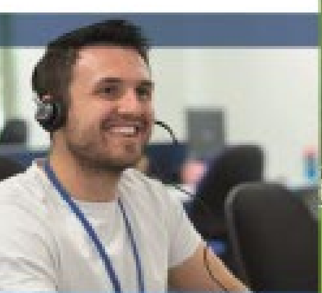
south east water

2022/2023

Annual Performance Report



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Contents

This annual performance report has been prepared in accordance with Condition F of South East Water Limited's ("SEW") instrument of appointment ("Licence") and in accordance with the latest regulatory accounting guidelines ("RAGs") issued by Ofwat. In instances where there are differences between International Financial Reporting Standards ("IFRS") as adopted for use in the United Kingdom and the RAGs, the RAGs take precedence.

These disclosures and statements should be read in conjunction with the information set out in the annual report and financial statements of South East Water Limited for the year ended 31 March 2023 along with the populated 2022/23 annual performance report tables (excluding tables 3A-3I) and the populated ODI performance model reporting (tables 3A-3I) Microsoft Excel files which can be accessed using the following link https://www.southeastwater.co.uk/about/resources/publications/financial-reports.

Directors' statements and certificates

Board statement of performance and direction

This statement from our board explains how we have set our aspirations and how we have performed for all those we serve in 2022/23 as required under Ofwat's board leadership, transparency and governance principles. It also provides an overview of the position and prospects of the business at the end of the financial year and a forward look on our main objectives for 2023/24 for the implementation of our plan for 2020 to 2025.

How we set our aspirations for South East Water

Our purpose is to "provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive".

It is what guided us when setting our aspirations, strategy and our objectives for 2020 to 2025. This includes finding opportunities to have a positive impact on the environment and society as we provide our public water service.

To translate these aspirations into actions, we have created a five year plan in which we have adopted service targets that will require us to keep delivering significant service improvements every year during 2020 to 2025, and responsible business commitments to improve and measure our impact on society and the environment. Our responsible business committee monitors our responsible business initiatives regularly to ensure they remain up to date and continue to reflect stakeholders' expectations.

A regulated water company must have an ethical and inclusive culture of public service, guided by a strong sense of purpose. This means that in order to deliver the best service possible and face our challenges (both our own and global ones such as climate change), we must have an integrated approach and we must work with and learn from our customers and all other stakeholders. We refer to this as "integrated thinking" and "stakeholder inclusiveness".

We adopted a corporate governance framework that is centred on purpose, culture, integrated thinking and stakeholder inclusiveness, and as we had committed to do, our articles of association enshrine our purpose and revised directors' duties - putting additional emphasis on delivering our purpose and providing value to others.

Community and society focused

Being a business that understands our customers
Our plan for 2020 to 2025 is built around customer satisfaction. We have evolved our approach to measuring customer satisfaction, first introduced in 2015, and have developed an innovative approach to measuring satisfaction based on attitudinal segments. This will help us understand the needs of all our customers and make sure we go beyond delivering what the 'average' customer wants. Our customer insight team has been set up to continuously engage with our customers and other stakeholders and to act on the feedback we receive.

Being a responsible business that supports our vulnerable customers
We have stretched our performance and ambitions with six specific new performance commitments around vulnerability. These have been co-created with our customers, stakeholders, employees and our Customer Challenge Group (CCG); so too has the strategy that underpins these performance commitments.

We have published a comprehensive vulnerability strategy and we were the first water company to achieve the BS 18477 certification, demonstrating that we provide an inclusive service for customers in vulnerable circumstances.

We are working in partnership with other utilities, local authorities, housing associations and charities to promote our priority service register and provide other support to vulnerable customers. We share experience and insight on how we can improve our support and engage with customers we have not been able to reach before.

Directors' statements and certificates

Being a business that supports our community
Supporting our communities is part of our responsible business commitments, including the development of a future generation schools programme on water, creating more partnership community projects on water use and vulnerability and supporting the tap water refill campaign to reduce plastic bottle use.

Flourishing environment

Being a business that enhances the environment
Operating in an environmentally diverse and water stressed area, we need to make the right choices for our local communities and the environment.

We have a significant environmental programme to deliver and have developed a suite of six new performance commitments that recognise the influence we can, and should, have on landowners, other water users and abstractors to make water catchments more resilient to drought, while also ensuring we enhance habitats to give wildlife an opportunity to thrive.

We build on the partnership approach we have developed over the previous regulatory period to achieve these ambitions as we know our shared experience and knowledge of the environment is key. Examples of this are our partnerships with Natural England, farmers, universities and environmental groups.

Being a business that plans for the environment
To support our environmental ambitions and provide a long term view on all aspects of the environment, we have created a 25 year environment plan working with stakeholders, the first of its type in the industry. This plan aligns with Defra's 25 year environment plan and ensures we manage our interaction with the environment in a holistic and co-ordinated way.

We are defining how to use natural capital accounting to integrate considerations of natural capital in our business decisions and in particular the evaluation of our investment to ensure the most sustainable solutions are adopted. We have a performance commitment to decrease our operational carbon emissions and to significantly increase our use of renewable energy. We published our net zero routemap in July 2021 which explains how we intend to reach operational net zero by 2030.

Thriving people

Being a business where the people we work with thrive
We have set an ambitious five year people plan to build a culture which inspires excellence in its people. It is based on four strategic pillars, which are key aspects of our culture and identify drivers for delivery and measures of success.

We want to create a thriving, resilient and inclusive environment with respect at its core and where diversity of thinking is valued. To this end our people plan has identified relevant actions we will take as part of our wellbeing strategy, to encourage social mobility and inclusion, to attract and recruit new talent to provide learning and development opportunities and to improve skill transfers and develop mentoring.

We want to develop behaviours and capabilities in our workforce that will create a high performance culture. This will be achieved by developing leaders who help others reach their potential, by upskilling managers and employees in continuous improvement, by building a resilient workforce through learning and development, and by enhancing our engagement with employees.

We want to improve the performance of our business, continuously striving to meet and exceed company targets and employees' expectations. Our action plan in this area targets business efficiency through our structure and working arrangements, improving the on-boarding and employee experience, improving the support given to our managers through dedicated Human Resource and Organisational Development business partners, systems and automation and the development of new metrics.

Directors' statements and certificates

Future proofing our business is the fourth priority of our people plan, making sure that our workforce is able to respond to the changing expectations of the business and that the business is able to respond to the expectations of its people. In this area our people plan focuses on agile working, reward strategy and providing future opportunities, including through succession planning and ensuring we have the skills we need for the future.

This plan also sets out how we are delivering our responsible business commitments on fair pay, reward and recognition and on health, safety and wellbeing.

Trusted and reliable service

Being a responsible and transparent business
We are entrusted to deliver a continuous supply of safe, wholesome drinking water direct to our customers' homes. We will keep the trust of the public in our business with great service and high standards of governance and transparency.

The business already has a well-developed culture driven by public service values, but we explain below how we are strengthening our public service culture. In the related field of ESG performance, we achieved a score of 96 in 2022 and are one of the top performers in our peer group under the GRESB benchmark.

Our package of responsible business commitments is intended to reflect the actions and behaviours that our customers and stakeholders expect a responsible business to display across our four strategic themes. Among these, our commitments to trusted corporate governance and transparency of reporting seek to ensure that our standards of conduct and the transparency of the information we provide meet the expectations of stakeholders.

Our remuneration committee designed and adopted a new bonus scheme for 2020 to 2025 that reflects the importance of service delivery to customers and of our commitments to act responsibly. It includes metrics in relation to outcome delivery incentives (ODIs), environmental, social and governance matters, financial and personal objectives. Our ESG metrics put into practice our aspiration to include broader stakeholder considerations in the design of our incentives.

Our dividend policy sets out principles and considerations we must have regard to when authorising dividends in relation to our financial obligations and financial resilience, the interests of employees, the ability of the company to finance current and future investment, and performance against our commitments. It is published on our website at: corporate.southeastwater.co.uk/about-us/our-governance

We also play an active role regionally in relation to the impact of housing growth on water, engaging with relevant stakeholders such as planning authorities to make sure these issues are considered.

Being an innovative business
Maintaining trust also means being able to innovate to improve and continue to provide a great service in the future. We have developed a focused innovation strategy which targets our customers' and stakeholders' priorities where we can make the most difference.

We have developed a number of innovation tools to help us deliver our stretching performance commitments for the next five years and beyond.

Our aspirations and strategy in more detail

We include more information on how we set our aspirations and our strategy and how we consider the interests of our customers and stakeholders during the year in our strategic report (part of our annual report) for 2022/23:

- in the review of our strategic themes:
    - trusted and reliable service on page 36;
    - thriving people on page 62;
    - community and society focused on page 80; and
    - flourishing environment on page 134.
- in our section 172(1) statement on page 86.

Directors’ statements and certificates

How we have performed for those we serve in 2022/23

Our performance this year was dominated by an extraordinary combination of successive weather events which brought unprecedented challenges. We also continued to work on delivering our investment programme and plan for future service delivery.

Demand and interruption

Our reported interruption figure for 2022/23 is 3 hours 2 minutes and 21 seconds of average time lost per property per year against a target of 5 minutes and 48 seconds. Despite investment to improve the resilience of our supply system and service and our work to improve our readiness and capacity to respond to incidents, our performance on interruptions is significantly below target.

Increases in household and non-household demand in recent years, despite universal metering being in place, changes in usage patterns with more people working from home since the covid-19 pandemic and an exceptional combination of extreme weather in 2022 (Storm Eunice early in the year followed by the summer heatwave and drought, flooding and the winter freeze-thaw), have resulted in significant supply interruptions.

This has affected some of our customers more than others, impacting the most vulnerable parts of our supply system, where sustained peak demand can exceed the capacity of our treatment works to treat and pump enough water into the system.

These events did not affect all our areas equally. In our western region, a distinct area that was formerly Mid Southern Water and where there is greater network connectivity and ability to transfer water across the region, we have seen upper quartile interruption performance with less than 1 minute lost per property annually for the first three years of this 2020-25 period.

The impact in the other areas is driven by the configuration of the infrastructure which we intend to remedy in our next Business Plan. Preventing interruptions is our main priority for our short term investment to the end of the current regulatory period and for our next business plan in order to restore the necessary headroom capacity.

We met our target on unplanned outage which reflects our efforts to keep our treatment works and assets working at maximum capacity to meet high peak demand.

Leakage

Our leakage performance is important, as the amount of treated water leaking from our network is a key area customers want us to tackle, and because we have a very ambitious leakage reduction target by the end of the current regulatory period.

Our leakage performance was also impacted by the extreme heat and the freeze thaw in 2022 which caused a significant surge in the number of burst and leaks. However, a plan is in place to meet our target by 31 March 2025.

This surge has also meant that the number of mains repairs exceeded our target as a consequence of additional work to bring leakage down.

Our three year rolling average target for 2022/23 was 93.2 Ml/d and, in the circumstances, we experienced this year, we only achieved a three year average leakage of 94.5 million litres a day (Ml/d). Our annual target for 2022/23 was to reduce our leakage rate to 89.9 Ml/d but our actual leakage was 102 Ml/d.

Customer service and satisfaction

Our combined C-MeX score has decreased from 76.59 out of 100 last year to 73.47 in 2022/23. Our final ranking is not yet known, but customer satisfaction is directly influenced by operational performance and we expect that the events we experienced in the year will also impact our C-MeX performance, which will be determined by Ofwat after publication of this report.

Directors' statements and certificates

Also affected by interruptions performance, our performance on complaints was 57.716 household complaints per 10,000 connections in 2022/23 compared with 23.906 in 2021/22.

Despite our initiatives to improve customer satisfaction, we have not achieved the satisfaction scores we were targeting under our bespoke non-financial performance commitments.
We have continued to work to improve our service to customers and this work was recognised through our accreditations.

We hold a ServiceMark Accreditation with distinction from The Institute of Customer Service. We are one of 71 organisations, 18 with distinction, to receive this award. This is a national independently run standard that recognised our achievement in customer service and our commitment to upholding service standards.

We are one of only two water companies to hold the Inclusive Service Kitemark, which replaces our previous accreditation under the BS18477 standard on inclusive services. The Inclusive Service Kitemark from BSI is a global standard that focuses on protecting vulnerable consumers, including the identification of vulnerability, inclusive design of products and services, the adoption of AI as well as data collection, data protection and data sharing to ensure the organisation is creating an inclusive service for all.

We have used the Digital Economy Act 2017 to implement data sharing with four local authorities to date. This partnership enables us to automatically enrol low income households onto our social tariff, making sure help is given where it is needed most, without our customers needing to ask. We are currently working on further agreements with other councils, which will form part of our ongoing strategy. We have been sharing the details of this approach with other water companies and with Ofwat, CCW and Defra and were finalists in the Utility Week Customer Vulnerability Award category for this ground breaking initiative.

In addition to developing further data sharing with local authorities, during the past year we have also signed similar sharing agreements with our local energy providers, ensuring that where our customers are registered as needing more support with one of their utilities, this information is also shared.

As part of our vulnerability strategy, we want all eligible customers to be added to our social tariff. We have continued our work to support vulnerable customers and have achieved our three targets relating to outreach and registration on our priority service register. At the end of the year 60,275 customers benefited from our social tariff compared with 53,981 at the end of last year. We did not achieve our target of 66,000 but are continuing our efforts to increase the number of beneficiaries building on innovative data sharing with local authorities.

A number of our bespoke performance commitments seek to improve the satisfaction of different segments of customers or those on our priority service register and those receiving financial support. Our aim is to achieve improvements in customer satisfaction, but despite our initiatives we have not achieved the improvements that we were targeting under our bespoke non-financial performance commitments.

Environmental performance

We have met our environmental targets relating to the delivery of our WINEP programme, protecting wildlife and biodiversity and engaging and working with abstractors to improve catchment resilience to low flows.

Under our catchment management programme, we actively engage with farmers and landowners to prevent pesticides, soil and fertiliser washing from fields into the rivers and aquifers we take water from. We have continued our work with landowners to improve catchment resilience and reduce raw water quality deterioration, covering a cumulative total of 8,289 hectares, slightly below our target of 8,530 hectares.

Owning or managing 33 sites of Special Scientific Interest, a National Nature Reserve, two local nature reserves and numerous Areas of Outstanding Natural Beauty, we are working with Natural England to provide net biodiversity gains during this five year period. We had a target to undertake improvements on 1,268 hectares of land during 2022/23 and we outperformed this target, undertaking improvements on 1,514 hectares of land.

Directors' statements and certificates

Water quality

Our actual performance was at or better than target on all water quality measures (Compliance Risk Index and the appearance, taste and odour of drinking water), sites protected from flooding, the delivery of our strategic main from Wellwood to Potters Corners (including sections we delivered early to improve resilience in the Charing area in Kent) and the number of household void properties.

Summary of performance against target

Overall, we incurred a net penalty of £5.4 million in 2022/23, including an estimate of penalties under C-MeX and D-MeX (the final figures for C-MeX and D-MeX are due to be announced by Ofwat later in 2023). This compares to a total net penalty in 2021/22 of £2.9 million (using the final C-MeX and D-MeX figures assessed by Ofwat).

As an indicator of our overall performance against our financial ODIs, we met 6 of them (out of a total of 11, excluding the pcc and non-household voids commitments which will be assessed by Ofwat at the end of the current regulatory period, and excluding the C-MeX and D-MeX measures which are based on how our performance compares with the performance of the other companies and is not yet known).

This should be understood in the context of challenging targets which become more stretching year on year, where penalties may still be incurred despite achieving real improvements in performance.

Our performance in detail

We include more information on our performance during the year and our key investment in our strategic report (part of our group annual report) for 2022/23:
- in the Chair and CEO joint report on page 8;
- in our business performance section on page 66; and
- in tables 3A to 3H of this annual performance report on page 67.

The microsite for our performance, people and planet report provides detailed information on our performance and our corporate social responsibility in a clear, accessible and interactive format. Our microsite is available at: **performance.southeastwater.co.uk**

Our performance can be compared with other water companies by visiting https://discoverwater.co.uk/ which has been developed to provide more transparency on the performance of the industry. This is an important tool to enable stakeholders to compare our performance as we keep striving for continuous improvement and stretching ourselves to provide the best service possible.

Challenges ahead and priorities for 2023/24

Financial resilience

The exceptional combination of weather events experienced in 2022/23, together with high energy and chemical prices and high general inflation had a significant impact on operating costs. Weather events have resulted in incident and drought management costs, additional production and leakage costs, ODI penalties, GSS payments and voluntary compensation to the customers and communities affected. The overall impact of these costs was significant. Rising interest rates have also resulted in higher financing costs than in previous years. These factors, in combination, have put pressure on financial resilience.

