.

## Risks

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 118 to 122) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Company has a strong liquidity and funding position with £193m of cash and committed facilities as at 31 March 2022 and net assets of £574.5m. The Company has a mixture of fixed, floating and index linked debt financing with a weighted average maturity of 14.7 years. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability. Over the course of the year the Audit Committee has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability: Health and safety, leakage supply chain resilience, customer services



performance, impact assessment of macroeconomic demand pressures and inefficient or ineffective delivery of capital projects.

**Stress testing**

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 114 to 122, individual sensitivities (shown below) have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for FY2022/23 and longer-term strategic business plan through to March 2027.

The impact of climate risks have been assessed in detail in the Pennon Group plc Annual Report in the Task Force on climate-related Financial Disclosures (TCFD) section on pages 106 to 122. The Company's strategic business plan includes the expected investment identified at this stage to meet climate changed adaptation. The stress testing scenarios applied during the viability assessment period do not include specific reference to climate change related risks alone as the sensitivities are not considered material during the period of assessment. Beyond the period of assessment additional impacts from climate change are considered in more detail within the TCFD section of the Pennon Group plc Annual Report on pages 106 to 122, along with mitigating actions.

**A: Changes in Government policy**

Changes in Government policy affecting the water industry, such as additional environmental legislation may impact operational performance or investment requirements. The estimated average adverse impact on the Group's cash flows from a range of potential policy changes has been applied as a sensitivity.

**B: Regulatory reform**

Potential changes in PR24 price review may impact allowed regulatory returns in South West Water. The estimated average adverse impact on the Group's cash flows from a range of potential policy changes has been applied as a sensitivity.

**C: Non-compliance with laws and regulations**

The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.

**D: Inability to secure sufficient finance and funding to meet ongoing commitments**

The impact of reduced availability of financing resulting in increased margins on new debt raised. A sensitivity of increased banking margins of 2% has been applied.

**E: Non-compliance or occurrence of an avoidable health and safety event**

The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.

**F: Failure to pay all pension obligations as they fall due and increased costs for the Group should the defined benefit pension scheme deficit increase**

The financial impact on the Group's gearing from additional funding being required to support the Group's defined benefit pension schemes has been applied as an adverse scenario.

**G: Non-recovery of customer debt**

An application of reduced cash inflows from increased customer bad debt levels has been modelled. This includes an assessment of the residual impacts from Covid-19 and the affordability challenges arising from high inflation and rising power prices.

**H: Macroeconomic risks impacting on inflation, interest rates and power prices**

The adverse impact of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on totex underperformance on regulatory returns and impact on debt financing costs.

**J: Failure of operational water treatment assets and processes resulting in an inability to produce and supply clean drinking water**

The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Group revenues and cash inflows have been applied as a sensitivity to the base plan.

**K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential adverse environmental impacts, including pollutions**

**L: Failure to maintain excellent customer service or effectively engage with our customers and wider stakeholders**

**M: Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities**

**N: Non-delivery of Regulatory Outcomes and performance commitments**

**O: Inefficient or ineffective delivery of capital projects**

**P: Inadequate technological security results in a breach of the Company's assets, systems and data**

The adverse financial impacts of a cyber attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.

**Stress testing evaluation and mitigations**

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Company's viability over the period to 2030. The financial impacts of the risks were probability weighted to obtain a value that was used in the stress testing. While mitigations were not required in any of the above individual or combined scenarios to ensure that the company was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom, including reductions in operational and capital expenditure.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company's principal risks each year with maximum effect and no probability weightings attached. The Board considered the likelihood of this scenario on the Company's viability over the period to 2030 and noted the potential mitigating actions which could include a reduction in capital and operational spend and dividends, concluding the Company could remain viable.

Ofwat viability scenarios were modelled and monetised as part of the stress testing. The Ofwat viability scenarios are as follows:

- Totex underperformance (15% of totex)
- ODI penalty (3% of RoRE) in one year
- Inflation sensitivities (+/- 3%)
- Increase in the level of bad debt (20%)
- Net debt financed at 2% above forward projections
- Financial penalty - equivalent to 3% of turnover
- Any relevant intercompany financing scenarios

These scenarios were considered in isolation and in the following combination as part of the wider stress test modelling: a 10% totex underperformance in each of the years to the end of 2030, an ODI penalty of 15% in each of the years to 2030 and a one-off financial penalty of 1% of revenue.

Through this testing it has been determined that none of the Ofwat viability scenarios would in isolation, or in aggregate, comprise the Company's viability.

In making its assessment of the Company's viability, the Directors have taken account of the Company's robust capital solvency position, the Company's latest assessments of the consequential impacts of the Covid-19 pandemic as economic activity starts to return to pre-pandemic levels, the latest estimated impact of the Ukraine crisis on power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 80 to 83, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

**Viability assessment conclusion**

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 2030 and the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

<b>Name</b>	Gill Rider	Neil Cooper	Iain Evans	Claire Ighodaro CBE	Jon Butterworth MBE	Susan Davy	Louise Rowe	Paul Boote
<b>Position</b>	Chair	Independent Non-Executive Directors				Chief Executive	Finance Director	Pennon FD
<b>Signed</b>								

# Managing our risks

## Risk report and viability statement

The Board and Executive are committed to the effective management of risks and opportunities to ensure the long-term success of South West Water.



South West Water, as part of the Pennon Group, operates mature and robust risk management and internal control frameworks which are aligned to the Company's strategic priorities and are embedded into our processes, culture and ways of working. These frameworks form a key part of our governance structure ensuring that there is robust review, challenge and assurance over the management of both our current and emerging risks and opportunities.

### Governance of the risk management and internal control frameworks

The risk management framework encompasses both a 'top down' and 'bottom up' approach. This:

- allows risks and opportunities to be cascaded and escalated effectively
- enables a common understanding of the risks and opportunities and their potential impact on the achievement of the Company's strategic priorities
- provides a multi-layered approach to the review and challenge of risk.

A consistent methodology is applied in the identification and assessment of the Company's risks, which considers both the likelihood of the risk occurring over a long-term period and the potential impact across a range of categories aligned with our strategic priorities including: financial, safety, environmental and customer service. Principal and business-level risks are subject to regular review and challenge by the individual subsidiaries and functions, the Risk Committee, Executive and the Board.

The Company mitigates its risk exposure in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the 'three lines' model. The Executive and the Board obtain assurance over the effectiveness of the internal control environment through a variety of internal and external assurance providers, including an independent Group Internal Audit function.

The key responsibilities and activities which encompass the Company's risk management framework include:

### Oversight

#### Board

##### Key risk management responsibilities

- Sets the Company's strategic objectives
- Establishes the Company's risk appetite
- Determines the Company's principal risks
- Ensures an effective internal control framework

##### Key assurance activities

- Quarterly review of the Company's principal risks against the determined risk appetite
- Quarterly review of the Company's emerging risk log

#### Audit Committee

##### Key risk management responsibilities

- Reviews the effectiveness of the risk management framework
- Reviews the adequacy of the internal control framework

##### Key assurance activities

- Performs quarterly deep dive reviews on principal risks
- Reviews the Group Internal Audit Plan in respect of South West Water
- Receives reports on the outcomes of key assurance activities

### Third line

#### Group Internal Audit

##### Key risk management responsibilities

- Provides independent, risk-based assurance on the effectiveness of the internal control framework
- Coordination of independent assurance activities

##### Key assurance activities

- Regular reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities

### Second line

#### Executive

##### Key risk management responsibilities

- Day to day management of principal and operational risks
- Establishes the relevant risk management processes and procedures
- Maintains the internal controls framework

##### Key assurance activities

- Thorough appraisal of principal and emerging risk profile quarterly
- Monitor performance against ODIs, other KPIs and financial performance
- Establish and review policies, procedures and delegated authorities

#### Risk Committee

##### Key risk management responsibilities

- Provides review and challenge over principal risks and mitigation strategies
- Alignment of the top down and bottom up risk management process
- Performs horizon scanning on emerging risks and opportunities

##### Key assurance activities

- Quarterly review of principal risks and key functional risks
- Undertakes deep dive reviews of specific risks

### First line

#### South West Water directorate functions

##### Key risk management responsibilities

- Identifies and assesses risks
- Implements and executes appropriate risk mitigation strategies, aligned with the agreed risk appetite
- Monitors compliance with internal control framework
- Review of principal risks by leadership teams

##### Key assurance activities

- Functions provide assurance activities across key business processes including regulatory, legal, health and safety
- Self-certification of compliance with internal the control framework

In addition, the Company also received assurances from a variety of external assessments, including by our regulators, which complement and further enhance the overall assurance framework.

**Environmental, social and governance risk management**

The nature of the Company’s operations means that environmental, social and governance (ESG) considerations are inherent in how the Company operates as a responsible business and are a key focus for South West Water. The identification, assessment and management of ESG risks and opportunities, including the potential impact of climate change on our business, is integrated into the Company’s overall risk management framework and methodology, with the outcomes reflected within the assessment of relevant principal and business level risks.

This includes the potential impact of physical and transitional climate change risks on our assets and operations. Further detail on specific physical and transitional climate change related risks, as well as examples of how these are being mitigated, are detailed further within our TCFD statement on page 122. The delivery of our ESG actions and commitments is monitored through our ESG framework.

**South West Water technical (non-financial) data**

In addition to the risk management framework detailed above, recognising the importance of the regulatory ODI framework, South West Water engages an independent, third-party auditor, Jacobs, to audit the accuracy of the technical (non-financial) data reported in its annual performance report, including its performance commitments and environmental data.

**Continuous improvements to risk management and internal control**



## Managing our risks continued

### Horizon scanning

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Company's strategy but lack the required clarity or certainty in order to assess their impact adequately. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process performed by individual subsidiaries and functions. Emerging risks are also reviewed by the Risk Committee, Executive and Board as part of their regular assessment of our risk profile. Once there is sufficient clarity and certainty over an emerging risk, it is assessed applying our methodology and appropriate mitigating actions are established. Notable emerging risks and opportunities are detailed within the table below:

RISK/OPPORTUNITY	COMMENT	RISK CATEGORY IMPACT	TIME HORIZON
<b>Covid-19 long-term economic implications</b>	Continued uncertainty remains over the pace and scale of the long-term implications of Covid-19 on the global and UK economy, which could impact our business.	<ul style="list-style-type: none"> <li>Legal, Regulatory and Finance</li> </ul>	Medium-term
<b>Micro-pollutants, plastics and micro-plastics</b>	The continued focus on the impact of micro-pollutants and microplastics could present both risks and opportunities arising from changes to water treatment processes.	<ul style="list-style-type: none"> <li>Operating Performance</li> <li>Business Systems &amp; Capital Investment</li> </ul>	Medium-term
<b>Biodiversity</b>	Threats to the region's biodiversity, as a result of climate change, may require changes to how we interact with species and habitats in the areas that we operate in.	<ul style="list-style-type: none"> <li>Operating Performance</li> </ul>	Long-term
<b>Changes to the demographics within the South West</b>	Increases in population migration to the South West due to the longer-term impact of Covid-19 and climate change could place further demand on our resources and assets.	<ul style="list-style-type: none"> <li>Operating Performance</li> </ul>	Long-term

### Ofwat's principles – Board leadership, transparency and governance

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give South West Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc Annual Report.

### Risk appetite

The UK Corporate Governance Code requires the Group to determine the risk appetite considered appropriate in achieving the Company's strategic priorities. Striking an appropriate balance between risk and reward is key to the success of our strategy.









The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the comprehensiveness of the Company's internal controls in mitigating its principal risks to an acceptable level is considered with due consideration of the relevant risk appetite.

The risk appetite for each risk category is detailed below:




RISK CATEGORY	RISK APPETITE STATEMENT
<b>Law, regulation and finance</b>	<p>The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes (but is not limited to) health &amp; safety where the Board places the highest level of importance on the welfare of our employees, the public and those who work with or on behalf of South West Water. The Company also operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met.</p> <p>The Board acknowledges, however, that the Company operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is acceptance of increased inherent risk in these areas and South West Water seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.</p>
<b>Market and economic conditions</b>	<p>The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible, but accepts that a level of residual risk may remain beyond the Board's control.</p>
<b>Operating performance</b>	<p>The Board has a low appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets.</p> <p>There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected by our regulators, existing customer base and wider stakeholders.</p>
<b>Business systems and capital investment</b>	<p>The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan. Broader investment decisions are taken on an informed basis with risks weighted against the expected level of return on a case-by-case basis.</p> <p>South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.</p>



**OUTCOMES**

-   
 Clean, safe and reliable supplies
-   
 Available and sufficient
-   
 Reliable wastewater services
-   
 Responsive to our customers' needs and priorities
-   
 Fair charging for all
-   
 Environmentally sustainable actions and initiatives
-   
 Providing reliable services even in extreme conditions
-   
 Supporting our people and local communities

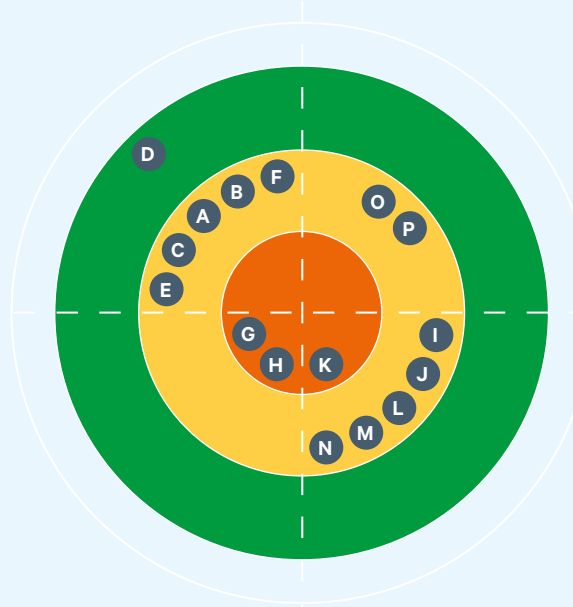
**RISK LEVEL**

-   
 Increasing  
●  
 High
-   
 Stable  
●  
 Medium
-   
 Decreasing  
●  
 Low

**Overview of South West Water's principal risk profiles**























































Law, regulation and finance

Business systems and capital investment



Market and economic conditions

Operating performance

CATEGORY	REF	STRATEGIC PRIORITIES – OUTCOMES	RISK DESCRIPTION	NET RISK
Law, regulation and finance	A	 	Changes in Government policy	
	B	 	Regulatory reform	
	C	 	Non-compliance with laws and regulations	
	D		Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	
	E		Non-compliance or occurrence of an avoidable health and safety incident	
	F		Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase	
Market and economic conditions	G		Non-recovery of customer debt	
	H		Macroeconomic risks impacting on inflation, interest rates and power prices	
Operating performance	I	    	The Company's operations and assets are impacted as a result of climate change and extreme weather events	
	J	 	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	
	K	 	Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions	
	L	   	Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	
	M		Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	
	N	       	Non-delivery of regulatory outcomes and performance commitments	
Business systems and capital investment	O		Inefficient or ineffective delivery of capital projects	
	P	   	Inadequate technological security results in a breach of the Group's assets, systems and data	

## Managing our risks continued







### Principal risks and uncertainties

South West Water's business model exposes the business to a variety of external and internal risks which are influenced by the potential impact of macro political, economic and environmental factors. Specifically the UK is currently experiencing a high inflationary environment as a result of a number of global factors.

While the ability of the Company to influence these macro level risks is limited, they continue to be monitored regularly and the potential implications are considered as part of the ongoing risk assessment process. The Company performs a range of scenario planning and analysis exercises to understand the risk exposure of one, or a number, of these events occurring.

#### Confirmation of assessment

The Directors confirm that during 2020/21 they have carried out a robust assessment of current and emerging risks facing the Company. The assessment of the Company's principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 112.

STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
<b>Law, regulation and finance</b>			
<b>A: Changes in Government policy</b>			
<p><b>Outcomes</b></p>  <p>Changes in Government policy may fundamentally impact our ability to deliver the Company's strategic priorities.</p>	<p>The current UK Government remains supportive of the existing regulatory model. During the year the UK Government published its Strategic Policy Statement (SPS) which sets the strategic priorities for Ofwat and is consulting on their Storm Overflows Discharge Reduction Plan.</p> <p>South West Water has actively engaged and provided responses during the consultation process.</p> <p>The Company also regularly engages with MPs and other political stakeholders, both directly and via Water UK, demonstrating the value from our operational performance and continued investment in our network infrastructure.</p> <p>Horizon scanning of emerging changes in Government policy, including policies designed to mitigate the impact of climate change, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Company.</p>		<p>We recognise that Government policy evolves. The Company seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.</p>
<b>B: Regulatory reform</b>			
<p><b>Outcomes</b></p>  <p>Reform of the regulatory framework may result in changes to our priorities and the service we provide to our customers. It may have a significant impact on our performance which can affect value.</p>	<p>Certainty over the regulatory framework for the 2020-25 regulatory period has been provided through South West Water's Final Determination.</p> <p>The Company's Regulatory Affairs Steering Committee monitors changes in the regulatory environment.</p> <p>There remains the potential that regulatory mechanisms within the next Price Review period do not provide sufficient funding to achieve the environmental ambitions set out by the Government within the Environment Bill.</p> <p>Internal PR24 planning has commenced and South West Water has actively responded to positioning papers from Ofwat which will inform the PR24 price review methodology which was published in July 2022.</p>		<p>We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the potential risks by targeting changes which are NPV neutral over the longer term to protect customer affordability and shareholder value.</p>
<b>C: Non-compliance with laws and regulations</b>			
<p><b>Outcomes</b></p>  <p>South West Water is required to comply with a range of regulated and non-regulated laws. Non-compliance with one or a number of these may result in financial penalties, negative impact on our ability to operate effectively and reputational damage.</p>	<p>The Company operates within robust and mature frameworks ensuring compliance with permit and other requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are subject to regular review and enhancement to ensure South West Water remains compliant with the increasingly complex legal and regulatory landscape. There remains an increased appetite amongst regulators for pursuing enforcement action for perceived non-compliance with the Environment Agency and Ofwat both currently undertaking industry-wide investigations of wastewater treatment works permit compliance.</p> <p>The Company also maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies which are endorsed by the Board and refreshed legal compliance training has been provided to staff during the year.</p> <p>Confidential whistleblowing processes exist which allows concerns to be raised confidentiality and appropriately investigated. Activity through the whistleblowing process is reported periodically to the Board.</p> <p>South West Water is under investigation by the Environment Agency with regard to its compliance with environmental permits and by Ofwat with regard to its compliance with section 94 of the Water Industry Act 91 regarding flow to full treatment permit conditions. Both investigations are at early stages and South West Water is fully cooperating with the Environment Agency and Ofwat in that respect.</p>		<p>South West Water has the highest standards of compliance and has no appetite for legal or regulatory breaches.</p>

<b>OUTCOMES</b>  Clean, safe and reliable supplies  Available and sufficient  Reliable wastewater services  Responsive to our customers' needs and priorities  Fair charging for all  Environmentally sustainable actions and initiatives  Providing reliable services even in extreme conditions  Supporting our people and local communities								<b>RISK LEVEL</b>  Increasing  Stable  Decreasing  High  Medium  Low		
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STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
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**Law, regulation and finance continued**



**D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments**

<p><b>Outcomes</b></p>  <p>Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.</p>	<p>South West Water and the entire Pennon Group have well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board.</p> <p>The impact of macro political, economic and regulatory risks on financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Executive and Board.</p> <p>South West Water retains cash and committed facilities of £193m (excluding £162m of restricted funds) as at 31 March 2022. South West Water is fully funded for the 2020-25 regulatory period.</p> <p>During 2021/22 £50m of new or renewed funding was entered into.</p>		<p>We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.</p>
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**E: Non-compliance or occurrence of an avoidable health and safety incident**



<p><b>Outcomes</b></p>  <p>A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.</p>	<p>The effective management of health and safety risks continues to be a key priority for the Executive and Board. Our HomeSafe strategy has been refreshed during the year.</p> <p>Investment has also been accelerated for safety specific asset improvements, focused on operational sites and activities.</p> <p>The review of health and safety performance is monitored regularly through the dedicated Board and Executive Health and Safety Committees.</p> <p>To align ourselves with other water companies, we now report the rate per 100,000 hours as opposed to per 200,000 hours. South West Water's LTIFR has reduced during the year to 0.68 (2020/21: 0.80) and continues to target an LTIFR of 0.25 by 2025.</p>		<p>We have no appetite for health and safety related incidents and we maintain the highest standards of compliance for our staff, contractors and other third parties.</p>
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**F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase**



<p><b>Outcomes</b></p>  <p>The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	<p>The Company utilises in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme's investment strategy.</p> <p>Following consultation, the Pennon Defined Benefit scheme was closed to future accrual from 30 June 2021.</p> <p>The Pennon Defined Benefit Pension schemes are fully funded, however these schemes are potentially impacted by volatility in the macroeconomic environment.</p>		<p>The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.</p>
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**Market and economic conditions**

**G: Non-recovery of customer debt**

<p><b>Outcomes</b></p>  <p>Reduced customer debt collection would adversely impact on the Company's revenue.</p>	<p>South West Water has robust collection strategies which have continued to adapt in response to the impact of Covid-19 and the increasing inflationary environment on customers during the year.</p> <p>These measures have resulted in collection rates and debt levels at levels broadly comparable with prior year. Continued support has also been provided to customers most in need by proactively promoting affordability measures.</p>		<p>While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect customers results in a residual risk of uncollectable debt remaining.</p>
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**H: Macroeconomic risks impacting on inflation, interest rates and power prices**

<p><b>Outcomes</b></p>  <p>Lower inflation or deflation could adversely impact on the Company's revenue and significant changes in interest rates and power prices could increase the Company's cost base.</p>	<p>The volatility currently being experienced in the global economy is impacting on the Company's near term cost base through increased operational costs, power prices and financing costs.</p> <p>Action is taken to mitigate these near term impacts through utilising the Company's in-house procurement function to drive value through competitive tendering, regularly reviewing the Company's debt portfolio and level of index linked debt, monitoring of forward power prices to manage the exposure to price volatility and increasing the level of renewable energy.</p> <p>Despite these mitigations, there remains a degree of exposure beyond the Company's control.</p> <p>Long-term protection from the increasing inflationary environment is provided through inflation linked revenues and RCV growth, along with regulatory true-ups.</p>		<p>We seek to take well-judged and informed decisions whilst ensuring plans are in place to mitigate the potential impact of macroeconomic risks.</p>
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## Managing our risks continued





STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
<b>Operating performance</b>			
<b>I: The Company's operations and assets are impacted as a result of climate change and extreme weather events</b>			
<p><b>Outcomes</b></p>  <p>Failure of our operations to cope with short-term extreme weather or long-term implications of climate change may result in an inability to meet customer needs, environmental impacts, increased costs and reputational damage.</p>	<p>A low appetite remains amongst regulators and stakeholders for reduced performance arising from extreme weather and climate change.</p> <p>The assessment of both transitional and physical climate change related risks on our assets and operations has informed South West Water's Climate Change Adaptation Plan which was published in December 2021 and the Company's TCFD statement on page 46 of the South West Water AR&amp;FS</p> <p>Additionally, extensive water resource scenario planning has been undertaken as part of the development of South West Water's updated 25 year Water Management Plan, which will be published later in the year, and drought plans are subject to regular review.</p> <p>Proactive capital investment is undertaken on the Company's assets to ensure the continued resilience of both water and wastewater assets, particularly those located on or near flood plains or at risk of rising sea levels and coastal erosion.</p> <p>During the year, the CREWW venture with the University of Exeter was launched, which will consider the impact of climate change in delivering resilient water supplies.</p> <p>The Company is also minimising its environment and climate change impact through the delivery of its 2030 Net Zero and 2020-25 WaterFit plans.</p>		<p>We seek to mitigate the impact of climate change and extreme weather events through long-term planning, forecasting and investment.</p>
<b>J: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water</b>			
<p><b>Outcomes</b></p>  <p>An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation.</p>	<p>While the region continues to experience high levels of demand, water resources have remained resilient during the year and are in a robust position ahead of the summer period. The Company also seeks strategic value enhancing opportunities and has procured a site for development of a new reservoir.</p> <p>Asset health is managed through a well established programme of planned and preventative maintenance works which has continued to assist in delivering further improvements within our drinking water operations.</p> <p>In the event of a significant incident, detailed contingency plans and incident management procedures are maintained which are regularly reviewed.</p>		<p>South West Water operates a low tolerance for significant operational failure of its water treatment assets and seeks to mitigate these risks where possible.</p>
<b>K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions</b>			
<p><b>Outcomes</b></p>  <p>An inability to remove or treat wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company's reputation.</p>	<p>Wastewater assets are managed through an established programme of capital investment and planned and preventive maintenance.</p> <p>Minimising the impact of our activities on the environment is a strategic priority for the Executive.</p> <p>The continued delivery of South West Water's Pollutions Incident Reduction Plan has resulted in one-third less pollution incidents compared with the previous year. This has been achieved through our continued asset investment and maintenance, enhancing our systems and processes, collaborating with others in the industry to share best practice, helping our customers to understand how their behaviour impacts on the local environment and a focus on culture, training, and standards with our workforce.</p> <p>It is recognised, however, that there is more to do to deliver the desired step change in this area.</p> <p>The Company's WaterFit investment programme will deliver £330m of investment focused on protecting and improving the quality of the region's rivers and seas. Further detail is provided on pages 56 and 57.</p>		<p>We operate a low tolerance for significant operational failure of our wastewater processes and assets and maintain the highest level of environmental standards.</p>

OUTCOMES								RISK LEVEL		
Clean, safe and reliable supplies	Available and sufficient	Reliable wastewater services	Responsive to our customers' needs and priorities	Fair charging for all	Environmentally sustainable actions and initiatives	Providing reliable services even in extreme conditions	Supporting our people and local communities	High	Medium	Low

STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
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Operating performance continued			
<b>L: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders</b>			
<p><b>Outcomes</b></p> <p>Failure to maintain an adequate level of service and engagement could lead to financial penalties and reputational damage for South West Water.</p>	<p>South West Water continues to invest in its customer services teams and expand the channels by which it can interact with and support customers. We hold the Institute of Customer Service's ServiceMark accreditation and are BS 18477 certified. This is a dedicated standard for identifying and responding to customer vulnerability.</p> <p>The independent WaterShare+ advisory panel acts as a key mechanism for engaging and demonstrating to customers how South West Water is delivering on its business plan and Board pledges. During the year the first WaterShare+ AGM was held.</p> <p>The Company regularly engages with a wide variety of internal and external stakeholders including our people, customers, regulators, environmental stakeholders and our supply chain. During the year an extensive stakeholder process was undertaken and the outcomes have been aligned with our ESG Capitals framework. Further detail is on page 85.</p>		<p>We continually seek to engage with and increase customer and wider stakeholder satisfaction levels.</p>
<b>M: Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities</b>			
<p><b>Outcomes</b></p> <p>Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward.</p>	<p>There remains high demand nationally for skills and experiences utilised across our business.</p> <p>During the year senior leaders from across the Company have participated in a talent development programme.</p> <p>Our HR strategy enables us to attract, retain and develop our employees and a number of reward and recognition initiatives have been launched during the year reflecting the significant contribution that our people make.</p> <p>During the year the Company has recruited a further 28 graduates, 92 apprentices and offered 54 placements through the Kickstart programme and 13 placements through the Black Intern initiative.</p> <p>The employee engagement forum has also been refreshed during the year and there remains a variety of opportunities for employees to engage and discuss their priorities and promote ideas to senior management and the Executive.</p> <p>The continued impact of the Company's Employee Benefits and Reward Strategy, a focus on talent management and prioritisation of our diversity and inclusion agenda are reflected within the results of the most recent Great Place to Work Best Workplace survey and 65% of respondents believe South West Water is a great place to work.</p>		<p>While turnover of employees does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.</p>
<b>N: Non-delivery of regulatory outcomes and performance commitments</b>			
<p><b>Outcomes</b></p> <p>South West Water's regulatory outcomes and performance commitments cover key strategic focus areas.</p> <p>Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Group.</p>	<p>The delivery of our regulatory outcomes and performance commitments is principally through our operational activities and initiatives.</p> <p>Performance against South West Water's ODIs is subject to regular scrutiny and review by both the Executive and the Board. This is supplemented by a comprehensive suite of internal and external assurance over reported performance.</p> <p>c.80% of South West Water's ODIs are on track or ahead of target and it has plans to achieve all 2025 commitments.</p>		<p>We are committed to achieving all of our performance commitments over the length of each regulatory period.</p> <p>Where performance in an individual year falls below expectation action plans are implemented and targeted intervention undertaken to ensure performance returns to committed levels.</p>

## Managing our risks continued

STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
<b>Business systems and capital investment</b>			
<b>O: Inefficient or ineffective delivery of capital projects</b>			
<p><b>Outcomes</b></p>  <p>Inability to successfully deliver on our capital programme may result in increased costs and delays, detrimentally impacting our ability to provide top class customer service and achieve our growth agenda.</p>	<p>Capital projects are subject to an established and robust business case process which includes challenge and modelling of key assumptions. Projects are delivered using skilled project management resource with Executive level oversight.</p> <p>The delivery of projects during the current regulatory period, including as part of South West Water's Green Recovery Initiative, are progressing.</p> <p>The impact of both Covid-19 and the current inflationary environment continues to place further strain on the financial health of key contractors and supply chain partners and remains a risk to the Company.</p> <p>Regular engagement is maintained with the Company's supply chain as well as regular monitoring of the financial health of key partners. Established plans and arrangements enable early intervention where necessary.</p>		<p>The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.</p>
<b>P: Inadequate technological security results in a breach of the Group's assets, systems and data</b>			
<p><b>Outcomes</b></p>  <p>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to South West Water.</p>	<p>External threats to the Company's assets and systems remain heightened, particularly due to the war in Ukraine. External threats, including additional risks resulting from the current conflict in Ukraine, are being regularly monitored by our Information Security teams.</p> <p>The Company maintains a strong preventive and detective information security framework, aligned to guidance issued by the National Cyber Security Centre.</p> <p>A refreshed information security awareness programme has been launched during the year and South West Water continues to hold the ISO 27001 certification.</p> <p>During the year South West Water has continued to complete actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate.</p> <p>Disaster recovery plans are in place for both corporate and operational technology and are regularly reviewed.</p>		<p>We seek to minimise technology and security risk to the lowest possible level without detrimentally impacting on South West Water's operations.</p>

### Task Force on Climate-related Financial Disclosures (TCFD)

We are driven by our strategic focus of leading in UK water infrastructure, delivering for the benefit of our customers, communities and the environment. Our commitment to meeting the challenges arising as a result of climate change forms part of our principal risks. Our parent company, Pennon Group plc, includes detailed TCFD disclosures on pages 106 to 122 of its Annual Report. This sets out some of the key climate-related risks and opportunities being addressed by South West Water and the Group as a whole. Pennon's regulated water businesses are the main focus of TCFD disclosures with the majority of the Group's assets, revenues, and expenditures related to this area.

#### TCFD summary

A summary of the Group's approach to TCFD disclosures is noted below:

- **Governance:** The organisation's governance around climate related risks and opportunities
- **Strategy:** The actual and potential impacts of climate related risks and opportunities on the organisation's business, strategy and financial planning
- **Risk management:** The processes used by the organisation to identify, assess, and manage climate-related risks and opportunities
- **Metrics and targets:** The metrics and targets used to assess and manage the relevant climate-related risks and opportunities

The Risks section reviews the physical risks associated with climate change as well as the transactional risks and opportunities arising. In alignment with the TCFD recommendations, we have assessed the risks and opportunities associated with climate change and the transition to a Net Zero climate resilient economy over short, medium and long term horizons using different scenarios.

### Compliance with Sanctions Legislation

We continue to maintain systems of internal control allowing us to review our compliance with sanctions legislation including against Russia and Belarus related to the current conflict in Ukraine. Within our compliance processes we consider any identified risk from our supply chain and investors. We are able to confirm that we have not identified any risk from our activities with regard to sanctions legislation.

# Assurance

## Introduction

This assurance section of the Annual Performance Report provides a general overview of our assurance framework and processes as well as an update upon the assurance performed in respect of the Annual Performance Report and Regulatory Reporting.

In the consultation for our Assurance Plan (performed in December 2021 – January 2022), there was continued support for integrating the comprehensive Summary Assurance Report, which we previously published as a standalone document, into the Annual Performance Report, as we had last year. This includes our full Data Assurance Summary.

As such this section now includes an update on all the areas identified as significant areas for assurance in our Assurance Plan. We have also published this assurance section as a standalone document on the Company's website (<https://www.southwestwater.co.uk/siteassets/about-us/governance/sww-rswap-2022-23.pdf>).

In any significant area or projects where assurance is required over submitted data or information, certificates will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

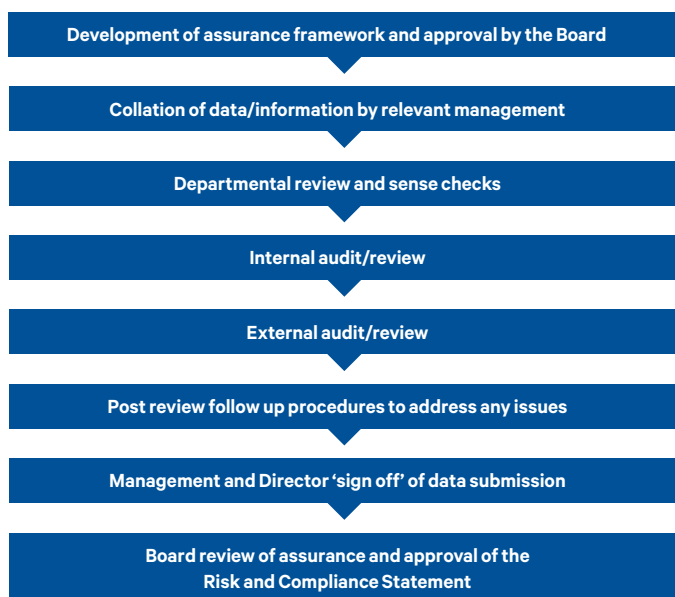
External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR19 Business Plan, tariffs/charges submissions and Annual Performance Report and Regulatory Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

In addition to strategic leadership provided by the Board, for significant projects a Steering Group is formed to give direction, monitor project delivery and issue regular updates to the Board. The Board and Audit Committee review and challenge assurance applied in each case under this framework.

For all key projects and data submissions the Board confirms that in its opinion, that assurance provision, governance and internal systems of control have been sufficient.

The following diagram summarises the typical assurance approach taken in any significant project involving submission of data externally:



## South West Water's Integrated Assurance Framework

South West Water's risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.

South West Water's integrated Assurance Plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:



This risk-based Integrated Assurance Framework is applied to all areas of the business, including all key projects as they arise. The mix of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring robust and comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

## Assurance continued

South West Water publishes a range of documents which provide key information which customers and other stakeholders require. We publish performance information in this Annual Performance Report and Regulatory Reporting as well as in summary formats. In this section of the report we summarise the assurance we perform, however further detail on the assurance we perform can be found in related documents.



### Risks, Strengths and Weaknesses Statement

This statement sets out our risks, strengths and weaknesses to the information that we publish following consultation with customers and other stakeholders.



### Assurance Plan

Following consultation with customers, employees and other stakeholders the final Assurance Plan updates the draft Assurance Plan to address feedback received.



### Annual Report and Financial Statements

Our Annual Report and Financial Statements are published in line with Companies Act requirements and as well as reporting on overall performance, and provide a more detailed review of our financial performance during the year.



### Business Plan 2020-25

In September 2018 we published our Business Plan for 2020-25 'The New Deal', which was given fast-track status by Ofwat. For further information on South West Water's New Deal visit [southwestwater.co.uk/newdeal](https://southwestwater.co.uk/newdeal).



### Our websites

The documents listed here are published on our websites ([southwestwater.co.uk](https://southwestwater.co.uk) and [bournemouthwater.co.uk](https://bournemouthwater.co.uk)) alongside other useful documents – such as our charges to customers for the year.



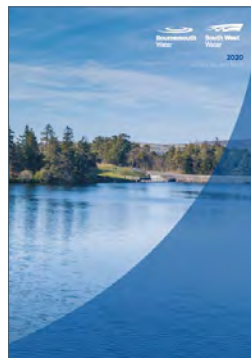
### Annual Performance Report and Regulatory Reporting

The Annual Performance Report lays out our performance against the regulatory targets we have committed to achieve. Our Regulatory Reporting lays out key financial and non financial performance for the year.



### Summary Performance Report

We publish a summary performance report which provides a shorter summary of performance against each of our regulatory targets. This will be published at [www.southwestwater.co.uk/report2022](https://www.southwestwater.co.uk/report2022) by the end of July 2022.



### Assurance

In recent years we have published a standalone 'Summary Assurance Report' which has reported on the assurance we have performed in significant areas where customers and other stakeholders would expect thorough and robust assurance. This has covered far more than just our published annual reporting data in line with our Assurance Plan.

This year we have included this summary within this Annual Performance Report. This summary has supported the Board's Assurance Statement.



### Pollution Incident Reduction Plan

In September 2020 we launched our Pollution Incident Reduction Plan responding to our performance in this area and reflecting our commitment to ensure pollution incidents are significantly reduced through the remainder of the regulatory reporting period.

We provided an update of the plan in December focusing on the areas making the most difference.

To read the update, visit [southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/pirp-update.pdf](https://southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/pirp-update.pdf)



### DiscoverWater.co.uk

We share our key comparable data with DiscoverWater.co.uk who provide a user-friendly summary of English and Welsh water companies' data. We voluntarily obtain specific assurance from our technical auditor Jacobs (see page 137) in view of the importance of this data.



**Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting**

Section 1	External Assurer	Type of Assurance	Table reference	External Assurance Summary	
<b>1A</b>	Income statement	EY	Regulatory Audit Opinion	Pages 148 and 149	Pages 140 to 142
<b>1B</b>	Statement of comprehensive income	EY	Regulatory Audit Opinion	Page 149	Pages 140 to 142
<b>1C</b>	Statement of financial position	EY	Regulatory Audit Opinion	Pages 150 and 151	Pages 140 to 142
<b>1D</b>	Statement of cash flows	EY	Regulatory Audit Opinion	Page 152	Pages 140 to 142
<b>1E</b>	Net debt analysis	EY	Regulatory Audit Opinion	Page 153	Pages 140 to 142
<b>1F</b>	Financial flows	EY	Regulatory Audit Opinion	Pages 154 and 155	Pages 140 to 142

Section 2	External Assurer	Type of Assurance	Table reference	External Assurance Summary	
<b>2A</b>	Segmental income statement	EY	Regulatory Audit Opinion	Page 157	Pages 140 to 142
<b>2B</b>	Totex analysis – by wholesale price controls	EY	Regulatory Audit Opinion	Page 158	Pages 140 to 142
<b>2C</b>	Cost analysis – retail	EY	Regulatory Audit Opinion	Pages 159 and 160	Pages 140 to 142
<b>2D</b>	Historical cost analysis of fixed assets – by price control	EY	Regulatory Audit Opinion	Page 161	Pages 140 to 142
<b>2E</b>	Analysis of ‘grants and contributions’ – water resources, water network plus and wastewater network plus	EY	Regulatory Audit Opinion	Pages 162 and 163	Pages 140 to 142
<b>2F</b>	Residential retail	EY	Regulatory Audit Opinion	Page 163	Pages 140 to 142
<b>2G</b>	Non-household water – revenues by tariff type	EY	Regulatory Audit Opinion	Page 163	Pages 140 to 142
<b>2H</b>	Non-household wastewater – revenues by tariff type	EY	Regulatory Audit Opinion	Page 163	Pages 140 to 142
<b>2I</b>	Revenue analysis & wholesale control reconciliation <sup>1</sup>	EY	Regulatory Audit Opinion	Page 164	Pages 140 to 142
<b>2J</b>	Infrastructure network reinforcement costs	EY	Regulatory Audit Opinion	Page 165	Pages 140 to 142
<b>2K</b>	Infrastructure charges reconciliation	EY	Regulatory Audit Opinion	Page 165	Pages 140 to 142
<b>2L</b>	Analysis of land sales	EY	Regulatory Audit Opinion	Page 165	Pages 140 to 142
<b>2M</b>	Revenue reconciliation	EY	Regulatory Audit Opinion	Page 166	Pages 140 to 142
<b>2N</b>	Residential retail – social tariffs	EY	Regulatory Audit Opinion	Page 167	Pages 140 to 142
<b>2O</b>	Historic cost analysis of intangible fixed assets – by price control	EY	Regulatory Audit Opinion	Page 168	Pages 140 to 142

Section 3	External Assurer	Type of Assurance	Table reference	External Assurance Summary	
<b>3A</b>	Outcome performance – Water common performance commitments	Jacobs <sup>4</sup>	Technical audit – agreed upon procedures	Page 169	Page 137
<b>3B</b>	Outcome performance – Wastewater common performance commitments	Jacobs	Technical audit – agreed upon procedures	Page 170	Page 137
<b>3C</b>	C-MeX	Jacobs	Technical audit – agreed upon procedures	Page 170	Page 137
<b>3D</b>	D-MeX	Jacobs	Technical audit – agreed upon procedures	Page 171	Page 137
<b>3E</b>	Outcome performance – non financial performance commitments	Jacobs	Technical audit – agreed upon procedures	Page 172	Page 137
<b>3F</b>	Underlying calculations for common performance commitments – water and retail	Jacobs	Technical audit – agreed upon procedures	Page 173	Page 137
<b>3G</b>	Underlying calculations for common performance commitments – wastewater	Jacobs	Technical audit – agreed upon procedures	Page 174	Page 137
<b>3H</b>	Summary information on outcome delivery incentive payments	Jacobs	Technical audit – agreed upon procedures	Page 175	Page 137
<b>3I</b>	Summary outcomes information	Jacobs	Technical audit – agreed upon procedures	Page 175	Page 137

## Assurance continued

### Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting continued

Section 4		External Assurer	Type of Assurance	Table reference	External Assurance Summary
4A	Bulk supply information	Jacobs	Technical audit – agreed upon procedures	Page 177	Page 137
4B	Analysis of debt	EY	Financial agreed upon procedures	Page 177	Pages 140 to 142
4C	Impact of price control performance to date on RCV	EY	Financial agreed upon procedures	Pages 178 and 179	Pages 140 to 142
4D	Totex analysis – wholesale water resources and water network+	EY <sup>5</sup>	Financial agreed upon procedures	Page 180	Pages 140 to 142
4E	Totex analysis for – wholesale wastewater	EY <sup>5</sup>	Financial agreed upon procedures	Page 181	Pages 140 to 142
4F	Major project capital expenditure by purpose – wholesale water	N/A	N/A – no relevant data	Page 182	N/A
4G	Major project capital expenditure by purpose – wholesale wastewater	N/A	N/A – no relevant data	Page 182	N/A
4H	Financial metrics	EY	Financial agreed upon procedures	Page 182	Pages 140 to 142
4I	Financial derivatives	EY	Financial agreed upon procedures	Page 183	Pages 140 to 142
4J	Base expenditure analysis – wholesale water	EY	Financial agreed upon procedures	Page 184	Pages 140 to 142
4K	Base expenditure analysis – wholesale wastewater	EY	Financial agreed upon procedures	Page 185	Pages 140 to 142
4L	Enhancement expenditure – water resources and water network+	EY	Financial agreed upon procedures	Page 185	Pages 140 to 142
4M	Enhancement expenditure – wastewater network+ and bioresources	EY	Financial agreed upon procedures	Page 185	Pages 140 to 142
4N	Developer services – water resources and water network+	EY	Financial agreed upon procedures	Page 186	Pages 140 to 142
4O	New developments expenditure – wastewater network+ and bioresources	EY	Financial agreed upon procedures	Page 186	Pages 140 to 142
4P	Expenditure on non-price control diversions	EY	Financial agreed upon procedures	Page 187	Pages 140 to 142
4Q	Developer services non-financial data	Jacobs	Technical audit – agreed upon procedures	Page 187	Page 137
4R	Non financial information – Properties, customers and population	Jacobs	Technical audit – agreed upon procedures	Page 188	Page 137
4S	Green recovery expenditure for the 12 months ended 31 March 2022 – water resources and water network+	EY	Financial agreed upon procedures	Page 189	Pages 140 to 142
4T	Green recovery expenditure for the 12 months ended 31 March 2022 – wastewater network+ and bioresources	EY	Financial agreed upon procedures	Page 190	Pages 140 to 142
4U	Impact of Green recovery on RCV	EY	Financial agreed upon procedures	Page 191	Pages 140 to 142
Section 5		External Assurer	Type of Assurance	Table reference	External Assurance Summary
5A	Water resources asset and volume data	Jacobs	Technical audit – agreed upon procedures	Page 192	Page 137
5B	Water resources operating cost analysis	EY	Financial agreed upon procedures	Page 193	Pages 140 to 142

Section 6		External Assurer	Type of Assurance	Table reference	External Assurance Summary
6A	Raw water transport, raw water storage and water treatment	Jacobs	Technical audit – agreed upon procedures	Page 194	Page 137
6B	Treated water distribution – assets and operations	Jacobs	Technical audit – agreed upon procedures	Page 195	Page 137
6C	Water network+ – Mains, communication pipes and other data	Jacobs	Technical audit – agreed upon procedures	Page 196	Page 137
6D	Demand management – metering and leakage activities	EY	Financial agreed upon procedures	Page 197	Page 140
6F	WRMP annual reporting on delivery – non-leakage activities	Jacobs	Technical audit – agreed upon procedures	Page 198	Page 137
Section 7		External Assurer	Type of Assurance	Table reference	External Assurance Summary
7A	Wastewater network+ – Functional expenditure	EY	Financial agreed upon procedures	Page 199	Page 140
7B	Wastewater network+ – Large sewage treatment works	Jacobs	Technical audit – agreed upon procedures	Page 200	Page 137
7C	Wastewater network+ – Sewer and volume data	Jacobs	Technical audit – agreed upon procedures	Pages 200 and 201	Page 137
7D	Wastewater network+ Sewage treatment works data	Jacobs	Technical audit – agreed upon procedures	Page 202	Page 137
7E	Wastewater network+ Energy consumption and other data	Jacobs	Technical audit – agreed upon procedures	Pages 202 and 203	Page 137
7F	Wastewater network+ – WINEP phosphorus removal scheme costs and cost drivers	Jacobs	Technical audit – agreed upon procedures	Page 204	Page 137
Section 8		External Assurer	Type of Assurance	Table reference	External Assurance Summary
8A	Bioresources sludge data	Jacobs	Technical audit – agreed upon procedures	Page 205	Page 137
8B	Bioresources operating expenditure analysis	EY	Financial agreed upon procedures	Page 206	Page 140
8C	Bioresources energy and liquors analysis	Jacobs	Technical audit – agreed upon procedures	Page 207	Page 137
8D	Bioresources sludge treatment and disposal data	Jacobs	Technical audit – agreed upon procedures	Page 208	Page 137
Section 9		External Assurer	Type of Assurance	Table reference	External Assurance Summary
9A	Innovation competition	EY	Financial agreed upon procedures	Page 209	Page 140
Section 10		External Assurer	Type of Assurance	Table reference	External Assurance Summary
10A	Green recovery non-cost data for the 12 months ended 31 March 2022	Jacobs	Technical audit – agreed upon procedures	Page 210	Page 137
10B	Green recovery water outcome performance analysis for the 12 months ended 31 March 2022	N/a for SWW in 2021/22	N/a for SWW in 2021/22	Page 211	N/a for SWW in 2021/22
10C	Green recovery wastewater outcome performance analysis for the 12 months ended 31 March 2022	N/a for SWW in 2021/22	N/a for SWW in 2021/22	Page 211	N/a for SWW in 2021/22
10D	Green recovery data capture outcome performance for the 12 months ended 31 March 2022	Jacobs	Technical audit – agreed upon procedures	Page 211	Page 137

## Assurance continued

### Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting continued

Other Annual Performance Report Information	External Assurer	Type of Assurance	Table reference	External Assurance Summary
<b>A</b> Long-term resilience & viability statement	EY	Financial agreed upon procedures <sup>6</sup>	Page 112	Page 140
<b>B</b> Technical operational performance data included within pages 14 to 130	Jacobs	Technical audit – agreed upon procedures	N/a	Page 137
<b>C</b> Annual performance information provided for the Discover Water website	Jacobs	Technical audit – agreed upon procedures	N/a	Report provided to Water UK

1 Including both the South West Water and Bournemouth Water tables.

2 The Abstraction Incentive Mechanism (AIM) table is not applicable to South West Water. The technical auditor, Jacobs, has reviewed this assessment.

3 The Shadow Reporting tables have been reported to Ofwat and not published.

4 Two of the Bournemouth Water performance commitments, relating to financial data, are covered under EY's agreed upon procedures.

5 Unit cost metrics information is based upon non-financial information included within the scope of Jacob's technical audit – agreed upon procedures. The calculations based upon this non-financial information are within the scope of EY's financial agreed upon procedures.

6 In addition to statutory audit requirements.

### Other items

Many of our required annual disclosures are contained within this Annual Performance Report and Regulatory Reporting, however some are contained in our other related publications:

Disclosure	Location
Statement on directors' pay	See page 96 and detailed disclosures in the Remuneration Report
Statement on disclosure of information to auditors	See page 108 – regulatory disclosures
Dividend policy	See pages 141 and 142
Accounting policy note for price control units	See page 142
Revenue recognition note	See page 142
Capitalisation policy note	See page 143
Bad debt policy note	See page 82
Tax strategy for the appointed business	See page 146
Long-term viability statement	See page 112
RoRE summary	See page 145
Narrative disclosures on operational performance (and table 3A metrics)	See pages 12 to 40
Totex – difference between actual and allowed Totex in table 4B	See page 176
Accounting Methodology Statement	<a href="http://www.southwestwater.co.uk/report2022">www.southwestwater.co.uk/report2022</a>

# Summary of significant assurance areas

## Summary of Board activities and engagement and assurance performed in our significant areas for assurance

Our Assurance Plan lays out areas for assurance which we have considered ‘Significant assurance areas.’ These are areas requiring assurance due to their importance to our customers and/or other stakeholders. The plan is available on our website at: [www.southwestwater.co.uk/assuranceplan22-23](http://www.southwestwater.co.uk/assuranceplan22-23)<sup>1</sup>.

We have reported on areas for assurance which are broader than simply data which we provide and publish, reflecting the importance of these areas to our customers, employees and other stakeholders.

### 1. Wastewater environmental data (including pollution and storm overflow information)

Board activities and engagement	Assurance performed
<p>As the Board have committed to going further and faster than our base business plan to 2025, which already represented our largest environmental programme for 15 years, it also recognises the accuracy and depth of the data we use to monitor and report on our environmental performance is increasingly important. The data will be increasingly able to be used by both:</p> <ul style="list-style-type: none"> <li>• South West Water, for decision making purposes – helping us to act more swiftly when the potential for incidents and for environmental impacts are identified, to stop them before they occur and to minimise their duration and impact when they do.</li> <li>• Other stakeholders, including everyone who lives in the regions we serve – putting people in control, providing accurate and real time information on river quality, our treatment works and storm overflows. This will help them to hold us accountable and be more environmentally friendly in the future.</li> </ul> <p>A new internal Compliance Group been established, which is reviewing our reporting, risk management and regulator engagement, including across the various strands of wastewater environmental data.</p> <p>Internally, the Executive, chaired by the CEO, meet fortnightly and receive a scorecard from the Operations Director – Wastewater, including extensive reporting from across the wastewater operations and environmental targets.</p> <p>Externally we are providing increasingly large datasets in environmental data in respect of the impact of our wastewater operations. We are striving to make this more extensive and as thoroughly reliable at pace.</p> <p>WaterFit initiatives (see pages 56 and 57) include measurable commitments to introduce additional water quality information, help people understand river quality – through real-time information, and provide 100% monitor coverage at our treatment works and on our storm overflows by 2023.</p> <p>Recognising the importance of assured environmental data, whether it is in respect of annual performance (and therefore assured as described on pages 58 to 61), or the increasing number of data returns we publish and provide to stakeholders throughout the year – such as CSO monitoring data which we have provided, the Board challenge and seek independent assurance, utilising technical expert assurers where deemed appropriate. Our environmental data is at the front of the Board’s consideration when considering the Board Statement on Data Accuracy and Completeness (see page 111).</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Enhanced governance structure</li> <li>• 24 hour data and service centre</li> <li>• Culture, training and employee engagement programme</li> <li>• Senior Leadership led daily ‘Pollutions Board’</li> <li>• 24/7 service centre for CSO rapid identification and response</li> <li>• Ongoing review by dedicated team to quickly identify CSO issues</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Root cause analysis/investigations of all pollution events</li> <li>• Environmental ISO management system audits</li> <li>• Review of EDM data prior to annual publication</li> <li>• Full internal verification exercise on annual published combined sewer overflow data</li> <li>• Dedicated team oversight and reviews of Environmental Information requests</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• Group Internal Audit</li> <li>• Technical auditor review of published pollutions data</li> <li>• Pennon Group Independent audit of CSO monitoring in 2021/22 and the area will continue to feature in the Group Audit Plan</li> </ul>

### 2. Projects and data submissions

Board activities and engagement	Assurance performed
<p>Significant projects are managed by the Executive and the Board, who oversee and challenge the plans/ outputs. We engage our technical and financial external assurers as appropriate for each project.</p> <p>We establish governance for all significant projects and consider our third party assurance arrangements for each project in line with our Integrated Assurance Framework.</p> <p>During 2021/22 we obtained a final decision approving our c.£82m programme, in line with the Government’s Green Economic Recovery Initiative. This submission received thorough challenge by the Board, to ensure it addressed the key priorities in line with the Initiative’s aims and ensuring it was deliverable alongside our existing performance commitments within our 2020-25 Business Plan.</p> <p>As we moved into the deployment phase of the plan, the Board has established a Green Recovery Steering Group to oversee each of the five projects within our plan, ensuring they are on track to deliver the outputs we forecast by the end of each project. It’s also overseeing the achievement of intermediate milestones throughout the project and year end forecast performance positions. The Board commissioned our technical auditor to provide independent external assurance as to whether each project is on track – and review progress on year one milestones, despite the projects being in its early stages.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Rigorous project management approach</li> <li>• Regular Board reporting</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Independent internal review</li> <li>• Central Regulatory review of technical data</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• Pennon Group Internal Audit</li> <li>• Jacobs audit and challenge of technical data submitted</li> <li>• Review of financial data/modelling</li> </ul>

1. The 2022/23 Assurance Plan contains the specific plans for data assurance activities relating to the 2021/22 Regulatory Reporting year. It also contains the most up-to-date assessment of significant areas for assurance across the Company in respect of data published, submitted and otherwise provided.

## Summary of significant assurance areas continued

### 3. Statutory and strategic publications

Board activities and engagement	Assurance performed
<p>This significant area for assurance in our Final Assurance Plan included several documents which we publish as part of long term strategies, that feed into planning processes covering the development of our future business plans and wider sector and regional strategies and plans.</p> <p>At this stage of our business planning process, we have published our Drainage and Wastewater Management Plan as well as our Drought Plan in draft for consultation. We're also in the process of finalising our Draft Water Resources Management Plan. Each of these publications and all associated submissions of data, whether provided to our regulators or made available to all, are important building blocks in developing our future plans and shaping how we will operate for years and decades into the future.</p> <p>We're prioritising ensuring these plans and publications are robust, consistent and aligned with our strategic direction. In these significant areas the South West Water Board has overseen the governance and assurance specific to each submission or publication. We have further increased the use of independent external assurers to review each of the plans, whether prior to publication in draft for consultation or ahead of finalised plans. As the business planning process progresses, the Board will critically review plans in the round and consider all feedback received.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Rigorous project management approach</li> <li>• Regular Board reporting</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Independent internal review</li> <li>• Central Regulatory review in the context of the suite of publications and plans</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• External assurance for key data included in the plans/publications</li> <li>• Pennon Group Internal Audit</li> <li>• Independent check for national security sensitive information</li> </ul>

### 4. Our 2021/22 reported performance commitments

Board activities and engagement	Assurance performed
<p>The Board has monitored the performance against our regulatory outcomes/performance commitments throughout the year as well as reviewing the results of the data assurance programme, which focused on these performance commitments at year end. It has reviewed the results of the external technical auditor, Jacobs – whose report can be found on pages 137 to 139. In line with the importance of our performance commitments to customers and other stakeholders, a high degree of technical audit focus is placed on them.</p> <p>The Board is satisfied, based upon systems and processes in place as well as assurance activities undertaken, that South West Water's performance (as reported in section 3 of the Regulatory Reporting section and as summarised in the Operational Performance section) has been accurately reported.</p> <p>Performance itself has demonstrated an overall resilient response to a challenging year, however in a limited number of significant areas, performance was not in line with committed levels and the Board is dedicated to achieving the improvements necessary to ensure committed performance levels are reached as soon as possible.</p> <p>During the year it became clear that performance in respect of pollution incidents was not sufficiently improving to achieve the target for the 2021 calendar year and additional focus has been provided in this area. Details of our WaterFit plans are included on pages 56 and 57.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Ongoing performance reviews and monthly reporting within teams and senior management, including formal Executive ODI Group</li> <li>• Departmental certification and 'sign off' of submitted data</li> <li>• Process and culture formed on quality management principals</li> <li>• Executive Led Drinking Water Quality and Leakage Groups</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Risk and Compliance internal audits</li> <li>• Ongoing programme of water quality sampling</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• Pennon Group Internal Audits (including specific drinking water quality audit)</li> <li>• Jacobs technical auditors</li> <li>• SGS ISO external audits, including ISO 9001:2015 (Quality), ISO 14001:2015 (Environmental), ISO 50001: 2011 (Energy) certifications</li> <li>• BSI external audit – BS118477 (Vulnerable Customers)</li> <li>• UKAS ISO 17025 audits</li> </ul>

## 5. Regulatory, statutory and financial reporting

Board activities and engagement	Assurance performed
<p>South West Water’s Executive Management and Statutory Board reviews the Company’s financial position and performance on a monthly basis, and there is a thorough process of validation to ensure that annual and monthly financial reporting is in line with the underlying financial systems and transactions.</p> <p>We have included reports and summaries of external assurance work completed within the Annual Performance Report and Regulatory Reporting (see pages 134 to 136).</p> <p>EY presented its audit opinion on the fair presentation of sections 1 and 2 of the Regulatory Reporting and that they have been properly prepared (see page 140).</p> <p>A summary has been provided on pages 137 to 140 of the results of Jacobs’ assurance procedures and EY’s agreed-upon procedures work covering sections 3 to 9 of the Regulatory Reporting. These procedures cover every line reported in our Regulatory Reporting, and the procedures themselves reflect the risk relating to each line of the reporting.</p> <p>Neither EY nor Jacobs identified any material issues with the South West Water Annual Performance Report and Regulatory Reporting and Jacobs noted the improvements made in internal processes during the year. Internal verifications and sign-offs were appropriately completed with no issues arising.</p> <p>Further, Jacobs have provided two memorandums summarising their additional work in respect of the Risk and Compliance Statement as well as the data submitted for <a href="https://discoverwater.co.uk">discoverwater.co.uk</a>. These memorandums have been published on the South West Water website and do not identify any material issues.</p> <p>In line with statutory requirements, the Board also provides a published statement, formally signing off the Regulatory Reporting (see page 113).</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Extensive Management oversight</li> <li>• Delegated Manager review of data submitted</li> <li>• Published Board sign-off of Regulatory Reporting</li> <li>• Compilation of Summary Performance Report and Discover Water submission from Annual Performance Report and Regulatory Reporting</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Internal independent verification of data included within the Regulatory Reporting</li> <li>• Monthly review of financial performance and position by the Board</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• EY audit of the Annual Report and Financial Statements and sections 1 and 2 of Regulatory Reporting overseen by the Audit Committee</li> <li>• EY and technical audit assurance procedures on sections 3 to 9 of Regulatory Reporting</li> <li>• Pennon Group Internal Audit – programme includes regular risk based audits of financial systems, processes and internal controls</li> <li>• Technical auditor review of the Summary Performance Report and Discover Water data submissions</li> </ul>

## 6. Annual tariffs and charges

Board activities and engagement	Assurance performed
<p>The Company meets with representative customer groups throughout the year to ensure that the structure of South West Water’s charges remains the most appropriate for customers in our areas. The calculation of the tariffs and charges within this structure, which comply with the constraints in place, is led by the Company’s Finance Directorate utilising a model developed by an external specialist.</p> <p>Internally there is a process of sign off for all variable inputs into the model and for forecasts and expert judgements used. KPMG performed a set of procedures mutually agreed between South West Water and KPMG, reflective of risks which may result in tariffs and charges not meeting the constraints discussed above. KPMG focused on:</p> <ul style="list-style-type: none"> <li>• identifying whether inputs to South West Water’s model agree to underlying sources</li> <li>• replicating key calculations to ensure the model is operating correctly</li> <li>• checking that the tariffs and charges comply with key constraints and guidelines</li> <li>• checking that the revenues and margins from the model outputs are in line with the approved business plan.</li> </ul> <p>External assurance was supplemented by internal procedures. KPMG performed the agreed-upon procedures and reported to the South West Water Board.</p> <p>KPMG confirmed that there were ‘no issues identified that would present concerns that would represent material risk of the tariffs being non-compliant’. KPMG did again note recommendations where some refinement of calculations was possible and improvements to process. None of the recommendations identified by KPMG were deemed to be a potential or likely ‘compliance problem’.</p> <p>All of these recommendations are being considered and will be addressed prior to the 2021/22 tariff setting process.</p> <p>The Board signed the Statement of Assurance, which has been published on the South West Water and Bournemouth Water websites, confirming, amongst other things, that in the Board’s opinion the Company’s processes and internal systems of control ensure that the data and information contained in the Charges Schemes meet the Company’s obligations.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>• Sign-off of submitted inputs to the tariffs and charges model</li> <li>• Utilisation of a model developed by an external specialist</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>• Risk and Compliance led internal validation and assurance</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>• Assurance work performed by KPMG on a set of procedures mutually agreed to be reflective of risks present</li> </ul>

## Summary of significant assurance areas continued

### 7. Environmental, Social and Corporate Governance (ESG) reporting

Board activities and engagement	Assurance performed
<p>South West Water's ESG information has been audited by technical auditors ahead of its publication in annual reporting (whether South West Water or Pennon reporting). This audit programme has again included focus on the greenhouse gas information South West Water is committing to publish in its Annual Performance Report as well as an additional focus on non-core waste streams.</p> <p>Further assurance work is performed on other submissions, such as gender pay gap and CEO pay gap supported by independent 2nd line functions.</p> <p>The Board has reviewed all of the submissions and results of this assurance ahead of publication.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>Full internal verification exercise on data and statements made in annual reporting</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>Extensive customer engagement to establish priorities as part of business planning</li> <li>Risk and Compliance audit (including gender pay gap and CEO pay gap)</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>Technical audit of ESG reporting (including greenhouse gas reporting)</li> </ul>

### 8. The Government £50 contribution

Board activities and engagement	Assurance performed
<p>The £50 contribution is automatically applied to all domestic customer bills within our billing system (this is pro-rated, where bills reflect a period of less than a year).</p> <p>At the commencement of the £50 contribution scheme, South West Water performed a review of all customers' account classifications (as domestic or business) to ensure that everyone entitled to receive the contribution did so and equally that the Government Contribution is only received by those customers the Government has defined as eligible.</p> <p>South West Water's domestic retail function has a specific compliance team overseeing the billing system and matters relating to Customer Service. The Pennon Group Internal Audit function also performs a cyclical annual audit of our billing systems.</p> <p>South West Water and the Department for Environment, Food and Rural Affairs (Defra) have engaged PwC to perform a quarterly audit of the scheme. This audit includes PwC reviewing a sample of payments made to ensure that they have been correctly applied and that the classification of accounts within South West Water's systems remains appropriate.</p> <p>Results of internal and external assurance have not identified any material concerns surrounding the £50 contribution scheme and PwC has completed its quarterly audits on schedule throughout the year.</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>Management review and oversight of process</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>Domestic retail Compliance team review</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>Pennon Group Internal Audit of South West Water's billing systems</li> <li>Quarterly audit performed by PwC of the Government £50 Contribution process</li> </ul>

### 9. Data protection and security

Board activities and engagement	Assurance performed
<p>South West Water maintains an Information System with extensive controls to mitigate the risks in respect of data protection and security. The Company has appointed a specific Data Protection Officer as well as maintaining a Data Protection/Security Governance Group.</p> <p>The corporate IT system is certified to the international standard ISO 27001 – Information Security Management, and there is a dedicated Information Security team which oversees mitigations and controls in place as part of the system. A programme on internal and external audit is performed on the system and controls.</p> <p>There is a Company wide Information Security policy and the Information Security team has provided briefings to other departments to ensure the culture supports the objectives of data protection and security. The Company conducts regular penetration testing to test the security of the system.</p> <p>In respect of the operational network, South West Water has performed extensive work in line with the Network and Information Security (NIS) directive including the completion of audits performed by an external specialist and Group Internal Audit. South West Water also engages annual external audit under the Security and Emergency Measures Directive (SEMD).</p>	<p><b>1st line</b></p> <ul style="list-style-type: none"> <li>Dedicated data protection officer</li> <li>Data Protection/Security Governance Group</li> <li>Information Security Policy</li> </ul> <p><b>2nd line</b></p> <ul style="list-style-type: none"> <li>Internal audit in line with ISO 27001</li> <li>Penetration testing</li> </ul> <p><b>3rd line</b></p> <ul style="list-style-type: none"> <li>Group Internal Audit (including specific information security audits)</li> <li>External audits in line with the NIS Directive and SEMD</li> </ul>



## Assurance – WaterShare+ Advisory Panel

The overall purpose of the WaterShare+ Advisory Panel is to champion the interest and needs of customers by providing an independent view on the delivery of the Company's business plan, including its performance commitments and board pledges. The WaterShare+ Panel also strives to boost customer engagement and increase awareness of the WaterShare+ scheme to help inform the Panel's assessment and response on the Company's performance.

By holding in-depth sessions with the Executive Directors we have been able to drill into the operational issues that a water company faces. We have also worked with the water industry regulators to learn more about their priorities and how they impact both the Company and its customers. By inviting the Consumer Council for Water, Environment Agency and Natural England to directly advise and attend the Panel, we have been able to understand their concerns too, and get their perspective on the evidence presented to us by the company on their successes and challenges over the year.

Through all this work and especially the public meetings, including the water industry's first Customer Annual General Meeting held in November 2021, the Panel has worked hard to genuinely hold the company to account on behalf of customers and ensure the customer view is heard both from us as a panel, and directly from customers through both customer research and giving the opportunity to all customers to attend public panel meeting and themselves not only observe the procedure but take part in the discussion and directly quiz the Company's senior executives.

The Panel has been acutely aware that one of the most pressing challenges facing the water sector and South West Water is the number of serious pollution incidents and the actions needed to reduce the incidents and the impact on the environment. This has been strongly reflected in the priority given to this in customer representations to the Panel. We have set aside time in all our meetings to discuss these issues and track the actions taken to drive down the number of pollution incidents, with public session time set aside at several meetings to examine this issue in depth. We have sought information and answers on the issues and what is being done to tackle them from both the Company and the water industry regulators, including separate time for in-depth discussion with the Environment Agency. We have also enabled customers specifically concerned about this to attend our public meetings and question the company's CEO and other senior executives directly. It will continue to be a key area of focus and clearly remains work in progress. We welcome the Company's focus on tackling this issue and whilst last year's figures were disappointing, we are pleased that the Company share the view this must be turned around and that the latest data does show clear improvements.

The second area of particular concern has been affordability and the particular issues impacting customers through Covid and now the post Covid affordability crisis as living costs have sharply escalated. We have devoted significant time to examining the various programmes the Company has put in place to help customers with bills. In addition, on behalf of the panel I wrote to Government supporting the continuation of £50 contribution from national Government all households receive to mitigate the high cost of water bills here that reflects the exceptional costs of the programme of protecting a third of the national beaches in a region with only 3% of the national population.

The WaterShare+ Advisory Panel also oversees the operation of the Company's WaterShare framework, which includes a mechanism whereby if the Company earns rewards by outperforming its business plan, the financial benefits are shared with customers. Put simply if the Company delivers better financial outcomes, then customers benefit. In the first 'watershare' issued in 2020 customers were given the choice of either receiving a £20 credit to their account or applying to receive shares in Pennon Group Plc (the UK based company which owns South West Water). Thousands of customers took shares with 1 in 16 customers now shareholders as well as customers.

I am pleased to confirm that under the WaterShare framework, customer benefits totalling c.£26m have been delivered in the second year of this period, totalling c.£62m since the start of this regulatory period.

In conclusion, I believe WaterShare+ is proving an exciting and innovative programme that offers customers a greater say in what South West Water and Bournemouth Water does, as well as offering a financial benefit to customers. The Panel will continue to work with the Board of the company and customers to ensure that WaterShare+ achieves its full potential.

## Lord Matthew Taylor

### Chair of the WaterShare+ Advisory Panel



Meetings on the Company's website: [www.southwestwater.co.uk/about-us/watershareplus/meeting/](http://www.southwestwater.co.uk/about-us/watershareplus/meeting/) and the Panel will publish its own annual report in September.

# Independent Auditor's report

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

### Opinion

We have audited the sections of/tables within South West Water Limited's Annual Performance Report for the year ended 31 March 2022 ("the Regulatory Accounting Statements") which comprise:

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

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10D, 11A as well as the cost allocation and transfer pricing sections.

In our opinion, the Company's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2), set out on page 141.

### Basis for opinion

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

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

### Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.13, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom adopted international accounting standards ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 144 to 215 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

### Conclusions relating to going concern

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

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

- We have obtained management's going concern assessment, including the cash forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2022 financial statements through to 31 July 2023, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the company.
- We have reviewed the forecasts used for the going concern assessment period for reasonableness and, where applicable, corroborated the data with audit information from other areas. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year to date performance and through consideration of historical forecasting accuracy.
- The company has an agreed business plan with Ofwat for the five-year price period from 1 April 2020 to 31 March 2025, setting out the basis of allowed tariff changes. We have compared the key assumptions in the company forecasts to the agreed business plan for consistency.
- We have evaluated management's stress test modelling including management's downside scenario, to understand the impact on the company's liquidity and covenant ratios. We assessed the reasonableness of management's stress test scenarios by performing our own sensitivity analysis for severe but plausible scenarios.
- We have compared facilities assumed in the forecasts to supporting documentation.
- We have compared the risks identified in management's assessment to the company risk register and evaluated the quantification by management. We have considered whether there are other alternative risks based on our knowledge of the business.
- We performed testing to consider the likelihood of a scenario causing a liquidity issue or breach of covenants.
- We have read the company's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

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 to 31 July 2023.

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

#### Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report based on these responsibilities.

#### Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 108, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2).