Current economic conditions with high inflation and rising interest rates are likely to continue to be challenging for our financial performance and resilience, and the cost of living crisis will continue to affect many of our customers in 2023/24 and beyond.

Directors' statements and certificates

Our financial resilience risk and macroeconomic risk have been assessed as major and increasing in our assessment of principal risks, reflecting current macroeconomic conditions and the significant impact of operational incidents on our financial resilience in the context of the regulatory regime, in particular in-period ODIs and a revenue allowance that does not recognise the additional costs that have actually been incurred. Our assessment of these risks is set out on page 42 of our annual report for 2022/23.

Managing our financial resilience will be a key priority in 2023/24, and we expect the following challenges:

- Our input costs will continue to be high, even if we are expecting a relative stabilisation of electricity and chemical prices.
- With persistent inflation, bad debt and the number of customers needing financial support is likely to increase.
- Revenue from our non-regulated activities may be negatively affected by current economic conditions, as well as the level of new connections and contributions from new development activities.
- Our borrowing cost for any floating rate debt will continue to increase in line with rises in the bank rate, which is expected to continue in the following months in light of persistent inflation, particularly core inflation and a tight job market in the UK with a risk of a wage price spiral. Interest rates are expected to remain high over the next few years.

Service resilience

In 2023/24 water supply and service resilience will continue to be our first priority.

As we have experienced in the past few years, weather events significantly affect our operations, those of our suppliers and our service to customers. This was particularly demonstrated in 2022/23. These events are already more frequent, and this emphasises the need to prepare for the future and improve the resilience of our supply system to climate change.

As we prepare this reporting, we have experienced a surge in demand from 5 to 18 June 2023. We typically supply 541 million litres of water a day. However, in mid-June 2023, demand rose rapidly and remained very high over that period, reaching 678 million litres on 10 June. This additional demand is the equivalent of supplying a further four towns the size of Maidstone or Eastbourne.

This resulted in the storage of drinking water falling faster than it could be replenished in the most stretched parts of our supply system, resulting in interruptions to the water supply in these areas. We decided to impose temporary use bans in Kent and Sussex as early as possible within triggers set in our drought plan, to limit non-essential use and protect the access to water for essential use by customers that were affected the most.

We must improve our service resilience in Kent and Sussex and as we do this, we will also improve our customer service performance. We know that our Western region, which has shown more resilience and achieves some of the best levels of operational performance in the country, also achieves a much better customer service score.

We are bringing forward and prioritising investment between now and 2025 to restore resilience in those parts of our supply system that are most under stress by increasing connectivity, maximising yield, improving flood protection, adding on-site electricity generators, replacing or improving equipment at water treatment works, which will increase the performance and reliability of pumped systems and end of system areas that are the most vulnerable to sudden increases in demand and bursts.

We will also continue to work with our energy suppliers to avoid power outages to our sites and improve coordination with them.

Leakage and demand

Our second operational priority, also linked to resilience, will be to deliver our leakage recovery plan in order to achieve the final determination target for the current regulatory period by 31 March 2025. We will also intensify our work with customers to reduce demand and continue encouraging them to use water wisely, including via a new SMS alert system that is currently being implemented.

Directors' statements and certificates

Price review and planning for the future

2023/24 will be a crucial year for our long-term planning to 2050 and beyond. Our long-term planning is especially important because we are at a turning point with greater uncertainty than before.

We will publish the following key plans:

- our 25 year environment plan to future-proof our water resources for the environment and the next generation.
- our water resources management plan based on the WRSE regional plan.
- our strategic direction statement that sets our vision, ambition and priorities for addressing the challenges we face in the next 25 years.
- our long term delivery strategy to 2050 and business plan for 2025-30 which will set out how we will deliver the improvements in performance and service quality that we want to achieve, the levels of performance we target and how we will prioritise and phase investment.

Population and housing growth, the need to leave more water for the environment, to reduce our carbon footprint, to adapt to the impact of climate change, and to protect and restore the environment and biodiversity, will create an increasingly complex combination of interconnected challenges.

These challenges mean that ensuring the future of water services will require significant and regular investment in our water supply system, water resources, natural capital and technology between now and 2050, new approaches to ensure there is enough drinking water and that we make the best use of this precious resource. We will also have to balance this with keeping our service affordable and ensuring future generations are treated fairly.

In addition, we will require supportive and consistent policies and regulation that recognise the impact of our challenges and help us deal with uncertainties. Our long term plans as well as our business plan for 2025-30 will focus on demonstrating to our regulator the need to invest regularly in enhancing resilience in a way that matches the specific characteristics and challenges of each of our three different regions (West, Sussex and Kent).

Our business plan will focus on schemes to address service resilience and interruptions performance. These will address system capacity issues through:

- water mains and pumping stations to move water from areas of sufficient supply to those where supply is more limited and/or ensure that areas currently supplied by a single source can be supplied with alternative sources,
- additional treated water reservoirs in key areas to sustain sudden and/or prolonged peaks in demand,
- increased capacity in water treatment works with related improvements to raw water storage.

Other planned activities in 2023/24

In the next year and to the end of the current regulatory period we will work to:

- Improve our ranking position across key comparative measures.
- Deliver the next phase of our customer service improvement programme.
- Continue the implementation of our vulnerability strategy, including extending our data share arrangements and partnerships.
- Roll out our new customer notification system and improved "in your area" information portal on our website.
- Implement further initiatives on non-household and household pcc reduction.
- Implement the next phase of our data and cloud strategy
- Continue our decarbonisation through improved green energy procurement and on-site solar generation
- Implement the next phase of our smart network strategic plan

Directors' statements and certificates

Board statement on accuracy and completeness of data and information

This statement sets out the approach adopted by the board and the activities it has carried out with a view to ensuring that the data and information published by the company is accurate and complete, and to allow it to provide the specific assurance set out at the end of this section.

The board considers that the approach developed by the company for its company monitoring framework helped improve reporting processes and had a positive impact on the quality of the data and information it published. It decided that the company would continue to produce and publish a company monitoring framework as it had done in previous years.

Our current company monitoring framework can be found using the following link:
https://www.southeastwater.co.uk/about/resources/publications/company-monitoring-framework.

Our internal controls and board oversight

Our governance and assurance processes for the preparation of our annual performance report and performance, people and planet microsite were based on our well-established systems of internal control for all regulatory and performance reporting.

These processes incorporated oversight by the board and scrutiny by the audit and risk committee following reviews by the executive directors, and the requirement for heads of department and/or manager level sign off.

Internal processes and controls

The assurance methodology that we have adopted is in line with the approach set out in our company monitoring framework, with the three levels of assurance as described below:

Level 1
- peer review – data and information must be checked by a separate individual;
- manager review/sign off – data and information is required to be checked by the line manager responsible for the individual completing the submission;
- independent review is undertaken of the reporting requirements to ensure all required changes and actions are identified;
- the changes identified are circulated and assigned to an owner;
- formal review of last year's Ofwat queries and audit issues are circulated to the owners to ensure required actions are adopted; and
- data owners are required to review the data assurance provider's audit notification as a pre-audit check to ensure all areas are compliant and Ofwat's reporting requirements have been covered.

Level 2
Internal review
- data and process audit – data validity is tested through taking a sample and verifying the data for critical data such as PCs and ODIs;
- the methodology document is reviewed to ensure that the process and internal controls are complete and being followed;
- any required changes are controlled by the Regulatory Assurance Manager. A log has been maintained to track sign off at all the assurance stages and provide an audit trail to the source data;
- the process for areas of high risk and importance are reviewed and additional assurance added. For example, all interruption events are separately reviewed and signed off by the distribution manager;
- internal consistency checks have been undertaken on the data within the annual performance report and against other published documents;
- a master set of APR tables is linked to our source data to provide an audit trail. This is separately managed and controlled;
- independent review is undertaken to check the tables are populated with the audited data;

Directors' statements and certificates

- the master set of data tables and submission version is checked manually cell by cell by an independent reviewer and by an automatic electronic lookup. These are used to try to eliminate any input errors arising from the manual entry process required for the submission version of the tables;
- independent check to ensure all the formatting requirements have been met; and
- internal consistency checks on the APR tables with APR commentary.

External review
- data, process and submission audit – this process is undertaken by an external assurance partner;
- a review of methodology, data sampling and internal controls is undertaken;
- meetings undertaken with senior managers and those who produce the data to ensure a thorough understanding is obtained. Our external assurance partner, Atkins, attend the pre audit meetings to review preparations for the audits and any potential issues that may arise;
- external consistency checks have been carried out on our APR Tables, by our independent assurance partner Atkins; and
- independent review is undertaken to check the tables are populated with the audited data.

Level 3
- director/executive approval – final review of submission information;
- audit and risk committee review;
- board approval – overall review of assurance and auditing undertaken; and
- discussion and approval of external assurance partner findings.

Annual reporting has a clear ownership structure with relevant managers and heads of departments taking ownership of sections of the reporting and supporting material. Each data table has data providers assigned for each line and each section and table has an overarching table owner who is a head of department, reporting to an executive director. The data providers are responsible for collecting, compiling and reporting the data to the table owner and the table owner is responsible for reviewing such data.

Board oversight

Our board takes full ownership of our approach to the submission and publication of accurate and complete information, and this is outlined in this data assurance summary.

The board considered and approved the final processes used for the generation of the 2022/23 annual reporting.

The audit and risk committee also scrutinised the annual performance report and related narrative.

It considered the report presented directly by Atkins and the financial auditors to the committee on the outcome of their audits of the company's processes and annual reporting. In respect of performance, Atkins presented their findings, following their review of the performance of the company in 2022/23 against performance commitments, and their comments and recommendations.

The audit and risk committee and the board also reviewed the annual performance report, including the statements from the board and the ring-fencing certificate, as well as the content of the performance, people and planet microsite. Our annual performance tables have been prepared under the scrutiny of our audit and risk committee.

This committee reported to the board and presented its recommendations before the board approved the company's annual reporting.

Our external assurance

As the processes and associated data items are complex and detailed, the board focuses on the process followed to prepare and review data, the robustness and clarity of the reported information, and obtains additional information and analysis from the executive directors. In addition, the board assures itself of the robustness of process and data by gaining assurance from Atkins.

Directors' statements and certificates

Atkins' role is to assist the board to ensure completeness of the annual reporting, compliance with relevant duties and obligations, and that the information we provide to demonstrate compliance with our relevant duties and obligations is consistent, comparable, reliable and robust. They presented their summary report and findings to the audit and risk committee.

PricewaterhouseCoopers LLP (PwC) were appointed as statutory auditor in August 2021. The appointment has been made for an intended initial five years starting with the year ended 31 March 2022, with the option to extend for a further three years. This term is within current FRC guidance that the audit should be tendered every 10 years.

Details of the work performed by PwC on our annual performance report are provided in the independent auditors' report on page 23.

For the current reporting period Atkins have reviewed all our performance commitments and carried out process audits during the year, as well as the year end audits covering process and performance.

This is done through separate audits for each of the PCs, ODIs and sub measures, enabling additional information to be reviewed on a yearly basis and enabling the auditors to provide a more robust challenge. Final audits of the APR tables are then undertaken (Tables 3A, 3C, 3D, 3E, 3F, 3H and 3I). The following annual performance report tables are also assured by Atkins:
- 2B – Totex analysis – wholesale water;
- 2C – Retail operating cost analysis;
- 4A – Water bulk supply information;
- 4C – Impact of price control performance to date on RCV;
- 4D – Water resources and water network+ totex analysis;
- 4F – Major project expenditure for wholesale water;
- 4J – Water resources and water network+ base operating expenditure;
- 4L – Enhancement expenditure – water resources and network+;
- 4N – Developer services expenditure – water network+;
- 4P – Expenditure on non-price control diversion;
- 4Q – Developer services – new connections, properties and mains;
- 4R – Connected properties, customers and population;
- 5A – Water resources asset and volumes data;
- 5B – Water resources operating cost analysis;
- 6A – Raw water transport, raw water storage and water treatment data;
- 6B – Treated water distribution – assets and operations;
- 6C – Water network+ - mains, communication pipes and other data;
- 6D – Demand management – metering and leakage activities;
- 6F – WRMP annual reporting on delivery – non-leakage activities; and
- 11A – Operational greenhouse gas emissions.

PwC, has audited the following sections in the APR:
- Section 1; and
- Section 2.

PwC have also performed agreed upon procedures on the following tables:
- 4B – Analysis of debt;
- 4H – Financial metrics;
- 4I – Financial derivatives; and
- 9A – Innovation competition.

The findings from annual audits will be incorporated into the process of updating our company monitoring framework replacement, which has been reviewed and updated as the format is no longer stipulated by Ofwat.

Directors' statements and certificates

Our plans for publishing our future company monitoring frameworks

We will review the current format, content and purpose of our assurance of 2022/23 to assess the elements that worked well to date and which we may retain, and those where changes may help facilitate the board oversight and improve the reliability, accuracy and completeness of the data and information we publish going forward.

Statement by directors

In addition to their responsibilities to prepare financial statements in accordance with the Companies Act 2006, Condition F of the Instrument of Appointment requires the company to prepare a set of regulatory accounting statements which are in accordance with the Regulatory Accounting Guidelines ('RAGs') published by Ofwat under Condition F.

For the preparation of this statement, we have considered the internal processes and controls and the external assurance relating to the data and information which the company has provided to Ofwat in the reporting year and/or that we have published as a water undertaker which are described in this statement.

We have also specifically considered the report to the audit and risk committee by our external assurance partners and our auditors and the independent auditor's report set out in this annual performance report and the report from the audit and risk committee and its recommendation to the board relating to the regulatory reporting of the company for 2022/23.

Our consideration of the above has not identified any material deviation from or non-compliance with reporting obligations and to the best of the board's knowledge after reasonable enquiries the data and information falling within the scope of this statement is accurate and complete in all material respects and the company is taking appropriate steps to manage and/or mitigate the risks of inaccuracy or incompleteness of data or information.

Where there may be ambiguity in requirements or some of them may be open to different interpretations, commentary has been included in our reporting to provide transparency.

Based on the scope and outcome of the review processes detailed in this statement and in our annual financial and regulatory reporting, and subject to the observations set out above on areas of uncertainty, the board is able to confirm that the data and information which the company has provided to Ofwat in the reporting year and/or which they have published in their role as water undertaker was accurate and complete.

Approved by the Board and signed on its behalf by:

David Hinton
Chief Executive Officer

…………………………………………
14 July 2023

Andrew Farmer
Chief Financial Officer

…………………………………………
14 July 2023

Directors' statements and certificates

Risk and compliance statement

As directors of South East Water, we have relied on the established systems of internal control the company operates to ensure that it delivers its statutory and regulatory obligations and its obligations under its instrument of appointment ("Licence") and manages its risks in order to prepare this statement, the regulatory accounts, the annual performance report and all related narrative.

We have also relied on comprehensive and transparent controls and assurance mechanisms which set out clear accountability for data collection, analysis and verification following the approach defined in our company monitoring framework and detailed in the board statement on accuracy and completeness of data and information. The data and control processes themselves have been thoroughly reviewed by external financial and technical auditors to ensure that the information we publish is robust and of high quality. This enables us to have a high degree of confidence in the information presented in this year's regulatory reporting and supporting data on which the declarations of compliance set out at the end of this statement are based.

We describe our risk management systems and our principal risks in our strategic report within our group annual report. We describe our governance and how we comply with the principles of our corporate governance code and the objectives of the board leadership, transparency and governance principles and more particularly on transparency and accountability in our corporate governance report within our group annual report.

Our company monitoring framework describes our approach to reporting and to the assurance of our information. A summary of the process we followed to assure the quality of our reporting is set out in the board statement on accuracy and completeness of data and information.

We have also set out our assessment of the prospects and viability of the company in our long term viability statement, taking account of the final determination and of our assessment of the potential impact of current macroeconomic conditions on the UK economy, our customers and our business.

In addition to regular reporting during the year, compliance with our obligations under sector specific legislation or regulation and under our Licence was reviewed for our annual reporting under our two KPIs relating to compliance with our national security obligations and to compliance with other statutory obligations and Licence conditions which is reported on our performance, people and planet microsite. This reporting did not identify any reportable deviation from or non-compliance with these obligations in 2022/23.