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

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

#### Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the company, and identified the key laws and regulations that:

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:
  - Companies Act 2006
  - Financial Reporting Council (FRC) and the UK Corporate Governance Code
  - Tax legislation (governed by HM Revenue & Customs)
  - Health and Safety legislation
  - Environment Agency environmental permits
  - Ofwat regulations
- We understood how South West Water Limited is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the company's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the company's voluntary compliance with the UK Corporate Governance Code.
- We attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Independent Auditor's report continued

### Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 5th July 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Greg Tyler (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
Bristol**

14 July 2022

# Technical auditor’s report

## Introduction

South West Water (SWW) has compiled its Annual Performance Report for the period 1 April 2021 to 31 March 2022, which is the second year of the AMP7 5-year period. SWW has 44 Performance Commitments (PCs) for the AMP7 period defined in Ofwat’s PR19 Final Determination dated December 2019. The set of PCs cover all supply regions of the Company as the South West Water region (Devon & Cornwall), the Bournemouth region (water supply only) and the Isles of Scilly.

SWW has monitored and measured its performance throughout the year which has been monitored monthly by Senior Management and the Directors via the Directors’ Report. In addition, the independent customer group, WaterFuture, has also monitored performance against the PCs.

Jacobs has audited and assured technical elements of the 2021/22 APR to include SWW’s performance against the PCs. The purpose of the audits was to review the methodologies for compiling the information, trace information to sources, provide an opinion on the accuracy, reliability and completeness of the data, and ultimately to provide independent assurance to the Audit Committee and Board of SWW that the reported performance is an accurate account of SWW’s performance

This year we applied an additional scrutiny to the subject areas of:

- Leakage and per capita consumption (following changes in assessments of some components);
- Permit compliance/CSO discharges (due to the focus being applied across the industry); and
- Bathing water quality where beach categories have deteriorated and whether this is related to South West Water’s assets.

Our audits commenced in February 2022 for information reported on a calendar year basis. These were completed as planned. The year-end audits were mostly completed by 23 May 2022 in line with the agreed programme. We provided a progress statement for the Audit Committee which we attended on 19 May 2022. Due to the ongoing Covid-19 pandemic, all audits took place remotely via Microsoft Teams with the exception of leakage, PCC and customer services which were in person.

SWW’s staff in the Finance, Regulatory and Risk & Compliance departments, and the wider teams have been flexible at working remotely with collaboration throughout the process.

## Audit opinion

Our audit of SWW’s performance against the AMP7 PCs, the APR data tables, supporting information and data sources enables us to conclude the information to be published has been compiled using information, which is accurate, reliable and complete, to the extent that our sample audits allow. We found exceptions in relation to:

- Leakage, where South West Water have undertaken a thorough review of performance and reporting. This resulted in a minor change in reporting leading and a c.1 Ml/d improvement resulting from aligning methodology more consistently with industry standard practice.; and
- Sludge production, which is not a PC but does have a forecasting incentive. The process is not fully instrumented in accordance with Ofwat’s guidance and SWW has an action plan in place to address this.

Recording of corporate and operational data, subsequent reporting into the APR and sign off by Senior Managers and Directors have maintained high standards. Some audits identified a small number of items that required correction or updates which have subsequently been addressed. In some areas we made recommendations to refine future reporting which SWW may wish to consider.

We consider the reported performance provides a fair and reasonable account of SWW’s progress as measured through the PCs in 2021/22, year 2 of the AMP7 period.

Item	RAG	Audit statement
PC information & Annual Performance Report 2022	●	With the exceptions (noted left), we conclude that the performance information reported to 31 March 2022 is accurate, reliable and complete, and we agree the reported metrics correctly represent SWW’s outturn against its 2021/22 targets.  We confirmed that information is soundly based, using audited APR data as the source information for the majority of PCs. Where information is not sourced from APR data, we confirmed robust systems are in place to capture the required information.
Achievement of AMP7 year 2 PCs	● 35	● 9
		SWW has 44 Performance Commitments with annual targets for each year of AMP7. SWW has achieved or outperformed 35 of the year 2 PC targets (including one within the regulatory deadband).  Where targets have not been met (9 PCs), we agree performance has been correctly reported. SWW has plans in place with the intention of achieving the targets that have been missed. In APR21, SWW achieved 34 PC targets.

Our key audit findings follow, assessed against the RAG criteria below (as used in our detailed audit reports).

- No concerns and compliant with requirements
- Minor concerns
- Material concerns
- Non-material observation or suggested opportunity for improvement

We have assessed the information within our scope against the audit tests and can confirm that we are satisfied that the PC information provides a fair and reasonable account of SWW’s progress against the PC targets for year 2 of AMP7. Whilst we have identified a number of minor exceptions, none of these are considered material, and with continued focus the majority of the commitments are achievable.


Our audits confirmed the key findings on the following two pages.

More detailed information on the audit of each can be found in our Summary of Audit Findings document for each data table, held by the Risk & Compliance team.

Audits of financial information are completed by the financial auditors.

Audits took place remotely using MS Teams with the exception of leakage, PCC and customer service audits which were conducted in person.

Jacobs had full access to SWW staff, senior management and Directors, corporate systems, information and other supporting documentation. We are grateful for SWW’s co-operation and flexibility to accommodate the audit and assurance activities.



**G D Hindley**  
**Technical Assurance Director**  
**Jacobs UK Ltd**

## Technical auditor's report continued

### Key findings

●	Levels of compliance with SWW's internal requirements and definitions of performance commitments in the 2019 FD have remained high across all functions. The format for methodologies and commentary ('M&C' documents) is now consistent in all functions.
●	Progress with the PCs is reported monthly through the Directors' Report which is reviewed by the Executive Management and ODI Board which demonstrates thorough governance. Leakage is reported weekly.
●	SWW has met the leakage target to reduce leakage by 6% from the 2019/20 baseline of 124.2 MI/d. We confirmed SWW is reporting a 6% reduction, which is on target. This is an excellent result reversing last year's result where the target was not met. We found it is the result of significant investment in leak detection and repair resources, additional pressure management, detailed reviews of components of the water balance and an improvement to move to a one hour window for night flow monitoring which was previously obtained through a two hour window.
○	We note, however the change in the night flow window results to use a one hour period to align with industry standard practice, having used a two hour window in previous years. This has made a minor difference of approximately 1 MI/d on leakage.
●	The target to reduce Per Capita Consumption by 2.7% from the 19/20 baseline has been achieved (on target). SWW has introduced two factors to increase the population in the PCC estimate: 1. extra time at home due to Covid – which was included last year and SWW has updated its methodology this year and, 2. Additional tourism activity when compared with 2019. Ofwat has asked for indications of non-resident population in table 4R which is new this year. We are unsure how Ofwat will deal with changes in PCC due to Covid for all companies. For now, SWW has introduced these Covid influences to show an impact on PCC by adjusting the population element.
●	Our audit of bathing water quality performance was a detailed review. For 2021 (calendar year reporting), all 150 classified beaches met at least 'sufficient', with Coombe Martin improving from 'poor' to 'sufficient' for the first time due to the improvement works undertaken in the catchment. For six beaches where their categorisation has declined, we did a detailed review of tenuous links to SWW's CSOs, Pollution Risk Forecasting, weather and tidal events. We concluded that the deterioration was not attributable to SWW's assets.
●	The four WINEP schemes under the Bathing Water Improvement programme due in 2021/22 have been delivered and signed off by the EA. WINEP schemes to address bathing water quality due to be delivered in 2021/22 were confirmed as delivered on target. We conclude that all four schemes can be included as Bathing Water Improvements delivered in 2021/22 and contribute to the overall PC calculation.
●	The number of sewer collapses and blockages have improved compared to 2020/21 reflecting investment in resources. Both metrics outperform the PC targets.
●	For blockages we found approximately 2% are being excluded from the total number because they are considered to be caused by repeated misuse by customers despite SWW taking action to educate the customers who are likely causing the repeat blockages. Ofwat's guidance for blockages does not provide any grounds for excluding blockages, however we note that this is consistent with some other company reporting.
●	Verification of supply interruptions continues to be diligently managed. Supply interruptions has missed the target of 6 minutes 05 seconds per property, out-turning at 6 minutes 47 seconds. Had the incident at Gunnislake not occurred which was a planned job on the network which had an unforeseen complication, the target would have been achieved. The PC for Resilience in the Round (water) has been met, despite the majority of the number of properties off supply for >12 hours arising from Gunnislake.
●	Sludge disposal compliance has met the PC target.
○	We noted that the programme to install instrumentation at sludge treatment centres is behind schedule. As such, sludge volumes have been estimated through a combination of measured volumes and back calculations and is not fully aligned with Ofwat's guidance. This does not affect the Performance Commitment for sludge compliance but may have an impact on cost allocations and the bioresources forecasting accuracy incentive. The requirement for instrumentation is being addressed through a robust action plan.
●	We have made a number of recommendations for the processing of sludge compliance information: <ul style="list-style-type: none"> <li>• We found the team were averaging the liquor strength between returns before load calculations which could result in misstating total load due to varying strength of liquor from different returns. The team is currently using a manual process to extract liquor strength from PDF reports.</li> <li>• Liquor BOD and Ammonia Load – The team were using a mass balance for calculation of volumes. We recommend that the company implements operational liquor flow monitoring in the process on larger sites to allow more accurate reading of volume to be reported.</li> </ul>
●	The PC target for Risk of sewer flooding in a storm has been outperformed at 9.83% of the region's population at risk of internal hydraulic flooding from a 1 in 50 year storm, against a target of 29.39%. This is related to an issue with the process which has been identified by SWW, as part of the checks and controls that have been reintroduced this year. The issue relates to the use of different GIS software for one part of the process which was artificially increasing the vulnerability grade of some catchments. This has now been resolved. The other significant change this year is the increase in the number of excluded catchments. The new 5 year rolling data contains less than the previous set and so more catchments are included compared to last year.
○	Whilst not a PC, during the length of mains audit for Table 6C, we were unable to trace back fully the SWW and IoS data to source. We recommend that the process and associated database query are reviewed and that the data are reviewed for anomalies. This was a recommendation for the APR 2021 audit but we were not able to follow it through. The Bournemouth area data could be traced back.
●	SWW's C-MeX target has not been met, with the outturn below median (ranking 12th). Whilst disappointing, we confirmed that the data and processes for customer service scores and customer experience surveys which feed the CSAT score were robust.
●	The processes for recording D-MeX performance against Water UK's metrics is sound. The reported data is consistent with that reported in 2020/21. The D-MeX score for the year is obtained by combining the quantitative and qualitative scores. We confirmed the resulting score once the Q4 qualitative score was published by the 3rd party survey company in early June 2022.
●	The target for mains repairs per 1,000 km of water main has been outperformed at 111.4 against a target of 147.0. Mains repairs have been generally consistent over the last AMP and into this current AMP. SWW is trialling a new internally developed Power BI tool for mains repairs reporting. The current process requires the team to review all the feedback comments of every job manually. This ensures the number reported is accurate, but it is a time-consuming, manual task. The BI tool will produce at least the same level of reporting accuracy but in a more efficient way.

**Key findings continued**

●	<p>The target for Resilience in the Round (wastewater) has been outperformed at 223 resilience action plans against a target of 40. These have been compiled in line with Ofwat’s definitions of an action plan.</p>
●	<p>However, noted that in Ofwat’s final determination, it states that resilience action plans will include:</p> <ul style="list-style-type: none"> <li>Resilience measures to reduce the risk of flooding of assets through direct protection measures and/or delivery of Drainage and Wastewater Management Plans.</li> </ul> <p>Recommendations for each site are included in section 11 of the reports but they appear to be standard recommendations (in the reports we sampled). We suggest considering whether specific measures can be identified for each site or provide a link to actions being taken as part of the DWMPs.</p>
●	<p>We confirmed the definition had been followed for the PC AMR meters installed for meter optants, new connections and existing meter replacements on a yearly basis. This measure is a combined total for SWW, BW and the Isles of Scilly areas. SWW reports 186,113 household AMR meters installed this year and exceeds the cumulative target of 183,364 for Year 2.</p> <p>We note SWW has chosen not to pursue selective metering in the BW area for the second year in succession due to Covid impacts.</p>
●	<p>The total number of water pollution incidents (Cat 1-4) associated with drinking water assets was 27 (a reduction from 35 in 2020). Of these 27 incidents, 8 were categorised as Cat 1-3. This is a reduction from 10 Cat 1-3 incidents in 2020. The self-reporting rate increased from 60% in 2020 to 87%. Whilst the number of pollutions has reduced, the PC target has not been met.</p> <p>The primary cause of drinking water incidents was the mobilisation of silt. Ongoing management of the contractor process is working towards addressing these issues.</p>
●	<p>The total number of wastewater pollution incidents (Cat 1-3) reported in 2021 was 151 (151 Cat 3 incidents). This is a reduction of 33% in comparison to 2020. The number of Cat 2 incidents have increased from 1 in 2019 to 3 in 2020 and 8 in 2021.</p> <p>All classifications have been checked and challenged where appropriate. It is understood that whilst overall the success rate to challenges remains high (ca. 80%) there have been a number of difficult challenges surrounding Cat 2 and 3 classifications during 2021. As a consequence, more incidents have been assigned as Cat 2. It is acknowledged that 3 of these Cat 2 incidents have been associated with rising mains and as such an investment programme has been planned for 2022/23 to address risks associated with rising mains.</p>
●	<p>The PCs for Treatment works compliance, Descriptive compliance and Total wastewater treatment works compliance have not been met. Descriptive compliance is within the regulatory deadband/tolerance.</p>
●	<p>PC targets for Priority services for customers in vulnerable circumstances, British Standard for inclusive service provision, Overall satisfaction of services received on the PSR, Number of customers on one of our support tariffs, and Voids for residential retail have all been achieved. All definitions have been following as per the FD and exclusions/inclusions have been followed. The recommendation last year to replace the spreadsheet used to calculate % attempted and actual contacts with a database report extracted directly from the customer database has been completed.</p> <p>We note that the targets for years 4 and 5 for the Number of customers on one of our support tariffs are significantly higher than those for years 1 to 3. The SWW team explained measures which have been taken to allow the numbers of customers being added to the tariffs each year to be increased, as well as to make it easier for customers to apply.</p>
●	<p>Compliance Risk Index (CRI) score for 2021 of 3.86 represents a material deterioration in performance from 2020. This can be directly attributed to 3 coliform failures at Alderney WTW linked to ingress in water storage tanks (which have now been repaired). These failures account for 71% of the overall CRI score. The site will be upgraded as part of AMP7 Q-scheme, but this won’t be delivered until the latter end of the AMP period.</p> <p>The CRI score is above the PC Target of 2.0 and will result in a financial penalty. If the Alderney failures are removed from this year’s data, the CRI score would be 1.11 and below the PC target.</p>
●	<p>Event Risk Index (ERI) audited in 2020 was subsequently confirmed by the DWI in its July Chief Inspector’s Report at 179.95. This year’s ERI reported at 74 shows a marked improvement for this measure in 2021 despite 4 significant events during the year.</p>
●	<p>For Taste, Smell and Colour contacts we confirmed the correct inclusion of the DWI categories and the reported value at 1.55. This is just below the PC target of 1.59 attracting a reward. However, overall performance for this measure over the last five years shows an improvement and the short-term plans for 2022 of increased flushing, mains conditioning and calm training should bring this measure back to target.</p>
●	<p>We reviewed progress with the Bournemouth Capital Schemes (Alderney WTW and Knapp Mill WTW). The schemes are under the management of an experienced project manager and progress has been made during the year. Whilst some risks have emerged as is to be expected with any large construction project, our review confirmed both schemes are, currently, on programme to meet their target delivery dates in accordance with the Final Determination and Knapp Mill’s advancement by 12 months through Green Recovery.</p> <p>We are pleased to note that SWW has defined definition of delivery against Ofwat’s definition “putting wholesome water into supply”. SWW’s definition is the day when the old works are fully valved off following a period of gradually reducing the output from Alderney and Knapp Mill and increasing output from the new works under a blending regime. We agree this definition is sensible.</p>
●	<p>Whilst not a PC, in last year’s report for Table 6A (Treatment Type) we highlighted the example of Restormel WTW which includes Super-chlorination, pH correction and activated carbon processes and which was classified as W5. In our opinion this is not consistent with the Ofwat definition which states that W5 is for the “Total number of water works providing two or more of the processes with very high operating costs”. Restormel WTW only has one process with very high operating costs which would result in a W4 classification. Restormel WTW is still classified as a W5 this year and during our spot check we highlighted another site, Northcombe which is also classified as W5 but only has one process with very high operating costs (activated carbon).</p> <p>W5 remains the category with the highest volume of water treated and number of works. We recommend that the categorisation for all existing W5 (and W3) sites are reviewed to ensure consistency with the Ofwat definitions.</p>
●	<p>We confirmed information has been combined for the South West region and Bournemouth region (where appropriate). We also confirmed information for the Isles of Scilly has been integrated into the reported information (where appropriate, or as defined in the 2019 FD).</p>

## Additional financial assurance

### Financial information

EY, who are knowledgeable of the Company through their role as statutory auditors and providing an audit opinion on specific areas of Regulatory Reporting, were engaged by South West Water to perform agreed-upon procedures over the areas of Regulatory Reporting which are not covered by the audit opinion, including cost assessment tables.

The agreed-upon procedures included agreeing certain specified tables to the underlying data and supporting calculations supplied by management.

The scope of their work was determined and agreed by management. EY have discussed and reported their findings to the Board and management.

#### The assurance work covered the following areas:

- Review and consideration of SWW allocation of costs both between the appointed and non-appointed business as well as the appropriateness of allocations to business areas – confirming the cost drivers and methods used
- Disclosures of trading activities with associated companies
- Financial cost assessment information and additional reporting required by Ofwat – including the Financial Flows.

#### Agreed upon procedures:

- Financial Tables (or parts of Tables) agreed to be within scope:
  - agreement of data included in the Tables to underlying records
  - agreement of the calculations in the submission Tables provided by Ofwat to the calculations used by management
  - confirming cumulative values or calculations within the tables to supporting documentation.

The findings from this work have been reported to management and the Board.



# Notes to the regulatory accounts

## BASIS OF PREPARATION

These regulatory accounts are prepared in accordance with regulatory accounting guidelines issued by the Water Services Regulation Authority (Ofwat), specifically:

- RAG 1.09 – Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime
- RAG 2.09 – Guideline for classification of costs across the price controls
- RAG 3.13 – Guideline for the format and disclosures for the annual performance report
- RAG 4.10 – Guideline for the table definitions in the annual performance report
- RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors.

They have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom except for the dis-application of certain parts of IFRS 18 in respect of the probability of collection of billed revenue and IAS 23 in relation to the capitalisation of interest incurred during the construction phase of items of property, plant and equipment.

The detailed accounting policies applied by South West Water are set out on pages 178 to 185 of our Annual Report and Financial Statements. The accounting policies and disclosures set out in this section include those specifically required within RAG 3.13.

## Going concern basis of preparation

The going concern basis has been adopted in preparing the financial statements as stated by the Directors. At 31 March 2022, the Company had access to undrawn committed funds and cash and cash deposits totalling £193m (£161.7m excluding restricted cash). Having considered the Company's strong funding position and prudent financial projections, which take into account a range of possible impacts, as described in this report, including the Covid-19 pandemic, the Directors have a reasonable expectation that the Company has adequate resource to continue in operational existence for the period up to 31 July 2023 and that there are no material uncertainties to disclose. For this reason they continue to adopt the going concern basis in preparing the financial statements.

## Directors' emoluments

### Payments related to performance against agreed standards

As required by the Water Act 2014 and Regulatory Accounting Guidance from the Water Services Regulation Authority (Ofwat), additional information is given regarding this aspect of remuneration.

Full and detailed disclosures of Directors' remuneration are included on pages 94 to 107 of the Remuneration report including details of the performance-related bonus arrangements and the amounts paid to Directors under those arrangements.

In line with our Business Plan the WaterShare+ advisory panel has renewed the application of the performance targets for the year.

## Dividend policy

South West Water has established a dividend policy which involves the following components:

- A sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital
- A further level of growth funded by efficiency out-performance
- Comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account the balance sheet.

### 2020-25 dividend policy

We believe that our dividend policy should be transparent, recognise our commitments to customers and ensure South West Water remains financeable – anchored in the base allowances approved by the regulator to give customers assurance they are fair and balanced. Our dividend policy sets out how we ensure everyone shares in our success with customers benefiting from lower bills and shareholders earning a fair return for investment.

We are providing a comprehensive approach to gearing, dividends and benefit sharing which builds on a track record of paying a reasonable and sustainable dividend, maintaining gearing in line with Ofwat's notional view and voluntarily sharing considerable benefits with customers.

Ahead of the new regulatory period (K7 – 2020-25), we reviewed our policy and have ensured it remains aligned with Ofwat's principles published in 'Putting the sector back into balance'.

Our innovative and unique WaterShare mechanism, in place since 2015, has been enhanced with the new independent WaterShare+ panel meeting regularly in public and the Customer AGM, which commenced in 2021. WaterShare+ will again ensure customers share in our success – and South West Water has committed to voluntarily sharing 100% of embedded debt outperformance from market movements with customers to 2025. In 2015-20 this resulted in some c.£23m of benefits.

Our dividend policy continues to be based on:

- **Base dividends** – derived from the price determination and made with reference to Ofwat's assessment for a notional balance sheet
- **Outperformance dividends** – linked to business performance and outcomes delivered ahead of business plan commitments (totex, ODIs and financing)
- **Gearing dividends** – payments designed to ensure that key financial ratios are optimised and gearing remains aligned with Ofwat's notional level – and does not exceed 70%.

This approach aligns with Ofwat's assessment of Financial Flows which was implemented during K6 to improve transparency over the financial performance of individual companies and ensure consistency in the approach of reporting how dividends are distributed or retained. In 2021/22 our actual dividend payments

have been below cumulative retained value and we have retained an element of returns within the Company to improve financial resilience.

### Base dividends

Our approach to paying a base dividend is that it should broadly reflect the assumptions made by Ofwat for the notional capital structure and cited as a reasonable level for base equity returns – this would reflect a base level of dividend that is in line with Ofwat's assessment of the return on equity at the notional yield of 3.0%.

Base dividends are calculated and paid during the year – with any variation reconciled and offset / paid in subsequent years.

The PR19 regulatory approach incentivises companies to outperform regulatory targets. Dividends should promote continued outperformance – it is in all stakeholders' interests that we continue to outperform so we reduce bills through efficiencies and improved service levels.

### Outperformance

Outperformance arises through:

- **Totex outperformance** – efficient delivery resulting in Totex savings and lower costs shared with customers, lowering future bills
- **ODI outperformance** – net ODI rewards, where operational delivery is ahead of the commitments for customers approved within the Business Plan
- **Financing outperformance** – where efficient financing results in lower effective interest rates compared to notional levels.

Linking our dividend directly to actual outperformance delivered ensures that payments are not made in the event that South West Water delivers poor performance or is materially failing statutory or customer obligations.

Where outperformance dividend payments are payable, any sharing for customers (through our innovative WaterShare mechanism) will be recognised as a reduction to the dividend value before any outperformance payment to shareholders is made – this ensures that customer benefits take priority over sharing with shareholders.

Outperformance dividends are paid in arrears to ensure only actual and not forecast outperformance is paid.

### Capital structure dividends:

Capital structure dividend payments are designed to ensure that key financial ratios are not prejudiced and to allow South West Water to manage its gearing profile to align with Ofwat's assessment of a notional company structure. Any such payments will consider the financial viability and long-term resilience of the appointed business as well as consider any other significant obligations (such as pension scheme deficit levels) before payment.

Consideration will also be given to the level of dividend allowed within the cumulative financial flows assessment and profit after tax to ensure that excessive dividend distributions are not allowed within this policy.

<sup>1</sup> Updated to 2018/19 from previously stated 2019/20 baseline to align to Water UK baseline

## Notes to the regulatory accounts continued

### Reporting of dividends

Our dividend payments will continue to be transparently reported – our Annual Performance Report will explain how our dividend is consistent with our policy.

We will ensure that the consideration given to delivery of our commitments is clearly reported each year. This will specifically consider and report on:

- Our performance across our obligations and how returns are linked to the regulatory funds flow reporting
- Delivery of ODIs and other commitments for customers
- Clearly disclose the assessment of the sharing with customers through our WaterShare mechanism – which is ‘recognised’ and reduces any outperformance dividends
- Financial viability and long-term resilience and how this has impacted dividend payments.

In line with our current practice we will continue to discuss our dividend policy with the independent WaterShare+ Panel and seek endorsement from them for any changes proposed – reporting the outcome of any engagement.

In addition, customers are now able to feedback on our delivery during the public quarterly meetings and in autumn we will launch our Customer Annual General Meeting.

### Accounting policy note for price control segments

In accordance with Regulatory Accounting Guideline 4.10 – ‘Guideline for the definitions table definitions in the Annual Performance Report’, a segmental income statement (table 2A) and other segmental analysis (tables 2B to 2O) are presented within the Regulatory Reporting as well as certain detailed analysis in sections 3 to 8. This segmental analysis separates certain financial and non-financial information between the following regulatory price controls:

- Water resources
- Water Network+
- Wastewater Network+
- Bioresources
- Retail Household
- Retail Non-household (not applicable to South West Water, following exit from the non-household retail market in 2017)

Whilst these business units are not treated as organisationally separate businesses or separate companies by South West Water there are certain activities which are solely carried out by specific areas of the business due to more efficient and effective structures being in place to support the management and accountability of the business.

Certain departments (especially operational departments) may provide services for one regulatory price control segment, however many other departments perform services across two or more regulatory price control segments. Certain financial and non-financial information is therefore separated based upon a methodology which includes some assumptions and judgements utilising all available information.

As the price controls are not organisationally separated in South West Water they do not have their own separate management and support functions and they do not trade with one another. To represent them as distinct controls requires the allocation of costs and assets to them.

Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied linked to the key metric which best reflects the nature of the activity and costs.

The allocation between activities is reviewed annually to ensure the basis of allocation is still appropriate.

Where no direct allocation is possible management judgement is applied to allocate costs separately. The resulting costs reported for these business units do not necessarily represent what the costs would be if they were operated as separate business units.

### Services

The allocation of operating costs within South West Water to specific service areas within the appointed business is based on activity analysis and principles which result in both direct and support costs being apportioned where not directly attributed. Activity levels between individual services are ascertained by reference to time allocations by individual employees along with other allocation bases in accordance with the underlying nature of resource utilisation.

A full ‘accounting separation’ methodology statement can be found at [www.southwestwater.co.uk](http://www.southwestwater.co.uk). The methodology statement explains in detail the basis of allocations for costs and assets.

### Revenue recognition

Revenue represents the income receivable in the ordinary course of business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

Wholesale non-household revenue is recognised in line with the Central Market Operating System (CMOS).

For domestic customers, the measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual for unbilled charges is estimated using a defined methodology reflecting historical consumption, estimated demand trends and current tariffs. The measured income accrual is recognised within revenue. The methodology for calculating the measured income accrual is consistent with that applied in 2020/21. A retrospective review of the 2020/21 measured income accrual and the amounts actually billed during 2021/22 which would be expected to align to the accrual was performed and there was no material difference.

A property which is believed to be occupied (due to meter activity or other occupancy indicator), but where the occupier’s details are not known, is billed in the name of ‘the occupier’ as efforts are made to obtain the occupier’s details. The Company actively seeks to identify the name of ‘the occupier’ through multiple measures including visits to the property and land registry searches. If the occupier cannot be confirmed within 90 days of invoice, the bill is cancelled and the property classified as void. Where an invoice has been raised or payment made but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year’s revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitor and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover. A summary of the differences between revenue recognised in the statutory financial statements and Regulatory Reporting is included on page 149.

Within the statutory accounts, and in line with IFRS 15, revenue is only recognised if it is deemed probable that the economic benefits associated with the transaction will flow to South West Water (i.e. it is probable it will be collected given all available information such as customer payment history). Within the Regulatory Accounts, in a deviation from IFRS 15 in line with Ofwat RAG 1.09, revenue is recognised for all properties where a service is being received even where it would not be deemed probable it would be collected. This difference in accounting treatment has resulted in £4.8m of revenue recognised within the Regulatory Reporting which is not recognised as revenue within the Financial Statements.

Following this accounting treatment an additional £4.8m is recognised as an expected credit loss charge within operating expenses compared to the statutory financial statements, which results in no difference in operating profit or profit before tax.

### Capitalisation policy note

The cost of property, plant and equipment capitalised includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Costs which meet the criteria for a capital asset and total in excess of £1,000 are capitalised.

Plant, property and equipment includes:

#### i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions at cost, less accumulated depreciation. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises. Infrastructure assets are depreciated evenly over their useful economic lives and are principally:

Dams and impounding reservoirs 200 years

Water mains 40 – 120 years

Sewers 40 – 120 years

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

#### ii) Other assets (including property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives to their residual value and are principally:

Freehold buildings 30 – 60 years

Operational properties 40 – 80 years

Fixed plant 20 – 40 years

Vehicles, mobile plant and computers 4 – 10 years

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

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Assets transferred from customers are recognised at fair value.

The assets' residual values and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

In line with IAS 23, within the Statutory Accounts and Financial Statements, borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. However within the Regulatory Reporting, in a deviation from IAS 23 and in line with Ofwat RAG 3.13, borrowing costs are not capitalised.

### Expected credit loss note

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

In light of the broad economic challenges caused by the Covid-19 pandemic, part of the assessment of ECLs has been focused on the potential impact from the pandemic. Considerations in this assessment have included the type of customers and past experience of behaviours in challenging economic times. The provision for ECLs in 2020/21 included a specific provision of £2.6m) in relation to the impact of Covid-19.

The Covid-19 pandemic continues to impact on society and the economy around the world. Pressure on the UK economy continues from the Covid-19 pandemic with global commodity shortages pushing up prices leading to higher inflation which in turn impacts on the ability of households to pay their bills in what is being termed the 'cost of living crisis'. This additional pressure on households in the UK alongside the continued impacts of the pandemic are still being felt and as such the specific Covid-19 provision has now been included as part of the provision matrix calculation.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2022 the Company's current trade receivables were £227.5m (2021: £216.2m), against which £84.5m (2021: £88.4m) had been provided for ECLs (note 18 of the Annual Report and Accounts).

There has been no change to the write-off policy or bad debt provisioning policy. Year on year movements in the trade debtor balance are discussed in the 'Financial Performance' section.

# Regulatory Financial Reporting

## Table 1A – 1D Commentary

### Statutory financial performance

South West Water's statutory results show a small decline in profit before tax to £135.5m (2020/21: £141.8m). In 2021/22 a non-underlying charge of £2.0m has been recognised in relation to restructuring costs. In 2020/21 a non-underlying reduction in revenue of £20.5m was recognised due to the WaterShare+ rebate scheme and a curtailment charge of £3.5m was recognised in respect of the defined benefit pension scheme being closed to future accrual from 30 June 2021.

### Revenue

Underlying total revenue has increased by 3.6% to £584.6m primarily reflecting the recovery in the non-household market from Covid-19 restrictions (up by c.18% compared to last year), household demand has fallen slightly in the year but has not decreased to pre-pandemic levels (down by 1.4% compared to last year).

84.2% of our household customers in the South West area are now benefitting from a metered supply, with 3,304 customers opting for a meter in 2021/22 (2020/21: 3,636). 74.2% of households in the Bournemouth Water region are metered with 586 switching in the year (2020/21: 524).

### Net finance costs

Underlying net finance costs of £76.8m were £20.3m higher than last year (2020/21: £56.5m). This primarily reflects higher RPI and CPI on index linked debt and leases. Aligned with the regulatory accounting guidelines, capitalised interest of £1.0m has been included in the appointee regulated interest charges.

South West Water has secured funding at a cost that is efficient and effective. Index linked funding represents approximately 26% of borrowing and at 3.4% the Company interest rate on average net debt for 2021/22 remains amongst the lowest in the sector (2020/21: 2.5%). Interest cover for 2021/22 is within the required levels for financial covenants.

### Dividends and retained earnings

#### Dividend policy

The Company has established a dividend policy which includes:

- base dividends – derived from the price determination and are made with reference to Ofwat's assessment for a notional balance sheet and paid in year
- outperformance dividends – linked to business performance and outcomes delivered ahead of business plan commitments (totex, ODIs and financing), paid a year in arrears, for the 2021/22 dividend
- other dividends – payments designed to ensure that key financial ratios are optimised, and gearing remains aligned with Ofwat's notional level, which has historically been set in the range of 55-65% (currently 60% for K7) and does not exceed 70% gearing
- total dividend payments will not exceed the retained underlying profits in any year, except as a result of a special dividend and balance sheet restructuring, or where there is a significant non-underlying non-cash impact (such as deferred tax)
- dividend payments will be approved by the Board annually.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account balance sheet considerations.

#### Dividend declared

The dividend paid or declared for 2021/22 was £88.0m comprising a base dividend of £45.0m and an outperformance dividend of £43.0m. No other dividends were paid. The overall dividend paid and declared was approved by the Board in March 2022.

The base dividend of £45.0m is derived from the FD for the appointee, including the enhanced equity for fast-track status, adjusted for expected inflation of 3.6% compared to an FD assumption of 2% and FD dividend growth assumptions of 1.18%.

The calculated 2021/22 performance dividend payable is £43.0m (payable in the subsequent year) based on 2020/21 results reflecting the following:

- totex performance – efficient delivery resulting in Totex savings and lower costs shared with customers, lowering future bills - £32.0m
- financing performance – where efficient financing results in lower effective interest rates compared to notional levels. £26.7m
- ODI performance which compares operational delivery to the commitments within the Business Plan with c.£10.4m (reduction to performance dividend)
- other adjustments including expected voluntary WaterShare adjustment for K7 related to outperformance in embedded cost of debt

The net ODI underperformance in 2020/21 reduces the dividend payments to our shareholder, reflecting where our environmental performance fell below expectations (for example pollution incidents, SWW's Environment Agency EPA score) partially offset by rewards in other areas (including biodiversity, sewer flooding, collapses and blockages).

The resultant dividend yield of 6.69% is higher than the level indicated by Ofwat in the Final Determination due to the level of outperformance in 2020/21 on both totex and financing net of penalty for ODI performance. Whilst SWW has outperformed for the benefit of customers and shareholders, brought forward retained value of £31.786m, total shareholder returns in year of £212.5m in table 1F are higher than dividends paid of £81.076m, resulting in a cumulative retained value of £163.2m.

#### Considerations made in determining the dividend

The dividends declared align with SWW's established dividend policy and are anchored in the Final Determination, reflecting base allowances and outperformance delivered.

The past 12 months has seen increased scrutiny by regulators, media, government and other stakeholders on companies' environmental performance and this has been taken into consideration in proposing the 2021/22 dividends.

Dividends have been reduced by £10.4m to reflect our environmental performance as recognised by the EA EPA scoring and our significant pollutions underperformance during 2020/21.

Whilst performance in this area has been below expectations, c.80% of our ODIs achieved or were within our deadband for performance. This included a number of other wastewater metrics which outperformed our targets, including sewer flooding, collapses and blockages, bathing water investments and enhancing biodiversity. In addition, wastewater treatment works compliance achieved our best ever performance at 99%.

In addition, we have taken account of the impact on our customers including reducing the dividend by the WaterShare benefits that will be shared with customers in future.

## Table 1E Commentary

### Liquidity and debt profile

South West Water has a strong liquidity and funding position with £193m of cash and committed facilities at 31 March 2022. This consists of cash and deposits of £27.6m (excluding £161.7m of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £165m. At 31 March 2022 the Company's borrowings totalled £2,494.5m. After the £189.3m held in cash, this gives a net debt figure of £2,305.2m, an increase of £31.6m during the year (2021: £33.6m decrease).

South West Water has a diversified funding mix of 59% fixed, 15% floating and 26% index-linked borrowings. The Company's debt has a maturity of up to 35 years with a weighted average maturity of 14.7 years matching the asset base. Some of the Company's debt is floating rate, with derivatives being used to fix the rate on that debt. The Company has fixed, or put swaps in place to fix, the interest rate on a substantial portion of the existing debt, in line with the policy to have at least 60% of fixed funding. £605.1m of South West Water's debt is index-linked at an overall real rate of under 1.87%. As a result of the aforementioned initiatives, South West Water's cost of finance is among the lowest in the industry. Around half of the net debt is from finance leases, providing a long maturity profile to its debt. Interest payable on them benefits from the fixed credit margins, which were secured at the inception of each lease. A quarter of the net funding for South West Water is Retail Price Index (RPI) linked, a level below Ofwat's notional level of 33% leaving the water business at a comparative advantage through the regulatory transition from RPI to CPIH in light of current market conditions.

At 31 March 2022 the fair value of the Company's non-current borrowings (excluding leases) was £146.2m more than its book value (2021: £159.9m more than book value) as detailed in note 22 to the financial statements. This reflects the continued benefit of securing interest rates below the current market rate, offset by volatility in inflation markets.

## Table 1F Commentary

### Financial flows

Table 1F compares the financial flows between the actual company structure and the notional structure per the Final Determination (FD) and is designed to help enhance transparency and confidence in how companies earn their returns and share performance with investors.

In order to calculate the period to date average regulatory equity, the 2021 figure used reflects the RCV including the IFRS16 lease adjustment and thus does not agree to the figure published by Ofwat in the Financial Flows document of 8 June 2022.

This table is the basis for calculating RORE on the Ofwat basis (using actual average inflation) and was 9.2% for 2021/22 reflecting outperformance in all three areas of totex, financing and ODIs.

All values in the table are stated in 2017/18 prices with the commentary below focused on actual returns and notional regulatory equity.

The base return of 3.94% (inclusive of impact from movement from notional gearing) includes the 10bps fast track reward we earned at PR19 reflecting the quality of the business plan submitted.

Financing RoRE of 3.76% reflects SWW's sector leading low cost of debt arising from a low effective interest rate of 3.4% due to a relatively low level of index linked debt. While interest costs have risen year on year due to the current higher inflationary environment, this low proportion of index linked debt meant that the impact of the increase in interest cost was more than offset by higher average inflation.

A tax benefit of 0.66% reflects the lower current year tax charge as capital expenditure in year benefited from higher capital allowances from super deductions on qualifying expenditure.

Operational measures include totex and ODI performance including C-Mex and D-Mex. Totex continues to outperform, albeit at a lower level than last year. Accelerated expenditure on areas to support environmental improvements are likely to be offset later in the regulatory period. ODIs overall show a net reward following a net penalty last year reflecting the significant improvement in pollutions and leakage in the year following the ongoing targeted improvement plans. C-Mex and D-Mex show small penalties and are areas of marginal underperformance to improve in the coming year.

RCV growth of 7.22% reflects the expected FD movements and the higher level of inflation at March 2022.

There were no voluntary shareholder returns in the FD however SWW shares additional outperformance with customers through its pioneering WaterShare+ initiative. These adjustments are reflected through lower dividends. Consequently, shareholder returns of 16.37% reflect the base, financing, operational and RCV performance described above.

Dividends are paid according to our published policy and the application of this policy is described on the previous page.

Retained value of 10.12% or £131.4m show adequate resources are being retained in the Company. On a cumulative basis since 2015 the retained value is £163.2m.

## Regulatory financial reporting continued

### Tax strategy

South West Water (including both the appointed and non-appointed business) has fully adopted the Pennon Group plc tax strategy. This means that we will:

- at all times consider the business's corporate and social responsibilities in relation to its tax affairs
- operate appropriate tax risk governance processes to ensure that the policies are applied
- comply with our legal requirements; file all appropriate returns on time and make all tax payments by the due date
- consider all taxes as part of ongoing business decisions
- not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
- not undertake transactions which are outside the Group's low risk tax appetite for tax or not in line with the Group's Code of Conduct
- engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
- not have any connections with tax havens unless it is necessary for the purposes of trading within those jurisdictions

The Company's approach to tax planning, risk management and governance is in line with the Finance Act 2016 requirements. The Company does not expect its tax strategy to change significantly year on year, however it is reviewed and updated annually.

Further details are given in the Group's 'Contributing to society through a responsive approach to tax' document which is available on the Pennon Group website.

### Corporate taxation

The total appointee tax charge for the year was £8.6m (2020/21: £28.0m).

The Company made a net payment of £10.2m of UK corporation tax in the year (2020/21: £28.4m). This is comprised of net payments of £6.2m to HMRC and £4.0m of Group relief payments to other Group companies).

The current corporation tax charge which is included within the tax charge, decreased from 2020/21. This is principally as a result of Super Deductions for capital allowances in the year.

The appointed current tax charge of £8.6m is lower than the charge would have been based on the standard rate of tax applied to the profit for the year (a reconciliation is shown in the tables opposite).

The current tax charge is lower than assumed within the 2019 Final Determination with the key variances noted in the table opposite, mainly due to the effect of super deduction capital allowances.

The appointee deferred tax charge of £100.5m for the year relates to timing differences between depreciation and capital allowances of £10.5m, largely due to the effect of super deductions, timing differences in relation to short term timing differences of £0.2m, timing differences in relation to relief for pension contributions and general costs deductible on a paid basis of £1.8m, and £97.4m in rate change as mentioned below. A period year deferred tax credit of £9.7m relates to qualifying assets acquired in prior years, which are now being recognised following the submission of tax computations to HMRC.

In respect of the overall appointed current year current tax charge of £8.6m, £6.8m has been assumed for Group relief (relating to the current year).

In relation to the taxable profits calculated for 2021/22, South West Water has not disclaimed capital allowances as a means of managing the overall tax charge.

The Company's total tax contribution extends significantly beyond the UK corporation tax charge, including Value Added Tax (VAT), business rates, employment taxes, Carbon Reduction Commitment (CRC), Climate Change Levy and Fuel Excise duty.

During the Chancellor's Budget on 3 March 2021, it was announced that the UK main rate of corporation tax will increase to 25% from 1 April 2023. The change was substantively enacted at the balance sheet date (it was substantively enacted on 24 May 2021) and thus the change is reflected in these accounts. The 2021/22 accounts have recalculated the deferred tax assets and liabilities and they are recorded at the tax rate at which they are expected to unwind. The change in tax rate has increased SWW's tax charge by £97.4m.

**Taxation**

	<b>Appointee £m</b>
<b>Final Determination current tax allowance</b>	<b>16.1</b>
<b>Key variances:</b>	
Impact prior years	<b>(2.2)</b>
Impact of change in taxation rates	<b>1.9</b>
Difference in profits	<b>2.3</b>
Depreciation and capital allowance impacts	<b>(10.5)</b>
Pension adjustments	<b>0.4</b>
Finance lease allowances	<b>0.3</b>
Other adjustments	<b>0.3</b>
<b>Current tax charge</b>	<b>8.6</b>
<b>Current taxation</b>	
	<b>Appointee £m</b>
<b>Profit before tax</b>	<b>133.5</b>
Profit before tax multiplied by the standard rate of UK taxation (19%)	<b>25.4</b>
Capital allowances for the year	<b>(32.1)</b>
Depreciation	<b>22.1</b>
Pension adjustments	<b>(1.8)</b>
Finance lease allowances	<b>(2.1)</b>
Other adjustments (including prior year adjustments)	<b>(2.9)</b>
<b>Current tax charge</b>	<b>8.6</b>

## Regulatory financial reporting continued

**TABLE 1A – Income statement**  
For the year ended 31 March 2022

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments	Total appointed activities £m
				Total adjustments £m	
Revenue	584.625	(10.176)	10.585	(20.761)	<b>563.864</b>
Operating costs	(372.256)	(2.497)	(9.375)	6.878	<b>(365.378)</b>
Other operating income	–	1.057	–	1.057	<b>1.057</b>
<b>Operating profit</b>	<b>212.369</b>	<b>(11.616)</b>	<b>1.210</b>	<b>(12.826)</b>	<b>199.543</b>
Other income	–	13.765	0.916	12.849	<b>12.849</b>
Interest income	0.786	–	0.014	(0.014)	<b>0.772</b>
Interest expense	(77.618)	(2.429)	–	(2.429)	<b>(80.047)</b>
Other interest expense	–	0.410	–	0.410	<b>0.410</b>
<b>Profit before tax and fair value movements</b>	<b>135.537</b>	<b>0.130</b>	<b>2.140</b>	<b>(2.010)</b>	<b>133.527</b>
Fair value gains/(losses) on financial instruments	–	–	–	–	–
Profit before tax	135.537	0.130	2.140	(2.010)	<b>133.527</b>
UK Corporation tax	(9.347)	0.318	(0.434)	0.752	<b>(8.595)</b>
Deferred tax	(101.734)	1.143	(0.050)	1.193	<b>(100.541)</b>
<b>Profit for the year</b>	<b>24.456</b>	<b>1.591</b>	<b>1.656</b>	<b>(0.065)</b>	<b>24.391</b>
Dividends	(88.000)	–	–	–	<b>(88.000)</b>
<b>Tax analysis</b>					
Current year	11.506	(0.318)	0.434	(0.752)	<b>10.754</b>
Adjustments in respect of prior years	(2.159)	–	–	–	<b>(2.159)</b>
UK Corporation tax	9.347	(0.318)	0.434	(0.752)	<b>8.595</b>
				Non-appointed £m	
<b>Analysis of non-appointed revenue</b>					
Imported sludge					–
Tankered waste					1,241
Other non-appointed revenue					9,344
<b>Revenue</b>					<b>10,585</b>



**TABLE 1A – Income statement continued**

The Company does not have any financial instruments accounted for at fair value through the income statement.

Statutory reporting operating costs includes a charge of £2.049m relating to the restructuring reflecting announced reorganisation across the Company.

**Non-appointed**

Activities outside of the appointed business include property searches, commission from plumbing and drainage insurance, meter reading services to non-household retailers and wastewater providers, moorings and fisheries, rental income from non-appointed properties and energy generation from non-appointed assets.

Non-appointed operational costs include the element of depreciation charged to the non-appointed business for the use of assets primarily used in the wholesale business (such as IT assets) and reflects investments in solar and wind turbine installations as well as hydro generation schemes.

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Net Interest expense £m	Other interest expense £m	Current tax £m	Deferred tax £m	Profit for the year £m
Revenue not recognised under IFRS as deemed uncollectable	4.800	(4.800)	–	–	–	–	–	–	–
Net income/operating cost allocations <sup>1</sup>	(1.211)	1.211	–	–	–	–	–	–	–
Classification of new connections and infrastructure income	(12.849)	–	–	12.849	–	–	–	–	–
Classification of rental income	(0.916)	–	–	0.916	–	–	–	–	–
Profit on disposal of fixed assets	–	(1.057)	1.057	–	–	–	–	–	–
Capitalised interest, depreciation and tax impacts	–	0.461	–	–	(1.002)	–	0.318	1.143	0.920
Innovation fund costs/revenue	–	1.688	–	–	–	–	–	–	1.688
Add in financing subsidiary interest expense	–	–	–	–	(1.017)	–	–	–	(1.017)
Pension interest allocation (other interest expense)	–	–	–	–	(0.410)	0.410	–	–	–
<b>Net adjustments</b>	<b>(10.176)</b>	<b>(2.497)</b>	<b>1.057</b>	<b>13.765</b>	<b>(2.429)</b>	<b>0.410</b>	<b>0.318</b>	<b>1.143</b>	<b>1.591</b>

<sup>1</sup> Adjustments relate to power generation recognised as a reduction in operating costs for statutory purposes but as non-appointed income for Regulatory Reporting. In addition, overhead costs recharged to a subsidiary for retail activities are netted off against the contract value in Regulatory Reporting to reflect fairly the cost of delivering the appointed businesses' retail activities.

**TABLE 1B – Statement of comprehensive income**

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments		<b>Total appointed activities £m</b>
				Total adjustments £m		
Profit for the year	24.456	1.591	1.656	(0.065)		<b>24.391</b>
Actuarial gains/(losses) on post employment plans	30.823	–	0.695	(0.695)		<b>30.128</b>
Other comprehensive income	34.180	–	–	–		<b>34.180</b>
<b>Total comprehensive income for the year</b>	<b>89.459</b>	<b>1.591</b>	<b>2.351</b>	<b>(0.760)</b>		<b>88.699</b>

Actuarial gains/losses are net of tax and allocated based on the deficit/surplus associated with the pension scheme member. This is applied to the activities associated with their employment history weighted by the time spent in each role, consistent with the approach to allocating pension contributions.

Other comprehensive income relates to cash flow hedges held in the appointed business.

## Regulatory financial reporting continued

**TABLE 1C – Statement of financial position**  
Reflects Balance Sheet as at 31 March 2022

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments	Total appointed activities £m
				Total adjustments £m	
<b>Non-current assets</b>					
Fixed assets	3,228.049	(17.338)	4.440	(21.778)	<b>3,206.271</b>
Intangible assets	51.327	–	–	–	<b>51.327</b>
Investments – loans to Group companies	–	–	–	–	–
Investments – other	3.300	–	–	–	<b>3.300</b>
Financial instruments	13.876	–	–	–	<b>13.876</b>
Retirement benefit assets	47.070	–	1.265	(1.265)	<b>45.805</b>
<b>Total non-current assets</b>	<b>3,343.622</b>	<b>(17.338)</b>	<b>5.705</b>	<b>(23.043)</b>	<b>3,320.579</b>
<b>Current assets</b>					
Inventories	5.816	–	–	–	<b>5.816</b>
Trade and other receivables	198.979	–	1.885	(1.885)	<b>197.094</b>
Financial instruments	4.951	–	–	–	<b>4.951</b>
Cash and cash equivalents	189.250	–	1.768	(1.768)	<b>187.482</b>
<b>Total current assets</b>	<b>398.996</b>	<b>–</b>	<b>3.653</b>	<b>(3.653)</b>	<b>395.343</b>
<b>Current liabilities</b>					
Trade and other payables	(161.307)	34.917	(0.928)	35.845	<b>(125.462)</b>
Capex creditor	–	(31.311)	–	(31.311)	<b>(31.311)</b>
Borrowings	(213.069)	–	–	–	<b>(213.069)</b>
Financial instruments	–	–	–	–	–
Current tax liabilities	5.880	(0.216)	0.099	(0.315)	<b>5.565</b>
Provisions	(0.961)	(2.013)	–	(2.013)	<b>(2.974)</b>
<b>Total liabilities</b>	<b>(369.457)</b>	<b>1.377</b>	<b>(0.829)</b>	<b>2.206</b>	<b>(367.251)</b>
<b>Net current assets/(liabilities)</b>	<b>29.539</b>	<b>1.377</b>	<b>2.824</b>	<b>(1.447)</b>	<b>28.092</b>
<b>Non-current liabilities</b>					
Trade and other payables	–	–	–	–	–
Borrowings	(2,281.392)	–	–	–	<b>(2,281.392)</b>
Financial instruments	–	–	–	–	–
Retirement benefit obligations	–	–	–	–	–
Provisions	–	–	–	–	–
Deferred income – G&Cs	–	–	–	–	–
Deferred income – adopted assets	(137.226)	–	–	–	<b>(137.226)</b>
Preference share capital	–	–	–	–	–
Deferred tax	(380.057)	4.334	(0.720)	5.054	<b>(375.003)</b>
<b>Total non-current liabilities</b>	<b>(2,798.675)</b>	<b>4.334</b>	<b>(0.720)</b>	<b>5.054</b>	<b>(2,793.621)</b>
<b>Net assets</b>	<b>574.486</b>	<b>(11.627)</b>	<b>7.809</b>	<b>(19.436)</b>	<b>555.050</b>
<b>Equity</b>					
Called up share capital	295.923	–	–	–	<b>295.923</b>
Retained earnings and other reserves	278.563	(11.627)	7.809	(19.436)	<b>259.127</b>
<b>Total equity</b>	<b>574.486</b>	<b>(11.627)</b>	<b>7.809</b>	<b>(19.436)</b>	<b>555.050</b>

Notes for the statement of financial position are shown on the following page.

**TABLE 1C – Statement of financial position continued****The statement of financial position reflects the balance sheet as at 31 March 2**

Both statutory financial statements and Regulatory Reporting are based on International Financial Reporting Standards (IFRS) with the following adjustments to reflect the Regulatory Reporting Guidelines (RAGs).

	Fixed assets £m	Trade and other payables £m	Capex creditors £m	Current/non-current provisions £m	Borrowings £m	Current tax £m	Deferred tax £m	Net assets £m
Reallocation of capital creditors	-	31,311	(31,311)	-	-	-	-	-
Cumulative capitalised interest, depreciation and tax impact <sup>1</sup>	(17,338)	-	-	-	-	(0,216)	4,334	(13,220)
Deferred income reallocated to provisions	-	2,013	-	(2,013)	-	-	-	-
Creditor relating to Innovation Fund	-	1,593	-	-	-	-	-	1,593
<b>Net adjustments</b>	<b>(17,338)</b>	<b>34,917</b>	<b>(31,311)</b>	<b>(2,013)</b>	<b>-</b>	<b>(0,216)</b>	<b>4,334</b>	<b>(11,627)</b>

<sup>1</sup> Cumulative capitalised interest of £19,286m and depreciation of £1,948m.

**Non-appointed**

Non-appointed fixed assets reflect investments in solar and wind installations (prior to 2015) as well as hydro-generation schemes, fisheries and riverside assets and the fair value of non-appointed leased assets. In addition, investment to support tankered waste activities has been included within non-appointed assets.

Trade and other receivables reflect debt associated with non-appointed activities and trade payables are allocated based on operating costs.

Current tax liabilities represent the tax due on profits with deferred tax reflecting the capital allowances on fixed assets and the pension surplus.

Retirement benefit obligations are allocated based on the surplus associated with the pension scheme member and applying this to the activities within their employment history.

As all of the Company's borrowings have been raised to fund appointee activities, none of these have been apportioned to the non-appointed business.

## Regulatory financial reporting continued

TABLE 1D – Statement of cash flows

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Adjustments		Total appointed activities £m
				Total adjustments £m		
<b>Operating activities</b>						
Operating profit	212.369	(11.616)	1.210	(12.826)		<b>199.543</b>
Other income	–	13.765	0.916	12.849		<b>12.849</b>
Depreciation	117.039	(0.399)	0.396	(0.795)		<b>116.244</b>
Amortisation – G&Cs	–	–	–	–		<b>–</b>
Changes in working capital	(21.378)	3.419	–	3.419		<b>(17.959)</b>
Pension contributions	–	(3.419)	(0.093)	(3.326)		<b>(3.326)</b>
Movement in provisions	0.642	–	–	–		<b>0.642</b>
Profit on sale of fixed assets	(1.057)	–	–	–		<b>(1.057)</b>
<b>Cash generated from operations</b>	<b>307.615</b>	<b>1.750</b>	<b>2.429</b>	<b>-0.679</b>		<b>306.936</b>
Net interest paid	(62.512)	–	–	–		<b>(62.512)</b>
Tax paid	(11.216)	0.439	(0.600)	1.039		<b>(10.177)</b>
<b>Net cash generated from operating activities</b>	<b>233.887</b>	<b>2.189</b>	<b>1.829</b>	<b>0.360</b>		<b>234.247</b>
<b>Investing activities</b>						
Capital expenditure	(197.329)	1.002	–	1.002		<b>(196.327)</b>
Grants & contributions	3.237	–	–	–		<b>3.237</b>
Disposal of fixed assets	1.398	–	–	–		<b>1.398</b>
Other	–	–	–	–		<b>–</b>
<b>Net cash used in investing activities</b>	<b>(192.694)</b>	<b>1.002</b>	<b>–</b>	<b>1.002</b>		<b>(191.692)</b>
<b>Net cash generated before financing activities</b>	<b>41.193</b>	<b>3.191</b>	<b>1.829</b>	<b>1.362</b>		<b>42.555</b>
<b>Cash flows from financing activities</b>						
Equity dividends paid	(103.100)	–	–	–		<b>(103.100)</b>
Net loans received	(119.663)	–	–	–		<b>(119.663)</b>
Cash inflow from equity financing	45.000	–	–	–		<b>45.000</b>
<b>Net cash generated from financing activities</b>	<b>(177.763)</b>	<b>–</b>	<b>–</b>	<b>–</b>		<b>(177.763)</b>
<b>Increase/(decrease) in net cash</b>	<b>(136.570)</b>	<b>3.191</b>	<b>1.829</b>	<b>1.362</b>		<b>(135.208)</b>

Commentary for the adjustments within the statement of cash flows to reconcile from the statutory financial statements to Regulatory Reporting has been noted within the income statement.

TABLE 1E – Net debt analysis (appointed activities)

	Fixed rate £m	Floating rate £m	Index linked		Total £m
			RPI £m	CPI/CPIH £m	
<b>Interest rate risk profile</b>					
Borrowings (excluding preference shares)	1,483.109	406.222	552.365	52.765	<b>2,494.461</b>
Preference share capital					-
<b>Total borrowings</b>					<b>2,494.461</b>
Cash					<b>(25.786)</b>
Short-term deposits					<b>(161.696)</b>
<b>Net debt</b>					<b>2,306.979</b>
<b>Gearing</b>					
Gearing					<b>63.673%</b>
Adjusted gearing					<b>63.624%</b>
<b>Interest</b>					
Full year equivalent nominal interest cost	23.957	12.541	61.839	3.963	<b>102.300</b>
Full year equivalent cash interest payment	23.956	12.541	11.332	0.232	<b>48.061</b>
<b>Indicative interest rates</b>					
Indicative weighted average nominal interest rate	1.865%	1.118%	7.142%	5.602%	<b>15.727%</b>
Indicative weighted average cash interest rate	1.865%	1.118%	2.052%	0.439%	<b>5.474%</b>
<b>Time to maturity</b>					
Weighted average years to maturity	9.747	2.670	3.630	0.347	<b>16.394</b>

South West Water does not have any preference share capital.

The table above reflects the position of the appointed business and excludes the £1.768m of non-appointed cash assumed within cash. RCV at 31 March 2022 was £3,623.2m resulting in a gearing ratio of 63.673% for the appointed business.

Adjusted gearing of 63.624% reflects net debt and RCV including the impact of IFRS 16 and is based on the total cash position (rather than the cash position of the appointed business only).

Fixed and floating debt costs and interest rates are equivalent to the cash interest payments. Only index-linked debt has a differential between the interest charges and cash interest payments, where RPI or CPI is accreted into the loan balance.

	Total
<b>Table 1E total borrowings</b>	<b>2,494.461</b>
Derivative balance	<b>18.800</b>
Unamortised debt issuance costs	<b>1.557</b>
Rounding	<b>(0.006)</b>
<b>Table 4B gross debt</b>	<b>2,514.812</b>

## Regulatory financial reporting continued

TABLE 1F – Financial flows for the 12 months ended 31 March 2022

	12 months ended 31 March 2022					
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
<b>Return on regulatory equity</b>						
Return on regulatory equity	1,298.097	1,298.097	1,134.437			
Regulatory equity	3.94%	3.44%	3.94%	51.145	44.697	44.697
<b>Financing</b>						
Gearing		0.50%	0.26%		6.448	2.946
Gearing benefits sharing		–	–		–	–
Variance in corporation tax		0.65%	0.75%		8.487	8.487
Group relief		–	–		–	–
Cost of debt		4.24%	5.14%		55.091	58.333
Hedging instruments		(0.48%)	(0.55%)		(6.280)	(6.280)
<b>Return on regulatory equity including Financing adjustments</b>						
	<b>3.94%</b>	<b>8.35%</b>	<b>9.54%</b>	<b>51.145</b>	<b>108.443</b>	<b>108.183</b>
<b>Operational performance</b>						
Totex out / (under) performance		0.66%	0.76%		8.616	8.616
ODI out / (under) performance		(0.52%)	(0.59%)		(6.716)	(6.716)
C-Mex out / (under) performance		(0.04%)	(0.05%)		(0.536)	(0.536)
D-Mex out / (under) performance		–	–		–	–
Retail out / (under) performance		0.06%	0.07%		0.808	0.808
Other exceptional items		–	–		–	–
<b>Operational performance total</b>						
		<b>0.17%</b>	<b>0.19%</b>		<b>2.172</b>	<b>2.172</b>
<b>RoRE</b>						
	<b>3.94%</b>	<b>8.52%</b>	<b>9.73%</b>	<b>51.145</b>	<b>110.615</b>	<b>110.355</b>
<b>RCV growth</b>						
RCV growth	7.22%	7.22%	7.22%	93.723	93.723	81.906
<b>Voluntary sharing arrangements</b>						
Voluntary sharing arrangements		–	–		–	–
<b>Total shareholder return</b>						
	<b>11.16%</b>	<b>15.74%</b>	<b>16.95%</b>	<b>144.868</b>	<b>204.338</b>	<b>192.261</b>
<b>Dividends</b>						
Gross dividend	3.00%	6.25%	7.15%	38.943	81.076	81.076
Interest received on intercompany loans		–	–	–	–	–
<b>Retained value</b>						
	<b>8.16%</b>	<b>9.50%</b>	<b>9.80%</b>	<b>105.925</b>	<b>123.262</b>	<b>111.185</b>
<b>Cash impact of 2015-20 performance adjustments</b>						
Totex out / under performance		(0.13%)	(0.15%)	(1.718)	(1.718)	
ODI out / under performance		0.16%	0.19%	2.103	2.103	
<b>Total out / under performance</b>						
		<b>0.03%</b>	<b>0.03%</b>	<b>0.385</b>	<b>0.385</b>	

The RCV balance used, is inclusive of the IFRS16 lease adjustment, this is in line with the letter published 18 May 2020 by David Black.

TABLE 1F – Financial flows for the AMP to date (2017-18 financial year average CPIH) continued

	Average 2020-25					
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
<b>Return on regulatory equity</b>						
Return on regulatory equity	1,294.290	1,294.290	1,085.623			
Regulatory equity	3.92%	3.29%	3.92%	50.736	42.556	42.556
<b>Financing</b>						
Gearing		0.63%	0.33%		8.180	3.705
Gearing benefits sharing		–	–		–	–
Variance in corporation tax		0.03%	0.03%		0.369	0.369
Group relief		–	–		–	–
Cost of debt		2.98%	3.64%		38.686	41.278
Hedging instruments		(0.53%)	(0.60%)		(6.863)	(6.863)
<b>Return on regulatory equity including Financing adjustments</b>						
	<b>3.92%</b>	<b>6.40%</b>	<b>7.31%</b>	<b>50.736</b>	<b>82.928</b>	<b>81.045</b>
<b>Operational performance</b>						
Totex out / (under) performance		1.70%	1.94%		22.014	22.014
ODI out / (under) performance		(0.64%)	(0.73%)		(8.315)	(8.315)
C-Mex out / (under) performance		(0.02%)	(0.02%)		(0.268)	(0.268)
D-Mex out / (under) performance		–	–		–	–
Retail out / (under) performance		0.10%	0.12%		1.310	1.310
Other exceptional items		–	–		–	–
<b>Operational performance total</b>						
		<b>1.14%</b>	<b>1.30%</b>		<b>14.742</b>	<b>14.742</b>
<b>RoRE</b>						
	<b>3.92%</b>	<b>7.54%</b>	<b>8.61%</b>	<b>50.736</b>	<b>97.670</b>	<b>95.787</b>
<b>RCV growth</b>						
	4.14%	4.14%	4.14%	53.584	53.584	44.945
<b>Voluntary sharing arrangements</b>						
		–	–		–	–
<b>Total shareholder return</b>						
	<b>8.06%</b>	<b>11.68%</b>	<b>12.75%</b>	<b>104.320</b>	<b>151.253</b>	<b>140.732</b>
<b>Dividends</b>						
Gross dividend	3.00%	6.88%	8.20%	38.829	89.054	89.054
Interest received on intercompany loans		–	–		–	–
<b>Retained value</b>						
	<b>5.06%</b>	<b>4.80%</b>	<b>4.55%</b>	<b>65.491</b>	<b>62.199</b>	<b>51.678</b>
<b>Cash impact of 2015-20 performance adjustments</b>						
Totex out / under performance		(0.13%)	(0.16%)		(1.694)	(1.694)
ODI out / under performance		0.16%	0.19%		2.073	2.073
<b>Total out / under performance</b>						
		<b>0.03%</b>	<b>0.03%</b>		<b>0.379</b>	<b>0.379</b>
South West Water's dividend policy is included on page 144.						
						£m
2015-21						31.786
2021/22						131.421
<b>March 2022 cumulative retained value</b>						<b>163.217</b>

## Price review and other segmental reporting

### Table 2A – 2O Commentary

#### Allowed revenue

High levels of demand have been seen throughout 2021/22, resulting in £31.5m higher outturn compared to the allowed revenue as shown in the table below. (Note Ofwat's definition of allowed revenue is different to statutory revenue.)

#### Allowed Revenue Reconciliation

	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Total Revenue for RF	Bioresources £m	Total £m
<b>Final Determination Revenue Allowance (Outturn Prices) (Table 2M)</b>	19.920	225.559	239.598	<b>485.077</b>	25.065	<b>510.142</b>
Customer Demand and Profile	1.143	10.136	13.929	<b>25.208</b>	2.186	<b>27.394</b>
New Connections / Diversions / Requisitions <sup>1</sup>	–	0.724	3.230	<b>3.954</b>	–	<b>3.954</b>
Meter Optants	–	0.102	0.069	<b>0.180</b>	0.008	<b>0.188</b>
<b>Actual Outturn (Table 2M)</b>	<b>21.072</b>	<b>236.521</b>	<b>256.826</b>	<b>514.419</b>	<b>27.259</b>	<b>541.678</b>
Variance to Final Determination Revenue Allowance (Outturn Prices) (Table 2M)	1.15	10.96	17.23	<b>29.34</b>	2.19	<b>31.54</b>
<b>Variance as % for RFI</b>	<b>5.78%</b>	<b>4.86%</b>	<b>7.19%</b>	<b>6.05%</b>		<b>6.18%</b>

<sup>1</sup> New connections impact both the water and wastewater revenue as well as revenue for connection and infrastructure charges

As shown above outturn revenue is £31.5m higher than allowed revenue. This will incur a penalty of c.£1m through the RFI mechanism.

The RFI variances are made up from Wholesale revenue and Developer Services revenue. When setting the 2021/22 tariffs (published January 2021) the UK was in its second lockdown (November/December 2020), furlough was ongoing and there was significant economic uncertainty for commercial customers. South West Water commissioned economic analysis and forecasting to provide a range of conditions for tariff and charge modelling. This anticipated that business customers and Developer Services would recover over several years, offset by an expectation of reducing household consumption when furlough and working from home were relaxed.

The outturn was more favourable than the economic analysis indicated, commercial wholesale revenue showed significant recovery with demand at +17.2% on prior year, Developer Services exceeded our reduced expectation by £4m and residential performance was also better than expected at only -2.9% demand.

The wastewater variance as a % for RFI is atypically high – the guideline upper limit for a variance to allowed revenue is +/- 6%. Splitting the variance between wholesale and Developer services indicates that it is the unexpectedly strong performance in wastewater Developer Services that has resulted in the high outturn.

	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources* £m
RFI % – Wholesale	5.79%	4.68%	5.99%	
RFI % – Developer Services (Grants & Contributions)	0.00%	0.18%	1.20%	
<b>RFI %</b>	<b>5.79%</b>	<b>4.86%</b>	<b>7.19%</b>	

\* Bioresources are not included in the RFI control mechanism.

### Table 2B Commentary

#### Totex analysis

##### Operating costs

Operating costs including depreciation for the year were £372.3m (2020/21: £345.5m). The c.7.6% increase compared to 2020/21 reflects the impact of price changes on power, wages and chemicals as well as increased production volumes arising from the recovery of non-household demand. Additional costs were incurred in our key operational focus areas such as pollutions and leakage alongside increased developer services activity in the year. South West Water's bad debt performance remains strong with a charge of 0.5% of revenue (2020/21: 0.5%), reduced from 1.7% at March 2015. This continues to be driven by efficient collections as we work with our customers to manage their debt and strive to support those customers in vulnerable situations with affordability challenges.

##### Capital expenditure

South West Water's capital expenditure this financial year was £201.8m (2020/21 £168.1m), with the split between clean water investment and wastewater investment being largely balanced. This c.20% increase reflects the expected profile in the regulatory period with major capital schemes to replace the first of two water treatment works in the Bournemouth region progressing well, in addition to advanced expenditure on bathing water schemes and other environmental projects.



## Retail

Total retail expenditure was lower than the Final Determination due to continued focus on cash collections and cost efficiency. There has been a strong focus on customer service during the period which has driven a 6% reduction in written complaints. The UK is experiencing a period of high inflation with the gas price cap having increased 10% in the last year. Rising prices across the energy sector are a challenge to consumers affecting their ability to pay their water bills. Debt management costs have decreased due to insolvency of third-party debt collection activity. In year, there has been an increase in the offer of online communications methods to customers including Web Message and WhatsApp. Billing related digital conversational contacts have increased by 31% (+3,614). This has led to a c.15% reduction in telephone contacts per month, helping drive cost efficiencies. Metering commitments across the Isle of Silly continue to be of high importance, following the previously achieved target of 90% NHH customers meters installed. By the end of this year 67% of HH customers had meters installed and another 15% had moved to assessed charge.

**TABLE 2A – Segmental income statement**

	Retail Household £m	Retail Non-household £m	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Biosources £m	<b>Total £m</b>
Revenue – price control	30.647	(0.027)	21.072	230.361	248.201	27.259	<b>557.513</b>
Revenue – non price control	–	–	–	5.163	1.188	–	<b>6.351</b>
Operating expenditure – excluding PU recharge impact	(26.119)	–	(12.876)	(104.923)	(93.096)	(15.382)	<b>(252.396)</b>
PU opex recharge	(1.372)	–	0.065	0.675	0.477	0.155	–
<b>Operating expenditure – including PU recharge impact</b>	<b>(27.491)</b>	–	<b>(12.811)</b>	<b>(104.248)</b>	<b>(92.619)</b>	<b>(15.227)</b>	<b>(252.396)</b>
Depreciation – tangible fixed assets	(1.276)	–	(3.881)	(47.347)	(59.154)	(4.585)	<b>(116.243)</b>
Amortisation – intangible fixed assets	–	–	–	–	–	–	–
<b>Other operating income</b>	–	–	<b>0.006</b>	<b>0.403</b>	<b>0.648</b>	–	<b>1.057</b>
<b>Operating profit</b>	<b>1.880</b>	<b>(0.027)</b>	<b>4.386</b>	<b>84.332</b>	<b>98.264</b>	<b>7.447</b>	<b>196.282</b>
<b>Surface water drainage rebates</b>							<b>6.858</b>
Surface water drainage rebates							<b>6.858</b>

### Revenue – price control

This includes all wholesale water and wastewater charges, trade effluent income and household retail charges.

### Revenue – non price control

This has been based on the RAG 4.10 revenue appendix and includes mains and sewer diversions, standpipe hire and other rechargeable works.

Retail Non-household revenue reflects income from business customers on the Isles of Scilly.

### Other operating income

Profit on the sale of fixed assets (other operating income) has been allocated based on the underlying asset category which generated the sale, with management and general assets being split pro-rata.

### Recharges

Recharges to other business segments reflect charges for the use of assets, and are equal to the depreciation charged in respect of management and general assets principally used by the wholesale business units where part of the cost is recharged to the retail business unit. This excludes charges to non-appointed activities reflected in operating costs in table 1A.

### Surface water rebates

Surface water rebates reflects 83,848 customers for whom there is no connection to the South West Water wastewater network for surface water (i.e. rainwater which falls on an impermeable area of a property such as its roof, drive, hardstanding area or car park).