Our performance on supply interruption was significantly impacted in 2022/23 by an exceptional combination of weather events and sudden increases in peak demand beyond Water Resources Management Plan (WRMP) planning assumptions, and recently in June 2023, reflecting increases in household and non-household demand in recent years, despite universal metering, and changes in usage patterns as more people work from home following the covid-19 pandemic. In response to the pressure this places on certain parts of our water supply system, short, medium and long terms resilience solutions (described in our statement on performance and direction) are being implemented or planned for delivery in the next and subsequent AMPs. We continuously assess and adapt our incident management and response and implement necessary actions in accordance with our drought plan - including TUBs - to reduce sudden peaks in demand. We have set out how we are prioritising short term investment in resilience alongside planning for long term investment in our statement of performance and direction.

We have also specifically considered compliance with our statutory, regulatory and Licence obligations that have not been confirmed by other processes and for which Ofwat is the enforcement authority and have not identified any material deviation from or non-compliance with these obligations. To the best of the board's knowledge, after reasonable enquiries, South East Water has complied in all material respects with these obligations and is taking appropriate steps to manage and/or mitigate the risks it faces.

This statement is published alongside our group annual report, and annual performance report for the year ended 31 March 2023, and in making this statement we have taken account of the other statements made in compliance with our obligations under conditions F, and P of our Licence and under section 35A of the Water Industry Act 1991 (which are set out in the directors' remuneration report within our group annual report).

Directors' statements and certificates

Based on the scope and outcome of the review processes detailed in this statement and in our annual financial and regulatory reporting the board is able to confirm that South East Water:

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

Approved by the Board and signed on its behalf by:

David Hinton
Chief Executive Officer

…………………………………………
14 July 2023

Andrew Farmer
Chief Financial Officer

…………………………………………
14 July 2023

Directors' statements and certificates

Ring-fencing certificate

Under condition P31 of its instrument of appointment ("Licence"), the company is required to provide a ring-fencing certificate as defined in condition A of the Licence and relating to the availability of sufficient financial and other resources to carry out the functions of a water undertaker.

This ring-fencing certificate is made in accordance with the requirements of condition P31 of the Licence.

Condition P34 provides that whenever the company submits a ring-fencing certificate to Ofwat, it must also submit a statement of the main factors which the board has taken into account in giving its opinion for the ring-fencing certificate.

In addition, condition P36 provides that each ring-fencing certificate must be accompanied by a report prepared by the company's auditors and addressed to Ofwat, stating whether they are aware of any inconsistencies between the ring-fencing certificate and either the regulatory accounting statements referred to in condition F6.1, or any information which the auditors obtained in the course of their work as the company's auditors, and if so, what they are.

Information relevant to this certificate has been compiled and analysed for the purpose of our financial and regulatory reporting in accordance with our internal and external assurance processes. The most relevant information to support this certificate is mentioned in the review of the main factors that the board had regard to in respect of this ring-fencing certificate.

Statement by directors

Following due consideration of the factors taken into account by the directors as set out in more detail below, in the opinion of the directors:

(a) the company will have available to it sufficient financial resources and facilities to enable it to carry out the regulated activities as defined in the Licence, for at least the twelve month period following the date on which the certificate is submitted;
(b) the company will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the regulated activities, for at least the twelve month period following the date on which the certificate is submitted;
(c) the company has available to it sufficient rights and resources other than financial resources, as required by paragraph P14 (i.e. that if, at any time, a special administration order were to be made in relation to it, the special administrator would be able to manage the affairs, business and property of the company in accordance with the purposes of the special administration order); and
(d) all contracts entered into between the company and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to the company, to ensure that it is able to carry out the regulated activities.

Main factors taken into account by the directors

The ring-fencing certificate above has been made having regard to the company's performance, position and prospects as reflected and explained in both the group annual report and this annual performance report.

In providing the certificate set out above, the directors have taken into account the following factors:

Directors' statements and certificates

Financial resources and facilities	**Read more**
Financial details, e.g. cash position, financial headroom, refinancing undertaken/planned • The updates provided at each board meeting confirm that the financial performance of the company is in accordance with budget or forecast and the steps taken to address variances. • Our audited financial statements, which have been prepared on the going concern basis. • The financial budget for 2023/24 approved by the board and our subsequent regular reporting and forecasting to take account of the impact of relevant operational and economic conditions (including those discussed in the description of our principal risks and in our long term viability statement) on the financial position of the company and on its ability to deliver its investment programme. • The refinancing completed in 2019 as well as our monitoring of markets as we plan and prepare for further refinancing in 2024, 2025 and 2029. • Our committed borrowing facilities totalling £125 million entered into in September 2021 for a five year term, will attract an interest based on SONIA on the amount drawn on this facility (£30 million was drawn at 31 March 2023). Our floating rate authorised loan facility of £120 million drawn down in full in September 2019 was amended in December 2021 to reflect a change of base interest rate from LIBOR to SONIA. See note 18 to the financial statements reported in our group annual report for further details.	Our going concern statement on page 154 of our group annual report
Performance against Final Determinations (FDs) set at the past price review • The updates provided each month and at each board meeting on the operational performance of the company. • The performance in the first three years of AMP7, which despite a net penalty position (due to a large extent to performance relating to interruptions which was affected by significant weather events particularly in 2022), still reflects an appropriate and sustainable overall underlying performance. • The ability of the company to (i) deliver its investment programme (albeit with a detrimental effect on its ability to achieve targeted efficiencies as a result of the Covid-19 pandemic), and (ii) to deliver its service within the regulatory mechanisms to be determined by Ofwat.	Details on our performance are set out on page 74 of our group annual report
Credit related factors, e.g. credit facilities, ratings, compliance with covenants etc. • That we have complied with our financial covenants and that our current credit ratings are Baa2 stable and BBB with negative outlook, having regard to (i) our analysis of the financial resilience of the business over the next 12 months, (ii) our scenario analysis and stress testing on compliance with our financial covenants and key ratios for our credit ratings, (ii) our close monitoring of financial covenants and operational expenditure and (iii) potential remedial actions identified to ensure compliance with financial covenants in cases of variances from our budget assumptions. • Our credit rating with Standard and Poors, at BBB with negative outlook reflecting high inflation weighing on our credit metrics. • Our regular engagement with credit rating agencies to understand their approach when assessing water companies credit ratings.	
Business plans, long-term viability statements, etc. • The known outcome of the 2019 price review for the five years from 1 April 2020 to 31 March 2025 and the corporate plan for 2020-25, prepared on the basis of the final determination taking account of the negative weighting of the ODI targets and updated to reflect our performance since 2020. • Our long term viability statement, using a baseline scenario reflecting our latest forecast for the business, our current financial position and principal risks that can affect our business, including further scenarios and stress testing to reflect the impact of key risk factors (including macroeconomic conditions) and of the final determination on the position, prospects and financial viability of the company over 2020 to 2025 and for the whole duration of the lookout period of 10 years; including the outcome of the scenario analysis and stress testing on compliance with our financial covenants and on the key ratios for our credit ratings which confirmed the prospects and long term viability of South East Water in light of severe but plausible downside scenarios.	Our long term viability statement on page 144 of our group annual report

Directors' statements and certificates

Any relevant reports – internal or third party.

- The detailed report presented to the audit and risk committee and the board on the assumptions considered and scenarios used for the purpose of the long term viability statement and their impact on the prospects of the company.

Management resources

Management skills, experience and relevant qualifications

- The balance of skills and experience of our executive team achieved through internal succession planning and of our senior management team that the board assesses through communication at board meetings and through direct interaction outside of board meetings.
- The outcome of the latest board evaluation carried out in 2023 which reviewed the balance of skills and experience of the board and concluded that the board operated effectively.

Our board evaluation on page 180 of our group annual report

Recruitment process, staff engagement

- Our IIP silver accreditation.
- The annual update on human resources presented to the board and regular monthly updates on staff and cultural matters.
- The people plan within our corporate plan for 2020 to 2025.
- Our responsible business commitments relating to our employees' pay, reward and recognition.
- Our approach to board engagement with employees through a designated independent non-executive director, directors' attendance at meetings of our Staff Council and a board engagement programme.
- Extensive staff engagement carried out through pulse surveys and our company wide staff survey as well as direct communication sessions with the CEO and senior management.

Our section 172(1) statement on page 86 of our group annual report

Succession planning for key management/staff, Quality of management/staff induction and other training and development

- Our discussions on succession planning for senior managers and the programmed update to our succession plans for the executive team and the senior management team over the next two years.
- Our training initiatives managed by our organisational development team and our people plan referred to above.

Our people on page 86 of the strategic report within our group annual report

Process for ensuring diversity of perspectives, independence of the board
Board or management activities, reports or statements

- The stakeholder inclusive approach of our corporate governance framework.
- Our board evaluation which considers the balance of skills, experience and diversity of our board, and how the board operates to receive information and reach, as far as possible, consensus decisions taking account of all relevant considerations.
- The composition of our board which ensures a significant representation of independent non-executive directors.
- The arrangements in place for the effective operation of the board as described in the corporate governance report.

Our corporate governance framework on page 158 of our group annual report.

The role of the board on page 167 of our corporate governance statement within our group annual report

Directors' statements and certificates

Systems of planning and internal control

Governance procedures; risk management frameworks; oversight procedures; risk; compliance other assurance statements

- The risk management processes described in the strategic report within our group annual report.
- The review of our principal risks, including taking account of the impact of the final determination and of macroeconomic conditions on our risk profile. Our principal risks and related mitigations are relevant to several of the considerations set out in this table and provide additional details on how the company manages the impact of those risks.
- Our risk and compliance statement set out in this annual performance report.
- Board statement on accuracy and completeness of data and information set out in this annual performance report, referring to our company monitoring framework and setting out how we ensure the accuracy and reliability of the information we publish – which is available at: https://www.southeastwater.co.uk/about/resources/publications/company-monitoring-framework

Our risk management model on page 40 of our group annual report.

Our principal risks on page 42 of our group annual report.

Internal and/or external audit policies, processes, activities and/or reports

- The role of our audit and risk committee in monitoring the effectiveness of our risk management processes and internal controls.
- The internal and external assurance processes that were followed for the preparation of our annual report and this annual performance report, including information relevant to this certificate as described in our board statement on accuracy and completeness of data and information set out in this annual performance report.

Systems for maintaining supply / business continuity, stated action plans

- Our incident management processes and other processes in place under The Security and Emergency Measures (Water and Sewerage Undertakers) Direction 1998 (SEMD) and the satisfactory outcome of the independent SEMD audit.
- The review of our worst case scenario for the purposes of emergency planning and improvement - delivered and planned under our Incident Management Improvement project on emergency preparation and response.
- Our cyber security and data compliance processes, relevant certifications and the satisfactory outcomes of the testing and audit of these processes.
- Our good water quality performance in the year and the monthly reporting on water quality to the board.
- The annual review of our risk register by the board and the regular review of the risk register by our executive team.
- Our resilience action plan and resilience maturity assessments.
- Network modelling support for rezoning to minimise the number of customers impacted by incidents and restoring supplies as soon as possible.
- Formal lessons learnt process after each significant incident, with implementation of action plans reported to the board, including the initial update and full review of the storm Eunice incident.
- Our leakage recovery plan aimed at achieving our end of AMP leakage target, notwithstanding the increase in leakage in 2022 due to the drought and freeze-thaw.
- Our short, medium and long term actions and investment in resilience set out below and in our statement of performance and direction.

Policies to prevent fraud and other unethical behaviour; whistleblowing policy

- Our whistleblowing policy, anti-bribery policy, anti-facilitation of tax evasion policy and conflicts of interest policy and the review by the audit and risk committee of the processes in place, and of any report made under these policies.
- The consideration during the audit process of risks of fraud and misstatement and the external audit of management override and internal controls including automated journal entry testing.

Directors' statements and certificates

Rights and resources other than financial resources

Corporate missions and/or values
Policies to encourage an integrated approached and 'systems thinking'

- Our company purpose and revised directors' duties that are embedded into our articles of association and our corporate governance framework, promoting an integrated thinking approach in our day to day decision making.
- The ongoing work for the implementation of our resilience action plan and resilience maturity assessments.
- Our operating plans to manage peak demand in sensitive areas of our network and continue improving the understanding of the system across operational teams to facilitate an optimum use of the water supply system.
- The structured management of all incidents, small and large, to ensure all issues are resolved as quickly as possible, limiting their impact on customers.
- The approach to the delivery of our corporate plan for 2020 to 2025, including operational delivery plans by each relevant function and related action plans from relevant support functions.
- Our long term water resources management plan and drought plan, integrating climate change adaptation with the progressive implementation of TCFD scenarios and financial reporting, our net zero routemap published in July 2021 and our revised adaptation plan published in December 2021.

Our corporate governance framework on page 158 of our group annual report.

Our purpose and values on page 4 of our group annual report.

Technology and other systems for ensuring checks and balances;
planning systems

- Our internal systems of control and assurance described above.
- Our IT infrastructure and systems, including audits of relevant reports and systems by our auditors and other external consultants on data security.
- Our key operational systems, including works management systems, leakage system, laboratory system, billing system.
- The asset management and planning processes used for the management of our capital programme and the risk-based analysis of our investment, and for the development of our water resources management plan and drought plan.
- The implementation of our data strategy and the implementation of a new asset investment planning and optimisation system.

Assets maintenance / insurance factors

- Implementation of an asset management system that is ISO 55000, building on our existing PASS 55 asset management system.
- New incentives for innovation and improving resilience within our engineering consultancy framework.
- New investment decision support tool. Risk-based prioritisation of maintenance with customer impact as a primary consideration.
- Asset management strategy for implementing new asset health metrics.
- Approach to resilience and improved horizon scanning and adaptation to climate change. Resilience training to staff. Classification of criticality for all assets allowing for prioritisation of investment to reduce exposure to risks.
- Area plans for each Resource Zone published annually and identifying key risks for each zone.
- The review of our insurance policies renewals.

Contracting

Position/status of key contracts in place
All contracts between the Appointee and all associated companies were checked for compliance with licence requirements on standards
Details of transactions between the Appointee and any associated company are given in the Annual Performance Report
Compliance with licence provision on cross-subsidies between the Appointee and any associated company
No guarantees or cross-default obligations given without Ofwat's written consent.

- The external assurance (as described above) applying to our reporting included in relation to transactions with associates as set out in this annual performance report.
- That no new arrangements were entered into that included cross-default obligations or other new arrangement requiring the consent of Ofwat.

Directors’ statements and certificates

Material issues or circumstances

- The experience of the business in implementing new methods of working to ensure services to customers and critical facilities are maintained.
- The review of the company’s principal risks and related mitigations, and the related forecasting and analysis carried out for the long term viability statement.
- Consideration of the impact of challenging macroeconomic conditions on the company and on our customers in 2023/24 in our budgeting process and assessment of viability.
- The delivery of the fast track investment to provide resilience to our water supply system following the damage caused by sinkholes that affected our Aylesford reservoir.
- Our current and planned actions to improve resilience to sudden peaks in demand, related to changes in consumption patterns, and mitigate the risk of supply interruptions in the parts of our supply system that are most under stress (as experienced in recent years), including bringing forward and prioritising investment between now and 2025 to restore resilience by increasing connectivity, maximising yield, improving flood protection, adding on-site electricity generators, replacing or improving equipment at water treatment works (which will increase the performance and reliability of pumped systems) and end of system areas that are the most vulnerable to sudden increases in demand and bursts.
- Our long term plans (WRMP and long term delivery strategy) and our next business plan for 2025-30, focusing on schemes to address service resilience and interruptions performance and on demonstrating to our regulator the need to invest regularly in enhancing resilience in a way that matches the specific characteristics and challenges of each of our three different regions (West, Sussex and Kent).
- Our innovation, smart network strategy and smart metering that will support our investment in resilience.

Our principal risks on page 42 of our group annual report.

Approved by the board and signed on its behalf by:

David Hinton	Andrew Farmer
Chief Executive Officer	Chief Financial Officer
…………………………………………	…………………………………………
14 July 2023	14 July 2023

Independent Auditor’s report

Independent Auditor’s report to the Water Services Regulation Authority (the WSRA) and the Directors of South East Water Limited

Opinion

We have audited the sections of South East Water Limited’s Annual Performance Report for the year ended 31 March 2023 (“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 non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), 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 10E and 11A.

In our opinion, South East Water Limited’s Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 2.09, RAG 3.14, RAG 4.11 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 pages 28 to 33.

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 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.

Independent Auditor's report

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of 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 34 to 118 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:

- testing the mathematical accuracy of the base case going concern model prepared by management and agreeing this to Board approved budgets;
- assessing the inputs and underlying assumptions of the base case model;
- assessed the accuracy of the cash flow forecast prepared in the prior year so as to obtain assurance of the ability of management to prepare accurate forecasts;
- assessing the severe but plausible downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Independent Auditor's 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 by Directors set out on page 14, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

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

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

Independent Auditor's report

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

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

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

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

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of noncompliance with laws, regulation and fraud;
- Evaluation of management's controls to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements; in particular in relation to the recoverability of trade debtors and accuracy of the household measured income accrual, including the disclosure of such matters in the financial statements;
- Identifying and testing a sample of journal entries, in particular any journal entries that met the predetermined fraud criteria.