## Price review and other segmental reporting continued

**TABLE 2B – Totex analysis – wholesale**

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	Total £m
<b>Base operating expenditure</b>					
Power	3.262	20.204	23.010	1.583	<b>48.059</b>
Income treated as negative expenditure	(0.497)	(0.108)	–	(0.246)	<b>(0.851)</b>
Service charges/discharge consents	4.799	0.328	4.644	–	<b>9.771</b>
Bulk supply/Bulk discharge	–	–	–	–	<b>–</b>
Renewals expensed in year (Infrastructure)	–	7.929	7.731	–	<b>15.660</b>
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	<b>–</b>
Other operating expenditure	3.041	47.965	51.109	12.489	<b>114.604</b>
Local authority and Cumulo rates	2.206	20.837	5.145	1.401	<b>29.589</b>
<b>Total base operating expenditure</b>	<b>12.811</b>	<b>97.155</b>	<b>91.639</b>	<b>15.227</b>	<b>216.832</b>
<b>Other operating expenditure</b>					
Enhancement operating expenditure	–	–	–	–	<b>–</b>
Developer services operating expenditure	–	2.296	0.229	–	<b>2.525</b>
<b>Total operating expenditure excluding third party services</b>	<b>12.811</b>	<b>99.451</b>	<b>91.868</b>	<b>15.227</b>	<b>219.357</b>
Third party services	–	4.797	0.751	–	<b>5.548</b>
<b>Total operating expenditure</b>	<b>12.811</b>	<b>104.248</b>	<b>92.619</b>	<b>15.227</b>	<b>224.905</b>
<b>Grants and contributions</b>					
Grants and contributions – operating expenditure	–	10.248	8.371	–	<b>18.619</b>
<b>Capital expenditure</b>					
Base capital expenditure	6.308	60.936	66.515	8.167	<b>141.926</b>
Enhancement capital expenditure	5.751	12.866	20.071	–	<b>38.688</b>
Developer services capital expenditure	–	11.226	8.281	–	<b>19.507</b>
<b>Total gross capital expenditure (excluding third party)</b>	<b>12.059</b>	<b>85.028</b>	<b>94.867</b>	<b>8.167</b>	<b>200.121</b>
Third party services	–	–	–	–	<b>–</b>
<b>Total gross capital expenditure</b>	<b>12.059</b>	<b>85.028</b>	<b>94.867</b>	<b>8.167</b>	<b>200.121</b>
<b>Grants and contributions</b>					
Grants and contributions – capital expenditure	–	0.588	1.746	–	<b>2.334</b>
<b>Net Totex</b>	<b>24.870</b>	<b>178.440</b>	<b>177.369</b>	<b>23.394</b>	<b>404.073</b>
<b>Cash</b>					
Pension deficit recovery payments	–	–	–	–	<b>–</b>
Other cash items	–	–	–	–	<b>–</b>
<b>Totex including cash items</b>	<b>24.870</b>	<b>178.440</b>	<b>177.369</b>	<b>23.394</b>	<b>404.073</b>

**Operating expenditure**

South West Water does not have any bulk supply or discharge costs.

Renewals expensed in the year (infrastructure) represents expenditure on significant repair and maintenance projects which was initially reported through the capital project reporting system. This expenditure is treated as an expense for the purposes of IFRS reporting and is reported as other operating expenditure.

Third party services largely reflect costs associated with mains diversions.

**Capital expenditure**

The increase in expenditure of £33.030m (2021/22: £200.121m, 2020/21: £167.091m) is driven by increased base expenditure and developer services activity. This reflects the expected profile in the regulatory period with the commencement of a new cutting edge water treatment works in Bournemouth, acceleration of investments to improve leakage, environmental improvements and targeted investment to support a reduction in wastewater pollution incidents.

Grants and contributions allocations are based on the relevant connection charges, infrastructure charges, and contributions in respect of requisitioned mains and are consistent with those reported in table 2E. Infrastructure network reinforcement expenditure is analysed in more detail in table 2J.

TABLE 2C – Operating cost analysis – retail

	Household – total £m	Non-household – total £m	Total £m
<b>Operating expenditure</b>			
Customer services	10,540	–	<b>10,540</b>
Debt management	1,961	–	<b>1,961</b>
Doubtful debts	7,900	–	<b>7,900</b>
Meter reading	0,600	–	<b>0,600</b>
Services to developers	–	–	–
Other operating expenditure	5,116	–	<b>5,116</b>
Local authority and Cumulo rates	–	–	–
<b>Total operating expenditure excluding third party services</b>	<b>26,117</b>	<b>–</b>	<b>26,117</b>
<b>Depreciation</b>			
Depreciation on tangible fixed assets existing at 31 March 2015	–	–	–
Depreciation on tangible fixed assets acquired after 1 April 2015	1,276	–	<b>1,276</b>
Amortisation on intangible fixed assets existing at 31 March 2015	–	–	–
Amortisation on intangible fixed assets acquired after 1 April 2015	–	–	–
<b>Recharges</b>			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	1,372	–	<b>1,372</b>
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	–	–	–
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	–	–	–
Income from wholesale assets acquired after 1 April 2015 principally used by retail	–	–	–
<b>Net recharges costs</b>	<b>1,372</b>	<b>–</b>	<b>1,372</b>
<b>Total retail costs excluding third party and pension deficit repair costs</b>	<b>28,765</b>	<b>–</b>	<b>28,765</b>
Third party services operating expenditure	0,002	–	<b>0,002</b>
Pension deficit repair costs	–	–	–
<b>Total retail costs including third party and pension deficit repair costs</b>	<b>28,767</b>	<b>–</b>	<b>28,767</b>
<b>Debt written off</b>			
Debt written off	11,152	–	<b>11,152</b>
<b>Capital expenditure</b>			
Capital expenditure	1,699	–	<b>1,699</b>
<b>Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale</b>			
Demand-side water efficiency – gross expenditure	–	–	–
Demand-side water efficiency – expenditure funded by wholesale	–	–	–
<b>Demand-side water efficiency – net retail expenditure</b>	<b>–</b>	<b>–</b>	<b>–</b>
Customer-side leak repairs – gross expenditure	–	–	–
Customer-side leak repairs – expenditure funded by wholesale	–	–	–
<b>Customer-side leak repairs – net retail expenditure</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Comparison of actual and allowed expenditure</b>			
Cumulative actual retail expenditure to reporting year end			<b>54,818</b>
Cumulative allowed expenditure to reporting year end			<b>56,889</b>
Total allowed expenditure 2020-25			<b>141,260</b>

## Price review and other segmental reporting continued

### TABLE 2C – Operating cost analysis – retail continued

#### Operating costs

South West Water's retail activities are largely undertaken by a wholly owned subsidiary South West Water Customer Services Limited.

Cost allocations are based on the policy outlined on page 142 with a detailed methodology available from the website [www.southwestwater.co.uk](http://www.southwestwater.co.uk).

Further commentary on the performance of the retail business is included on page 157.

#### Depreciation

Depreciation reflects the direct depreciation charged for assets used wholly or principally within the retail price controls. This includes:

- Customer billing and account software
- Meter reading mobile software
- Debt initiatives.

#### Debt written off

Debt written off is allocated based on the specific customers, excluding the costs associated with court and debt recovery activity. South West Water's policy for debt write-off is included within the regulatory disclosures on page 143 (expected credit loss note).

#### Capital expenditure

Capital expenditure recognised directly in the retail business includes:

- Customer service improvement initiatives
- Information technology support and costs
- Directly attributable transport costs.

#### Non-household market

South West Water exited the non-household retail market on 1 April 2017. Following this date there are no associated retail costs in the non-household price control.

TABLE 2D – Historic cost analysis of tangible fixed assets

	Retail Household £m	Retail Non-household £m	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	Total £m
<b>Cost</b>							
At 1 April 2021	26.627	–	143.293	2,075.523	2,615.494	153.319	<b>5,014.256</b>
Disposals	–	–	(0.044)	(1.197)	(0.834)	(0.043)	<b>(2.118)</b>
Additions	1.699	–	12.057	84.600	93.749	8.167	<b>200.272</b>
Adjustments	–	–	–	–	(1.693)	–	<b>(1.693)</b>
Assets adopted at nil cost	–	–	–	2.968	8.046	–	<b>11.014</b>
<b>At 31 March 2022</b>	<b>28.326</b>	<b>–</b>	<b>155.306</b>	<b>2,161.894</b>	<b>2,714.762</b>	<b>161.443</b>	<b>5,221.731</b>
<b>Depreciation</b>							
At 1 April 2021	(24.622)	–	(47.090)	(670.424)	(1,060.670)	(94.756)	<b>(1,897.562)</b>
Disposals	–	–	0.037	1.123	0.791	0.032	<b>1.983</b>
Adjustments	–	–	(0.108)	(1.497)	(1.851)	(0.182)	<b>(3.638)</b>
Charge for the year	(1.276)	–	(3.881)	(47.347)	(59.154)	(4.585)	<b>(116.243)</b>
<b>At 31 March 2022</b>	<b>(25.898)</b>	<b>–</b>	<b>(51.042)</b>	<b>(718.145)</b>	<b>(1,120.884)</b>	<b>(99.491)</b>	<b>(2,015.460)</b>
<b>Net book amount at 31 March 2022</b>	<b>2.428</b>	<b>–</b>	<b>104.264</b>	<b>1,443.749</b>	<b>1,593.878</b>	<b>61.952</b>	<b>3,206.271</b>
Net book amount at 1 April 2021	2.005	–	96.203	1,405.099	1,554.824	58.563	<b>3,116.694</b>
<b>Depreciation charge for year</b>							
Principal services	(1.276)	–	(3.881)	(47.347)	(59.154)	(4.585)	<b>(116.243)</b>
Third party services	–	–	–	–	–	–	<b>–</b>
<b>Total</b>	<b>(1.276)</b>	<b>–</b>	<b>(3.881)</b>	<b>(47.347)</b>	<b>(59.154)</b>	<b>(4.585)</b>	<b>(116.243)</b>

Fixed assets have been allocated based upon their principal use. For assets which are used across the business units (i.e. management and general), they have been assumed to have principal use within wholesale and then allocated between water and wastewater.

The net book value includes 159.040m in respect of assets in the course of construction.

Inline with RAG1.09 the total depreciation charge for the company of £116.243m, excludes depreciation on capitalised interest £0.461m, Source depreciation £0.016m, capitalised depreciation £1.584m, deferred income of £2.038m, when compared to the company depreciation charge as reported in the Statutory Account of £120.704m.

Depreciation of £0.361m for assets used by the non-appointed business has been charged through operating costs.

Additions in the year include assets acquired as a result of new connections (£6.1m), in accordance with IFRIC 18 these assets are recognised at fair value which is their cost excluding administration costs.

The total fair value of assets adopted at nil cost in the year was £11.0m: £3.0m in water and £8.0m in wastewater. In total, cumulative adopted assets have a value of £151.7m before deducting depreciation.

IFRS16 ROU (right of use assets) were adopted as at 1 April 2019 to offset the lease liabilities which were added to the balance sheet. Assets adopted in 2019/20 and 2020/21 are included in the opening balance and assets adopted in 2021/22 in the Addition's line. The total value of assets adopted in 2021/22 was £0.6m, allocated evenly between Water and Wastewater.

## Price review and other segmental reporting continued

**TABLE 2E – Analysis of ‘grants and contributions’ – water resources, water network+ and wastewater network+**

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	<b>Total £m</b>
<b>Grants and contributions – water resources</b>				
Diversions – s185	–	–	–	–
Other contributions (price control)	–	–	–	–
Price control grants and contributions	–	–	–	–
Diversions – NRSWA	–	–	–	–
Diversions – other non-price control	–	–	–	–
Other contributions (non-price control)	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Value of adopted assets	–	–	–	–
<b>Grants and contributions – water network+</b>				
Connection charges	4.492	–	–	<b>4.492</b>
Infrastructure charge receipts	0.632	–	–	<b>0.632</b>
Requisitioned mains	–	–	3.205	<b>3.205</b>
Diversions – s185	0.854	–	–	<b>0.854</b>
Other contributions (price control)	–	–	–	–
Price control grants and contributions before deduction of income offset	5.978	–	3.205	<b>9.183</b>
Income offset	–	–	3.023	<b>3.023</b>
Price control grants and contributions after deduction of income offset	5.978	–	0.182	<b>6.160</b>
Diversions – NRSWA	4.088	–	–	<b>4.088</b>
Diversions – other non-price control	–	–	–	–
Other contributions (non-price control)	0.182	–	0.406	<b>0.588</b>
<b>Total</b>	<b>10.248</b>	<b>–</b>	<b>0.588</b>	<b>10.836</b>
Value of adopted assets	–	2.968	–	<b>2.968</b>
<b>Grants and contributions – wastewater network+</b>				
Receipts for on-site work	–	–	1.609	<b>1.609</b>
Infrastructure charge receipts	5.529	–	–	<b>5.529</b>
Diversions – s185	1.342	–	–	<b>1.342</b>
Other contributions (price control)	0.008	–	0.581	<b>0.589</b>
Price control grants and contributions before deduction of income offset	6.879	–	2.190	<b>9.069</b>
Income offset	–	–	0.444	<b>0.444</b>
Price control grants and contributions after deduction of income offset	6.879	–	1.746	<b>8.625</b>
Diversions – NRSWA	0.747	–	–	<b>0.747</b>
Diversions – other non-price control	–	–	–	–
Other Contributions (non-price control)	-0.002	–	–	<b>(0.002)</b>
<b>Total</b>	<b>7.624</b>	<b>–</b>	<b>1.746</b>	<b>9.370</b>
Value of adopted assets	–	8.046	–	<b>8.046</b>

**TABLE 2E – Analysis of ‘grants and contributions’ – water resources, water network+ and wastewater network+ continued**

Contributions are principally received from developers in respect of both new connections, which are recognised in the income statement, and requisitioned mains/sewers which are netted from the capital expenditure for the related assets.

Contributions (non-price control) relate to other chargeable works, such as planning application costs, buildover applications and changes for remedial work.

Other wastewater contributions (price control) are charges for the inspection of sewer connections.

Fully netted off capex other contributions (non-price control) relate to sewer inspection and supervision fees (2.5% of construction costs of sewers for adoption) and includes a contribution from Defra towards the costs of a specific Upstream Thinking project.

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
<b>Movements in capitalised grants and contributions</b>				
Brought forward	–	–	–	–
Capitalised in year	–	–	–	–
Amortisation (in income statement)	–	–	–	–
<b>Carried forward</b>	–	–	–	–

Disposals of protected land, including those already subject to regulation through condition K of the licence, have been allocated based on principal site location in line with previously reported figures.

**TABLE 2F – Residential retail**

	Revenue £m	Number of customers 000s	Average residential revenues £
<b>Residential revenue</b>			
Wholesale charges	412.432		
Retail revenue	30.647		
<b>Total residential revenue</b>	443.079		
<b>Retail revenue</b>			
Revenue Recovered (“RR”)	30.647		
Revenue sacrifice	–		
Actual revenue (net)	30.647		
<b>Customer information</b>			
Actual customers (“AC”)		994.009	
Reforecast customers		995.172	
<b>Adjustment</b>			
Allowed revenue (“R”)	30.850		
Net adjustment	0.203		
<b>Other residential information</b>			
Average residential retail revenue per customer			<b>30.832</b>

**TABLE 2G – Non-household water – revenues by tariff type and TABLE 2H – Non-household wastewater – revenues by tariff type**

Tables 2G and 2H are applicable to Welsh companies only.

## Price review and other segmental reporting continued

**TABLE 2I – Revenue analysis**

	Household £m	Non-household £m	Total £m	Water resources £m	Water network+ £m	Total £m
<b>Wholesale charge – water</b>						
Unmeasured	40.174	1.345	<b>41.519</b>	3.292	38.227	<b>41.519</b>
Measured	145.790	59.109	<b>204.899</b>	17.290	187.609	<b>204.899</b>
Third party revenue	–	5.015	<b>5.015</b>	0.490	4.525	<b>5.015</b>
<b>Total wholesale water revenue</b>	<b>185.964</b>	<b>65.469</b>	<b>251.433</b>	<b>21.072</b>	<b>230.361</b>	<b>251.433</b>
	Household £m	Non-household £m	Total £m	Wastewater network+ £m	Bioresources £m	Total £m
<b>Wholesale charge – wastewater</b>						
Unmeasured – foul charges	33.424	1.418	<b>34.842</b>	33.057	1.785	<b>34.842</b>
Unmeasured – surface water charges	6.768	0.133	<b>6.901</b>	6.547	0.354	<b>6.901</b>
Unmeasured – highway drainage charges	4.947	0.217	<b>5.164</b>	4.899	0.265	<b>5.164</b>
Measured – foul charges	126.370	35.967	<b>162.337</b>	144.732	17.605	<b>162.337</b>
Measured – surface water charges	33.710	6.004	<b>39.714</b>	35.366	4.348	<b>39.714</b>
Measured – highway drainage charges	21.249	5.253	<b>26.502</b>	23.600	2.902	<b>26.502</b>
Third party revenue	–	–	<b>–</b>	–	–	<b>–</b>
<b>Total wholesale wastewater revenue</b>	<b>226.468</b>	<b>48.992</b>	<b>275.460</b>	<b>248.201</b>	<b>27.259</b>	<b>275.460</b>
<b>Wholesale total</b>	<b>412.432</b>	<b>114.461</b>	<b>526.893</b>	<b>269.273</b>	<b>257.620</b>	<b>526.893</b>
<b>Retail revenue</b>						
Unmeasured	6.281	(0.007)	<b>6.274</b>			
Measured	24.366	(0.020)	<b>24.346</b>			
Other third party revenue	–	–	<b>–</b>			
<b>Retail total</b>	<b>30.647</b>	<b>(0.027)</b>	<b>30.620</b>			
<b>Third party revenue – non-price control</b>						
Bulk supplies – water			<b>0.031</b>			
Bulk supplies – wastewater			<b>0.035</b>			
Other third party revenue			<b>–</b>			
<b>Principal services – non-price control</b>						
Other appointed revenue			<b>6.285</b>			
<b>Total appointed revenue</b>			<b>563.864</b>			

Third party revenue within the price control reflects income on development planning and third party non price control revenue, includes mains and sewer diversions, standpipe hire and other rechargeable works. Bulk supplies relate to treated water supplies to the neighbouring water company.



**TABLE 2J – Infrastructure network reinforcement costs**

	Network reinforcement capex £m	On site / site specific capex (memo only) £m
<b>Wholesale water network+ (treated water distribution)</b>		
Distribution and trunk mains	0.532	–
Pumping and storage facilities	–	–
Other	–	–
<b>Total</b>	<b>0.532</b>	<b>–</b>
<b>Wholesale wastewater network+ (sewage collection)</b>		
Foul and combined systems	3.649	–
Surface water only systems	0.960	–
Pumping and storage facilities	0.192	–
Other	–	–
<b>Total</b>	<b>4.801</b>	<b>–</b>

Inline with RAG4.10, table 2J includes expenditure on the provision or upgrading of network assets to provide for new customers with no net deterioration of existing levels of service. In 2021/22 the majority of expenditure was incurred on infrastructure assets.

**TABLE 2K – Infrastructure charges reconciliation**  
For the 12 months ended 31 March 2022

	Water £m	Wastewater £m	Total £m
<b>Impact of infrastructure charge discounts</b>			
Infrastructure charges	0.632	5.529	<b>6.161</b>
Discounts applied to infrastructure charges	–	–	–
<b>Gross infrastructure charges</b>	<b>0.632</b>	<b>5.529</b>	<b>6.161</b>
<b>Comparison of revenue and costs</b>			
Variance brought forward	5.793	4.804	<b>10.597</b>
Revenue	0.632	5.529	<b>6.161</b>
Costs	(0.532)	(4.801)	<b>(5.333)</b>
<b>Variance carried forward</b>	<b>5.893</b>	<b>5.532</b>	<b>11.425</b>

Infrastructure network reinforcement expenditure is reported in the preceding table, table 2J, and covers capacity enhancements to treated water distribution and sewage collection assets, including some non-infrastructure assets such as service reservoirs and pumping stations.

The over recovery as at 31 March 2022 is attributable to high levels of private housebuilding combined with the timing of investment plans which will see increases in expenditure over the next few years.

**TABLE 2L – Analysis of land sales**  
For the 12 months ended 31 March 2022

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
Proceeds from disposals of protected land	0.029	0.077	0.111	<b>0.217</b>

During the year the net benefit of land sale was £0.217.

## Price review and other segmental reporting continued

**TABLE 2M – Revenue reconciliation – wholesale**  
For the 12 months ended 31 March 2022

	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	<b>Total £m</b>
<b>Revenue recognised</b>					
Wholesale revenue governed by price control	21.072	230.361	248.201	27.259	<b>526.893</b>
Grants and contributions (price control)	–	6.160	8.625	–	<b>14.785</b>
<b>Total revenue governed by wholesale price control</b>	<b>21.072</b>	<b>236.521</b>	<b>256.826</b>	<b>27.259</b>	<b>541.678</b>
<b>Calculation of the revenue cap</b>					
Allowed wholesale revenue before adjustments (or modified by CMA)	19.920	216.664	230.703	25.065	<b>492.352</b>
Allowed grants and contributions before adjustments (or modified by CMA)	–	8.895	8.895	–	<b>17.790</b>
Revenue adjustment	–	–	–	–	<b>–</b>
Other adjustments	–	–	–	–	<b>–</b>
<b>Revenue cap</b>	<b>19.920</b>	<b>225.559</b>	<b>239.598</b>	<b>25.065</b>	<b>510.142</b>
<b>Calculation of the revenue imbalance</b>					
Revenue cap	19.920	225.559	239.598	25.065	<b>510.142</b>
Revenue recovered	21.072	236.521	256.826	27.259	<b>541.678</b>
Revenue imbalance	(1.152)	(10.962)	(17.228)	(2.194)	<b>(31.536)</b>

TABLE 2N – Residential retail – social tariffs

	Revenue £m	Number of customers 000s	Average amount per customer £
<b>Number of residential customers on social tariffs</b>			
Residential water only social tariffs		1.025	
Residential wastewater only social tariffs		0.038	
Residential dual service social tariffs		14.045	
<b>Number of residential customers not on social tariffs</b>			
Residential water only no social tariffs		267.554	
Residential wastewater only no social tariffs		4.960	
Residential dual service no social tariffs		706.393	
<b>Social tariff discount</b>			
Average discount per water only social tariffs customer			38.049
Average discount per wastewater only social tariffs customer			131.579
Average discount per dual service social tariffs customer			144.749
<b>Social tariff cross-subsidy – residential customers</b>			
Total customer funded cross-subsidies for water only social tariffs customers	0.039		
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.005		
Total customer funded cross-subsidies for dual service social tariffs customers	2.033		
Average customer funded cross-subsidy per water only social tariffs customer			0.145
Average customer funded cross-subsidy per wastewater only social tariffs customer			1.000
Average customer funded cross-subsidy per dual service social tariffs customer			2.822
<b>Social tariff cross-subsidy – company</b>			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	–		
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	–		
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	–		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			–
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			–
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			–
<b>Social tariff support – willingness to pay</b>			
Level of support for social tariff customers reflected in business plan			9.370
Maximum contribution to social tariffs supported by customer engagement			9.370



# Performance summary

**TABLE 3A – Outcome performance – Water common performance commitments**

	Unit	Performance level		Outperformance or underperformance payment £m	See page
		Actual	PCL met?		
<b>Financial</b>					
Water quality compliance (CRI)	nr	3.86	No	(0.688)	16
Water supply interruptions	hh:mm:ss	00:13:40	No	(3.473)	16
Leakage	%	6.0	Yes	–	18
Per capita consumption	%	2.7	Yes	–	19
Mains repairs	nr	111.4	Yes	0.214	17
Unplanned outage	%	0.96	Yes	–	17
<b>TOTAL</b>				<b>(3.947)</b>	
<b>Bespoke PCs – Water and Retail (Financial)</b>					
Taste, smell and colour contacts	nr	1.55	Yes	0.015	17
Water restrictions placed on customers	nr	0	Yes	–	18
Resilience in the round – water	nr	3,783	No	(4.665)	36
Operational contacts resolved first time – water	%	95.5	Yes	0.013	26
Number of pollution incidents cat 1-3 (water only)	nr	8	No	(0.496)	33
Biodiversity – Enhancement	Ha	95,453	Yes	–	32
Abstraction incentive mechanism	nr	N/A	Yes	–	40
Efficient delivery of the new Knapp Mill WTW	text	N/A	Yes	–	17
Efficient delivery of the new Alderney WTW	text	0	Yes	–	17
Resilient water and wastewater services on the Isles of Scilly	text	Maintained	Yes	–	36
<b>TOTAL</b>				<b>(5.133)</b>	

A summary of penalties and rewards reflected in the period and those recognised at the end of the period is shown below. Forecasts for the remaining years have not been included. However South West Water remains on track to deliver 2025 targets and is focused on delivering improvements for customers and the environment.

Commentary relating to performance in respect of each performance commitment can be found in the operational performance section of the Annual Performance Report (pages 14 to 40), in particular on the pages noted in the right hand column of the table above.

### Green Recovery

The Green Recovery Final Determination (FD) resulted in a change in the Biodiversity – Enhancement performance commitment, with an increase to the target from 83,209ha to 84,209ha for 2021/22. Overall, SWW delivered 95,453ha resulting in an additional outperformance reward of £0.225m, which is included separately in the table below.

### Summary of penalties and rewards to be reflected in the period and to be recognised at the end of the period

	In Period (-/+)	End of Period (-/+)	Total
<b>3A</b>	(9.081)	–	<b>(9.081)</b>
Per capita consumption	–	0.128	<b>0.128</b>
Unplanned Outage	–	–	<b>–</b>
Biodiversity – Enhancement	–	4.050	<b>4.050</b>
<b>3B</b>	(3.694)	–	<b>(3.694)</b>
Bathing Water	–	1.656	<b>1.656</b>
<b>3C</b>	(0.664)	–	<b>(0.664)</b>
<b>3D</b>	(0.020)	–	<b>(0.020)</b>
<b>TOTAL</b>	<b>(13.459)</b>	<b>5.834</b>	<b>(7.625)</b>

	Originally Reported		3rd Party Incident		Actual Performance	Total
	Actual Performance	£	Actual Performance	£		
Water Supply Interruptions	00:06:47	(0.300)	00:06:53	(3.173)	<b>00:13:40</b>	<b>(3.473)</b>
Resilience in the round – Water	478	0.234	3,305	(4.899)	<b>3,783</b>	<b>(4.665)</b>
<b>TOTAL</b>		<b>(0.066)</b>		<b>(8.072)</b>		<b>(8.138)</b>

	Originally Reported		Ofwat Intervention		Actual Performance	Total
	Actual Performance	£	Actual Performance	£		
Sewer Blockages	6,458	0.822	87	(0.087)	<b>6,545</b>	<b>0.735</b>
<b>Total Impact</b>				<b>(0.087)</b>		<b>0.735</b>

## Performance summary continued

### Green Recovery

	In Period (-/+)	End of Period (-/+)	Total
<b>Biodiversity – Enhancement (uplift)</b>	–	0.225	<b>0.225</b>

**TABLE 3B – Outcome performance – Wastewater common performance commitments**

	Unit	Performance level		Outperformance or underperformance payment £m	See page
		Actual	PCL met?		
<b>Common PCs – Wastewater (Financial)</b>					
Internal sewer flooding	number of internal sewer flooding incidents per 10,000 sewer connection	0.76	Yes	3.555	22
Pollution incidents	Pollution incidents per 10,000 km of sewer length	86.58	No	(7.227)	33
Sewer collapses	number of sewer collapses per 1,000 km of all sewers	6.75	Yes	0.381	23
Treatment works compliance	%	97.46	No	(0.562)	23
<b>TOTAL</b>				<b>(3.853)</b>	
<b>Bespoke PCs – Wastewater (Financial)</b>					
External sewer flooding incidents	nr	1,407	Yes	0.738	22
Sewer blockages	nr	6,545	Yes	0.735	23
Odour contacts from wastewater treatment works	nr	155	Yes	0.325	22
Descriptive compliance	%	99.1	No	–	23
Compliance with sludge standard	%	100	Yes	–	23
Resilience in the round – wastewater	nr	223	Yes	0.359	36
Operational contacts resolved first time – wastewater	%	95.2	Yes	0.002	26
EPA	nr	1	No	(2.000)	33
Bathing water quality	nr	0	Yes	–	40
<b>TOTAL</b>				<b>0.158</b>	

A summary of penalties and rewards reflected in the period and those recognised at the end of the period is shown on page 169. Forecasts for the remaining years have not been included, however South West Water remains on track to deliver 2025 targets and is focused on implementing improvements for customers and the environment.

Commentary relating to performance in respect of each performance commitment can be found in the operational performance section of the Annual Performance Report (pages 14 to 40), in particular on the pages noted in the right hand column of the table above.

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

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	nr	78.59
Annual customer satisfaction score for the customer experience survey	nr	78.37
Annual C-MeX score	nr	78.48
Annual net promoter score	nr	19.50
Total household complaints	nr	6,094
Total connected household properties	nr	1,006,350
Total household complaints per 10,000 connections	nr	60.555
Confirmation of communication channels offered	TRUE or FALSE	TRUE

See page 26 for further commentary in respect of our C-MeX performance and pages 24 to 29 for further details of our performance in respect of customer service in the round.

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

Item	Unit	Value
Qualitative component annual results	nr	71.81
Quantitative component annual results	nr	98.17
D-MeX score	nr	84.99
Developer services revenue (water)	£m	9.183
Developer services revenue (wastewater)	£m	9.816

See page 26 for further commentary in respect of our D-MeX performance

#### Calculating the D-MeX quantitative component

Water UK performance metric	Unit	Second reporting period (1 October to 31 March)	Quantitative score (annual)
W11 Pre-development enquiry - reports issued	%	97.24	
W3.1 s45 quotations	%	99.58	
W4.1 s45 service pipe connections	%	99.23	
W6.1 Mains design <500 plots - quotations	%	98.40	
W7.1 Mains design >500 plots - quotations	%	–	
W8.1 Mains construction	%	99.75	
W17.1 Mains diversions (without constraints) - quotations	%	93.55	
W17.2 Mains diversions (with constraints) - quotations	%	–	
W18.1 Mains diversions - construction/commissioning	%	100.00	
W20.1 Self-lay Point of Connection reports <500 plots etc - reports issued	%	–	
W21.1 Self-lay Point of Connection reports >500 plots etc - reports issued	%	–	
W23.1 Self-lay design and terms request <500 plots etc - quotations	%	–	
W24.1 Self-lay design and terms request >500 plots etc - quotations	%	–	
W26.1	%	–	
W27.1 Self-lay permanent water supply - provided	%	–	
W30.1 Self lay references and costing details - issued	%	–	
S1.1 Pre-development enquiry - reports issued	%	91.35	
S3.1 Sewer requisition design - offers issued	%	85.71	
S4.1 Sewer requisition - constructed and commissioned	%	100.00	
S7.1 Adoption legal agreement - draft agreements issued	%	–	
WN1.1 % of confirmations issued to the applicant within target period	%	100.00	
WN2.2 % Bulk supply offer letters issued to applicant within target period	%	100.00	
WN4.1 % of main laying schemes constructed/commissioned within target	%	–	
WN4.2 % of testing supplies provided within target period	%	–	
WN4.3 % of permanent supplies made available within the target period	%	–	
SN2.2 % Bulk discharge offer letters issued to the applicant within target	%	100.00	
SN4.1 % of main laying schemes constructed/commissioned within target	%	–	
SAM 3/1 Update draft agreement	%	98.58	
SAM 4/1 Inspections and construction period	%	100.00	
SLPM - S1/2 Review PoC proposal	%	100.00	
SLPM - S2/2a Provide Design	%	100.00	
SLPM - S2/2b - Water Company to provide design acceptance	%	–	
SLPM - S3 review/revise Water Adoption agreement	%	–	
SLPM - S4/1 Source of Water Delivery Date	%	–	
SLPM - S5/1a Review request and carry out Final Connection	%	100.00	
SLPM - S7/1 Validate notification and provide consent to progress with connection	%	–	
D-MeX quantitative score (for the reporting period)	%	98.17	
D-MeX quantitative score (annual)	nr		0.98

## Performance summary continued

**TABLE 3E – Outcome performance – Non financial performance commitments**

	Unit	Performance level		See page
		Actual	PCL met?	
<b>Common</b>				
Risk of severe restrictions in a drought	%	0.0	Yes	37
Priority services for customers in vulnerable circumstances – PSR reach	%	5.8	Yes	27
Priority services for customers in vulnerable circumstances – Attempted contacts	%	90.4	Yes	27
Priority services for customers in vulnerable circumstances – Actual contacts	%	55.5	Yes	27
Risk of sewer flooding in a storm	%	9.83	Yes	37
<b>Bespoke PCs</b>				
Total wastewater treatment works (WWTW) compliance	%	98.3	No	23
Customer satisfaction with value for money	%	73	Yes	26
British Standard for inclusive service provision	score	Achieved	Yes	27
Overall satisfaction of services received on the PSR	%	83	Yes	27
Biodiversity – Compliance	nr	0	Yes	32
Biodiversity – Prevent Deterioration	nr	70	Yes	32
Installation of AMR meters	nr	186,113	Yes	29
Number of customers on one of our support tariffs	nr	32,255	Yes	28
Voids for residential retail	%	0.83	Yes	29
Percentage of customers who find their water bill affordable	%	93.3	Yes	28



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

	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – Calculated (i.e. standardised)			
<b>Performance commitments set in standardised units – Water</b>								
Mains repairs – Reactive		Mains repairs per 1000 km	Mains length in km	18,490.00	1,320	71.39		
Mains repairs – Proactive		Mains repairs per 1000 km	Mains length in km	18,490.00	740	40.02		
Mains repairs		Mains repairs per 1000 km	Mains length in km	18,490.00	2,060	111.41		
Per capita consumption (PCC)	lpd	Population		2,485.75	357	143.62		
	Unit	Performance level – actual (2018-19)	Performance level – actual (2019-20)	Performance level – actual (2020-21)	Baseline	Performance level – actual (2021-22)	Performance level 3 year average	Calculated performance level to compare against PCLs
<b>Performance commitments measured against a calculated baseline</b>								
Leakage	MI/d	120.8	123.5	136.0	124.2	90.6	116.7	6.0
Per capita consumption (PCC)	lpd	152.1	144.0	138.6	146.0	143.6	142.1	2.7
	Unit	Standardising data indicator	Standardising data numerical value	Performance level – actual number of minutes lost	Number of properties interrupted	Calculated performance level		
<b>Water supply interruptions</b>								
Water supply interruptions		Average number of minutes lost per property per year	Number of properties	1,083.42	10,282.458	21,877	00:13:40	
				Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %		
<b>Unplanned or planned outage</b>								
Unplanned outage				923.64	8.88	0.96		
	Total Residential properties	PSR household	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts	Attempted contacts %	Number of actual contacts	Actual contacts %
<b>Priority services for customers in vulnerable circumstances</b>								
Priority services for customers in vulnerable circumstances	998.01	58,073	5.8%	25,426	22,976	90.4%	14,108	55.5%

## Performance summary continued

**TABLE 3G – Underlying calculations for common performance commitments – wastewater**

		Unit	Standardising data indicator	Standardising data numerical value	Performance level – actual current reporting year	Calculated performance level
<b>Performance commitments set in standardised units</b>						
Internal sewer flooding – customer proactively reported	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	791.61	57	0.72
Internal sewer flooding – company reactively identified (i.e. neighbouring properties)	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	791.61	3	0.04
Internal sewer flooding	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	791.61	60	0.76
Pollution incidents	As per outcome performance commitment appendix	Pollution incidents per 10,000 km of sewer length	Sewer length in km	17,440.00 <sup>1</sup>	151	86.58
Sewer collapses	As per outcome performance commitment appendix	number of sewer collapses per 1,000 km of all sewers	Sewer length in km	19,121.00	129	6.75

<sup>1</sup> The sewer length used in the calculation of pollution incidents per 10,000km of sewer length reflects an historic assessment as required in the definition of the performance commitment.

TABLE 3H – Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)
<b>Initial calculation of in period revenue adjustment by price control</b>	
Water resources	(0.30)
Water network+	(9.08)
Wastewater network+	(3.39)
Bioresources (sludge)	-
Residential retail	-
Business retail	-
<b>Initial calculation of end of period revenue adjustment by price control</b>	
Water resources	-
Water network+	-
Wastewater network+	-
Bioresources (sludge)	-
Residential retail	-
Business retail	-
<b>Initial calculation of end of period RCV adjustment by price control</b>	
Water resources	1.82
Water network+	2.36
Wastewater network+	1.66
Bioresources (sludge)	-
Residential retail	-
Business retail	-

TABLE 3I – Supplementary outcomes information

	Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %
<b>Unplanned or planned outage</b>			
Planned outage	923.64	35.51	3.84
	Deployable output	Outage allowance	Dry year demand
	Target headroom	Total population supplied	Customers at risk
<b>Risk of severe restrictions in drought</b>			
Risk of severe restrictions in drought <sup>1</sup>	764.88	9.69	617.26
	61.78	2,265.14	0.00

1) In line with the ODI guidance, values used for output and demand in the calculations for risk of severe restrictions in a drought align to Water Resources Management Plan values. Actual demand has increased, and is reflected in table 6B Consumption. This change is driven by the Covid-19 pandemic which has led to a significant increase in the population in the region, resulting in increased household and non-household demand.

	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Vulnerability risk grade		
								Low	Medium	High
Percentage of total population served										
<b>Risk of sewer flooding in a storm</b>										
Risk of sewer flooding in a storm	1,690,119	445,754	26.37%	90,309	5.34%	1,154,056	68.28%	90.17%	3.35%	6.48%

**Sewer collapses**

Sewer collapses

Number of spot repairs or relining undertaken on sewer and not included in reported sewer collapses.

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## Additional regulatory information

### Table 4C Commentary

#### Wholesale

South West Water continues to target and deliver efficiency against our Final Determination in all four price controls whilst accelerating investment from later in the regulatory period.

Accelerated investments aim to deliver benefits to customers, for example earlier delivery of bathing water schemes and resilience upgrades to secure water resources to enhance capacity for peak demand.

Efficient delivery has been achieved through benefitting from economies of scale – for example delivering multiple bathing water schemes at the same time and through delivery of benefits achieved through our key partners.

Further additional expenditure has been incurred to support improvement in the ODI areas of focus.

Table 4C summary	Water £m	Wastewater £m	Total Wholesale £m
Final determination allowance excluding business rates, abstraction licences and grants and contributions	159.3	195.1	354.4
FD allowance business rates and abstraction licences	28.0	6.5	34.5
	<b>187.3</b>	<b>201.6</b>	<b>389.0</b>
Actual excluding business rates, abstraction licences and grants and contributions	169.7	193.7	363.4
Actual business rates and abstraction licence	28.2	6.5	34.7
<b>Total</b>	<b>197.90</b>	<b>200.2</b>	<b>398.1</b>

Efficiencies have been delivered through continued use of innovative solutions to drive operational improvements, including:

- Water mains repairs - network calming measures and proactive replacements delivering results
- Leakage reduction plan delivering results - innovative solutions including satellite scanners and fixed acoustic loggers
- Internal sewer flooding - Peak network demand management supported by HYBACS technology increasing capacity
- Sewer collapses - automated sewer condition surveys – artificial intelligence being used to detect and assess faults accurately and efficiently
- External sewer flooding - meniscus AI solution using asset data and weather forecast to predict potential incidents enabling proactive intervention.

### Table 4H Commentary

South West Water monitors several metrics (including those within the Regulatory Reporting table 4H) as outlined below:

#### Regulatory Capital Value (RCV)

RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review.

At 31 March 2022 RCV equalled £3,623.2m with CPIH at the year end of 6.2%. Year-end RCV at 31 March 2021 was £3,387.5m.

#### Regulated gearing

The regulated gearing of 63.7% including IFRS 16 has been calculated as net debt as a proportion of RCV with Ofwat's notional regulated gearing for the regulatory period 2020-25 set at 60.0%.

#### Post tax return on regulated equity

The post-tax return on regulated equity of 10.29% has been calculated as profit after current tax for the appointed business as a percentage of year average regulated equity of £1,214.3m.

#### Dividend yield

The dividend yield of 6.69% is calculated as the total appointed dividend for the year of £88.0m on the year end regulated equity of £1,316.189m.

#### Dividend cover

The dividend is covered 0.28 times and has been calculated as the profits of the appointed business for the year before dividends divided by total appointed dividend for the year. The ratio is lower than the prior year due to a higher deferred tax charge due to the change in corporation tax rate in 2021/22.

#### Interest cover

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Reported interest cover of 5.02 times for 2021/22 is lower than prior year due to the announced future change in corporation tax rate significantly increasing deferred tax. Covenants on an underlying basis are maintained with sufficient headroom.

#### Adjusted interest cover

Adjusted interest cover of 2.21 times for 2021/22 is lower than prior year due to higher cash interest costs arising from higher interest payments on index linked debt.

This adjusted interest cover deducts regulatory depreciation (which is defined in the Final Determination) from the funds from operations calculated as covering interest.

#### Return on regulated equity

South West Water's strong operational and financial performance has contributed to a RORE of 9.2%.

#### Financing

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate at 3.4% (2020/21 2.5%), lower than Ofwat's nominal cost of debt of 4.2%. While recent increases in inflation are driving an increase in finance costs of index-linked debt, we continue to outperform the cost of debt allowances through our flexible financing strategy and the Company's diverse debt portfolio, with a relatively lower level of index-linked debt compared to the industry average.

## Additional regulatory information – service level

### Developer Services

The totex of c.£22m on the water and wastewater controls as shown on table 4N and 4O is higher than the £13.7m expenditure in 2020/21 due to the recovery in connection volumes and mains diversion activity following a slowdown due in the prior year due to the pandemic.

New connections of 14,968 was c.12% higher than the previous year. Infrastructure network reinforcement expenditure of £5.3m is significantly higher than the prior period aligned with increased developer activity.

### Green Recovery

As a result of the additional expenditure allowed by Ofwat following the submission of our Green Recovery plans, three additional tables are required showing expenditure and the impact on RCV arising from Green Recovery. In addition tables 10A and 10D show the associated operational metrics. South West Water has also published an additional document with further commentary on the five individual projects which can be found on our website.

All expenditure related to Green Recovery reflects a timing of spend within the regulatory period and therefore no change in the expected shadow RCV to be added for PR24 is shown on table 4U.

**TABLE 4A – Water bulk supply information**

	Volume Ml	Operating costs £m	Revenue £m
<b>Bulk supply exports</b>			
Stubhampton / Crichel	0.474	–	0.001
Whiteparish / Standlynch	–	–	–
Reciprocal Resilience agreement - SBWBWE2	417.113	–	–
Golf Links Reservoir, Lyme Regis, Dorset, DT7 - SWTBWE2	5.728	–	0.011
Wellington Monument Road, Hemyock, Devon, EX15 - SWTBWE1	10.078	–	0.020
<b>Total bulk supply exports</b>	<b>433.393</b>	<b>–</b>	<b>0.032</b>
<b>Bulk supply imports</b>			
Reciprocal Resilience agreement - SBWBWE2	413.960	–	
Smeatharpe	–		
<b>Total bulk supply imports</b>	<b>413.960</b>	<b>–</b>	

The reciprocal resilience agreement (Canford Bottom / Corfe Hills) is a long standing agreement with Wessex Water in our Bournemouth Water area.

This agreement is based upon equal imports and exports over the longer term (i.e. net zero import/export).

Operating costs in respect of the bulk supply exports and imports are limited in the year to limited trivial maintenance costs in respect of metering equipment.

### 4B – Analysis of Debt

In accordance with RAG 3.13, point 2.7, table 4B is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

## Additional regulatory information – service level continued

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

	12 months ended 31 March 2022			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
<b>Totex (net of business rates, abstraction licence fees and grants and contributions)</b>				
Final determination allowed Totex (net of business rates, abstraction licence fees and grants and contributions)	10.534	148.776	175.752	19.359
Actual Totex (net of business rates, abstraction licence fees and grants and contributions)	16.939	152.742	171.684	21.993
Transition expenditure	–	–	–	–
Disallowable costs	0.125	0.850	0.837	0.153
Total actual Totex (net of business rates, abstraction licence fees and grants and contributions)	16.814	151.892	170.847	21.840
Variance	6.280	3.116	(4.905)	2.481
Variance due to timing of expenditure	0.074	7.280	13.196	1.850
Variance due to efficiency	6.206	(4.164)	(18.101)	0.631
Customer cost sharing rate (outperformance and underperformance)	50.00%	50.00%	50.00%	–
Customer share of Totex over/underspend	3.103	(2.082)	(9.051)	–
Company share of Totex over/underspend	3.103	(2.082)	(9.051)	0.631
<b>Totex – business rates and abstraction licence fees</b>				
Final determination allowed Totex – business rates and abstraction licence fees	6.811	21.196	5.756	0.778
Actual Totex – business rates and abstraction licence fees	7.005	21.165	5.145	1.401
Variance – business rates and abstraction licence fees	0.194	(0.031)	(0.611)	0.623
Customer cost sharing rate – business rates and abstraction licence fees	75.00%	75.00%	75.00%	–
Customer share of Totex over/underspend – business rates and abstraction licence fees	0.146	(0.023)	(0.458)	–
Company share of Totex over/underspend – business rates and abstraction licence fees	0.049	(0.008)	(0.153)	0.623
<b>Totex not subject to cost sharing</b>				
Final determination allowed Totex – not subject to cost sharing	0.118	4.292	1.649	–
Actual Totex – not subject to cost sharing	–	3.144	0.450	–
Variance – 100% company allocation	(0.118)	(1.148)	(1.199)	–
Total company share of Totex over/under spend	3.249	(2.105)	(9.509)	–
<b>RCV</b>				
Total Customer share of Totex over/under spend	3.249	(2.105)	(9.509)	–
PAYG rate	72.61%	60.82%	50.05%	75.89%
RCV element of Totex over/underspend	0.890	(0.825)	(4.750)	–
Adjustment for ODI outperformance payment or underperformance payment				
Green recovery				
RCV determined at FD at 31 March				
Projected 'shadow' RCV				

The RCV balance used, is inclusive of the IFRS 16 lease adjustment, this is in line with the letter published 18 May 2020 by David Black.

Price control period to date				
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
	20.085	279.728	349.718	37.763
	29.179	290.840	318.066	39.118
	-	-	-	-
	0.154	1.054	1.648	0.297
	29.025	289.786	316.418	38.821
	8.940	10.058	(33.300)	1.058
	3.374	21.180	38.996	1.850
	5.566	(11.122)	(72.296)	(0.792)
	50.00%	50.00%	50.00%	-
	2.783	(5.561)	(36.148)	-
	2.783	(5.561)	(36.148)	(0.792)
	13.381	41.641	11.309	1.528
	14.017	42.278	10.032	2.108
	0.636	0.637	(1.277)	0.580
	75.00%	75.00%	75.00%	-
	0.477	0.478	(0.958)	-
	0.159	0.159	(0.319)	0.580
	0.194	5.135	3.227	-
	-	4.224	0.364	-
	(0.194)	(0.911)	(2.863)	-
	3.260	(5.083)	(37.106)	-
	3.260	(5.083)	(37.106)	-
	75.48%	62.90%	49.44%	76.02%
	0.799	(1.886)	(18.761)	-
	3.956	4.831	3.013	-
	0.926	1.389	0.090	-
	151.335	1,529.852	1,857.593	84.385
	157.016	1,534.186	1,841.935	84.385

## Additional regulatory information – service level continued

**TABLE 4D – Totex analysis – water resources and water network+**

	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Network+ Treated water distribution £m	Total £m
<b>Operating expenditure</b>						
Base operating expenditure	12.811	3.607	–	43.418	50.130	<b>109.966</b>
Enhancement operating expenditure	–	–	–	–	–	–
Developer services operating expenditure	–	–	–	–	2.296	<b>2.296</b>
Total operating expenditure excluding third party services	12.811	3.607	–	43.418	52.426	<b>112.262</b>
Third party services	–	–	–	–	4.797	<b>4.797</b>
<b>Total operating expenditure</b>	<b>12.811</b>	<b>3.607</b>	<b>–</b>	<b>43.418</b>	<b>57.223</b>	<b>117.059</b>
<b>Grants and contributions</b>						
Grants and contributions – operating expenditure	–	–	–	–	10.248	<b>10.248</b>
<b>Capital expenditure</b>						
Base capital expenditure	6.308	0.158	–	15.591	45.187	<b>67.244</b>
Enhancement capital expenditure	5.751	0.127	–	7.661	5.078	<b>18.617</b>
Developer services capital expenditure	–	–	–	–	11.226	<b>11.226</b>
Total gross capital expenditure (excluding third party)	12.059	0.285	–	23.252	61.491	<b>97.087</b>
Third party services	–	–	–	–	–	–
<b>Total gross capital expenditure</b>	<b>12.059</b>	<b>0.285</b>	<b>–</b>	<b>23.252</b>	<b>61.491</b>	<b>97.087</b>
<b>Grants and contributions</b>						
Grants and contributions – capital expenditure	–	–	–	–	0.588	<b>0.588</b>
<b>Net Totex</b>	<b>24.870</b>	<b>3.892</b>	<b>–</b>	<b>66.670</b>	<b>107.878</b>	<b>203.310</b>
<b>Cash expenditure</b>						
Pension deficit recovery payments	–	–	–	–	–	–
Other cash items	–	–	–	–	–	–
<b>Totex including cash items</b>	<b>24.870</b>	<b>3.892</b>	<b>–</b>	<b>66.670</b>	<b>107.878</b>	<b>203.310</b>

	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Network+ Treated water distribution £m	Total £m
<b>Atypical expenditure</b>						
Apportionment of restructure costs	0.114	0.032	–	0.386	0.510	<b>1.042</b>
<b>Total atypical expenditure</b>	<b>0.114</b>	<b>0.032</b>	<b>–</b>	<b>0.386</b>	<b>0.510</b>	<b>1.042</b>

Third Party Services operating expenditure includes expenditure related to NSWRA diversions in order that they are reflected as part of costs excluded from cost sharing (or separate sharing rates) in the calculation of Actual Totex.

### Operations:

Total operating expenditure for the water network+ and water resources increased by £14.509m in 2021/22 (£117.059m in 21/22, £102.550m in 2020/21). The increase in expenditure is driven by commodity cost increases (power and chemicals) and an increase in developer services activity.

### Capital

Total gross capital expenditure has increased by £12.507m (£97.087m in 21/22, £84.580m in 2020/21). The increase in expenditure is driven by an increased focus in leakage and the water distribution network.

The reduction in raw water transport from 2020/21 is due to the completion of the Lopwell pumping station programme, a key site feeding Mayflower WTW. This is offset by increased investment in water resources including Upstream Thinking (Inc green recovery) and investments in water resource assets to ensure their resilience and ability to meet peak summer demand.



TABLE 4E – Totex analysis – wastewater network+ and bioresources

	Network+ Sewage collection			Network+ Sewage treatment			Bioresources		Total £m
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	
<b>Operating expenditure</b>									
Base operating expenditure	24.893	6.682	1.277	56.558	2.229	3.121	8.758	3.348	<b>106.866</b>
Enhancement operating expenditure	-	-	-	-	-	-	-	-	-
Developer services operating expenditure	0.229	-	-	-	-	-	-	-	<b>0.229</b>
Total operating expenditure excluding third party services	25.122	6.682	1.277	56.558	2.229	3.121	8.758	3.348	<b>107.095</b>
Third party services	0.563	0.188	-	-	-	-	-	-	<b>0.751</b>
<b>Total operating expenditure</b>	<b>25.685</b>	<b>6.870</b>	<b>1.277</b>	<b>56.558</b>	<b>2.229</b>	<b>3.121</b>	<b>8.758</b>	<b>3.348</b>	<b>107.846</b>
<b>Grants and contributions</b>									
Grants and contributions – operating expenditure	5.788	1.548	0.288	-	-	-	-	-	<b>7.624</b>
<b>Capital expenditure</b>									
Base capital expenditure	29.001	7.632	1.527	27.221	1.134	-	8.167	-	<b>74.682</b>
Enhancement capital expenditure	9.966	2.621	0.525	6.681	0.278	-	-	-	<b>20.071</b>
Developer services capital expenditure	6.294	1.656	0.331	-	-	-	-	-	<b>8.281</b>
Total gross capital expenditure (excluding third party)	45.261	11.909	2.383	33.902	1.412	-	8.167	-	<b>103.034</b>
Third party services	-	-	-	-	-	-	-	-	-
<b>Total gross capital expenditure</b>	<b>45.261</b>	<b>11.909</b>	<b>2.383</b>	<b>33.902</b>	<b>1.412</b>	<b>-</b>	<b>8.167</b>	<b>-</b>	<b>103.034</b>
<b>Grants and contributions</b>									
Grants and contributions – capital expenditure	1.327	0.349	0.070	-	-	-	-	-	<b>1.746</b>
<b>Net Totex</b>	<b>63.831</b>	<b>16.882</b>	<b>3.302</b>	<b>90.460</b>	<b>3.641</b>	<b>3.121</b>	<b>16.925</b>	<b>3.348</b>	<b>201.510</b>
<b>Cash expenditure</b>									
Pension deficit recovery payments	-	-	-	-	-	-	-	-	-
Other cash items	-	-	-	-	-	-	-	-	-
<b>Totex including cash items</b>	<b>63.831</b>	<b>16.882</b>	<b>3.302</b>	<b>90.460</b>	<b>3.641</b>	<b>3.121</b>	<b>16.925</b>	<b>3.348</b>	<b>201.510</b>
<b>Atypical expenditure</b>									
Apportionment of restructure costs	0.228	0.061	0.011	0.501	0.020	0.028	0.078	0.030	<b>0.957</b>
<b>Total atypical expenditure</b>	<b>0.228</b>	<b>0.061</b>	<b>0.011</b>	<b>0.501</b>	<b>0.020</b>	<b>0.028</b>	<b>0.078</b>	<b>0.030</b>	<b>0.957</b>

**Operations:**

Total operating expenditure for the wastewater service increased by £13.647m in 2021/22 (£107.846m, 2020/21 £94.199m). This was mainly driven by commodity cost increases (power and chemicals). During the year SWW have invested in additional FTE and worked with external partners, to further support pollution reduction. A new graduate programme also commenced in the year.

**Capital**

Total gross capital expenditure has increased by £20.523m (£103.034m 21/22, £82.511m 20/21). The increase in expenditure in wastewater network+ is driven by our Pollution Incident Reduction Plan and bathing water enhancement programme. Increases in bioresources expenditure are driven by enhanced maintenance of key assets at sludge treatment centres.

## Additional regulatory information – service level continued

### TABLE 4F – Major project expenditure for wholesale water by purpose

South West Water does not have any Water projects that satisfy the Ofwat definition of a major project in the context of table 4F.

### TABLE 4G – Major project expenditure for wholesale wastewater by purpose

South West Water does not have any Wastewater projects that satisfy the Ofwat definition of a major project in the context table 4G.

### TABLE 4H – Financial metrics as at 31 March 2022

	Current year £m	AMP to date
<b>Financial indicators</b>		
Net debt	2,306.979	
Regulatory equity	1,316.186	
Regulatory gearing	63.67%	
Post tax return on regulatory equity	10.29%	
RORE (return on regulatory equity)	8.52%	7.54%
Dividend yield	6.69%	
Retail profit margin – Household	0.43%	
Retail profit margin - Non household	(0.02)%	
Credit rating – Fitch	N/A	
Credit rating – Moody's	N/A	
Credit rating – Standard & Poor's	N/A	
Return on RCV	5.79%	
Dividend cover	0.28	
Funds from operations (FFO)	252.206	
Interest cover (cash)	5.02	
Adjusted interest cover (cash)	2.21	
FFO/Net debt	0.11	
Effective tax rate	8.05%	
RCF	149.106	
RCF/Net debt	0.06	
<b>Borrowings</b>		
Proportion of borrowings which are fixed rate	59.46%	
Proportion of borrowings which are floating rate	16.28%	
Proportion of borrowings which are index linked	24.26%	
Proportion of borrowings due within 1 year or less	8.60%	
Proportion of borrowings due in more than 1 year but no more than 2 years	2.50%	
Proportion of borrowings due in more than 2 years but no more than 5 years	12.70%	
Proportion of borrowings due in more than 5 years but no more than 20 years	23.50%	
Proportion of borrowings due in more than 20 years	52.70%	

South West Water does not have a credit rating as this is not a licence requirement.

TABLE 4I – Financial derivatives

	Nominal value by maturity (net) at 31 March				Total value at 31 March			Interest rate (weighted average for 12 months to 31 March 2022)	
	0 to 1 years £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	Total accretion at 31 March £m	Payable %	Receivable %
<b>Derivative type</b>									
<b>Interest rate swap (sterling)</b>									
Floating to fixed rate	(4.951)	(4.949)	(6.894)	(2.033)	<b>(18.827)</b>	(18.827)	–	1.287%	0.161%
<b>Total</b>	<b>(4.951)</b>	<b>(4.949)</b>	<b>(6.894)</b>	<b>(2.033)</b>	<b>(18.827)</b>	<b>(18.827)</b>	<b>–</b>		
<b>Total financial derivatives</b>	<b>(4.951)</b>	<b>(4.949)</b>	<b>(6.894)</b>	<b>(2.033)</b>	<b>(18.827)</b>	<b>(18.827)</b>	<b>–</b>		

South West Water has interest rate swaps which are used to swap fixed and floating rate debt. No swaps are made on index-linked debt or using index-linked swaps.

South West Water also has limited forward currency contracts used to fix the cost of certain purchases in respect of capital projects.

The table above has been compiled on the basis of swap value and maturity, rather than the underlying debt instrument.

## Additional regulatory information – service level continued

**TABLE 4J – Base expenditure analysis – water resources and water network+**

	Water network+					Total £m
	Water resources £m	Raw water distribution £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	
<b>Operating expenditure</b>						
Power	3.262	1.707	–	14.819	3.678	<b>23.466</b>
Income treated as negative expenditure	(0.497)	(0.041)	–	(0.067)	–	<b>(0.605)</b>
Bulk supply	–	–	–	–	–	–
Renewals expensed in year (infrastructure)	–	–	–	–	7.929	<b>7.929</b>
Renewals expensed in year (non-infrastructure)	–	–	–	–	–	–
Other operating expenditure	3.041	1.074	–	25.686	21.158	<b>50.959</b>
Local authority and Cumulo rates	2.206	0.646	–	2.886	17.305	<b>23.043</b>
<b>Service charges</b>						
Canal & River Trust abstraction charges/discharge consents	–	–	–	–	–	–
Environment Agency/NRW abstraction charges/discharge consents	–	–	–	–	–	–
Other abstraction charges/discharge consent	4.799	0.221	–	0.094	0.013	<b>5.127</b>
<b>Other operating expenditure</b>						
Costs associated with Traffic Management Act	–	–	–	–	0.047	<b>0.047</b>
Costs associated with lane rental schemes	–	–	–	–	–	–
Statutory water softening	–	–	–	–	–	–
<b>Total base operating expenditure</b>	<b>12.811</b>	<b>3.607</b>	<b>–</b>	<b>43.418</b>	<b>50.130</b>	<b>109.966</b>
<b>Capital expenditure</b>						
Maintaining the long term capability of the assets – infra	0.621	0.158	–	0.336	29.690	<b>30.805</b>
Maintaining the long term capability of the assets – non-infra	5.687	–	–	15.255	15.497	<b>36.439</b>
<b>Total base capital expenditure</b>	<b>6.308</b>	<b>0.158</b>	<b>–</b>	<b>15.591</b>	<b>45.187</b>	<b>67.244</b>
<b>Traffic Management Act</b>						
Projects incurring costs associated with Traffic Management Act	–	–	–	–	–	–

TABLE 4K – Base expenditure analysis – wastewater network+ and bioresources

	Expenditure in report year								Total £m
	Wastewater network+					Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge Transport £m	Sludge Treatment £m	Sludge Disposal £m	
<b>Operating expenditure</b>									
Power	5.864	1.543	0.309	13.390	1.904	–	1.581	0.002	<b>24.593</b>
Income treated as negative expenditure	–	–	–	–	–	–	(0.246)	–	<b>(0.246)</b>
Bulk supply	–	–	–	–	–	–	–	–	–
Renewals expensed in year (infrastructure)	5.876	1.546	0.309	–	–	–	–	–	<b>7.731</b>
Renewals expensed in year (non-infrastructure)	–	–	–	–	–	–	–	–	–
Other operating expenditure	11.918	3.265	0.653	34.940	0.325	3.121	6.028	3.340	<b>63.590</b>
Local authority and Cumulo rates	0.112	0.029	0.006	4.998	–	–	1.395	0.006	<b>6.546</b>
<b>Service Charges</b>									
Canal & River Trust discharge consents	–	–	–	–	–	–	–	–	–
Environment Agency/ NRW discharge consents	1.117	0.297	–	3.230	–	–	–	–	<b>4.644</b>
Other discharge charges/permits	–	–	–	–	–	–	–	–	–
<b>Other expenditure</b>									
Costs associated with Traffic Management Act	0.006	0.002	–	–	–	–	–	–	<b>0.008</b>
Costs associated with lane rental schemes	–	–	–	–	–	–	–	–	–
Costs associated with Industrial Emissions Directive	–	–	–	–	–	–	–	–	–
<b>Total base operating expenditure</b>	<b>24.893</b>	<b>6.682</b>	<b>1.277</b>	<b>56.558</b>	<b>2.229</b>	<b>3.121</b>	<b>8.758</b>	<b>3.348</b>	<b>106.866</b>
<b>Capital expenditure</b>									
Maintaining the long term capability of the assets – infra	10.920	2.874	0.575	0.143	0.006	–	–	–	<b>14.518</b>
Maintaining the long term capability of the assets – non-infra	18.081	4.758	0.952	27.078	1.128	–	8.167	–	<b>60.164</b>
<b>Total base capital expenditure</b>	<b>29.001</b>	<b>7.632</b>	<b>1.527</b>	<b>27.221</b>	<b>1.134</b>	<b>–</b>	<b>8.167</b>	<b>–</b>	<b>74.682</b>
<b>Traffic Management Act</b>									
Projects incurring costs associated with Traffic Management Act	–	–	–	–	–	–	–	–	–
<b>Operating expenditure (AMP 7 shadow reported values)</b>									
Power	0.094	0.025	0.005	0.214	0.031	–	–	–	<b>0.369</b>
Income treated as negative expenditure	–	–	–	–	–	–	(0.369)	–	<b>(0.369)</b>

**4L – Enhancement expenditure for the 12 months ended 31 March 2022 – water resources and water network+**

In accordance with RAG 3.12, point 2.7, table 4L is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

**4M – Enhancement expenditure for the 12 months ended 31 March 2022 – wastewater network+ and bioresources**

In accordance with RAG 3.12, point 2.7, table 4M is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

## Additional regulatory information – service level continued

**TABLE 4N – Developer services expenditure – water resources and water network+**

	Treated water distribution		
	CAPEX £m	OPEX £m	TOTEX £m
New connections	6.079	0.394	<b>6.473</b>
Requisition mains	4.615	–	<b>4.615</b>
Infrastructure network reinforcement	0.532	–	<b>0.532</b>
s185 diversions	–	1.902	<b>1.902</b>
Other price controlled activities	–	–	–
<b>Total developer services expenditure</b>	<b>11.226</b>	<b>2.296</b>	<b>13.522</b>

**TABLE 4O – Developer services expenditure – wastewater network+ and bioresources**

	Wastewater network+					Total £m
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	
<b>CAPEX</b>						
New connections	–	–	–	–	–	–
Requisition sewers	2.645	0.696	0.139	–	–	<b>3.480</b>
Infrastructure network reinforcement	3.649	0.960	0.192	–	–	<b>4.801</b>
s185 diversions	–	–	–	–	–	–
Other price controlled activities	–	–	–	–	–	–
<b>Total total developer services capex</b>	<b>6.294</b>	<b>1.656</b>	<b>0.331</b>	–	–	<b>8.281</b>
<b>OPEX</b>						
New connections	0.026	–	–	–	–	<b>0.026</b>
Requisition sewers	–	–	–	–	–	–
Infrastructure network reinforcement	–	–	–	–	–	–
s185 diversions	0.144	–	–	–	–	<b>0.144</b>
Other price controlled activities	0.059	–	–	–	–	<b>0.059</b>
<b>Total total developer services OPEX</b>	<b>0.229</b>	–	–	–	–	<b>0.229</b>
<b>TOTEX</b>						
<b>Total developer services expenditure</b>	<b>6.523</b>	<b>1.656</b>	<b>0.331</b>	–	–	<b>8.510</b>

TABLE 4P – Expenditure on non-price control diversions

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
<b>Non-price control diversions</b>				
Costs associated with NSWRA diversions	–	4,088	0,747	<b>4,835</b>
Costs associated with other non-price control diversions	–	–	–	–
Other developer services non-price control totex	–	–	–	–
<b>Developer services non-price control totex</b>	–	4,088	0,747	<b>4,835</b>

TABLE 4Q – Developer services – Non financial information

	Water nr	Wastewater nr	Total nr
<b>Connections volume data</b>			
New connections (residential – excluding NAVs)	7,570	6,373	<b>13,943</b>
New connections (business – excluding NAVs)	913	112	<b>1,025</b>
<b>Total new connections served by incumbent</b>	8,483	6,485	<b>14,968</b>
<b>New connections – SLPs</b>	420		
<b>Properties volume data</b>			
New properties (residential – excluding NAVs)	7,570	6,373	<b>13,943</b>
New properties (business – excluding NAVs)	913	112	<b>1,025</b>
<b>Total new properties served by incumbent</b>	8,483	6,485	<b>14,968</b>
New residential properties served by NAVs	–	54	<b>54</b>
New business properties served by NAVs	–	–	–
<b>Total new properties served by NAVs</b>	–	54	<b>54</b>
<b>Total new properties</b>	8,483	6,539	<b>15,022</b>
<b>New properties – SLP connections</b>	420		
<b>New water mains data</b>			
Length of new mains (km) – requisitions	48		
Length of new mains (km) – SLPs	12		

## Additional regulatory information – service level continued

**TABLE 4R – Connected properties, customers and population**

	Units	Unmeasured	Measured	Total	Voids
<b>Customer numbers – average during the year</b>					
Residential water only customers	000s	81.501	187.076	<b>268.578</b>	1.930
Residential wastewater only customers	000s	2.131	2.866	<b>4.997</b>	0.110
Residential water and wastewater customers	000s	92.760	627.678	<b>720.437</b>	6.601
<b>Total residential customers</b>	<b>000s</b>	<b>176.392</b>	<b>817.620</b>	<b>994.012</b>	<b>8.642</b>
Business water only customers	000s	1.537	33.794	<b>35.331</b>	3.855
Business wastewater only customers	000s	0.644	0.222	<b>0.866</b>	0.114
Business water & wastewater customers	000s	1.469	38.824	<b>40.292</b>	2.627
<b>Total business customers</b>	<b>000s</b>	<b>3.649</b>	<b>72.840</b>	<b>76.489</b>	<b>6.595</b>
<b>Total customers</b>	<b>000s</b>	<b>180.041</b>	<b>890.460</b>	<b>1,070.501</b>	<b>15.237</b>

Property numbers – average during the year	Units	Water			Wastewater		
		Unmeasured	Measured	Total	Unmeasured	Measured	Total
Residential properties billed	000s	174.261	814.754	<b>989.015</b>	94.891	630.544	<b>725.434</b>
Residential void properties	000s			<b>8.531</b>			<b>6.711</b>
Total connected residential properties	000s			<b>997.546</b>			<b>732.145</b>
Business properties billed	000s	3.005	72.618	<b>75.623</b>	2.113	39.046	<b>41.158</b>
Business void properties	000s			<b>6.482</b>			<b>2.741</b>
<b>Total connected business properties</b>	<b>000s</b>			<b>82.104</b>			<b>43.899</b>
<b>Total connected properties</b>	<b>000s</b>			<b>1,079.651</b>			<b>776.044</b>

Property and meter numbers – at end of year (31 March)	Units	Unmeasured					Measured					Water Total
		No meter	Basic meter	AMI Meter (capable)	AMI Meter (active)	Total	Basic meter	AMR meter	AMI Meter (capable)	AMI Meter (active)	Total	
Total new residential properties connected in year	000s	–	–	–	–	–	–	7.570	–	–	<b>7.570</b>	<b>7.570</b>
Total new business properties connected in year	000s	–	–	–	–	–	0.027	0.834	0.052	–	<b>0.913</b>	<b>0.913</b>
Residential properties billed at year end	000s	153.104	14.060	5.017	0.005	<b>172.186</b>	646.256	–	174.368	0.190	<b>820.814</b>	<b>993.000</b>
Residential void properties at year end	000s					<b>5.611</b>					<b>2.611</b>	<b>8.222</b>
Total connected residential properties at year end	000s					<b>177.797</b>					<b>823.425</b>	<b>1,001.222</b>
Business properties billed at year end	000s	3.026	–	–	–	<b>3.026</b>	66.462	–	6.535	0.006	<b>73.002</b>	<b>76.028</b>
Business void properties at year end	000s					<b>0.831</b>					<b>5.340</b>	<b>6.171</b>
<b>Total connected business properties at year end</b>	<b>000s</b>					<b>3.857</b>					<b>78.342</b>	<b>82.199</b>
<b>Total connected properties at year end</b>	<b>000s</b>					<b>181.654</b>					<b>901.767</b>	<b>1,083.421</b>

Population data	Units	Water	Wastewater
Resident population	000s	2,265.135	1,647.649
Business population	000s		139.393

Household population data	Units	DPs	Water		Total
			Resident population	Non-resident population	
Household population	000s	3	2,220.206	265.542	<b>2,485.748</b>
Household measured population (water only)	000s	3	1,837.005	219.710	<b>2,056.716</b>
Household unmeasured population (water only)	000s	3	383.201	45.832	<b>429.033</b>

There are no unmeasured new connections in 2021/22. In line with South West Water's policy during the year, all new connections have an AMR or AMI meter installed and as such all new meters are smart meters.