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. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Independent Auditor's report

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 14 July 2023, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
14 July 2023

Accounting and performance disclosures

Meeting the objectives of the board leadership, transparency and governance principles

We explain how we meet the objectives of the board leadership, transparency and governance principles as required under condition P2.2 of our Licence in the corporate governance statement on page 143 of our group annual report.

Executive pay and performance

The directors' remuneration report on page 186 of the group annual report sets out the remuneration paid or due for the financial year to the directors under arrangements linking the remuneration of directors to standards of performance in connection with the carrying out by South East Water of its functions as a relevant undertaker. The relevant information provided in the directors' remuneration report is incorporated by reference into this annual performance report as the statement required under section 35A of the Water Industry Act 1991. The report from the remuneration committee in the corporate governance report within the group annual report also provides information on the arrangements in place for the remuneration of directors and how they have been reviewed by the committee.

Dividend policy and explanations on dividend policy

Our licence requires us only to pay dividends in accordance with a dividend policy which has been approved by the board and which complies with the principles that dividends declared or paid will not impair the ability of the company to finance the appointed business, and that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk.

Our dividend policy is available at: https://www.southeastwater.co.uk/about/who-we-are/governance

The overarching objective of our dividend policy is that dividends should provide a suitable return to shareholders for their investment in the company whilst ensuring that the company is able to finance its functions and meet its obligations as a water undertaker without impairing its long term financial resilience.

Dividends should be set and paid at a level that enables the company to maintain its long term financial resilience, in the interest of shareholders, customers, employees and other stakeholders, and subject to the company (i) having adequate resources to meet its financial obligations and (ii) being able to comply with its obligations under the Companies Act 2006 relating to the declaration and payment of dividends.

Factors considered by directors when approving dividends

Dividends are considered in the context of the overall performance and financial resilience of the company, which also depends on our operational performance against our outcome delivery incentives and any reward or penalty. Dividends are also considered by reference to forecast financial and operational performance to ensure they do not compromise the future performance of the company.

In approving dividends in accordance with our dividend policy, the board had regard to the following factors:

Financial obligations and resilience

- the obligation of the company to maintain an investment grade credit rating under its instrument of appointment;
- compliance with the company's financial covenants including specific credit ratios requirements;
- the need to maintain sufficient liquidity and to preserve the longer-term viability of the company; and
- the actual and forecast level of gearing and the ability of the company to maintain its corporate plan objectives relating to gearing maintenance or reduction.

Interests of employees

- the latest valuation of the company's pension schemes and of any deficit as well as any forecast deficit based on a reasonable assessment of the implementation of the company's strategy to fund any such deficit.

Accounting and performance disclosures

In respect of ordinary dividends for the appointed business, our policy is that the base level of ordinary dividend should be set and paid at a level that is within the allowed returns determined by Ofwat in the current price determination and should not exceed a nominal 4 per cent yield on equity based on the actual financial structure of the company.

In setting the base level of ordinary dividend (and in considering any distribution of a dividend in respect of the appointed business), the board ensures that the company will have adequate resources to finance the appointed business and fulfil its duties as a water undertaker.

The board has regard to the following key considerations:

- the ability of the company to finance current and future investment in the appointed business;
- the performance commitments in the company's current final determination to deliver service improvements for customers, taking account of the realistic level of financial risks in the form of ODI penalties associated with setting stretching performance targets and the need for adequate resilience;
- the duties and functions of the company as a water undertaker and in particular:
    - whether the company is substantially meeting its obligations as a water undertaker; and
    - that the board has a reasonable expectation that the company will continue to meet its obligations as a water undertaker for the foreseeable future (including after payment of the dividend).
- the performance of the company and in particular:
    - that performance in relation to comparators and ODI targets is not being impacted by payment of dividends;
    - that there is no persistent deterioration in the overall performance of the company across all common ODIs compared with the performance of other water undertakers (including relevant environmental commitments); and
    - that there is no persistent deterioration in our non-financial ODIs (including relevant environmental commitments).
- that the payment of a dividend will not impact the company's long term financing needs in light of macroeconomic conditions, to the detriment of customers.

Main consideration for determining the amount of dividend in 2022/23

In considering whether dividends should be paid and the appropriate level of dividends, the board considered the balance of all the relevant factors mentioned above and the performance of the company over more than one financial year.

When authorising dividends during 2022/23, the board determined that the dividends proposed were consistent with a level of distribution that preserved the ability of the company to finance its current and future investment. The company's underlying performance has remained stable over several years and the yearly performance was good on all key financial operational performance commitments. Whilst interruption performance did not meet the ODI target, the underlying performance, excluding extreme weather and incidents, remained stable.

Considering this, the board determined that dividends could be authorised at £9.0 million in the year. Although the pandemic and high inflation have resulted in higher totex spend than expected, these discrete events did not represent a persistent deterioration in the performance of the company. The board also took account of the potential impact that storm Eunice could have on the level of ODI penalties in the event Ofwat did not recognise the exceptional nature of the incident.

When approving dividends, the board considered the prospects of the company in light of the principal risks and uncertainties and determined that the company would remain able to deliver the levels of performance targeted.

In 2022/23 and for AMP7, Ofwat's final determination is the single factor that most influences the level of dividend paid by the company. It is characterised by a low allowed return and challenging in-period ODI penalties with a negatively weighted approach to risk and return. The level of dividend in 2022/23 was therefore maintained at a minimum sustainable level that also takes account of the operational performance and the impact for customers in that it anticipates a level of ODI penalties being incurred despite the delivery of performance improvements due to the negative weighting of ODIs.

Accounting and performance disclosures

Consequently, no dividends have been paid by our ultimate holding company, HDF (UK) Holdings Ltd, to the ultimate shareholders of the company. This outcome is expected to remain throughout 2020 to 2025.

The dividends paid in 2022/23 were sufficient to allow loan obligations at group level to be met consisting of (i) interest payable under a third party loan and (ii) interest payable under a shareholder loan.

Overall amount of dividend

Dividends in the year totalled £9.0 million which included:
- ordinary dividends totalling £9.0 million which were paid in equal quarterly instalments.

Dividends are paid as declared and are recognised as a distribution when approved by the board. No unpaid dividends exist at the year-end.

Dividend yield

The ordinary dividend yield in the financial year ended 31 March 2023 was 2.2 per cent.

The ordinary appointed business dividend yield was 1.3 per cent and reflects the amount of dividend paid by the company after deducting the non-appointed business contribution.

This ordinary appointed business dividend yield is well below the nominal 4 per cent dividend yield that we have committed not to exceed in our dividend policy.

Long term viability statement

Our long term viability statement is set out on page 144 of the group annual report and details of our risk management process and our principal risks may be found on pages 34 to 47 of the group annual report.

Disclosure of information to auditors

The directors who were members of the board at the time of approving the annual performance report are listed in the group annual report. Having made enquiries of fellow directors, and exercising reasonable care, skill and diligence, each of these directors confirms that:
- so far as the director is aware, there is no relevant audit information of which South East Water Ltd's auditor is unaware; and
- each director has taken all the steps that a director ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that South East Water Ltd's auditor is aware of that information.

Accounting policies

Price control segments
Operating costs are directly attributed to price control units, where possible, based on the activities that cause the cost to be incurred. Costs are attributed based on the guidelines set out in RAG 2.09. Where costs cover more than one price control unit, an appropriate basis of allocation consistent with the activities that cause the costs is used in order to allocate the costs to the relevant price control units.

In the majority of cases, assets and their associated depreciation are directly attributed to price control units that solely use the assets. However, where assets are used by more than one price control unit, the assets are initially allocated to the price control unit where the principal use occurs with a recharge being made to other price control units using the assets in proportion to the use of the assets.

There have been no significant changes in the methodology of allocating costs to price segments in the year. For further information on the allocations of costs and assets, see South East Water Limited's accounting methodology statement which is available on our website at:
https://www.southeastwater.co.uk/about/resources/publications/financial-reports.

Accounting and performance disclosures

Revenue recognition

The revenue recognition policy is the same in the regulatory accounts as in the statutory accounts. Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors' fees, are recognised as a credit within operating costs in both the statutory and regulatory accounts and as such do not affect turnover.

There have been no changes made to the procedure followed in calculating the measured income accrual in the year.

The following applies in relation to our policy on billing:

- if supply is not required, charges on an unoccupied or void property will normally be waived from the date we are informed. When informed of the vacation of a property, we may choose to turn off or disconnect the water supply at the stopcock. If we are requested not to turn off or disconnect the water supply, either by the outgoing or incoming occupier, they must undertake to pay all water charges arising until we are otherwise notified;
- we do not send a bill to "the occupier" for premises where the name of the customer is not known. At the point that the occupier's details are known we issue a bill as appropriate;
- where we have donated to a charitable trust/assistance fund in relation to assisting customers with payment of water debt, any associated billing is included within water turnover; and
- when a new property is connected to our network, billing commences upon meter installation.

When a property is identified as unoccupied on the billing system it will then proceed into our void property process to verify with as much certainty as possible whether the property is truly empty or not. As part of this process we send out letters, together with an application form to properties that are recorded as being empty for over 21 days. If there is no response a further letter is sent. If there is still no response, we review the account and take a range of additional steps, including further written communication, meter reader visits to the property and enquiries to view the land registry to confirm the owner of the property, who we then contact.

Capitalisation

We determine employee costs directly attributable to capital projects based on the time spent on each project recorded on timesheets completed by employees. Other directly attributable costs are then assessed, and any costs relating to capital projects are capitalised into individual projects. Training costs, administration and other general overhead costs are not capitalised. Over the past year our policies on the capitalisation of costs have not changed.

Bad debt

The bad debt policy is the same in the regulatory accounts as in the statutory accounts.

Debt is written off in only a limited number of scenarios when all collection avenues have been fully exhausted. Examples include where a debtor is not a current customer and all procedures to trace their whereabouts have been undertaken or where a customer is insolvent and we have been advised that no payment will be forthcoming.

An estimate for the provision for doubtful debts is calculated by our management based on the application of expected recovery rates to an aged debt profile. We have no significant concentration of credit risk, with exposure spread over a large number of domestic customers and for our retail customers we have secured adequate collateral under the Market Codes to mitigate any risk.

Accounting and performance disclosures

Differences between statutory and RAG definitions

Material differences between the statutory financial statements and the RAG definitions are:

- in the income statement, the difference of £2.4 million in profit before tax, is the for the most part, a result of the capitalisation of the full and final insurance receipts of £1.2 million in relation to damage caused by the sinkholes which appeared beneath our reservoirs in Aylesford, Kent in September 2020. This is included within other operating income in the statutory accounts, however it has been capitalised in the regulatory accounts to offset the capital cost of the reinstatement of the reservoirs in order that the related overspend is not shared with customers through the cost sharing mechanism, given that this cost has been reimbursed by our insurers. In addition to this, the capitalisation of interest within the statutory accounts has been reversed for the regulatory accounts, increasing interest expense by £1.8 million This is offset slightly by the removal of depreciation on capitalised interest of £0.2 million. In line with the treatment of innovation fund cost specified by Ofwat within information notice IN 22/01 “Expectations for monopoly company annual performance reporting 2022/23”, the provision/accrual made for costs relating to the innovation fund within our statutory accounts has been removed from the regulatory reporting, reducing operating costs by £1.4 million. Lastly, operating costs are adjusted by £0.5 million to reverse the impact of the elimination of pension contributions under IAS19 within the statutory accounts; and
- in the statement of financial position, the difference of £32.1 million on net assets is largely due to the removal of cumulative capitalised interest totalling £27.8 million, offset slightly by the removal of cumulative depreciation on capitalised interest of £1.5 million from fixed assets. In addition to this, as explained above, cumulative insurance receipts of £7.2 million relating to our reservoirs at Aylesford, Kent have been capitalised within the regulatory accounts, reducing the value of fixed assets by £7.2 million. Lastly, current trade and other payables and provisions have both been reduced by £1.4 million as a result of the removal from the regulatory accounts of accruals and provisions respectively made in relation to the innovation fund, in line with the information notice published by Ofwat referenced above.

Tax strategy and current tax reconciliation

South East Water Ltd is committed to the effective, sustainable and active management of our tax affairs in support of our overall business performance and, as with all other aspects of our business, to minimise customer bills and maximise shareholder value , as any tax payable is required to be funded via the prices set by Ofwat.

We are committed to pay tax according to the law and to conduct our tax affairs according to clear principles. We seek to maintain good working relationships with tax authorities, sharing our views either directly or through trade associations.

South East Water believes it is important to state our views on tax in the context of corporate responsibility. We believe our obligation is to pay the amount of tax legally due and observe all applicable rules and regulations relating to tax compliance. However, we also have an obligation to maximise shareholder value, minimise customer bills and manage financial and reputational risk. This includes controlling our overall liability to taxation.

We do not condone either personal or corporate tax evasion under any circumstances, and were such issues to be identified, full disclosure of the activities undertaken would be made to the tax authorities.

Our aim is to have a constructive relationship with the tax authorities on an on-going basis. Nevertheless, we recognise that there may be some areas that are not free from doubt or where differing legal interpretations may be possible. Where disputes arise with the tax authorities with regard to interpretation and application of tax law, we are committed to addressing the matter promptly and seek resolutions in a responsible manner. A more detailed explanation of our tax policy is available on our website.

For the year ended 31 March 2023 a UK corporation rate of 19 per cent has been used as enacted by Finance Act 2021, this increased to 25 per cent from 1 April 2023.

The deferred tax on temporary differences as at 31 March 2023 have been calculated in full under the balance sheet method at the rate of 25 per cent, the enacted future rate for the periods during which the temporary differences are expected to unwind.

Accounting and performance disclosures

The table below shows a comparison between the amount funded within the final determination (FD) and the tax charge within the regulatory accounts.

Wholesale tax reconciliation:

	2022/23 Prices £000
Final determination (2017/18 prices)	3,287
Indexation	912
Final determination	4,200
Actual in regulatory accounts	(9,449)
Retail tax	298
Wholesale tax	(9,151)

The reconciliation of wholesale taxation to funded taxation is as follows:

	2022/23 Prices £000
Wholesale tax	(9,151)
Contributions and infrastructure charges	901
Capital allowances	(9,076)
Variance in operating profit	23,278
Corporation tax rate reduction	(563)
Other	(1,189)
Final determination	4,200

The reconciliation of current appointed tax is as follows:

	2022/23 £000
Loss before tax	(78,207)
Taxation at 19%	(14,859)
Expenses not deductible	520
Income not chargeable to corporation tax	46
Capital allowances exceed depreciation	6,189
Pension movements	(1,345)
Current tax charge for the year	(9,449)
Adjustment in respect of prior years	9,449
UK corporation tax charge	-
Adjustment in respect of prior years	(82)
UK corporation tax charge	(82)

Tables and related disclosures

The following tables are set out following the order defined in Appendix 1 to RAG 3.13. Where the tables include line items which do not require a data entry, the line has been omitted from the table within this document.

In line with allowances given under section 2.7 of RAG 3.13, tables 4B (analysis of debt), 4L (enhancement expenditure water) and 6F (WRMP annual reporting on delivery – non-leakage activities) have not been included within this document. They are, however, available within the 2022/23 annual performance report tables (excluding tables 3A-3I) Excel workbook published on our website available following the link given on page 2 of this document. Where deemed necessary, we have included additional commentary or explanation to aid in the understanding of these tables within this document.

Additional tables have been included under each of the financial statements in section 1 to provide a reconciliation of the differences between applying RAGs and IFRS.