**TABLE 4S – Green recovery expenditure – water resources and water network+ for the 12 months ended 31 March 2022**

Line description		Units	Expenditure in report year					Total
			Water resources	Water network+			Treated water distribution	
				Raw water transport	Raw water storage	Water treatment		
<b>Green recovery programme</b>								
Upstream Thinking	Capex	£m	0.926	-	-	-	-	<b>0.926</b>
Upstream Thinking	Opex	£m	-	-	-	-	-	-
<b>Upstream Thinking</b>	<b>Totex</b>	<b>£m</b>	<b>0.926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.926</b>
North Devon Water Resources	Capex	£m	-	0.123	-	-	-	<b>0.123</b>
North Devon Water Resources	Opex	£m	-	-	-	-	-	-
<b>North Devon Water Resources</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>0.123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.123</b>
Knapp Mill WTW	Capex	£m	-	-	-	1.190	-	<b>1.190</b>
Knapp Mill WTW	Opex	£m	-	-	-	-	-	-
<b>Knapp Mill WTW</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.190</b>	<b>-</b>	<b>1.190</b>
Smarter Healthier Homes	Capex	£m	-	-	-	-	0.076	<b>0.076</b>
Smarter Healthier Homes	Opex	£m	-	-	-	-	-	-
<b>Smarter Healthier Homes</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.076</b>	<b>0.076</b>
<b>Total green recovery programme capex</b>	<b>Capex</b>	<b>£m</b>	<b>0.926</b>	<b>0.123</b>	<b>-</b>	<b>1.190</b>	<b>0.076</b>	<b>2.315</b>
<b>Total green recovery programme opex</b>	<b>Opex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total green recovery programme expenditure</b>	<b>Totex</b>	<b>£m</b>	<b>0.926</b>	<b>0.123</b>	<b>-</b>	<b>1.190</b>	<b>0.076</b>	<b>2.315</b>

Line description		Units	Cumulative expenditure on schemes completed in the report year					Total
			Water resources	Water network+			Treated water distribution	
				Raw water transport	Raw water storage	Water treatment		
<b>Green recovery programme</b>								
Upstream Thinking	Capex	£m	0.926	-	-	-	-	<b>0.926</b>
Upstream Thinking	Opex	£m	-	-	-	-	-	-
<b>Upstream Thinking</b>	<b>Totex</b>	<b>£m</b>	<b>0.926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.926</b>
North Devon Water Resources	Capex	£m	-	-	-	-	-	-
North Devon Water Resources	Opex	£m	-	-	-	-	-	-
<b>North Devon Water Resources</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Knapp Mill WTW	Capex	£m	-	-	-	-	-	-
Knapp Mill WTW	Opex	£m	-	-	-	-	-	-
<b>Knapp Mill WTW</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Smarter Healthier Homes	Capex	£m	-	-	-	-	0.076	<b>0.076</b>
Smarter Healthier Homes	Opex	£m	-	-	-	-	-	-
<b>Smarter Healthier Homes</b>	<b>Totex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.076</b>	<b>0.076</b>
<b>Total green recovery programme capex</b>	<b>Capex</b>	<b>£m</b>	<b>0.926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.076</b>	<b>1.002</b>
<b>Total green recovery programme opex</b>	<b>Opex</b>	<b>£m</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total green recovery programme expenditure</b>	<b>Totex</b>	<b>£m</b>	<b>0.926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.076</b>	<b>1.002</b>



TABLE 4U – Impact of Green recovery on RCV

	12 months ended 31 March 2022					
	Units	Water resources	Water network+	Wastewater network+	Bioresources	Additional control
<b>Totex – Green recovery</b>						
Approved bid	£m	1.149	7.553	2.319	–	–
Actual totex	£m	0.926	1.389	0.090	–	–
Variance	<b>£m</b>	<b>(0.223)</b>	<b>(6.164)</b>	<b>(2.229)</b>	–	–
Variance due to timing of expenditure	£m	(0.223)	(6.164)	(2.229)	–	–
Variance due to efficiency	<b>£m</b>	–	–	–	–	–
Customer cost sharing rate – outperformance	%	90.00%	90.00%	90.00%	–	–
Customer cost sharing rate – underperformance	%	50.00%	50.00%	50.00%	–	–
Customer share of totex – outperformance	<b>£m</b>	–	–	–	–	–
Customer share of totex – underperformance	<b>£m</b>	–	–	–	–	–
Company share of totex – outperformance	<b>£m</b>	–	–	–	–	–
Company share of totex – underperformance	<b>£m</b>	–	–	–	–	–
Increase / decrease in shadow RCV	<b>£m</b>	<b>0.926</b>	<b>1.389</b>	<b>0.090</b>	–	–
In period funding	£m	–	–	–	–	–
Net increase / decrease in shadow RCV	<b>£m</b>	<b>0.926</b>	<b>1.389</b>	<b>0.090</b>	–	–
<b>Price control period to date</b>						
	Units	Water resources	Water network+	Wastewater network+	Bioresources	Additional control
<b>Totex – Green recovery</b>						
Approved bid	£m	1.149	7.753	2.319	–	–
Actual totex	£m	0.926	1.389	0.090	–	–
Variance	<b>£m</b>	<b>(0.223)</b>	<b>(6.364)</b>	<b>(2.229)</b>	–	–
Variance due to timing of expenditure	£m	(0.223)	(6.364)	(2.229)	–	–
Variance due to efficiency	<b>£m</b>	–	–	–	–	–
Customer cost sharing rate – outperformance	%	90.00%	90.00%	90.00%	–	–
Customer cost sharing rate – underperformance	%	50.00%	50.00%	50.00%	–	–
Customer share of totex – outperformance	<b>£m</b>	–	–	–	–	–
Customer share of totex – underperformance	<b>£m</b>	–	–	–	–	–
Company share of totex – outperformance	<b>£m</b>	–	–	–	–	–
Company share of totex – underperformance	<b>£m</b>	–	–	–	–	–
Increase/decrease in shadow RCV	<b>£m</b>	<b>0.926</b>	<b>1.389</b>	<b>0.090</b>	–	–
In period funding	£m	–	–	–	–	–
Net increase/decrease in shadow RCV	<b>£m</b>	<b>0.926</b>	<b>1.389</b>	<b>0.090</b>	–	–

## Additional regulatory information – water resources

**TABLE 5A – Water resources asset and volumes data**

	Units	Input
<b>Water resources</b>		
Water from impounding reservoirs	MI/d	129.69
Water from pumped storage reservoirs	MI/d	7.00
Water from river abstractions	MI/d	503.46
Water from groundwater works,excluding managed aquifer recharge (MAR) water supply schemes	MI/d	54.92
Water from artificial recharge (AR) water supply schemes	MI/d	–
Water from aquifer storage and recovery (ASR) water supply schemes	MI/d	–
Water from saline abstractions	MI/d	0.57
Water from water reuse schemes	MI/d	–
Number of impounding reservoirs <sup>1</sup>	nr	15
Number of pumped storage reservoirs <sup>1</sup>	nr	–
Number of river abstractions	nr	17
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	50
Number of artificial recharge (AR) water supply schemes	nr	–
Number of aquifer storage and recovery (ASR) water supply schemes	nr	–
Number of saline abstraction schemes	nr	6
Number of reuse schemes	nr	–
Total number of sources	nr	88
Total number of water reservoirs <sup>1</sup>	nr	21
Total volumetric capacity of water reservoirs	MI	115,388
Total number of intake and source pumping stations	nr	65
Total installed power capacity of intake and source pumping stations	kW	8,001
Total length of raw water abstraction mains and other conveyors	km	73.35
Average pumping head – raw water abstraction	m.hd	4.95
Energy consumption – raw water abstraction	MWh	6,624.156
Total number of raw water abstraction imports	nr	–
Water imported from third parties' raw water abstraction systems	MI/d	–
Total number of raw water abstraction exports	nr	–
Water exported to third parties' from raw water abstraction systems	MI/d	–
Water resources capacity (measured using water resources yield)	MI/d	750.67

<sup>1</sup> In addition to South West Water's impounding reservoirs, the total number of water reservoirs also includes a number of reservoirs where water is mixed with river water prior to treatment. These are excluded under the Regulatory Accounting Guidelines under a change in definition for this regulatory period, but are included within the 'total number of water reservoirs'. Two reservoirs previously included within the total number of water reservoirs are now shown as 'balancing reservoirs' in table 6A

TABLE 5B – Water resources operating cost analysis

	Impounding reservoir £m	Pumped storage £m	River abstractions £m	Groundwater, excluding MAR water supply £m	Artificial Recharge (AR) water supply schemes £m	Aquifer Storage and Recovery (ASR) water supply schemes £m	Other £m	<b>Total £m</b>
Power	0.600	0.026	2.346	0.290	–	–	–	<b>3.262</b>
Income treated as negative expenditure	(0.092)	(0.004)	(0.357)	(0.044)	–	–	–	<b>(0.497)</b>
Abstraction charges/ discharge consents	0.883	0.038	3.451	0.427	–	–	–	<b>4.799</b>
Bulk supply	–	–	–	–	–	–	–	<b>–</b>
<b>Other operating expenditure</b>								
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	<b>–</b>
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	<b>–</b>
Other operating expenditure excluding renewals	0.559	0.024	2.187	0.271	–	–	–	<b>3.041</b>
Local authority and Cumulo rates	0.406	0.018	1.586	0.196	–	–	–	<b>2.206</b>
<b>Total operating expenditure (excluding third party)</b>	<b>2.356</b>	<b>0.102</b>	<b>9.213</b>	<b>1.140</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>12.811</b>

This table provides a detailed breakdown of water resources related operating expenditure shown within table 4D. Costs are allocated to activity types using proportion of distribution in volumes.

## Additional regulatory information – water network plus

**TABLE 6A – Raw water transport, raw water storage and water treatment data**

	Units	Input
Raw water transport and storage		
Total number of balancing reservoirs	nr	2
Total volumetric capacity of balancing reservoirs	MI	1,011
Total number of raw water transport stations	nr	23
Total installed power capacity of raw water transport pumping stations	kW	15,126
Total length of raw water transport mains and other conveyors	km	239.62
Average pumping head – raw water transport	m.hd	33.87
Energy consumption – raw water transport	mWh	37,046.599
Total number of raw water transport imports	nr	–
Water imported from third parties' raw water transport systems	MI/d	–
Total number of raw water transport exports	nr	–
Water exported to third parties' raw water transport systems	MI/d	–
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	km	–

	Surface water		Ground water	
	Water treated MI/d	Number of works	Water treated MI/d	Number of works
<b>Water treatment – treatment type analysis</b>				
All simple disinfection works	–	–	16.88	3
W1 works	–	–	–	–
W2 works	–	–	0.06	1
W3 works	170.61	11	–	–
W4 works	–	–	20.99	5
W5 works	406.79	13	11.04	8
W6 works	0.42	1	–	–

	% of total DI	Number of works
<b>Water treatment – works size</b>		
WTWs in size band 1	0.2	9
WTWs in size band 2	0.7	4
WTWs in size band 3	0.7	2
WTWs in size band 4	14.6	12
WTWs in size band 5	16.4	6
WTWs in size band 6	19.4	4
WTWs in size band 7	48.0	5
WTWs in size band 8	–	–

	Units	Input
<b>Water treatment – other information</b>		
Total water treated at more than one type of works	MI/d	–
Number of treatment works requiring remedial action because of raw water deterioration	nr	–
Zonal population receiving water treated with orthophosphate	000's	1,398.858
Average pumping head – water treatment	m.hd	7.52
Energy consumption – water treatment	mWh	110,386.342
Total number of water treatment imports	nr	–
Water imported from third parties' water treatment works	MI/d	–
Total number of water treatment exports	nr	–
Water exported to third parties' water treatment works	MI/d	–

TABLE 6B – Treated water distribution – assets and operations

	Units	Input
<b>Assets and operations</b>		
Total installed power capacity of potable water pumping stations	kW	29,957
Total volumetric capacity of service reservoirs	MI	1,150.5
Total volumetric capacity of water towers	MI	8.5
Distribution input	MI/d	626.72
Water delivered (non-potable)	MI/d	–
Water delivered (potable)	MI/d	554.92
Water delivered (billed measured residential)	MI/d	260.05
Water delivered (billed measured business)	MI/d	147.69
Total annual leakage	MI/d	90.56
Distribution losses	MI/d	65.17
Water taken unbilled	MI/d	23.26
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.186
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.010
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.724
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.079
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	0.001
Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	–
Total number of potable water pumping stations that pump into and within the treated water distribution system	nr	251
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	8
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	17
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	226
Number of potable water pumping stations that pump water imported from a third party supply into the treated water distribution system	nr	–
Total number of service reservoirs	nr	327
Number of water towers	nr	12
Energy consumption – treated water distribution	MWh	24,650.550
Average pumping head – treated water distribution	m.hd	90.52
Total number of treated water distribution imports	nr	2
Water imported from third parties' treated water distribution systems	MI/d	1.13
Total number of treated water distribution exports	nr	5
Water exported to third parties' treated water distribution systems	MI/d	1.19

This table provides details of assets and operations for the 2021/22 year. Data in this table including distribution input, water delivered, distribution losses and leakage relates solely to 2021/22. Our leakage performance commitment is shown in table 3A on page 169 with associated commentary on page 18 is based on a three year average position and position relative to the three year baseline position at the start of the regulatory reporting period.

## Additional regulatory information – water network plus continued

**TABLE 6C – Water network+ – Mains, communication pipes and other data**

	Units	Input
<b>Treated water distribution – mains analysis</b>		
Total length of potable mains as at 31 March	km	18,490.1
Total length of potable mains relined	km	–
Total length of potable mains renewed	km	19.3
Total length of new potable mains	km	59.6
Total length of potable water mains (< ≤320mm)	km	17,419.2
Total length of potable water mains >320mm and ≤450mm	km	573.6
Total length of potable water mains >450mm and ≤610mm	km	377.4
Total length of potable water mains > 610mm	km	119.9
<b>Communication pipes</b>		
Number of lead communication pipes	nr	80,110
Number of galvanised iron communication pipes	nr	121,803
Number of other communication pipes	nr	810,366
<b>Treated water distribution – mains age profile</b>		
Total length of potable mains laid or structurally refurbished pre-1880	km	37.9
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	207.2
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	429.0
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	1,577.0
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	3,991.9
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	5,331.8
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	4,277.5
Total length of potable mains laid or structurally refurbished post 2001	nr	2,637.7
<b>Other</b>		
Company area	km <sup>2</sup>	11,482
Number of lead communication pipes replaced for water quality	nr	214
Compliance Risk Index	nr	3.86
Event Risk Index	nr	74



TABLE 6D – Demand management – Metering and leakage activities

	Units	Basic meter	AMR Meter	AMI meter
<b>Metering activities – Totex expenditure</b>				
New optant meter installation	£m	–	2.315	–
New selective meter installation	£m	–	–	0.346
New business meter installation	£m	–	0.032	0.162
Residential meters renewed	£m	–	1.010	–
Business meters renewed	£m	–	0.239	–
<b>Metering activities – Explanatory variables</b>				
New optant meters installed	000s	–	4.124	–
New selective meters installed	000s	–	–	0.936
New business meters installed	000s	–	0.058	0.366
Residential meters renewed	000s	–	2.236	–
Business meters renewed	000s	–	0.573	–
New residential meters installation – supply-demand balance benefit	MI/d	–	0.28	–
New business meters installation – supply-demand balance benefit	MI/d	–	0.01	–
Residential meters renewed – supply-demand balance benefit	MI/d	–	–	–
Business meters renewed – supply-demand balance benefit	MI/d	–	–	–
Residential properties – meter penetration	%	64.86	17.50	0.02
<b>Leakage activities – Totex expenditure</b>				
	Units	Maintaining leakage	Reducing leakage	<b>Total</b>
Total leakage activity	£m	17.904	9.380	<b>27.284</b>
Leakage improvements delivering benefits in 2020-25	MI/d			<b>7.50</b>
<b>Per capita consumption (excluding supply pipe leakage)</b>				
Per capita consumption (measured customers)	l/h/d	<b>118.21</b>		
Per capita consumption (unmeasured customers)	l/h/d	<b>266.34</b>		

This table provides details of metering and leakage activities for the 2021/22 year. Data in this table including per capita consumption relates solely to 2021/22. Our per capita consumption performance commitment is shown in table 3A on page 169 with associated commentary in table 3F on page 173 is based on a three year average position and position relative to the three year baseline position at the start of the regulatory reporting period.

We have assumed line 6D.17 reflects the cumulative reduction in leakage, based on the 3 year rolling average in line with the performance commitment. This reflects a 'Leakage improvements delivering benefits' of 7.5 ml/d, when comparing the 2021/22 base line of 124.2 MI/d to the actual 2020/22 3 year rolling average of 116.7, as shown in table 3F page 173.

In line with Final Determination funding all leakage expenditure has been classified as maintenance within the Totex tables, some of the investments, however, have reduced leakage values as highlighted in the table above.

## Additional regulatory information – water network plus continued

### TABLE 6F – WRMP annual reporting on delivery – non-leakage activities

Not included in the APR due to its size, but it is included within the APR tables on our website.

## Additional regulatory information – wastewater network plus

**TABLE 7A – Wastewater network+ – Functional expenditure**

	£'000
<b>Costs of STWs in size bands 1 to 5</b>	
Direct costs of STWs in size band 1	3,624.269
Direct costs of STWs in size band 2	3,400.972
Direct costs of STWs in size band 3	6,427.726
Direct costs of STWs in size band 4	8,270.075
Direct costs of STWs in size band 5	6,327.343
General & support costs of STWs in size bands 1 to 5	6,044.160
<b>Functional expenditure of STWs in size bands 1 to 5</b>	<b>34,094.545</b>
<b>Costs of STWs in size band 6</b>	
Service charges for STWs in size band 6	395.000
Estimated terminal pumping costs size band 6 works	1,178.000
Other direct costs of STWs in size band 6	14,625.000
Direct costs of STWs in size band 6	16,198.000
General & support costs of STWs in size band 6	3,488.000
Functional expenditure of STWs in size band 6	19,686.000
<b>Total Functional expenditure for Sewage treatment</b>	<b>53,780.545</b>

## Additional regulatory information – wastewater network plus continued

**TABLE 7B – Wastewater network+ – Large sewage treatment works**

	Units	Barnstaple (Ashford)	Newton Abbot (Buckland)	Torbay (Brokenbury Quarry)	Camborne	Bideford (Cornborough)	Exeter (Countess Wear)
<b>Sewage treatment works – Explanatory variables</b>							
Classification of treatment works	text	TA2	SAS	TA2	SAS	TA2	TA2
Population equivalent of total load received	000	46.57	81.21	156.86	61.94	45.94	162.93
Suspended solids consent	mg/l	45	60	60	250	60	25
BOD <sub>5</sub> consent	mg/l	25	25	25	25	25	15
Ammonia consent	mg/l	20	–	–	–	–	10
Phosphorus consent	mg/l	–	–	–	–	–	–
UV consent	mW/s/cm <sup>2</sup>	27	–	24	–	16	30
Load received by STW	kgBOD <sub>5</sub> /d	2,794	4,873	9,412	3,716	2,756	9,776
Flow passed to full treatment	m <sup>3</sup> /d	16,327	26,398	49,654	18,282	15,204	46,715
<b>Sewage treatment works – Functional expenditure</b>							
Service charges	£000	19	19	32	32	17	37
Estimated terminal pumping expenditure	£000	–	–	604	101	–	–
Other direct expenditure	£000	690	1,069	(7)	975	809	674
Total direct expenditure	£000	709	1,088	629	1,108	826	711
General and support expenditure	£000	153	234	136	239	178	153
Functional expenditure	£000	862	1,322	765	1,347	1,004	864

1 TA2 – Tertiary A2, SAS – Secondary Activated Sludge, SB – Secondary Biological, TB2 – Tertiary B2

**TABLE 7C – Wastewater network+ – Sewer and volume data**

	Units	Input
Connectable properties served by s101A schemes completed in the report year	nr	–
Number of s101A schemes completed in the report year	nr	–
Total pumping station capacity	kW	39,459
Number of network pumping stations	nr	1,223
Total number of sewer blockages	nr	6,545
Total number of gravity sewer collapses	nr	78
Total number of sewer rising main bursts	nr	51
Number of combined sewer overflows	nr	1,193
Number of emergency overflows	nr	227
Number of settled storm overflows	nr	163
Sewer age profile (constructed post 2001)	km	1,255
Volume of trade effluent	MI/yr	2,464.12
Volume of wastewater receiving treatment at sewage treatment works	MI/yr	224,742.50
Length of gravity sewers rehabilitated	km	11
Length of rising mains replaced or structurally refurbished	km	1
Length of foul (only) public sewers	km	2,124
Length of surface water (only) public sewers	km	2,542
Length of combined public sewers	km	5,867
Length of rising mains	km	632
Length of other wastewater network pipework	km	175
Total length of “legacy” public sewers as at 31 March	km	11,340
Length of formerly private sewers and lateral drains (s105A sewers)	km	11,642

Plymouth (Camels Head)	Exmouth (Maer Lane)	Plymouth (Central)	Falmouth	Hayle	Plymouth (Ernesettle)	Plympton (Marsh Mills)	Truro (Newham)	Plymouth (Roadford)	Newquay	St Austell	Total
TA2	TA2	TA2	TA2	SB	TB2	TA2	TA2	SAS	TA2	TB2	-
51.54	51.46	109.50	43.26	63.35	61.10	60.34	31.05	26.35	38.40	27.78	-
30	60	60	15	150	60	20	30	30	60	60	-
20	25	25	20	25	25	10	20	20	25	25	-
-	-	-	-	-	35	5	20	10	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-
30	43	54	42	-	33	-	33	-	24	-	-
3,092	3,088	6,570	2,596	3,801	3,666	3,620	1,863	1,581	2,304	1,667	-
16,138	13,185	41,812	11,438	28,805	22,656	20,539	10,457	5,927	9,816	9,128	-
20	19	32	20	34	20	19	19	20	17	19	<b>395</b>
79	-	394	-	-	-	-	-	-	-	-	<b>1,178</b>
1,037	1,026	426	1,153	671	867	1,081	1,018	1,239	1,084	813	<b>14,625</b>
1,136	1,045	852	1,173	705	887	1,100	1,037	1,259	1,101	832	<b>16,198</b>
245	225	184	252	152	191	237	223	270	237	179	<b>3,488</b>
1,381	1,270	1,036	1,425	857	1,078	1,337	1,260	1,529	1,338	1,011	<b>19,686</b>

## Additional regulatory information – wastewater network plus continued

**TABLE 7D – Wastewater network+ – Sewage treatment works data**

	Units		Treatment categories						Total
	Primary	Activated sludge	Secondary			Tertiary			
			Biological	A1	A2	B1	B2		
<b>Load received at sewage treatment works</b>									
Load received by STWs in size band 1	kg BOD <sub>5</sub> /day	148	302	996	72	14	416	27	<b>1,975</b>
Load received by STWs in size band 2	kg BOD <sub>5</sub> /day	–	290	820	166	96	399	166	<b>1,937</b>
Load received by STWs in size band 3	kg BOD <sub>5</sub> /day	162	1,037	1,791	1,017	1,261	1,122	910	<b>7,300</b>
Load received by STWs in size band 4	kg BOD <sub>5</sub> /day	–	2,703	1,668	1,173	5,596	1,501	3,800	<b>16,441</b>
Load received by STWs in size band 5	kg BOD <sub>5</sub> /day	–	896	–	–	7,932	805	5,615	<b>15,248</b>
Load received by STWs above size band 5	kg BOD <sub>5</sub> /day	–	10,170	3,802	–	47,871	–	5,333	<b>67,176</b>
Total load received	kg BOD <sub>5</sub> /day	310	15,398	9,077	2,428	62,770	4,243	15,851	<b>110,077</b>
Load received from trade effluent customers at treatment works	kg BOD <sub>5</sub> /day								<b>2,817</b>
<b>Number of sewage treatment works</b>									
STWs in size band 1	nr	86	41	188	8	1	51	3	<b>378</b>
STWs in size band 2	nr	–	13	34	7	3	17	7	<b>81</b>
STWs in size band 3	nr	2	15	31	14	10	18	13	<b>103</b>
STWs in size band 4	nr	–	9	8	5	17	7	11	<b>57</b>
STWs in size band 5	nr	–	1	–	–	9	1	6	<b>17</b>
STWs above size band 5	nr	–	3	1	–	11	–	2	<b>17</b>
Total number of works	nr	88	82	262	34	51	94	42	<b>653</b>

1 South West Water has four Fine Screening Plants (Preliminary Treatment Works) which have this year been included within the primary treatment column.

	Units	2021/22
<b>Population equivalent</b>		
Current population equivalent served by STWs	000s	1,709.115
Current population equivalent served by STWs with tightened/new P consents	000s	10.921
Current population equivalent served by STWs with tightened/new N consents	000s	–
Current population equivalent served by STWs with tightened/new sanitary parameter consents	000s	–
Current population equivalent served by STWs with tightened/new UV consent	000s	0.757
Population equivalent treatment capacity enhancement	000s	–
Current population equivalent served by STWs with tightened/new consents for chemical	000s	–
Cumulative shortfall in FFT addressed by WINEP / NEP schemes to increase STW capacity	000s	–
Additional storm tank capacity provided at STWs	000s	–
Additional volume of network storage at CSOs etc to reduce spill frequency	000s	240.000

**TABLE 7E – Wastewater network+ – Energy consumption and other data**

	Units	Input
<b>Other</b>		
Total sewerage catchment area	km <sup>2</sup>	860
Designated coastal bathing waters	nr	150
Number of intermittent discharge sites with event duration monitoring	nr	136
Number of monitors for flow monitoring at STWs	nr	21
Number of odour related complaints	nr	1,253
<b>Energy consumption</b>		
Energy consumption – sewage collection	MWh	52,765.080
Energy consumption – sewage treatment	MWh	107,244.156
Energy consumption – wastewater network+	MWh	160,009.236

Treatment works consents

Phosphorus					BOD <sub>5</sub>					Ammonia						
<=0.5mg/l	>0.5 to <=1mg/l	>1mg/l	No permit	Total	<=7mg/l	>7 to <=10mg/l	>10 to <=20mg/l	>20mg/l	No permit	Total	<=1mg/l	>1 to <=3mg/l	>3 to <=10mg/l	>10mg/l	No permit	Total
-	-	-	1,975	<b>1,975</b>	-	7	130	281	1,557	<b>1,975</b>	-	-	159	126	1,690	<b>1,975</b>
-	-	24	1,913	<b>1,937</b>	17	55	582	1,073	210	<b>1,937</b>	-	50	749	379	759	<b>1,937</b>
-	235	197	6,868	<b>7,300</b>	318	610	2,543	3,529	300	<b>7,300</b>	107	597	2,027	1,225	3,344	<b>7,300</b>
596	1,988	281	13,576	<b>16,441</b>	-	739	5,358	10,344	-	<b>16,441</b>	-	300	5,130	3,574	7,437	<b>16,441</b>
-	4,166	4,352	6,730	<b>15,248</b>	-	1,562	9,187	4,499	-	<b>15,248</b>	-	1,351	8,658	1,399	3,840	<b>15,248</b>
-	-	-	67,176	<b>67,176</b>	-	3,621	18,908	44,647	-	<b>67,176</b>	-	-	14,978	8,324	43,874	<b>67,176</b>
596	6,389	4,854	98,238	<b>110,077</b>	335	6,594	36,708	64,373	2,067	<b>110,077</b>	107	2,298	31,701	15,027	60,944	<b>110,077</b>
-	-	-	378	<b>378</b>	-	1	12	25	340	<b>378</b>	-	-	13	14	351	<b>378</b>
-	-	1	80	<b>81</b>	1	2	24	44	10	<b>81</b>	-	2	31	16	32	<b>81</b>
-	3	3	97	<b>103</b>	4	7	39	50	3	<b>103</b>	1	7	35	15	45	<b>103</b>
1	5	2	49	<b>57</b>	-	2	19	36	-	<b>57</b>	-	2	17	14	24	<b>57</b>
-	5	4	8	<b>17</b>	-	2	10	5	-	<b>17</b>	-	1	11	1	4	<b>17</b>
-	-	-	17	<b>17</b>	-	1	5	11	-	<b>17</b>	-	-	3	3	11	<b>17</b>
1	13	10	629	<b>653</b>	5	15	109	171	353	<b>653</b>	1	12	110	63	467	<b>653</b>

## Additional regulatory information – wastewater network plus continued

### TABLE 7F – Wastewater network+ – WINEP phosphorus removal scheme costs and cost drivers

Not included in the APR due to its size, but it is included within the APR tables on our website.



## Additional regulatory information – bioresources

**TABLE 8A – Bioresources sludge data**

	Units	Totals
Total sewage sludge produced, treated by incumbents	ttds/year	42.5
Total sewage sludge produced, treated by third party sludge service provider	ttds/year	-
<b>Total sewage sludge produced</b>	ttds/year	<b>42.5</b>
Total sewage sludge produced from non-appointed liquid waste treatment	ttds/year	1.0
<b>Percentage of sludge produced and treated at a site of STW and STC co-location</b>	%	<b>67.95</b>
Total sewage sludge disposed by incumbents	ttds/year	44.4
Total sewage sludge disposed by third party sludge service provider	ttds/year	1.7
<b>Total sewage sludge disposed</b>	ttds/year	<b>46.1</b>
Total measure of intersiting 'work' done by pipeline	ttds*km/year	1
Total measure of intersiting 'work' done by tanker	ttds*km/year	450
Total measure of intersiting 'work' done by truck	ttds*km/year	116
<b>Total measure of intersiting 'work' done (all forms of transportation)</b>	ttds*km/year	<b>567</b>
<b>Total measure of intersiting 'work' done by tanker (by volume transported)</b>	m <sup>3</sup> *km/yr	<b>17,448,185</b>
Total measure of 'work' done in sludge disposal operations by pipeline	ttds*km/year	-
Total measure of 'work' done in sludge disposal operations by tanker	ttds*km/year	-
Total measure of 'work' done in sludge disposal operations by truck	ttds*km/year	1,780
<b>Total measure of 'work' done in sludge disposal operations (all forms of transportation)</b>	ttds*km/year	<b>1,780</b>
Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m <sup>3</sup> *km/yr	-
Chemical P sludge as % of sludge produced at STWs	%	15.51

## Additional regulatory information – bioresources continued

**TABLE 8B – Bioresources operating expenditure analysis**

Sludge transport method	Pipeline £m	Tanker £m	Truck £m	Total £m
Power				
Income treated as negative expenditure	–	–	–	–
Discharge consents	–	–	–	–
Bulk discharge	–	–	–	–
<b>Other operating expenditure</b>				
Renewals expensed in year (Infrastructure)	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–
Other operating expenditure excluding renewals	–	3.121	–	<b>3.121</b>
<b>Total functional expenditure</b>	–	3.121	–	<b>3.121</b>
Local authority and Cumulo rates	–	–	–	–
<b>Total operating expenditure (excluding third party)</b>	–	<b>3.121</b>	–	<b>3.121</b>

Sludge treatment type	Untreated Sludge £m	Raw Sludge liming £m	Conventional AD £m	Incineration of raw sludge £m	Photo- conditioning/ composting £m	Advanced Anaerobic Digestion £m	Other £m	Total £m
Power	–	1.134	0.402	–	0.044	–	0.002	<b>1.582</b>
Income treated as negative expenditure	–	(0.176)	(0.063)	–	(0.007)	–	–	<b>(0.246)</b>
Discharge consents	–	–	–	–	–	–	–	–
Bulk discharge	–	–	–	–	–	–	–	–
<b>Other operating expenditure</b>								
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals	–	4.322	1.531	–	0.169	–	0.006	<b>6.028</b>
<b>Total functional expenditure</b>	–	<b>5.280</b>	<b>1.870</b>	–	<b>0.206</b>	–	<b>0.008</b>	<b>7.364</b>
Local authority and Cumulo rates	–	1.000	0.354	–	0.039	–	0.001	<b>1.394</b>
<b>Total operating expenditure (excluding third party)</b>	–	<b>6.280</b>	<b>2.224</b>	–	<b>0.245</b>	–	<b>0.009</b>	<b>8.758</b>

Sludge disposal route	Landfill, raw £m	Landfill, partly treated £m	Land restoration/ reclamation £m	Sludge recycled to farmland £m	Other £m	Total £m
Power	–	–	–	0.002	–	<b>0.002</b>
Income treated as negative expenditure	–	–	–	–	–	–
Discharge consents	–	–	–	–	–	–
Bulk discharge	–	–	–	–	–	–
<b>Other operating expenditure</b>						
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–
Other operating expenditure excluding renewals	–	–	0.033	3.304	0.003	<b>3.340</b>
Total functional expenditure	–	–	0.033	3.306	0.003	<b>3.342</b>
Local authority and Cumulo rates	–	–	–	0.006	–	<b>0.006</b>
<b>Total operating expenditure (excluding third party)</b>	–	–	<b>0.033</b>	<b>3.312</b>	<b>0.003</b>	<b>3.348</b>

TABLE 8C – Bioresources energy and liquors analysis

	Electricity MWh	Heat MWh	Biomethane MWh	<b>Total MWh</b>	Electricity £m	Heat £m	Biomethane £m	<b>Total £m</b>
<b>Energy</b>								
Energy consumption – bioresources								<b>1,761</b>
Energy generated by and used in bioresources control	2,239	5,780	–	<b>8,019</b>	0.320	–	–	<b>0.320</b>
Energy generated by bioresources and used in network plus control	2,578	–	–	<b>2,578</b>	0.369	–	–	<b>0.369</b>
Energy generated by bioresources and exported to the grid or third party	–	–	–	–	–	–	–	–
Energy generated by bioresources that is unused	–	3,853	3,564	<b>7,417</b>				
Energy bought from grid or third party and used in bioresources control	9,014	–	–	<b>9,014</b>	1.290	–	–	<b>1.290</b>
							Unit	Value
<b>Income from renewable energy subsidies</b>								
Income claimed from Renewable Energy Certificates (ROCs)							£m	0.223
Income claimed from Renewable Heat Incentives (RHIs)							£m	–
Total income claimed from renewable energy subsidies							£m	0.223
% of total number of renewable energy subsidies due to expire in the next two financial years							%	93%
This year's value of renewable energy subsidies due to expire in the next two financial years							£m	0.208
							Units	Value
<b>Bioresources liquors treated by network+</b>								
BOD load of liquor or partially treated liquor returned from bioresources to network plus							kg/d	4,912
Ammonia load of liquor or partially treated liquor returned from bioresources to network plus							kg Amm-N/d	372
Recharge to Bioresources by network plus for costs of handling and treating bioresources liquors							£m	5.681
	Electricity MWh	Heat MWh	Biomethane MWh	<b>Total MWh</b>	Electricity £m	Heat £m	Biomethane £m	<b>Total £m</b>
<b>Energy (AMP 7 shadow reported values)</b>								
Energy consumption – bioresources								<b>1,761</b>
Energy generated by and used in bioresources control	2,239	5,780	–	<b>8,019</b>	0.320	–	–	<b>0.320</b>
Energy generated by bioresources and used in network plus control	2,578	–	–	<b>2,578</b>	0.369	–	–	<b>0.369</b>
Energy generated by bioresources and exported to the grid or third party	–	–	–	–	–	–	–	–
Energy generated by bioresources that is unused	–	3,853	3,564	<b>7,417</b>				
Energy bought from grid or third party and used in bioresources control	9,014	–	–	<b>9,014</b>	1.290	–	–	<b>1.290</b>
Percentage of bioresources energy consumption that is metered		66.067%						

## Additional regulatory information – bioresources continued

**TABLE 8D – Bioresources sludge treatment and disposal data**  
for the 12 months ended 31 March 2022

	Units	By incumbent	By 3 <sup>rd</sup> party sludge service providers
<b>Sludge treatment process</b>			
% Sludge – untreated	%	3.0%	–
% Sludge treatment process – raw sludge liming	%	75.3%	–
% Sludge treatment process – conventional AD	%	20.2%	–
% Sludge treatment process – advanced AD	%	–	–
% Sludge treatment process – incineration of raw sludge	%	–	0.1%
% Sludge treatment process – other (specify)	%	1.4%	–
<b>% Sludge treatment process – Total</b>	<b>%</b>	<b>99.9%</b>	<b>0.1%</b>
<b>(Un-incinerated) sludge disposal and recycling route</b>			
% Sludge disposal route – landfill, raw	%	–	0.2%
% Sludge disposal route – landfill, partly treated	%	–	–
% Sludge disposal route – land restoration/ reclamation	%	–	0.5%
% Sludge disposal route – sludge recycled to farmland	%	96.5%	2.8%
% Sludge disposal route – other (specify)	%	–	–
<b>% Sludge disposal route – Total</b>	<b>%</b>	<b>96.5%</b>	<b>3.5%</b>

## Additional regulatory information – innovation competition

**TABLE 9A – Innovation competition**

										<b>Current year £m</b>
<b>Allowed</b>										
Allocated innovation competition fund price control revenue										<b>1.911</b>
<b>Revenue collected for the purposes of the innovation competition</b>										
Innovation fund income from customers										<b>1.911</b>
Income from customers to fund innovation projects the company is leading on										-
Income from other water companies to fund innovation projects the company is leading on										-
Income from customers that is transferred to other companies as part of the innovation fund										<b>0.095</b>
Non-price control revenue (e.g. royalties)										-
	Total amount of funding awarded to the lead company through the innovation fund	Forecast expenditure on innovation fund projects in year (excl. 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl. 10% partnership contribution)	Difference between actual and forecast expenditure	Forecast project lifecycle expenditure on innovation fund projects (excl. 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl. 10% partnership contribution)	Difference between actual and forecast expenditure	Allowed future expenditure on innovation fund projects	In year expenditure on innovation projects funded by shareholders	Cumulative expenditure on innovation projects funded by shareholders
Units	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
DPs	3	3	3	3	3	3	3	3	3	3
Innovation project 1	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Administration</b>										
Administration charge for innovation partner										<b>0.087</b>

South West Water have been successful in obtaining funding in partnership with other Water companies, although the Company is not the lead partner on any projects that were successful in bidding in 2021/22.