1A - Statement of comprehensive income for the 12 months ended 31 March 2023

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Revenue	257,482	3,364	12,260	(8,896)	248,586
Operating costs	(233,179)	7,030	(8,957)	15,987	(217,192)
Other operating income	16,999	(17,303)	-	(17,303)	(304)
Operating profit	41,302	(6,909)	3,303	(10,212)	31,090
Other income	-	7,923	-	7,923	7,923
Interest income	1,906	(1,536)	-	(1,536)	370
Interest expense	(117,482)	(1,819)	(164)	(1,655)	(119,137)
Other interest expense	-	1,536	-	1,536	1,536
Profit before tax and fair value movements	(74,274)	(805)	3,139	(3,944)	(78,218)
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	(74,274)	(805)	3,139	(3,944)	(78,218)
UK Corporation tax	82	-	(596)	596	678
Deferred tax	18,723	-	-	-	18,723
Profit for the year	**(55,469)**	**(805)**	**2,543**	**(3,348)**	**(58,817)**
Dividends	(9,000)	-	(2,543)	2,543	(6,457)

Tax analysis	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Current year	-	-	596	(596)	(596)
Adjustments in respect of prior years	(82)	-	-	-	(82)
UK Corporation tax	(82)	-	596	(596)	(678)

Analysis of non-appointed revenue	Non-appointed £000
Imported sludge	-
Tankered waste	-
Other non-appointed revenue	12,260
Revenue	12,260

1A - Statement of comprehensive income for the 12 months ended 31 March 2023

Differences between statutory and RAG definitions	Revenue £000	Operating costs £000	Other operating income £000	Other income £000	Interest income £000	Interest expense £000	Other interest expense £000	Profit for the year £000
Grants & contributions income	(8,675)	-	-	8,675	-	-	-	-
Other operating income	12,039	3,442	(17,059)	460	-	-	-	(1,118)
Disposal of fixed assets	-	244	(244)	-	-	-	-	-
Innovation fund income from/payments to other companies & MOSL	-	1,212	-	(1,212)	-	-	-	-
Removal of Pension Contributions	-	505	-	-	-	-	-	505
Removal of Depreciation on Capitalised Interest	-	224	-	-	-	-	-	224
Removal of innovation fund provision/accrual	-	1,403	-	-	-	-	-	1,403
Return Made on Pensions	-	-	-	-	(1,536)	-	1,536	-
Removal of Interest capitalised	-	-	-	-	-	(1,819)	-	(1,819)
Total difference	**3,364**	**7,030**	**(17,303)**	**7,923**	**(1,536)**	**(1,819)**	**1,536**	**(805)**

In the year we received a further payment of £4.6 million from our insurers in final settlement of the Aylesford insurance claim. Of the final settlement £3.4m was in respect of business interruption cover and £1.2m in respect of material damage to the reservoirs. In line with IFRS, this is reported within other operating income in our statutory accounts, however, for the regulatory accounts the receipt has been removed from other operating income. The £3.4 million for business interruption has been offset against operating costs. The £1.2 million for material damage has been capitalised within the regulatory accounts to offset the capital overspend in relation to the sinkholes. This has been completed as we feel it is inappropriate to share this overspend with customers given that we have been reimbursed by our insurers for this.

Appointed interest expense of £119.1 million, as reported within the income statement above, is comprised of the following:

	Interest expense £000
Debenture interest	42
Interest payable to subsidiary	17,938
Indexation payable to subsidiary	40,710
Bank interest and other finance charges	11,553
Financing guarantee fees	1,237
Interest payable on index linked loans	11,107
Indexation on index linked loans	35,909
Lease interest	153
Amortisation of loan issue costs	652
Interest and related fees payable	119,301
Interest capitalised	(1,819)
Interest expense per IFRS	117,482
Reversal of interest capitalisation	1,819
Removal of non-appointed interest expense	(164)
Appointed interest expense	119,137

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

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Profit for the year	(55,469)	(805)	2,543	(3,348)	(58,817)
Actuarial gains/(losses) on post-employment plans	(29,587)	-	-	-	(29,587)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**(85,056)**	**(805)**	**2,543**	**(3,348)**	**(88,404)**

1C - Statement of financial position for the 12 months ended 31 March 2023

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Non-current assets					
Fixed assets	1,729,757	(25,681)	-	(25,681)	1,704,076
Intangible assets	7,768	(7,768)	-	(7,768)	-
Investments - loans to group companies	-	-	-	-	-
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	23,842	-	-	-	23,842
Total non-current assets	1,761,367	(33,449)	-	(33,449)	1,727,918
Current assets					
Inventories	1,132	-	-	-	1,132
Trade & other receivables	91,995	174	(1,025)	1,199	93,194
Financial instruments	-	-	-	-	-
Cash & cash equivalents	4,000	-	-	-	4,000
Total current assets	97,127	174	(1,025)	1,199	98,326
Current liabilities					
Trade & other payables	(90,855)	-	1,025	(1,025)	(91,880)
Capex creditor	(30,574)	-	-	-	(30,574)
Borrowings	(30,520)	-	-	-	(30,520)
Financial instruments	-	-	-	-	-
Current tax liabilities	-	-	-	-	-
Provisions	(12,597)	1,229	-	1,229	(11,368)
Total current liabilities	(164,546)	1,229	1,025	204	(164,342)
Net current assets/(liabilities)	(67,419)	1,403	-	1,403	(66,016)
Non-current liabilities					
Trade & other payables	(4,104)	-	-	-	(4,104)
Borrowings	(1,198,501)	-	-	-	(1,198,501)
Financial instruments	-	-	-	-	-
Retirement benefit obligations	(2,482)	-	-	-	(2,482)
Provisions	-	-	-	-	-
Deferred income - G&C's	(4,876)	-	-	-	(4,876)
Deferred income - adopted assets	-	-	-	-	-
Preference share capital	-	-	-	-	-
Deferred tax	(200,205)	-	-	-	(200,205)
Total non-current liabilities	(1,410,168)	-	-	-	(1,410,168)

1C - Statement of financial position for the 12 months ended 31 March 2023

	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£000	£000	£000	£000	£000
Net assets	**283,780**	**(32,046)**	**-**	**(32,046)**	**251,734**
Equity					
Called up share capital	(49,312)	-	-	-	(49,312)
Retained earnings & other reserves	(234,468)	32,046	-	32,046	(202,422)
Total equity	**(283,780)**	**32,046**	**-**	**32,046**	**(251,734)**

Differences between statutory and RAG definitions	Fixed assets	Intangible assets	Trade & other payables	Provisions	Net assets	Retained earnings & other resources	Total equity
	£000	£000	£000	£000	£000	£000	£000
Computer software cost	32,167	(32,167)	-	-	-	-	-
Computer software depreciation	(25,239)	25,239	-	-	-	-	-
Computer software work in progress cost	840	(840)	-	-	-	-	-
Capitalisation of Aylesford sinkhole insurance receipt	(7,118)	-	-	-	(7,118)	7,118	7,118
Removal of Capitalised Interest	(27,817)	-	-	-	(27,817)	27,817	27,817
Removal of Depreciation on Capitalised Interest	1,485	-	-	-	1,485	(1,485)	(1,485)
Removal of innovation fund provision/accrual	-	-	174	1,229	1,403	(1,403)	(1,403)
Rounding	1	-	-	-	1	-1	-1
Total differences	**(25,681)**	**(7,768)**	**174**	**1,229**	**(32,046)**	**32,046**	**32,046**

Under IFRS, computer software is recorded as an intangible asset in the company's financial report and accounts. However, the annual performance report requires that computer software is reported as part of tangible fixed assets, hence the balance of intangible assets of £7.768 million in the statutory accounts has been restated under tangible fixed assets in the above table.

As explained in relation to table 1A above, we received insurance proceeds in the year of £1.2 million as final payment in respect of the damage caused to our service reservoirs at Aylesford by the sinkholes in 2020. This brings the total insurance receipts for this element of the insurance claim to £7.1 million, which has been included within other operating income within our statutory reporting, however, has been capitalised within the regulatory accounts in order to offset the capital overspend in relation to the sinkholes at Aylesford.

1D - Statement of cash flows for the 12 months ended 31 March 2023

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Operating activities					
Operating profit	41,302	(6,909)	3,303	(10,212)	31,090
Other income	-	7,933	-	7,933	7,933
Depreciation	61,475	(224)	-	(224)	61,251
Amortisation - G&C's	-	-	-	-	-
Changes in working capital	8,230	662	-	662	8,892
Pension contributions	(4,796)	(1,341)	-	(1,341)	(6,137)
Movement in provisions	(1,457)	(1,229)	-	(1,229)	(2,686)
Profit on sale of fixed assets	244	1,118	-	1,118	1,362
Cash generated from operations	104,998	10	3,303	(3,293)	101,705
Net interest paid	(38,264)	-	(164)	164	(38,100)
Tax paid	(1,329)	-	(596)	596	(733)
Net cash generated from operating activities	65,405	10	2,543	(2,533)	62,872
Investing activities					
Capital expenditure	(93,589)	-	-	-	(93,589)
Grants & contributions	-	-	-	-	-
Disposal of fixed assets	201	-	-	-	201
Other	-	-	-	-	-
Net cash used in investing activities	(93,338)	-	-	-	(93,338)
Net cash generated before financing activities	**(27,983)**	**10**	**2,543**	**(2,533)**	**(30,516)**
Cash flows from financing activities					
Equity dividends paid	(9,000)	-	(2,543)	2,543	(6,457)
Net loans received	29,572	-	-	-	29,572
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	**20,572**	**-**	**(2,543)**	**2,543**	**23,115**
Increase/(decrease) in net cash	**(7,411)**	**-**	**-**	**10**	**(7,401)**

During the year, the company drew £30.0 million from its revolving credit facility.

1D - Statement of cash flows for the 12 months ended 31 March 2023

Differences between statutory and RAG definitions	Operating profit £000	Other income £000	Depreciation £000	Changes in working capital £000	Pension contributions £000	Movement in provisions £000	Profit on sale on fixed assets £000	Increase /(decrease) in net cash £000
Operating profit as per table 1A	(6,909)	-	-	-	-	-	-	(6,909)
Adjustment to Other Income per Income Statement	-	7,923	-	-	-	-	-	7,923
Adjustment to sale of fixed assets from income statement	-	-	-	-	-	-	1,118	1,118
Inclusion of Pension Contributions to Expenses	-	-	-	540	-	-	-	540
Inclusion of Pension Contributions Unfunded	-	-	-	296	-	-	-	296
Inclusion of Pension Contributions	-	-	-	-	(6,169)	-	-	(6,169)
Removal of Pension Adjustment	-	-	-	-	4,828	-	-	4,828
Removal of Depreciation on Capitalised Interest	-	-	(224)	-	-	-	-	(224)
Innovation fund provision/accrual	-	-	-	(174)	-	(1,229)	-	(1,403)
Total differences	**(6,909)**	**7,923**	**(244)**	**662**	**(1,341)**	**(1,229)**	**1,118**	**-**

1E - Net debt analysis (appointed activities) at 31 March 2023

	Fixed rate	Floating rate	Index linked		Total
			RPI	CPI/CPIH	
	£000	£000	£000	£000	£000
Interest rate risk profile					
Borrowings (excluding preference shares)	396,483	150,000	688,244	-	1,234,727
Preference share capital					-
Total borrowings	396,483	150,000	688,244		1,234,727
Cash					(4,000)
Short term deposits					-
Net Debt					**1,230,727**
Gearing					
Gearing (%)					73.967
Adjusted Gearing (%)					-
Interest					
Full year equivalent nominal interest cost	15,881	7,332	116,292	-	139,505
Full year equivalent cash interest payment	15,881	7,332	20,539	-	43,752
Indicative interest rates					
Indicative weighted average nominal interest rate (%)	4.005	4.888	16.897	-	11.298
Indicative weighted average cash interest rate (%)	4.005	4.888	2.984	-	3.543
Time to maturity					
Weighted average years to maturity	10.044	1.600	12.971	-	10.649

The total borrowings in the above table differs to the borrowings in table 1C as follows:

	£000
Short term borrowing per table 1C	30,520
Long term borrowing per table 1C	1,198,501
Total borrowings per table 1C	1,229,021
Removal of unamortised loan arrangement costs	5,706
Borrowing per table 1E above	**1,234,727**

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Regulatory equity (£000)	544,912	544,912	340,116			
Return on regulatory equity	3.90	2.43	3.90	21,252	13,265	13,265
Financing						
Impact of movement from notional gearing		1.47	0.99		7,987	3,365
Gearing benefits sharing		-	-		-	-
Variance in corporation tax		0.79	1.27		4,326	4,326
Group relief		-	-		-	-
Cost of debt		(1.26)	(2.51)		(6,867)	(8,527)
Hedging instruments		-	-		-	-
Return on regulatory equity including financing adjustments	3.90	3.43	3.65	21,252	18,711	12,429
Operational performance						
Totex out/(under) performance		(4.31)	(6.90)		(23,476)	(23,746)
ODI out/(under) performance		(0.65)	(1.04)		(3,544)	(3,544)
C-MeX out/(under) performance		(0.13)	(0.21)		(718)	(718)
D-MeX out/(under) performance		(0.04)	(0.06)		(196)	(196)
Retail out/(under) performance		(0.70)	(1.12)		(3,805)	(3,805)
Other exceptional items		-	-		-	-
Operational performance total		(5.82)	(9.33)		(31,739)	(31,739)
RoRE (return on regulatory equity)	3.90	(2.39)	(5.68)	21,252	(13,028)	(19,310)
RCV growth	11.17	11.17	11.17	60,867	60,867	37,991
Voluntary sharing arrangements		-	-		-	-

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Total shareholder return	15.07	8.78	5.49	82,118	47,838	18,680
Dividends						
Gross dividend	3.00	1.03	1.66	16,347	5,629	5,629
Interest receivable on intercompany loans	-	-	-	-	-	-
Retained value	**12.07**	**7.75**	**3.84**	**65,771**	**42,209**	**13,051**
Cash impact of 2015-20 performance adjustments						
Totex out/(under) performance		(0.19)	(0.31)		(1,039)	(1,039)
ODI out/(under) performance		(0.03)	(0.06)		(189)	(189)
Total out/(under) performance		**(0.23)**	**(0.36)**		**(1,228)**	**(1,228)**

The notional regulatory equity specific to the company for the 2022/23 period prescribed by Ofwat is £544.9 million. This value, and the equivalent for each regulated company, is published by Ofwat on their website each year within the appropriate regulatory capital values file.

The actual regulatory equity value of £340.1 million is calculated as the average regulatory capital value (“RCV”), calculated as the average of opening and closing RCV as published by Ofwat, being £1,485.6 and £1,663.9 million respectively, less average net debt, calculated as the average of opening and closing net debt as reported within table 1E in 2021/22 and 2022/23, being £1,115.7 and £1,230.7 million respectively. The sum of which has been deflated to 2017/18 prices.

The notional return on regulatory equity specific to the company for 2022/23, as published by Ofwat on their website within the financial flows data source file, is 3.90 per cent.

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

Financing impacts

The impact of the company's actual gearing structure compared to the notional gearing ratio set by Ofwat of 60.00 per cent is illustrated within the impact of movement from notional gearing line. The actual average gearing ratio for the company, calculated as the company's average net debt of £1,173.2 million as a percentage of its average regulatory capital value of £1,574.8 million, equates to 74.50 per cent. The variance between the notional and actual gearing ratios of 1.50 per cent, together with the difference between the allowed return on regulatory equity of 3.90 per cent and the company's allowed cost of debt of 2.16 per cent results in a saving in financing on the average regulatory capital value of £3.4 million in 2017/18 prices being 0.99 per cent of actual regulatory equity.

The gearing benefits sharing line is calculated in accordance with the methodology set out in figure 9.1 of the PR19 Final Determinations: Aligning Risk and Return Technical Appendix. In line with this methodology, as the company's actual gearing ratio based on the company's net debt as at the 31 March 2023 of 74.41 per cent exceeds the 73.00 per cent trigger point, benefits are to be shared with customers at a rate of 50.00 per cent. However, as illustrated below in 2022/23 prices, as the calculation of notional nominal cost of equity less actual cost of debt returns a negative value, as a result of the impact from high RPI inflation in the year on the cost of our index linked debt, and in line with the RAG's a returned positive value is to be reported as a negative within this table and therefore a returned negative would be reported as a positive value, the resulting effect would be an increase in the return to shareholders of £3.3 million in 2017/18 prices equating to 0.61 and 0.98 per cent of notional and actual regulatory equity respectively. However, in line with guidance received from Ofwat, where the cost of debt exceeds the notional nominal cost of equity and the calculation thereby returns a negative value, nil should be entered into this line of the table so that the impact of this calculation does not result in a return to shareholders. Given the CMA PR19 FD decision to disapply the gearing penalty, and our disagreement with the gearing penalty in principle, we believe that this mechanism should be disapplied going forward.

Annual sharing payment amount = (gearing – reference point) x sharing rate x (notional nominal cost of equity – actual cost of debt) x closing nominal RCV

-3.939 = (74.41% - 65.00%) x 50.00% x (6.27% - 11.30%) x 1,663.880

The variance in corporation tax depicts the benefit received from a lower appointed corporation tax charge for the year, as reported in the regulatory accounts, compared to the tax allowance included in the company's final determination. The tax allowance for the 2022/23 period included in the final determination was £3.6 million in 2017/18 prices, compared with a corporation tax receipt in outturn prices of £0.1 million, as reported within table 1A, or £0.1 million in 2017/18 prices results in a benefit of £4.3 million being 0.62 and 1.00 per cent of the company's notional and actual regulatory equity respectively.

The cost of debt line illustrates the difference between the company's actual cost of debt and the allowed cost of debt included in the final determination based on both the notional gearing and the company's actual gearing structure. The company's actual average interest rate for the year, calculated as the net interest charge per the reconciliation table below as a percentage of the company's average net debt is 10.08 per cent. This rate is adjusted for both the actual movement in CPIH for the period and the company's allowed cost of debt as determined at the final determination, being 8.77 per cent and 2.16 per cent respectively, resulting in a higher than allowed interest rate of 0.86 per cent equating to a cost of debt value, unadjusted for hedging instruments, of £6.9 million and £8.5 million based upon the notional gearing and the company's actual gearing structure respectively.

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

	Reconciliation of net interest £000
Total interest paid (per note 8 to the financial statements)	117,481
Removal of impact of capitalised interest	1,819
Amortisation of loan issue costs	(652)
Interest margin charged on intercompany bonds/loans	(23)
Total interest paid relevant to table 1F	118,625
Interest received on cash balances/bank interest	(371)
Total net interest charge relevant to table 1F	**118,254**

Totex out/(underperformance) represents the difference between the actual totex performance versus the amount allowed in the published Final Determination. It is adjusted for the following:

- timing differences; and
- company sharing ratio with customers.

The company share of any totex under/(overspend) is taken from Table 4C, calculated as the sum of lines 4C.13, 4C.14, 4C.21 and 4C.24 and converted to 2017-18 prices. The calculation of this is shown below.

		%	**£m**
Table 4C.13 - Company share of totex overspend	£m nominal		(27.987)
Table 4C.14 - Company share of totex underspend	£m nominal		-
Table 4C.21 - Company share of totex over/underspend – business rates and abstraction licence fees	£m nominal		0.094
Table 4C.24 - Costs not subject to cost sharing variance – 100% company allocation	£m nominal		0.176
Total company share of totex over/underspend	£m nominal		(27.717)
CPI(H): Fin year average - inflate from base year 2017-18 average	%	118.06%	
Total company share of totex over/underspend – 2017-18 prices	£m 2017-18 prices		(23.476)
Net totex out/(under) performance 2017-18 prices	£m 2017-18 prices		(23.476)

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

As illustrated within the above table, the company underperformed against its totex allowance defined within the PR19 final determination, with the company's share of the totex overspend equating to £10.4 million (2017/18 prices).

Water network+ totex has been adversely impacted by a shortfall in developer contributions. As part of our final determination an additional £31 million (2017-18 prices) developer contributions was allowed to fund enhancement development expenditure of c£42 million (2017-18 prices) (See page 60 of our SEW specific FD report). This was to be funded through increasing infrastructure charges and an increasing income offset. We discussed this approach to funding new development with Ofwat at an early stage following the final determination. We identified that we were constrained both by the rules for setting infrastructure charges and practical developer considerations. We identified that the assumptions in the FD would result in us reporting a significant shortfall in collection of developer contributions, particularly in the early years. This conversation took place before the impact of Covid-19 which has further impacted our developer activity and contributions.

The unwinding of timing differences in the capital programme (c£19m), from early years of the price review period have had a further impact on the totex performance reported in the period. Further detail of this is provided in the commentary to Table 4C.

The ODI out/(under) performance is as reported in APR table 3A. There are no adjustments to this figure.

Any reward/(penalty) from the C-MeX and D-MeX mechanisms is reported one year in arrears once all of the companies' data is known. The value for 2022-23 is taken from the Final Determination In Period Adjustments model for SEW and is also published with the Financial Flows data available on Ofwat's website.

Retail out/(under) performance is calculated as follows:

		%	£m
FD cost to serve all Residential retail customers	£m nominal		17.639
CPI(H): Fin year average - inflate from base year 2017-18 average	%	118.06%	
FD cost to serve all Residential retail customers	£m 2017-18 prices		14.940
Actual retail costs (APR Table 2C)	£m nominal		21.412
Depreciation on assets since 2015 and recharges	£m nominal		0.968
Total retail costs excluding third party and pension deficit repair costs	£m nominal		22.380
CPI(H): Fin year average - inflate from base year 2017-18 average	%	118.06%	
Actual Retail costs	£m 2017-18 prices		18.136
Depreciation on assets since 2015 and Recharges	£m 2017-18 prices		0.820
Total retail costs excluding third party and pension deficit repair costs	£m 2017-18 prices		18.956

1F - Financial flows for the 12 months ended 31 March 2023 (2017-18 financial year average CPIH)

		%	£m
Cash retail costs outperformance/(underperformance)	£m 2017-18 prices		(3.196)
Depreciation on assets since 2015 and Recharges	£m 2017-18 prices		(0.820)
Retail costs outperformance/(underperformance)	£m 2017-18 prices		(4.016)
Adjustment applied in 2022-23 for prior years correction (see note)	£m 2017-18 prices		0.211
Adjusted Retail costs outperformance/(underperformance)	£m 2017-18 prices		(3.805)

There are a number of drivers of the retail cost underperformance. The first is an increase in bad debt from pre Covid-19 levels. The second is as a result of inflationary pressures on costs which are not reflected in the FD cost allowance. The third is a difference in depreciation. It is not clear exactly what level of depreciation was funded for retail however our Business Plan allowed £0.1 million for depreciation but the actual reported was £1.0 million (2022-23 prices).
A small adjustment has been made to the 2022-23 figure as a result in a change to calculation approach. Previously the FD cost allowance was calculated as the real average cost to serve (ACTS) allowance from the financial model multiplied by the properties. The approach taken by Ofwat in the published financial flows is to deflate the nominal retail FD allowance by actual inflation. The adjustment from prior periods is small and has been included as a £0.2m adjustment in 2022-23.

There are no ‘other exceptional items’, for example land sales, in the period.

1F - Financial flows for the price review to date (2017-18 financial year average CPIH)

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
Regulatory equity (£000)	534,288	534,288	324,851			
Return on regulatory equity	3.88	2.36	3.88	20,730	12,604	12,604
Financing						
Impact of movement from notional gearing		1.52	0.99		8,126	3,357
Gearing benefits sharing		-	-		-	-
Variance in corporation tax		0.63	1		3,409	3,409
Group relief		-	-		-	-
Cost of debt		(0.25)	(0.53)		(1,342)	(1,804)
Hedging instruments		-	-		-	-
Return on regulatory equity including financing adjustments	3.88	4.26	5.34	20,730	22,797	17,566
Operational performance						
Totex out/(under) performance		(1.93)	(3.04)		(10,338)	(10,338)
ODI out/(under) performance		(0.73)	(1.14)		(3,881)	(3,881)
C-MeX out/(under) performance		(0.07)	(0.11)		(373)	(373)
D-MeX out/(under) performance		(0.03)	(0.04)		(145)	(145)
Retail out/(under) performance		(0.57)	(0.89)		(3,025)	(3,025)
Other exceptional items		-	-		10	10
Operational performance total		(3.32)	(5.22)		(17,752)	(17,752)

1F - Financial flows for the price review to date (2017-18 financial year average CPIH)

	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £000	Actual returns and notional regulatory equity £000	Actual returns and actual regulatory equity £000
RoRE (return on regulatory equity)	3.88	0.94	0.12	20,730	5,045	(186)
RCV growth	6.37	6.37	6.37	34,034	34,034	20,693
Voluntary sharing arrangements		-	-		-	-
Total shareholder return	10.25	7.31	6.49	54,765	39,080	23,507
Dividends						
Gross dividend	3.00	9.25	15.21	16,029	49,409	49,409
Interest receivable on intercompany loans	-	0.13	0.22	-	701	701
Retained value	**7.25**	(2.07)	**(8.94)**	**38,736**	**(11,030)**	**(29,603)**
Cash impact of 2015-20 performance adjustments						
Totex out/(under) performance		(0.19)	(0.32)		(1,039)	(1,039)
ODI out/(under) performance		(0.04)	(0.06)		(189)	(189)
Total out/(under) performance		**(0.23)**	**(0.38)**		**(1,228)**	**(1,228)**

The AMP average notional regulatory equity specific to the company is calculated as the average of notional regulatory equity in 2020/21, 2021/22 and 2022/23, being £526.1 million, £531.9 million and £544.9 million respectively. These values, along with the equivalents for each regulated company, are published by Ofwat on their website within the appropriate regulatory capital values file.

The actual regulatory equity for the price review to date is calculated as the average of the actual regulatory equity in 2020/21 and 2021/22 as published by Ofwat within the appropriate regulatory capital values file, and the actual regulatory equity for 2022/23 which is calculated as described above.

The AMP average return on regulatory equity is calculated as the average of return on regulatory equity, as published by Ofwat within the financial flows data source file, for 2020/21, 2021/22, and 2022/23 being 3.86 per cent, 3.88 and 3.9 per cent per cent respectively.

1F - Financial flows for the price review to date (2017-18 financial year average CPIH)

Financing impacts
The price review to date impact of the company's actual gearing structure compared to the notional gearing ratio set by Ofwat of 60.00 per cent is illustrated within the impact of movement from notional gearing line. This has been calculated as the average of the values reported for 2020/21, 2021/22 and 2022/23, calculated in accordance with the detail given beneath the financial flows for the 12 months ended 31 March 2022, being £3.3 million, £3.4 million and £3.4 million respectively.

The AMP average gearing benefits sharing is calculated as the average of gearing benefits sharing reported for 2020/21, 2021/22and 2022/23, all of which are calculated in accordance with the methodology set out in figure 9.1 of the PR19 Final Determinations: Aligning Risk and Return Technical Appendix. The resulting average value to be shared with customers, reducing the return to shareholders, is £0.7 million in 2017/18 prices equating to 0.2 per cent and 0.33 per cent of notional and actual regulatory equity respectively. However, as explained above, given the CMA PR19 FD decision to disapply the gearing penalty, and our disagreement with the gearing penalty in principle, we believe that this mechanism should be disapplied going forward.

The average variance in corporation tax for the price review to date is calculated as the average of the variance in corporation tax for 2020/21, 2021/22, and 2022/23 being £2.1 million, £3.8 million and £4.3 million respectively, resulting in an average variance to date of £3.4 million.

The cost of debt line illustrates the average difference between the actual cost of debt and the allowed cost of debt included in the final determination, based on both the notional gearing and the company's actual gearing structure for the AMP to date. The resulting impact of higher than allowed cost of debt in 2020/21 of £7.9 million and £10.1 million based on the company's notional and actual gearing structure respectively, the higher than allowed cost of debt in 2021/22 of £3.0 million and £3.8 million based on the company's notional and actual gearing structure respectively and the lower than allowed cost of debt in 2022/23as detailed above is an average higher than allowed cost of debt of £1.3 million and £1.8 million based upon the company's notional and actual gearing structure respectively.

Price control to date

Operational impacts
Totex out/(underperformance) represents the average difference between the actual totex performance versus the amount allowed in the published Final Determination in the three years of the AMP to date. It is adjusted for the following:

- timing differences; and
- company sharing ratio with customers.

As detailed above, the main driver of the totex underperformance can be attributed to a water network+ totex overspend which arises primarily as a result of a shortfall in developer contributions in all years. The impact of the unwinding of timing differences from the early years of the price review period can also be seen in the period to date figures.

The ODI out/(under) performance is calculated as the average of the total underperformance payments, as reported within APR table 3A, resulting in an average underperformance payment in the price review to date of £3.9 million.

1F - Financial flows for the price review to date (2017-18 financial year average CPIH)

Any reward/(penalty) from the C-MeX and D-MeX mechanisms is reported one year in arrears, once all companies' data is known. As a result, the average performance to date represents the average of nil reward/(penalty) for both mechanisms reported in 2020/21 and penalties for C-MeX and D-MeX respectively for the 12 months ended 31 March 2022 and 31 March 2023. This equates to performance for the price review to date of £0.4 million and £0.1 million, for C-MeX and D-MeX respectively.

Retail out/(under) performance for the price review to date is calculated as the average of retail out/underperformance in the three years of the AMP to date, being underperformance in all years. The retail cost underperformance in all years has been driven by increased bad debt as a result of Covid-19, depreciation and inflationary cost pressures.

Other exceptional items reflects our only land sale. In 2020/21 net cash proceeds totalling £0.061 million (2017/18 prices) were received in relation to the sale of protected land at our Charing BH2 Pumping Station in Kent. After applying the 50 per cent share with customers this resulted in a contribution to RORE of £0.031 (2017/18 prices) million. As there were no 'other exceptional items' in the subsequent periods, the resulting average equates to £0.010 million.

2A - Segmental income statement for the 12 months ended 31 March 2023

	Residential retail £000	Business retail £000	Water resources £000	Water network+ £000	Total £000
Revenue - price control	19,487	-	21,476	206,643	247,606
Revenue - non price control	-	-	-	980	980
Operating expenditure - excluding PU recharge impact	(22,060)	648	(19,310)	(115,219)	(155,941)
PU opex recharge	227	-	(743)	516	-
Operating expenditure - including PU recharge impact	(21,833)	648	(20,053)	(114,703)	(155,941)
Depreciation - tangible fixed assets	(1,195)	-	(5,078)	(54,978)	(61,251)
Amortisation - intangible fixed assets	-	-	-	-	-
Other operating income	-	-	-	(304)	(304)
Operating profit	**(3,541)**	**648**	**(3,655)**	**37,638**	**31,090**
Surface water drainage rebates					-

2B - Totex analysis for the 12 months ended 31 March 2023 - wholesale

	Water resources £000	Water network+ £000	Total £000
Base operating expenditure			
Power	7,780	20,504	28,284
Income treated as negative expenditure	(9)	(22)	(31)
Service charges/discharge consents	4,030	257	4,287
Bulk supply/bulk discharge	1,451	5,865	7,316
Renewals expensed in year (infrastructure)	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-
Other operating expenditure (including location specific costs & obligations)	5,848	62,016	67,864
Local authority and Cumulo rates	953	17,119	18,072
Total base operating expenditure	20,053	105,739	125,792
Other operating expenditure			
Enhancement operating expenditure	-	8,318	8,318
Developer services operating expenditure	-	211	211
Total operating expenditure excluding third party services	20,053	114,268	134,321
Third party services	-	435	435
Total operating expenditure	20,053	114,703	134,756
Grants and contributions			
Grants and contributions - operating expenditure	-	-	-
Capital expenditure			
Base capital expenditure	2,483	54,177	56,660
Enhancement capital expenditure	5,720	17,374	23,094
Developer services capital expenditure	-	19,011	19,011
Total gross capital expenditure excluding third party services	8,203	90,562	98,765
Third party services	-	-	-
Total gross capital expenditure	8,203	90,562	98,765
Grants and contributions			
Grants and contributions - capital expenditure	-	8,863	8,863
Net totex	28,256	196,402	224,658
Cash expenditure			
Pension deficit recovery payments	686	4,142	4,828
Other cash items	-	-	-
Totex including cash items	**28,942**	**200,544**	**229,486**

2B - Totex analysis for the 12 months ended 31 March 2023 - wholesale

As detailed above in relation to tables 1A and 1C, in the year we received final payments of £1.2 million and £3.4 million from our insurers in relation to damages and business interruption respectively, caused by sinkholes which appeared beneath our service reservoirs in Aylesford, Kent.

To ensure we do not reclaim an overspend from customers in relation to the cost incurred as a result of the sinkholes, which we feel would be inappropriate considering this has already been reclaimed through our insurance, we have offset the £3.4 million insurance receipt against our water network+ operating costs reported within ‘other operating expenditure (including location specific costs & obligations)’. Similarly, the £1.2 million insurance receipt has been offset against our water network+ base capital expenditure within this table.