## Additional regulatory information – Green Recovery

Our Green Recovery plan includes investments of c.£82m to deliver five schemes:

- Advancement of Knapp Mill – advancement of treatment works near Christchurch
- Water resource grid enhancement – increasing water supply by supporting water transfers
- Smarter, healthier homes – trialling ways to help customers save water, protect customers from the cost of supply pipe failures and reducing health risks from lead pipes.
- Storm overflows – reducing harm from storm overflows and improving river water quality
- Catchment management – using nature-based solutions to reduce flood risk and enhance natural habitats.

While most of the programme is due to be implemented over 2022 to the end of the regulatory period to 2025, South West Water commenced our Green Recovery Initiative proposal during 2021/22. Benefits delivered so far include an expanded catchment management programme restoring additional areas of peatland as well as the installation of new 'smart' automated meter reading meters. Initial work in other areas of our programme is also on track to deliver the forecast benefits over the remaining years of the reporting period.

Further detail can be found in our separate Green Recovery Appendix and found on our website at [www.southwestwater.co.uk/report2022](http://www.southwestwater.co.uk/report2022).

**TABLE 10A – Green Recovery data capture additional items for the 12 months ended 31 March 2022**

### Section 1: Water resources and water network+

					RAG 4 reference	Main table reference
<b>From Table 6C</b>						
Other	Unit	DP	Input			
Total length of new potable mains	km	1	–		10A.1	6C.4
Number of lead communication pipes replaced for water quality	nr	0	–		10A.2	6C.21
<b>From Table 6D</b>						
	Units	DP	Basic meter	AMR meter	AMI meter	
<b>Metering activities – Totex expenditure</b>						
New optant meter installation	£m	3			–	10A.3 6D.2
New business meter installation	£m	3			–	10A.4 6D.3
Residential meters renewed	£m	3			0.076	10A.5 6D.4
Business meters renewed	£m	3			–	10A.6 6D.5
<b>Metering activities - Explanatory variables</b>						
	Units	DP				
New selective meters installed for existing customers	000s	3			–	10A.7 6D.7
New business meters installed for existing customers	000s	3			–	10A.8 6D.8
Residential meters renewed	000s	3			0.443	10A.9 6D.9
Business meters renewed	000s	3			–	10A.10 6D.10
New residential meters installed for existing customers – supply-demand balance benefit	MI/d	2			–	10A.11 6D.11
New business meters installed for existing customers – supply-demand balance benefit	MI/d	2			–	10A.12 6D.12
Residential meters renewed - supply-demand balance benefit	MI/d	2			–	10A.13 6D.13
Business meters renewed - supply-demand balance benefit	MI/d	2			–	10A.14 6D.14
<b>Leakage activities</b>						
	Units	DP				
Leakage improvements delivering benefits in 2020-25	MI/d	2	–			10A.15 6D.17

### Section 2: Wastewater network+ and bioresources

#### From Table 7D

	Units	DP				
Additional storm tank capacity provided at STWs	m <sup>3</sup>	3	–			10A.16 7D.24
Additional volume of network storage at CSOs etc to reduce spill frequency	m <sup>3</sup>	3	–			10A.17 7D.25

Table 10A values are not included in tables 6D and 4L as the South West Water Green Recovery investments have been reported as a single line item in table 4L.

**TABLES 10B AND 10C**

Tables 10B and 10C are not relevant to South West Water for 2021/22.

**TABLE 10D – Green Recovery data capture additional items – Bespoke performance commitments relevant to Green Recovery reporting for the 12 months ended 31 March 2022**

	Unit	decimal places	Performance level – impacts of Green Recovery		RAG 4 reference	Main table reference (to be completed by Company)
			Previous reporting year	Current reporting year		
Biodiversity – Enhancement	Ha	0	n/a	336	10D.1	3A.12

The majority of delivery of our Green Recovery Initiative is scheduled for the forthcoming three years, and there are further performance commitments that are relevant to Green Recovery reporting in future years.

A summary of our performance in respect of each of our projects forming part of our Green Recovery Initiative is provided in our Green Recovery Annual Report [www.southwestwater.co.uk/report2022](http://www.southwestwater.co.uk/report2022). All projects remain on track to be completed by the planned completion date, delivering the benefits forecasted.

**TABLE 10E – Green recovery data capture reconciliation model input for the 12 months ended 31 March 2022**

						Total allowance, £m	
<b>Scheme 3</b>							
Smarter, healthier homes						17.401	
Name	Allowance (£m)	Unit	decimal places	Component level at completion	2021-22		
					Component level to date	Percentage complete	
Component 1	Number of upgraded new smart meter installations	1.053	000s	3	44,800	-	0.0%
Component 2	Number of basic meters replaced by or upgraded to smart meters	5.048	000s	3	76,072	0.443	0.6%
Component 3	Number of external lead supply pipes replaced to the property building boundary wall.	7.237	000s	3	5.100	-	0.0%
Component 4	Number of internal lead supply pipes replaced from property building boundary wall to the compliance point (kitchen tap).	2.611	000s	3	1.913	-	0.0%
Component 5	Number of supply pipes replaced by 31 March 2025.	0.569	000s	3	0.752	-	0.0%
Component 6	Number of supply pipes repaired by 31 March 2025.	0.841	000s	3	1.324	-	0.0%

## Additional regulatory information – energy

### Reporting annual 2021/22 GHG emissions

The UK water industry was an early adopter of the principles of corporate GHG emissions accounting and reporting and since 2006 the UK water companies have been using the industry's own collaboratively developed Carbon Accounting Workbook to annually account and report company operational GHG emissions. Now in its sixteenth annual edition the Carbon Accounting Workbook (CAW v16) has been used to calculate the emissions outputs for South West Water as shown in Table 11A (see page 214).

CAW v16 uses the latest Government published emissions conversion factors (published in June 2021 for 2021/22 accounting), as well as bespoke water industry emissions factors where the equivalent Government factors are not available. Our accounting practice follows the principles of the International GHG Protocol Corporate Standard and the published emissions accounting guidance from the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy and Industrial Strategy (BEIS).

Reporting includes the aggregated emissions from our regulated business activities in our South West and in the Bournemouth Water regions. We use the 'Financial control boundary' to define the scope of direct and indirect operational emissions and report on our Scope 1, 2 and 3 emissions from the 'appointed business' in line with the organisational boundary defined within the Water UK Net Zero 2030 Routemap.

The assumptions, methods and procedures that are followed in the development of the reported data have been tested and independently verified for accuracy and consistency by Jacobs, our external auditors.

### Breakdown of emissions of greenhouse gases by type and emissions scopes

We report emissions of the main GHGs of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O), and the breakdown of emissions of these gases for both water and wastewater for 2021/22 are also shown in Table 11A on page 214. Small amounts of other GHGs, including hydrofluorocarbons (HFCs) from our air conditioning and refrigeration units, are also included within our emissions totals but are not specifically shown in the breakdown of emissions by type of gas.

Emissions are reported as either Scope 1, 2 or 3, where Scope 1 are emissions released directly into the atmosphere from the use of our owned and controlled assets. Scope 2 are those indirect emissions from the electricity we import from the UK electricity grid and Scope 3 emissions are those that arise as a consequence of our actions but which occur from sources that we do not own or control, for example from activities carried out by third party contractors on our behalf.

### Gross and net emissions

We report both a 'Gross' and a 'Net' emissions position where gross emissions in this case are a measure of our total operational emissions volume excluding any 'emissions removals', i.e. without the impact of the energy we export from own renewable energy generation or any carbon offsetting we may have engaged in. To calculate net emissions, we subtract the emissions benefit of our renewable energy export from the gross emissions, as well as applying any carbon offsets. We have not engaged in any carbon offsetting activity, nor purchased any Woodland Carbon Units, so the volume against 'Other emissions reductions' is zero for 2021/22 but if we had purchased carbon offsets during 2021/22 then the emissions benefit would have been shown here.

### Market and location-based emissions

In accordance with the GHG Protocol accounting principles we account for both location-based emissions and market-based emissions. Where indicated in Table 11A we have reported either a located-based or a market-based value and reported both overall values for total gross and total net emissions.

Reporting market-based emissions in this way allows us to include the emissions benefit of our choice to engage in contractual arrangements to purchase renewable electricity from third party electricity suppliers. Where we do source renewable electricity from third party suppliers we ensure this purchase is backed by the appropriate renewable energy certification, in this case with certificates of Renewable Energy Guarantees of Origin (REGOs). We retire these REGOs so they cannot be sold to others and this allows us to report a reduced emissions figure under the market-based accounting measure. Location-based emissions ignore the impact of any special contractual arrangements for renewable electricity and instead here we use the Government's published emissions factor for UK average grid electricity.

### Emissions intensity

Table 11A also includes our emissions intensity metrics consisting of a value for the quantity of GHG emissions per megalitre of treated water delivered into our drinking water supply network, and a measure of GHG emissions per megalitre of wastewater measured as the full flow of wastewater into our treatment works.



## Strengths, weaknesses, opportunities and threats

The analysis below sets out the strengths, weaknesses, opportunities and threats to our Net Zero strategy are.

### Strengths

Our 'Promise to the Planet' Net Zero Carbon strategy sets out how we aim to reduce our operational emissions through changing our operational practices. With around 70% of our current operational emissions resulting from our energy usage we can exercise a degree of control over these emissions by enhancing investment in the performance of our assets, either through improving energy efficiency or through further deployment of our own onsite renewable energy generation. For market-based carbon emissions we can also reduce emissions by purchasing renewable energy certificates (REGOs) from third party suppliers and retiring the certificates within our account. In 2021/22 we embarked on a further programme of renewable energy deployment, starting by installing new ground and roof mounted solar PV on some of our water and wastewater treatment sites. This roll-out of new solar PV schemes on our sites will continue into 2022/23 and for the remainder of AMP7. Our transition to electric vehicles is also underway and we plan to continue with the phased delivery of EVs onto the fleet between now and 2030. We have also begun trialling biofuels to replace the fossil fuels we currently use to run our back-up diesel generators.

### Weaknesses

We have identified Scope 1 process and fugitive emissions as the most challenging emissions to remove from our carbon footprint. These are primarily emissions of methane and nitrous oxide from our wastewater treatment processes and biosolids activities. We are exploring ways of using improved monitoring and control systems to help mitigate these emissions although there appears to be few existing commercially viable alternatives that will directly remove all these emissions. We anticipate without emerging technological options such as GHG emissions capture, becoming affordable in the shorter term we are likely to need to purchase verifiable carbon offsets to contribute to our net zero carbon goals.

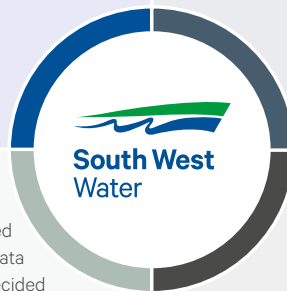
### Opportunities

This year we have reviewed our capture of Scope 3 emissions data from our supply chain, particularly where we have outsourced operational activities to our contractors. We already collect this data from our larger contractors however following the review have decided to expand this data collection to additional suppliers where it is clear those services being provided are associated with our operational activities, as opposed to our capital programme. This has led to an increase in our reported Scope 3 emissions in 2021/22, although it has usefully provided a further platform for initiating dialogue with our supply chain partners in finding collaborative opportunities towards our respective net zero journeys.

We continue to explore opportunities to reverse emissions through our Upstream Thinking peatland restoration programme and through our tree planting partnerships. We are also working in conjunction with university partners to look at carbon sequestration opportunities using more novel 'nature-based solutions' such as using sea grass and other 'blue carbon' initiatives.

### Threats

There remain some uncertainties with the water industry's carbon accounting process. In particular, the bespoke emissions factors used to estimate the industry's process and fugitive emissions of nitrous oxide and methane are now outdated and due for review. In response the industry has embarked on a programme of physical monitoring of nitrous oxide and methane emissions on a number of wastewater treatment works around the UK. Early results indicate that current emissions factors are underestimating actual emissions and a correction is likely to be required for future annual carbon accounting, with an inevitable increase in reported Scope 1 emissions. The industry understands how important it is to accurately account for the emissions it is responsible for, allowing us to prioritise mitigation strategies.



## Additional regulatory information – energy continued

**Table 11A – Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2022**

	DPS	Water tCO <sub>2</sub> e	Wastewater tCO <sub>2</sub> e	Total tCO <sub>2</sub> e
<b>Scope 1 emissions</b>				
Burning of fossil fuels	3	631.348	1,129.466	<b>1,760.814</b>
Process and fugitive emissions	3	93.335	14,295.109	<b>14,388.444</b>
Vehicle transport	3	1,976.589	1,976.589	<b>3,953.178</b>
<b>Total scope 1 emissions</b>	<b>3</b>	<b>2,701.272</b>	<b>17,401.164</b>	<b>20,102.436</b>
Scope one emissions; GHG type CO <sub>2</sub>	3	757413	4,879.136	<b>5,636.549</b>
Scope one emissions; GHG type CH <sub>4</sub>	3	636.833	4,102.376	<b>4,739.209</b>
Scope one emissions; GHG type N <sub>2</sub> O	3	1,281.893	8,257.752	<b>9,539.645</b>
<b>Scope 2 emissions</b>				
Purchased electricity – location based	3	33,677.092	32,576.769	<b>66,253.861</b>
Purchased electricity – market based*	3	–	–	–
Purchased heat	3	–	–	–
Electric vehicles	3	–	–	–
Removal of electricity charge electric vehicles at site	3	–	–	–
<b>Total scope 2 emissions</b>	<b>3</b>	<b>33,677.092</b>	<b>32,576.769</b>	<b>66,253.861</b>
Scope two emissions; GHG type CO <sub>2</sub>	3	33,332,914	32,576.769	<b>65,909.683</b>
Scope two emissions; GHG type CH <sub>4</sub>	3	126.886	124.007	<b>250.893</b>
Scope two emissions; GHG type N <sub>2</sub> O	3	217.292	212.363	<b>429.655</b>
<b>Scope 3 emissions</b>				
Business travel	3	181.318	181.318	<b>362.636</b>
Outsourced activities	3	5,324.938	5,617.598	<b>10,942.536</b>
Purchased electricity; transmission and distribution – location based	3	2,980.232	2,912.626	<b>5,892.858</b>
Purchased electricity; transmission and distribution – market based*	3	–	–	–
Purchased heat; transmission and distribution	3	–	–	–
<b>Total scope 3 emissions</b>	<b>3</b>	<b>8,486.488</b>	<b>8,711.542</b>	<b>17,198.030</b>
Scope three emissions; GHG type CO <sub>2</sub>	3	8,233,749	8,452.100	<b>16,685.849</b>
Scope three emissions; GHG type CH <sub>4</sub>	3	11.924	12.240	<b>24.164</b>
Scope three emissions; GHG type N <sub>2</sub> O	3	240.700	247.083	<b>487.783</b>
<b>Gross operational emissions (Scope 1,2 and 3)</b>				
Gross operational emissions – location based	3	44,864.852	59,025.846	<b>103,890.698</b>
Gross operational emissions – market based	3	40,085.607	54,950.374	<b>95,035.981</b>
<b>Emissions reductions</b>				
Exported renewables (location based)	3			<b>(110.481)</b>
Exported biomethane (location based)	3			–
Green tariff electricity offsets	3			–
Other emissions reductions	3			–
<b>Total emissions reductions</b>	<b>3</b>			<b>(110.481)</b>
<b>Net annual emissions</b>				
Net annual emissions – location based	3	44,778.583	59,001.634	<b>103,780.217</b>
Net annual emissions – market based	3	40,003.129	54,927.226	<b>94,930.355</b>
<b>Net annual emissions</b>	<b>3</b>			
<b>GHG intensity ratios</b>				
	DPS	Water kgCO <sub>2</sub> e/MI	Wastewater kgCO <sub>2</sub> e/MI	
Emissions per MI of treated water	3	291.027		
Emissions per MI of sewage treated (flow to full treatment)	3			228.936
Emissions per MI of sewage treated (water distribution input)	3			565.789

\* Scope 2 and Scope 3 market based emissions related to purchased electricity are reported in total figures (Gross operational emissions – market based\* and Net annual emissions – market based\*) in accordance with Ofwat guidance

**Commentary on 2021/22 emissions**

South West Water’s operational GHG emissions continue to reduce, for our net location-based emissions the volume reduced from 107,727 tCO<sub>2</sub>e in 2020/21 to 103,780 tCO<sub>2</sub>e in 2021/22. This reduction is predominantly a result of the gradual decarbonisation of the UK’s average electricity grid supply combined with our continued efforts to optimise our own energy usage. Our strategy towards expanding our own renewable energy generation and usage is also a key contributory factor in sustaining our year-on-year reduction in reported emissions.

Under our net zero carbon commitment measure of ‘net market-based emissions’ we also continue to see a reduction in emissions, from 98,844 tCO<sub>2</sub>e in 2020/21 to 94,930 tCO<sub>2</sub>e in 2021/22. This measure includes the impact of the market-based initiatives we have engaged in to reduce our emissions, such as our purchase of unbundled REGOs and the contribution from our electricity suppliers in improving the percentage of low carbon fuel stocks they used in the generation of the electricity they supply to us.

In 2021/22 our reportable Scope 3 emissions, related to the activities that we contract out to third parties, showed an increase following a targeted review of the data we collect from our supply chain. We have increased the number of contractors we collect data from in 2021/22 by including some additional contractors that undertake operational activities on our behalf. This, coupled with an increase in the volume of business travel due to the end of Covid-19 restrictions, has seen Scope 3 emissions in these categories record an increase. Despite this our total gross and net carbon emissions have continued to reduce compared with the previous year.

Along with the rest of the UK water industry we are also taking steps to better understand our Scope 1 process and fugitive emissions from our wastewater treatment activities. These emissions have come under greater scrutiny recently as the emissions factors currently used by the industry are thought to be underestimating emissions of nitrous oxide. An industry programme is underway to physically monitor and measure these emissions at wastewater treatment sites and we anticipate a future change in the emissions factors we use as a result of these field-based trials. It has therefore become even more important for us to seek opportunities to drive down and ultimately remove these non-CO<sub>2</sub> emissions from our processes by exploring more innovative wastewater treatment solutions.

**Embedded/embody emissions**

We currently estimate our embedded or embodied carbon emissions on a spend analysis basis and, whilst we are developing bespoke tools to capture this data from actual activity data, we are voluntarily reporting our spend analysis data here ahead of the mandatory requirement to report on these emissions from 2022/23 onwards.

In 2021/22 emissions from our purchased goods and services totalled 192,367 tCO<sub>2</sub>e, an increase from 62,460 tCO<sub>2</sub>e reported in the previous year reflecting our increased spend activity in 2021/22 as we deliver important improvements to our service. This value includes 8,545 tCO<sub>2</sub>e emissions embodied in the chemicals we have used in 2021/22. Emissions from our capital programme totalled 58,147 tCO<sub>2</sub>e in 2021/22, a marginal increase in emissions from 54,791 tCO<sub>2</sub>e in the previous year.

As part of our Net Zero Carbon strategy we have enhanced our engagement with our supply chain and construction partners with the aim of reducing these Scope 3 emissions from purchased goods and services and our capital programme and to better understand where our supply chain can provide us with lower whole life carbon solutions.

Estimate of embedded emissions	Total (tCO <sub>2</sub> e)
Capital programme	58,147
Purchased goods and services	192,367
<b>Total</b>	<b>250,514</b>

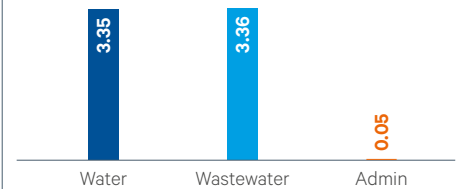
**Renewable energy**

The following charts show how continued investment in our own embedded renewable energy generation, as well as the impact of contractually purchasing REGO backed renewable electricity from third party suppliers, is affecting our measure of renewable energy as a percentage of our total energy usage. As a more inclusive measure for 2021/22 we have included our usage of self-generated renewable heat in this measure for the first time. To balance this with our total energy usage we have included our consumption of natural gas and liquid fuels (excluding transport) in our total energy consumed measure.

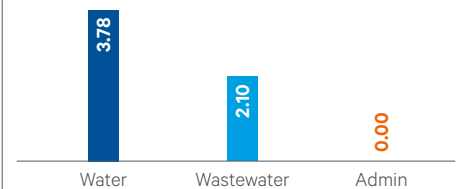
In 2021/22 we increased the volume of our own renewable generation and our privately wired renewable energy supply by 0.09%. Furthermore our electricity suppliers took action to change the specific fuel mix they use to generate the electricity they supply, reducing the emissions from the electricity we purchased from them. As a result, we significantly reduced the number of REGOs we purchased during 2021/22 compared to 2020/21.

**Percentage of renewable and low carbon energy sourced**

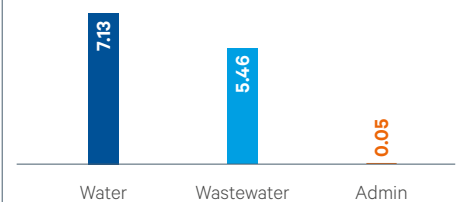
**SELF-GENERATED RENEWABLE ENERGY CONSUMED (% OF TOTAL ENERGY CONSUMED)**



**PURCHASE OF REGO-BACKED ELECTRICITY VIA PRIVATE WIRE AND GRID (% OF TOTAL ENERGY CONSUMED)**



**TOTAL RENEWABLE ENERGY SOURCED (% OF TOTAL ENERGY CONSUMED)**



# Cost allocation and transfer pricing

## Transactions with associated companies and the non-appointed business

Under RAG 5.07, water and sewerage appointees have a duty to trade at arm's length and to ensure that there is no cross subsidy with respect to transactions between the appointed business and associated companies.

Following the introduction of binding revenue price controls, appointees are also required to ensure there is no cross-subsidy between price control units.

RAG 3.11 requires disclosures of all transactions (individually and not on an aggregated basis) to be made where any single transaction exceeds 0.5% of the turnover of South West Water's appointed business. South West Water has applied a slightly lower threshold of £2.5m and thus additional disclosures to reflect the transactions with associate companies have been made.

In addition to transactions which exceed this amount, South West Water has also voluntarily disclosed below a summary of all transactions with its associated companies and any transactions with companies, whereby certain Directors of the Company have interests.

### South West Water's associated companies

South West Water is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company. A summary Group structure showing principal trading subsidiaries is shown on page 69. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 16, page 199).

### Group shared services

A limited number of functions have historically been provided across the Pennon Group as shared services (such as Independent Group Internal Audit, Treasury and Tax Services).

## Transfer of assets to or from the appointee

There were no transfers of assets or liabilities by or to the Company in 2021/22.

### The non-household retail market

South West Water exited the provision of retail services to non-household customers on 1 April 2017 when the non-household retail market opened, but remains the wholesale supplier of water and wastewater services to end users in Cornwall, Devon and small parts of Dorset and Somerset as well as providing wholesale water services in parts of Dorset, Hampshire and Wiltshire.

Non-household consumers now pay retailers for their supply and they in turn pay wholesalers based upon the retail charging schedules. Pennon Water Services, a fellow Group company, are a non-household water and wastewater retailer and therefore South West Water are now paid by Pennon Water Services for some of its non-household wholesale services. South West Water also provides meter reading services to Pennon Water Services on commercial terms consistent with those offered to other companies.

South West Water has also contracted with Pennon Water Services to manage a small number of non-regulated activities on its behalf.

## Transactions with associated companies and the non-appointed business continued

### South West Water Customer Services Limited (formerly Source Contact Management)

#### Services provided by South West Water and recharged to South West Water Customer Services

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Group/Management recharges	Information Services recharges	11,601	Recharge based upon employee numbers	392
	Property	11,601	Recharge of property cost based on floor space	348
	Insurance	11,601	Recharge based upon employee numbers	240
	Other	11,601	Recharge of cost incurred	362

#### Services received by South West Water recharged from South West Water Customer Services

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Retail activities	Call centre, billing and collection services, debt recovery and customer service	11,601	Recharge of cost incurred	11,601

### Peninsula Properties

#### Services provided by South West Water and recharged to Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Administrative expenses	Administration services	0.164	Recharge of cost incurred	138

#### Services received by South West Water recharged from Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Administrative expenses	Administration services	0.164	Recharge of cost incurred	164

## Cost allocation and transfer pricing continued

### Transactions with associated companies and the non-appointed business continued

#### Pennon Group plc



#### Services provided by South West Water and recharged to Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Information Services	Information Services recharges	7,692	Recharge based upon employee numbers	125
Property	Floor space	7,692	Recharge of property costs based on floor space	234
Other – Communications, HR, Payroll, Facilities	Other internal services provided	7,692	Recharge of salary cost incurred	111

#### Services received by South West Water and recharged from Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Corporate overheads	Board and Group expenses	7,692	Recharge of cost incurred	2,415
	Investor Relations	7,692	Recharge of cost incurred	294
	Legal & Company Secretary	7,692	Recharge of cost incurred	1,446
	Group expenses	7,692	Recharge of cost incurred	1,000
Group Finance	Tax, pension and accounting and internal audit services	7,692	Recharge of employee costs	1,477

Services received by SWW and recharged by Pennon Group vary considerably from the prior year, reflecting the sale of Viridor in 2020 and following the subsequent transition period.

## Transactions with associated companies and the non-appointed business continued

### Pennon Water Services



#### Services provided by South West Water and recharged to Pennon Water Services

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Meter readings	Meter reading for non-household retail customers	195.256	Market testing – Third party evaluation	358
Wholesale charges	Supply of water to wholesale business	195.256	Market testing – charged at published rates in Non-Household Wholesale Charges Scheme and charged via the Market Operator	89,962
Property	Property recharges	195.256	Recharge based upon employee numbers	148

#### Services received by South West Water and charged by Pennon Water Services

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Guaranteed Standards of Service reclaim (customer compensation)	Charges for customer compensation	195.256	Charges in line with published Guaranteed Standards Scheme (GSS) levels	33

In addition to the above, the South West Water non-appointed business is also recharged certain costs by Pennon Water Services in respect of management and operation of limited parts of South West Water's non-appointed activity.

### Peninsula Insurance

#### Services received by South West Water and charged by Peninsula Insurance

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Insurance cover	Organisation of insurance cover	1.797	Recharge of insurance premium	0.983

## Cost allocation and transfer pricing continued

### Peninsula Leasing

Services received by South West Water and charged by Peninsula leasing



Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Vehicle leasing	Vehicle leasing	Nil	Recharge of lease costs (including capital repayment)	Nil

### Borrowings with associated companies

Associated company and type of borrowing	Principal amount (£k)	Repayment date	Interest rate (%)
South West Water Finance plc index linked bonds 2040	135,313	2040	6.83 (fixed until July 2040)
South West Water Finance plc index linked bonds 2057	314,967	2057	RPI + 1.99
South West Water Finance plc fixed rate loan	65,350	2039	2.35 fixed



# Appendix A

## Assessment of Licence Condition P 26

### Overview

Condition P requires companies to hold an issuer credit rating which is an investment grade.

However, SWW is not required to comply with this (as it is not required to hold a credit rating) but must confirm that in the opinion of the Board, SWW would be able to maintain an issuer Credit Rating that is investment grade.

Below outline the leverage and coverage calculation used in making the assessment described on page 112.

### Leverage and coverage

This reflects four key financial metrics and the weighting applied for each. The metrics for SWW compared to the investment grade levels are shown in the table below for 2021/22.

Financial metric	Investment grade (Baa)	SWW 2021/22	Assessment against investment grade
Adjusted interest coverage ratio	1.5x – 2.5x	2.0x	Exceeds
Net debt / RCV	55-70%	63.7%	Exceeds
FFO / Net debt	10-15%	10.9%	Exceeds
RCF / Net debt	6-10%	6.5%	Exceeds

### Financial Metric Calculations

Information for the metric calculations based on latest financial information for 2021/22

	2021/22 £m
Adjusted interest cover	
FFO	252.2
Interest paid	62.5
Capital charges	(187.3)
Total	127.4

Net interest paid	62.5
Adjusted interest cover ratio	<b>2.0x</b>

	March 2022 £m
Net debt / RCV	
Net debt	2,307.0
RCV	3,623.2
Net debt / RCV ratio	<b>63.7%</b>

	2021/22 £m
FFO / Net debt	
FFO	252.2
Net debt	2,307.0
FFO / Net debt	<b>10.9%</b>

	2021/22 £m
RCF / Net debt	
FFO	252.2
Less dividends*	(103.1)
RCF	149.1
Net debt	2,307.0
RCF / Net debt ratio	<b>6.5%</b>

# Glossary

Term	Definition
<b>Annual Performance Report (APR)</b>	Report produced by the Company for regulatory reporting purposes, known previously as the Regulatory Accounts.
<b>Annual Report and Financial Statements</b>	Report produced by the Company for statutory accounting reporting purposes.
<b>Appointed business</b>	The appointed business comprises the regulated activities of the Company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
<b>Arm's-length trading</b>	Arm's-length trading is where the Company treats the associate companies on the same basis as external third parties.
<b>Asset Management Plan (AMP)/ Business Plan</b>	A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP5 covers April 2010 to March 2015 and AMP6 covers April 2015 to March 2020.
<b>Associate company</b>	Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.
<b>CEMARS (Certified Emissions Measurement and Reduction Scheme)</b>	The CEMARS methodology for producing an organisational carbon footprint is aligned with the internationally recognised Greenhouse Gas Protocol for corporate accounting and reporting.
<b>C-MeX (Customer Measure of Experience)</b>	C-MeX is the industry wide measure of customer satisfaction based upon surveys both of customers who have recently contacted their water company and a random sample of members of the public. Following being reported in a trial 'shadow' format last year, this is the first year this measure has been used and it replaces the Service Incentive Mechanism (SIM).
<b>CMOS (Central Market Operating System)</b>	CMOS is the core IT system which underpins MOSL's role in the water retail market. CMOS manages all the electronic transactions involved in switching customers and provides usage and settlement data that is used in the billing process.
<b>Consumer Price Index including owner occupied housing costs (CPIH)</b>	Compiled and published monthly by the Office of National Statistics. This is a measure of consumer inflation including a measure of the owner occupied housing costs (costs that are associated with owning, maintaining and living in one's home) and council tax.
<b>Developer Services Measure of Experience (D-MeX)</b>	D-MeX measures the quality of services to developers and other third parties. It has two components. The qualitative component is based on interviews with developer services customers that have transacted with a water company in the previous month. The quantitative component is based on the water company's performance against a key set of Water UK metrics which measure the service provided by water companies to their developer services customers.
<b>Environment, Social and Corporate Governance reporting (ESG)</b>	ESG reporting refers to the disclosure of data covering the company's operations in three areas: environmental, social and corporate governance.
<b>Final Determination (FD)</b>	This is the conclusion of discussions on the scale and content of the Asset Management Plan for the forthcoming five-year period. It is accompanied by a determination of the framework allowable charges for the forthcoming five-year period.
<b>Licence</b>	The Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
<b>Menus</b>	Menu regulation is an innovative system in which companies are presented with a choice of regulatory contracts. Companies are rewarded or penalised based on how well their business plan matches expenditure during the subsequent price control.
<b>MOSL (Market Operating Services Limited)</b>	MOSL is the not-for-profit company which operates the business water market which opened on 1 April 2017.
<b>Non-appointed business</b>	The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).
<b>Ofwat</b>	The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.
<b>Outcome Delivery Incentives (ODIs)</b>	The rewards earned and penalties incurred by companies according to how well they perform against the Performance Commitment Levels.
<b>Performance Commitment Level (PCL)/Performance Commitments (PCs)</b>	In consultation with Ofwat and our customers, we have set measurable targets for each ODI that represent the delivery of our outcomes.
<b>Periodic Review</b>	The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the 'K' factor – see above).
<b>Price Control Units</b>	At the 2019 price review, Ofwat introduced separate price controls for wholesale water resources, wholesale water network+, wholesale wastewater network+, bioresources, retail household and retail non-household.
<b>Regulatory Accounting Guidelines (RAGs)</b>	The accounting guidelines for the APR issued, and amended from time to time, by Ofwat.
<b>Regulatory Capital Value (RCV)</b>	The capital base used in setting price limits and the value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology to recognising the impact of indexation using ONS inflation RPI and CPIH indices.

Term	Definition
<b>Retail Price Index (RPI)</b>	The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.
<b>Retail services</b>	The elements of the business responsible for direct contact with customers e.g. the contact centre, billing and reading meters. From April 2017, following the opening of the non-household market, business customers are able to choose their retail supplier. The appointed business exited all non-household market activities.
<b>Section 24 Sewers</b>	In England there is a category distinction between sewers built before or after 1937. Sewers dating from after 1937, and that only serve your own home albeit that the drain line crosses somebody else's land, are "private" or "lateral drains". On the other hand if your house was constructed before 1 October 1937 and your drains are shared, serving two or more homes, then that drain line is a "public" sewer (a "section 24 sewer").
<b>Third-party contributions since 1989/90</b>	Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.
<b>Totex</b>	Total expenditure comprising operational expenditure (opex) and capital expenditure (capex).
<b>Transferred private sewers</b>	On 1 October 2011 all privately owned sewers and lateral drains which drained to existing public sewers as at 1 July 2011 became the responsibility of the sewerage undertaker. This covers foul, surface water or combined sewers, and any drains serving individual properties, which are outside the curtilage of the property they serve, connect to the public sewerage system and were previously the responsibility of homeowners.
<b>UKWIR (UK Water Industry Research)</b>	The body which facilitates, manages and delivers a strategic programme of research projects for its members, the water companies of the UK and Ireland, to address the key challenges they face.
<b>Water and Sewerage Company (WaSC)</b>	A company responsible for the provision of both water and sewerage services.
<b>Wastewater services</b>	Our wastewater services cover the collection, treatment and the return to the environment of sewage produced by households and businesses. In some areas surface water and sewage mix together before being treated at our sewage works.
<b>Wastewater Treatment Works (WWTW)</b>	We use this term, rather than sewage treatment works, to describe the facilities which return used water to a condition where it can safely be discharged to environmental waters.
<b>Water only company (WOC)</b>	A company responsible for the provision of water services only.
<b>Wholesale services</b>	The elements of the business responsible for the abstraction, treatment and distribution of water and the collection, treatment and disposal of sewage and sludge.
<b>Working capital</b>	The aggregate of stocks, trade debtors and trade creditors.
<b>WRFIM</b>	Wholesale Revenue Forecasting Incentive Mechanism.

## Notes





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Water**

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