2C - Cost analysis for the 12 months ended 31 March 2023 - retail

	Residential £000	Business £000	Total £000
Operating expenditure			
Customer services	7,446	-	7,446
Debt management	424	-	424
Doubtful debts	5,402	(648)	4,754
Meter reading	1,617	-	1,617
Service to developers		-	-
Other operating expenditure	6,900	-	6,900
Local authority and Cumulo rates	271	-	271
Total operating expenditure excluding third party services	22,060	(648)	21,412
Depreciation			
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	32	-	32
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	1,163	-	1,163
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	-	-	-
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	-	-	-
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	4	-	4
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	7	-	7
Income from wholesale assets acquired after 1 April 2015 principally used by retail	238	-	238
Net recharges costs	(227)	-	(227)
Total retail costs excluding third party and pension deficit repair costs	23,028	(648)	22,380
Third party services operating expenditure	-	-	-
Pension deficit repair costs	-	-	-
Total retail costs including third party and pension deficit repair costs	**23,028**	**(648)**	**22,380**
Debt written off	**4,607**	**-**	**4,607**
Capital expenditure	**324**	**-**	**324**

2C - Cost analysis for the 12 months ended 31 March 2023 - retail

Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale	Residential £000
Demand-side water efficiency - gross expenditure	1,124
Demand-side water efficiency - expenditure funded by wholesale	985
Demand-side water efficiency - net retail expenditure	139
Customer-side leak repairs - gross expenditure	1,169
Customer-side leak repairs - expenditure funded by wholesale	836
Customer-side leak repairs - net retail expenditure	333

Comparison of actual and allowed expenditure	Total £000
Cumulative actual retail expenditure to reporting year end	62,998
Cumulative allowed expenditure to reporting year end	52,489
Total allowed expenditure 2020-25	88.285

Residential

Overall expenditure for household retail is above final determination (FD) expectations, with total operating costs (excluding third party services) at £23.0 million versus an FD of £17.7 million. Household retail cost has increased from the previous period which was £21.1 million. This largely reflects the general level of increases in costs throughout the business driven by the exceptional rise in power and power reliant costs.

2D - Historic cost analysis of tangible fixed assets at 31 March 2023

	Residential retail £000	Business retail £000	Water resources £000	Water network+ £000	Total £000
Cost					
At 1 April 2022	17,606	-	172,982	1,867,782	2,058,370
Disposals	-	-	(244)	(4,907)	(5,151)
Additions	324	-	8,203	90,562	99,089
Adjustments	-	-	-	-	-
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2023	17,930	-	180,941	1,953,437	2,152,308
Depreciation					
At 1 April 2022	(9,987)	-	(38,930)	(342,770)	(391,687)
Disposals	-	-	241	4,465	4,706
Adjustments	-	-	-	-	-
Charge for year	(1,195)	-	(5,078)	(54,978)	(61,251)
At 31 March 2023	(11,182)	-	(43,767)	(393,283)	(448,232)
Net book amount at 31 March 2023	**6,748**	**-**	**137,174**	**1,560,154**	**1,704,076**
Net book amount at 1 April 2022	**7,619**	**-**	**134,052**	**1,525,012**	**1,666,683**
Depreciation charge for year					
Principal services	(1,195)	-	(5,078)	(54,978)	(61,251)
Third party services	-	-	-	-	-
Total	(1,195)	-	(5,078)	(54,978)	(61,251)

The net book value includes £107.3 million in respect of assets in the course of construction.

2E - Analysis of ‘grants and contributions’ for the 12 months ended 31 March 2023 - water resources and water network+

	Fully recognised in income statement £000	Capitalised and amortised (in income statement) £000	Fully netted off capex £000	Total £000
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total grants and contributions	**-**	**-**	**-**	**-**
Value of adopted assets	-	-		-
Grants and contributions - water network+				
Connection charges	4,488	-	-	4,488
Infrastructure charge receipts - new connections	4,095	-	-	4,095
Requisitioned mains	-	1,504	-	1,504
Diversions - s185	-	649	-	649
Other contributions (price control)	-	368	-	368
Price control grants and contributions before deduction of income offset	8,583	2,521	-	11,104
Income offset	2,480	-	-	2,480
Price control grants and contributions after deduction of income offset	6,103	2,521	-	8,624
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total grants and contributions	**6,103**	**2,521**	**-**	**8,624**
Value of adopted assets	970	-		970

The asset payment for adopted assets cover the cost of making an asset payment to self-lay providers for the provision of a new main adopted by the company.

2E - Analysis of 'grants and contributions' for the 12 months ended 31 March 2023 - water resources and water network+

Movements in capitalised grants and contributions	Water resources £000	Water network+ £000	Total £000
Brought forward	-	6,302	6,302
Capitalised in year	-	2,521	2,521
Amortisation (in income statement)	-	(1,974)	(1,974)
Carried forward	**-**	**6,849**	**6,849**

2F - Residential retail for the 12 months ended 31 March 2023

	Revenue £000	Number of customers 000s	Average residential revenues £
Residential revenue			
Wholesale revenue	177,649		
Retail revenue	19,487		
Total residential revenue	197,136		
Retail revenue			
Revenue recovered (“RR”)	19,487		
Revenue sacrifice	-		
Actual revenue (net)	19,487		
Customer information			
Actual customers (“AC”)		901,494	
Reforecast customers		902,316	
Adjustment			
Allowed revenue (“R”)	18,758		
Net adjustment	(729)		
Other residential information			
Average household retail revenue per customer			21,616

2I - Revenue analysis for the 12 months ended 31 March 2023

	Household £000	Non-household £000	Total £000	Water resources £000	Water network+ £000	Total £000
Wholesale charge - water						
Unmeasured	17,558	1,002	18,560	1,751	16,810	18,560
Measured	159,778	49,468	209,246	19,725	189,520	209,246
Third party revenue	313	-	313	-	313	313
Total wholesale water revenue	177,649	50,470	228,119	21,476	206,643	228,119
Wholesale total	177,649	50,470	228,119			
Retail revenue						
Unmeasured	1,920	-	1,920			
Measured	17,567	-	17,567			
Retail third party revenue	-	-	-			
Total retail revenue	19,487	-	19,487			
Third party revenue - non-price control						
Bulk supplies - water			-			
Other third party revenue – non-price control			137			
Principal services - non-price control						
Other appointed revenue			843			
Total appointed revenue			**248,586**			

The wholesale revenue for 2022/23 is higher than the allowed revenue in the Final Determination (FD) and is due to higher consumption as a result of the slower lifting of the Covid-19 restrictions and historic settlement adjustments from the non-household market. The slower lifting of restrictions resulted in lower commuting to outside of SEW's catchment area and higher consumption throughout the year.

The increase in revenue is also as a result of the extreme weather experienced in the Summer of 2022.

The table below reconciles the allowed and actual wholesale revenues.

	£000
Allowed wholesale revenue for the year	219,301
Increase due to higher consumption	8,818
Movement due to mix of properties	-
Actual revenue for the year	228,119

2I - Revenue analysis for the 12 months ended 31 March 2023

As a company with a high level of metering, our revenue is very dependent on the consumption forecast used for each year. Each year consumption is forecast based on a ‘normal’ water resources demand profile. Should weather and/or rainfall not follow this ‘normal’ profile then this will impact our measured revenue accordingly.

Any variation in wholesale revenue is adjusted for using the wholesale revenue forecasting incentive mechanism as prescribed by Ofwat.

2J - Infrastructure network reinforcement costs for the 12 months ended 31 March 2023

	Network reinforcement capex £000	On site / site specific capex (memo only) £000
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	7,440	723
Pumping and storage facilities	6	-
Other	61	553
Total	**7,507**	**1,276**

2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2023

	Water £000
Impact of infrastructure charge discounts	
Infrastructure charges	4,095
Discounts applied to infrastructure charges	-
Gross infrastructure charges	4,095
Comparison of revenue and costs	
Variance brought forward	(3,787)
Revenue	4,095
Costs	(7,507)
Variance carried forward	**(7,199)**

Across the south east we have a large number of new developments and based on data from Government and local planning authorities, this is expected to continue over the next 25 years. As a large proportion of our network is already distributing water at its maximum capacity, particularly during peak demands, we have to charge developers for offsite reinforcement work to ensure our existing customers and associated network are not negatively affected. When a developer applies for new connections, we carry out detailed modelling to understand the effect on the existing network and identify areas that require reinforcement. All our schemes are then planned and completed on a risk based approach to avoid impacting our existing customers while delivering a quality supply to our new customers.

We receive the infrastructure charge from developers when they apply for new connections to our network, but due to a number of constraints the work required may not always be carried out in the same financial year. On many of our schemes we have to consider environmental impacts and plan in the mitigation to protect and enhance the local biodiversity, which may require a number of species surveys that can only be carried out at specific times of the year. Where environmental concerns arise the schemes often have to be delivered during times that least impact the local environment, which may be outside of the financial year in which the contribution was received. Another reason for the difference is highways approvals to deliver schemes, particularly along busy roads or where other utility works are already planned. A number of schemes have to be delivered during school holidays; particularly longer schemes which are only allowed during summer holidays; leaving a short window to deliver the schemes and often pushing them into the next financial year.

As our schemes are planned and completed using a risk based approach. We know some of the lower risk schemes with a longer build programme can be moved in the programme to accommodate the higher risk schemes and therefore they may fall outside of the financial year in which the payment was received. There are also some schemes which were not yet completed in the 2022/23 financial year and therefore a proportion of the costs will be reported in future years.

Although there is approximately a £3.4 million difference between the revenue earnt from the charges and the actual costs of delivering the work for the financial year, the work associated with the charges will be delivered in subsequent years to ensure our network continues to provide a reliable service to all of our customers. Also included in the variance is infrastructure charges owed for previous years.

2L - Analysis of land sales for the 12 months ended 31 March 2023

This table has not been reproduced in this regulatory report as there were no disposals of protected land during the year.

2M - Revenue reconciliation for the 12 months ended 31 March 2023 - wholesale

	Water resources £000	Water network+ £000	Total £000
Revenue recognised			
Wholesale revenue governed by price control	21,476	206,643	228,119
Grants & contributions (price control)	-	8,624	8,624
Total revenue governed by wholesale price control	21,476	215,267	236,743
Calculation of the revenue cap			
Allowed wholesale revenue before adjustments (or modified by CMA)	22,281	197,020	219,301
Allowed grants & contributions before adjustments (or modified by CMA)	-	19,682	19,682
Revenue adjustment	(920)	4,648	3,728
Other adjustments	-	17	17
Revenue cap	21,361	221,366	242,727
Calculation of revenue imbalance			
Revenue cap	21,361	221,366	242,727
Revenue recovered	21,476	215,267	236,743
Revenue imbalance	**(115)**	**5,860**	**5,745**

2N - Residential retail - social tariffs

	Revenue £000	Number of customers 000s	Average amount per customer £
Number of residential customers on social tariffs			
Residential water only social tariffs customers		53,637	
Number of residential customers not on social tariffs			
Residential water only no social tariffs customers		847,857	
Social tariff discount			
Average discount per water only social tariffs customer			67,398
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	3,615		
Average customer funded cross-subsidy per water only social tariffs customer			4,010
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			-
Social tariff support - willingness to pay			
Level of support for social tariff customers reflected in business plan			6,165
Maximum contribution to social tariffs supported by customer engagement			6,165

In addition to tariffs such as Watersure, which are set nationally, we also provide a single Social Tariff for customers who are on a low income. This provides customers who are on a low income of £16,480 per annum, excluding disability and housing benefits with a discounted bill, to average bill levels, ensuring that customers can manage their money effectively and do not suffer bill shocks as a result of additional usage. This is particularly important in a highly metered environment.

2O - Historic cost analysis of intangible fixed assets

This table has not been reproduced in this regulatory report as the company has no intangible assets to report on under the RAGs.

3A - Outcome performance - water common performance commitments

The following tables show the performance against the company's 40 outcomes for 2022/23.

2022/23 Performance

For detailed commentary on our performance for the year please see our performance micro-site at https://performance.southeastwater.co.uk/.

Overall, we incurred a net penalty of £3.544 million in 2022/23 (excluding C-MeX and D-MeX as the assessment of these two measures has not yet been carried out by Ofwat). This compares with a net penalty of £1.956 million in 2021/22 (also excluding C-MeX and D-MeX).

Performance commitment met
Where our in-year performance has met the target set by Ofwat 'yes' has been selected, if the target has not been met then 'no' has been entered.

2022/23 Out performance payment or underperformance payment

Where in-year performance is better than target the accrued amount has been added in to the adjacent column.

Where in-year performance is worse than target the accrued amount has been added in to the adjacent column.

For Customers measure of experience (C-MeX) and Developer measures of experience (D-MeX), tables 3C and 3D, Ofwat will review the data for the whole industry and inform us what our underperformance/outperformance payment will be. These adjustments will be applied to the 2024/25 tariffs. Reputational performance commitments are shown in table 3E.

Performance for the year

This financial year we performed below the underperformance deadband for our Compliance Risk Index (CRI) performance measure and therefore have not accrued an underperformance payment.

In 2022/23 we incurred 182m 21s of supply interruptions, leading to a penalty of £3.230m. During the year we experienced a summer heatwave high demand event, and a freeze thaw event which greatly impacted our performance.

We continue to seek both operational and structural solutions to our supply interruptions performance. We can improve performance through the way in which we manage our network, and the way in which we respond to interruptions with alternative supply strategies and network rezoning. We also think we have some fundamental resilience issues in our network, which have resulted from decades of housing growth, changings in demand patterns due to covid and increased incidents of extreme weather. We will propose solutions to these structural issues in our Business Plan for PR24.

In 2022/23 we did not meet our leakage reduction target of 2.0 per cent. Our performance was a 0.6 per cent reduction from 95.1Ml/d, 3 year average baseline figure equating to an underperformance payment of £0.590 million. We have seen a large increase in our leakage due to ground movements caused by the summer heatwave and freeze thaw events experienced in the year.

In 2022/23 we did not meet our Mains Repairs target and therefore accrued £0.084m underperformance payment in the year. The increase in Mains Repairs were caused by the same incidents as previously stated above.

We outperformed our unplanned outage target for the year, this measure has an underperformance incentive only however we are pleased to have performed better than our target of 3.28 per cent.

3A - Outcome performance - water common performance commitments

Bespoke PCs

In 2022/23 we outperformed and therefore have accrued an outperformance payment of £0.057 million for our Appearance of tap water contacts performance commitment.

We performed better than target in our Taste and Odour of Tap water performance commitment. This means we have accrued a £0.056 million outperformance payment.

We have accrued a £0.255 million outperformance payment for performing better than our Voids-Household properties performance commitment.

We outperformed our Company sites at risk of flooding target for the year, this measure has an underperformance incentive only in 2024/25 however we are pleased to have performed better than target of 31 sites in 2022/23, by protecting 45 sites. 45 out of the original 95 sites identified in the Jacobs flooding report have been surveyed this year. For year 3 we are reporting 45 sites protected to a 1 in 1000 flood event. All 95 sites have now had surveys, final reports, work estimates and costs all completed.

For the report year 2022-23 we have 59 (last year 29) properties failing Low pressure - DG2 as recorded on the register. This is above the target of less than 50 properties. The number of connected properties as of 31st March 2023 is 1,048,310 connected properties; this equates to 0.6 per 10,000 connections. We have therefore incurred a £0.009 million underperformance payment.

We did not meet our Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration target (8,530) for the year, this measure has an outperformance and underperformance incentive in 2024/25 only.

We outperformed our Protecting wildlife and increasing biodiversity target for the year, this measure has an outperformance and underperformance incentive in 2024/25 only however we are pleased to have performed better than target of 1,268 Hectares in 2022/23.

Our original WINEP target for 2022/23 was to complete 44 schemes. However following Ofwat's in-period ODI process last year it was agreed that our target should be amended to 38 to align with the deadlines approved by the Environment Agency and Natural England. We have completed 39 schemes to date and therefore performed better than target and not accrued a penalty.

We outperformed our Bespoke Abstraction Incentive Mechanism (AIM) target for the year, this measure has an underperformance incentive only however we are pleased to have performed better than target of zero Ml/d in 2022/23. The net AIM performance saw a significantly decrease in 2022/23 performance (-79) as opposed to the previous year (-147.52). Since the final AIM performance has a negative score, there will subsequently be no financial penalties attributed to South East Water as a result of AIM performance.

We have met our Strategic main Wellwood to Potters Corner performance commitment for the year, this measure has an outperformance and underperformance incentive in 2024/25 only.

We are currently forecasting a £15.845 million underperformance payment for the total period of 2020/25. This total excludes C-Mex and D-Mex. It also excludes PCC and non-household voids which will be reviewed as part of PR24.

3A - Outcome performance - water common performance commitments

	Unique reference	Unit	Performance level - actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m
Financial						
Water quality compliance (CRI)	PR19SEW_A.1	number	1.49	Yes	-	(656)
Water supply interruptions	PR19SEW_B.1	hh:mm;ss	03:02:21	No	(3.230)	(12.443)
Leakage	PR19SEW_D.1	%	0.6	No	(590)	2.896
Per capita consumption	PR19SEW_E.1	%	(9.9)	No	-	N/A
Mains repairs	PR19SEW_B.2	number	170.3	No	(84)	(4.302)
Unplanned outage	PR19SEW_B.3	%	2.71	Yes	-	(1.156)
Bespoke PCs - water and retail (financial)						
Appearance of tap water	PR19SEW_A.2	nr	0.88	Yes	0.57	0.180
Taste and odour of tap water	PR19SEW_A.3	nr	0.28	Yes	0.56	0.137
Voids – household properties	PR19SEW_L.2	%	1.80	Yes	2.55	0.510
Voids – business properties	PR19SEW_L.3	%	10.29	No	-	N/A
Company sites protected from risk of flooding	PR19SEW_B.4	nr	45	Yes	-	-
Low pressure	PR19SEW_B.6	nr	0.6	No	0.9	(0.003)
Engaging and working with landowners and farm managers to improve catchment resilience related to raw water quality deterioration	PR19SEW_H.1	nr	8,289.9	No	-	1.376
Protecting wildlife and increasing biodiversity	PR19SEW_H.2	nr	1,541.0	Yes	-	1.252
Water industry national environment programme	PR19SEW_H.3	nr	39	Yes	-	-
Bespoke abstraction incentive mechanism (AIM)	PR19SEW_H.5	nr	(79)	Yes	-	(0.011)
Strategic main Wellwood to Potters Corner	PR19SEW_H.7	number	-	Yes	-	2.536
Financial water performance commitments achieved		%		59		
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%		42		

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

	Value
Annual customer satisfaction score for the customer service survey	71.33
Annual customer satisfaction score for the customer experience survey	75.61
Annual C-MeX score	73.47
Annual net promoter score	5.00
Total household complaints	5,740
Total connected household properties	994,527
Total household complaints per 10,000 connections	57.716
Confirmation of communication channels offered	True

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

	Value
Qualitative component annual results	66.68
Quantitative component annual results	98.81
D-MeX score	82.74
Developer services revenue (water) (£000)	11,343

Calculating the D-MeX quantitative component	Reporting period (1 April to 31 March) %	Quantitative score (annual) Number
Water UK performance metric		
W1.1 Pre-development enquiry – reports issued within target	100.00	
W3.1 s45 quotations – within target	99.80	
W4.1 s45 service pipe connections – within target	98.01	
W6.1 Mains design 500 plots – quotations within target	98.99	
W7.1 Mains design >500 plots – quotations within target	100.00	
W8.1 Mains construction within target	100.00	
W17.1 Mains diversions (without constraints) – quotations within target	99.34	
W17.2 Mains diversions (with constraints) – quotations within target	100.00	
W18.1 Mains diversions – construction/commissioning within target	100.00	
SLPM S2/2B Water Company to Provide design acceptance	94.44	
SLPM-S3 S3 Review / revise Water Adoption Agreement	97.44	
SLPM S5/1A S5/1a Review request and carry out Final Connection	92.86	
SLPM S7/1 Validate notification and provide consent to progress with connection	100.00	
WN 1.1 of confirmations issued to the applicant within target period	100.00	
WN 2.2 Bulk supply offer letters issued to the applicant within target period	100.00	
WN 4.1 of main laying schemes constructed and commissioned within the target period	100.00	
D-MeX quantitative score (for the reporting period)	98.81	
D-MeX quantitative score (annual)		0.99

3E - Outcome performance - non financial performance commitments

	Unique reference	Unit	Performance level - actual	PCL met?
Common				
Risk of severe restrictions in a drought	PR19SEW_G.1	%	14.2	No
Priority services for customers in vulnerable circumstances - PSR reach	PR19SEW_J.1	%	8.0	Yes
Priority services for customers in vulnerable circumstances - attempted contacts	PR19SEW_J.1	%	90.3	Yes
Priority services for customers in vulnerable circumstances - actual contacts	PR19SEW_J.1	%	54.5	Yes
Bespoke PCs				
Segmented satisfaction of household customers – segment 1	PR19SEW_C.2	score	3.8	No
Segmented satisfaction of household customers – segment 2	PR19SEW_C.3	score	4.0	No
Segmented satisfaction of household customers – segment 3	PR19SEW_C.4	score	3.9	No
Segmented satisfaction of household customers – segment 4	PR19SEW_C.5	score	4.1	No
Segmented satisfaction of household customers – segment 5	PR19SEW_C.6	score	4.0	No
Segmented satisfaction of household customers – segment 6	PR19SEW_C.7	score	3.9	No
Satisfaction of household customers who are experiencing payment difficulties	PR19SEW_C.8	score	4.2	No
Satisfaction of household customers who are receiving non-financial support	PR19SEW_C.9	score	4.1	No
Satisfaction of household customers on our vulnerability schemes during a supply interruption	PR19SEW_C.10	%	3.3	No
Household customers receiving financial support	PR19SEW_I.1	nr	60,275	No
Satisfaction of stakeholders in relation to assistance offered by South East Water	PR19SEW_J.2	%	3.3	No
Gap sites	PR19SEW_L.1	nr	47	Yes
Event risk index (ERI)	PR19SEW_B.5	score	286.929	No
Greenhouse gas emissions	PR19SEW_H.4	nr	206.6	No
Engaging and working with abstractors to improve catchment resilience to low flows	PR19SEW_H.6	%	14	Yes
Satisfaction with value for money	PR19SEW_C.11	score	3.6	No
WINEP delivery	PR19SEW_NEP01	text	Met	Yes
Non-financial performance commitments achieved		%		29

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

Performance commitments set in standardised units - water	Unit	Standardising data indicator	Standardising data numerical value	Performance level - actual (current reporting year)	Performance level - calculated (i.e. standardised)
Mains repairs – reactive	Mains repairs per 1,000km	Mains length in km	14,994.40	1,726	115.11
Mains repairs – proactive	Mains repairs per 1,000km	Mains length in km	14,994.40	827	55.15
Mains repairs	Mains repairs per 1,000km	Mains length in km	14,994.40	2,553	170.26
Per capita consumption (PCC)	lpd	Household population (000s) and household consumption (Ml/d)	2,250.90	338	150.30

Performance commitments measured against a calculated baseline	Unit	Baseline (average from 2017-18 to 2019-20)	Performance level - actual (2020-21)	Performance level - actual (2021-22)	Performance level - actual (2022-23)	Performance level 3 year average (current and previous 2 years)	Calculated performance level to compare against PCLs
Leakage	Ml/d	95.1	92.7	88.7	102.0	94.5	0.6
Per capita consumption (PCC)	lpd	144.0	165.9	158.6	150.3	158.3	(9.9)

Water supply interruptions	Unit	Standardising data indicator	Standardising data numerical value	Performance level - actual number of minutes lost	Number of properties supply interrupted	Calculated performance level
Water supply interruptions	Average number of minutes lost per property per year	Number of properties	965.38	176,037,642	186,033	03:02:21

Unplanned or planned outage	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Unplanned outage	745.57	20.17	2.71

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

Priority services for customers in vulnerable circumstances	Total residential properties 000s	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts over a 2 year period	Attempted contacts %	Number of actual contacts over a 2 year period	Actual contacts %
Priority services for customers in vulnerable circumstances	905.59	72,777	8.0	25,157	22,705	90.3	13,713	54.5

3H - Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	(0.15)
Water network+	(3.71)
Residential retail	0.26
Business retail	-
Dummy control	-
Initial calculation of end of period revenue adjustment by price control	
Water resources	0.19
Water network+	(1.08)
Residential retail	(2.13)
Business retail	-
Dummy control	-
Initial calculation of end of period RCV adjustment by price control	
Water resources	-
Water network+	-
Residential retail	-
Business retail	-
Dummy control	-

3I - Supplementary outcomes information

Unplanned or planned outage	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Planned outage	745.57	17.79	2.39

Risk of severe restrictions in drought	Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk
Risk of severe restrictions in drought	650.57	18.36	543.42	54.28	2,326.23	14.21

4A - Water bulk supply information for the 12 months ended 31 March 2022

	Volume Ml	Operating costs £000	Revenue £000
Bulk supply exports			
Kingston	-	-	-
Total bulk supply exports	-	-	-
Bulk supply imports			
Belmont Scheme	1,787.837	728	
River Medway Scheme	8,232.121	1,735	
Weirwood	1,007.715	770	
Affinity (Egham)	6,097.478	2,907	
Darwell	733.340	1,208	
Total bulk supply imports	17,858.491	7,347	

Exports

For the purpose of this calculation, we report the total of water exports from SEW's Kingston WTW to Affinity Water. This transfer is infrequently operated and typically results in a low reported figure. In the current year, the reported figure is 0.000 Ml (3dp). The costs associated are therefore £0.

Imports

For the purpose of this calculation, we report the annual total of water imports from Southern Water (Belmont Scheme, River Medway Scheme, Darwell and Weirwood); and Affinity Water (Egham). The total volumes transferred will vary annually, subject to operational needs. For the current year, the total reported figure is 17,858.491 Ml (3dp). The total cost associated with bulk supply imports comes to £7.347 million (3dp).

This compares to a total imported in 2021/22 of 16,106.193 Ml.

4B - Analysis of debt

Variances exist between tables 4B and 1E in relation to floating rate instruments. In line with the Regulatory Accounting Guidelines, the company's undrawn committed facilities totalling £158.0 million have been included within table 4B but are excluded from the net debt analysis completed within table 1E. As a result of this table 4B reports nominal and cash interest cost on floating rate instruments of £14.0 million compared to £7.3 million in table 1E, resulting in a variance of £6.7 million.

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

Totex	12 months ended 31 March 2021		Price control period to date	
	Water resources £000	Water network+ £000	Water resources £000	Water network+ £000
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	23,264	151,360	67,892	397,733
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	23,273	176,111	57,989	460,180
Transition expenditure	-	-	-	-
Disallowable costs	929	5,055	1,498	6,369
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	22,344	171,056	56,491	453,811
Variance	(920)	19,696	(11,401)	56,078
Variance due to timing of expenditure	(1,000)	(25,428)	(11,200)	(2,812)
Variance due to efficiency	80	45,124	(201)	58,890
Customer cost sharing rate - outperformance (%)	61.91	61.91	61.91	61.91
Customer cost sharing rate - underperformance (%)	38.09	38.09	38.09	38.09
Customer share of totex overspend	31	17,188	-	22,431
Customer share of totex underspend	-	-	(124)	-
Company share of totex overspend	50	27,936	-	36,459
Company share of totex underspend	-	-	(76)	-
Final determination allowed totex - business rates and abstraction licence fees	4,348	18,386	12,202	51,592
Actual totex - business rates and abstraction licence fees	4,983	17,376	12,818	51,919
Variance - business rates and abstraction licence fees	635	(1,010)	616	327
Customer cost sharing rate - business rates (%)	75.00	75.00	75.00	75.00
Customer cost sharing rate - abstraction licence fees (%)	75.00	75.00	75.00	75.00
Customer share of totex over/underspend - business rates and abstraction licence fees	476	(757)	462	245
Company share of totex over/underspend - business rates and abstraction licence fees	159	(252)	154	82
Final determination allowed totex - not subject to cost sharing	-	611	-	1,719
Actual totex - not subject to cost sharing	-	435	-	2,411
Variance - 100% company allocation	-	(176)	-	692
Total customer share of totex over/underspend	**507**	**16,430**	**338**	**22,676**

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

RCV	12 months ended 31 March 2021 Water resources £000	12 months ended 31 March 2021 Water network+ £000	Price control period to date Water resources £000	Price control period to date Water network+ £000
Total customer share of totex over/underspend	507	16,430	338	22,676
PAYG rate (%)	58.34	65.18	55.94	68.57
RCV element of cumulative totex over/underspend	211	5,721	149	7,127
Adjustment for ODI outperformance payment or underperformance payment			-	-
Green recovery			-	-
RCV determined at FD at 31 March			109,760	1,554,120
Projected 'shadow' RCV			109,909	1,561,247

Table content summary
This table tracks year on year changes to the RCV and reports a 'shadow' RCV as a result of actual totex and any ODI adjustments.

Background and purpose
This information is intended to show the rolling impact on the RCV of changes in investment activity relative to the determination and ODI performance over the year.

Table completion methodology
Key inputs to the table and their sources are summarised in the table below:

Line	Description	Source data and analysis
4C.1	Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions and other items not subject to cost sharing)	The company's allowed totex in the final determination, net of allowed totex for business rates, Environment Agency / Natural Resources Wales abstraction licence fees, grants and contributions and other items not subject to cost sharing, as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values. Values should be inflated using the average CPIH figure for the reporting year/ price control period.
4C.2	Actual totex for cost sharing at standard cost sharing rates (i.e. net of business rates, abstraction licence fees, grants and contributions and costs not subject to cost sharing)	The company's actual totex, excluding business rates and Environment Agency abstraction licence fees and income offset grants and contributions and other items not subject to cost sharing, as reported in: Actual totex – 2B.26 **Less the sum of costs excluded from cost sharing or with separate sharing rates:** ● Income offset payments – 2E.15 ● Non price control grants and contributions (negative number) – sum of 2E.4-6/2E.17-19 ● Third party services (opex) – 2B.13 ● Third party services (capex) – 2B.20 ● Other cash items – 2B.25 ● Pension deficit recovery costs – 2B.24 ● Actual expenditure on innovation projects funded through the innovation competition – 9A.20 ● Non-section 185 diversions – 4P.3 ● Abstraction charges (water only) – 2B.3 ● Local authority and cumulo rates – 2B.8

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

Line	Description	Source data and analysis
4C.3	Transition expenditure	Expenditure incurred in 2019-20 for the delivery of outcomes in the price control period 2020-25 and that was included in the totex allowance at PR19.
4C.4	Disallowable costs	In setting price controls, we have used an overarching principle that costs should only feature in our totex for cost sharing for activities where it is appropriate for a company to share an over (or under) spend with their customers. We define disallowable items as costs that do not conform to this overarching principle. These include: ● costs associated with impairment of other businesses; ● costs related to financing (bond issuance fees, refinancing, takeover costs); ● fines and investigation costs; ● compensation claims; and ● any other costs where the activity driving it does not, ex ante, have a reasonable expectation of customer benefit.
4C.7	Variance due to timing of expenditure	The value due to a variation in the timing of the planned expenditure. (i.e. accelerated or deferred)
4C.9	Customer cost sharing rate - outperformance	The customer cost sharing rate for outperformance as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values.
4C.10	Customer cost sharing rate - underperformance	The customer cost sharing rate for underperformance as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values.
4C.15	Final determination allowed totex -business rates and abstraction licence fees	The company's allowed totex in the final determination for business rates and Environment Agency / Natural Resources Wales abstraction licence fees as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values. Values should be inflated using the average CPIH figure for the reporting year/ price control period.
4C.16	Actual totex - business rates and abstraction licence fees	The company's actual totex for business rates and Environment Agency / Natural Resources Wales abstraction licence fees as reported in: ● Business rates – line 2B.8 ● Abstraction charges – line 2B.3
4C.18	Customer cost sharing rate- business rates	For companies with an Ofwat final determination: The customer cost sharing rate as published in the final determination – 75%.
4C.19	Customer cost sharing rate- abstraction licence fees	For companies with an Ofwat final determination: The customer cost sharing rate as published in the final determination – 75%.
4C.22	Final determination allowed totex not subject to cost sharing	The company's allowed totex in the final determination for third party services, strategic regional water resource development schemes, other cash items and non-s185 diversions as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values.
4C.23	Actual totex not subject to cost sharing	The company's actual totex for items not subject to cost sharing – ● non-s185 diversions - line 4P.3 ● innovation fund – line 9A.20 ● strategic water resource development schemes –line 4L.37 ● other cash items – line 2B.25 ● income offset ● non-price control grants and contribution income ● pension deficit repair costs ● third party services opex and capex

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

Line	Description	Source data and analysis
4C.27	PAYG rate	The appropriate PAYG rate as published in Ofwat's Financial Flows data reference document on our website alongside the annual publication of the Regulatory Capital Values. For 'Price control period date' the average value should be used.
4C.29	Adjustment for ODI outperformance payment or underperformance payment	RCV impact of the outperformance payment or underperformance payment from the ODI.
4C.30	Green Recovery	Copied from 4U.14.
4C.31	RCV determined at FD at 31 March	RCV at 31 March per the 2019 price determination inflated using the appropriate CPIH and RPI values – these are published on the OFWAT website annually in April.

Table completion methodology discussion

Treatment of Grants and Contributions income offset
When preparing our APR Table 4C we have followed the treatment of income offset for grants and contributions as set out in Table 3.7 of our company specific final determination report – particularly Tables 3.2 and 3.7[1].

Table 3.2 Totex by wholesale price control and type of cost, 2020-25 (2017-18 prices) and Table 3.7 Cost sharing rates for 2020-25 and totex for end of period reconciliation (2017-18 prices) are set out below:

Table 3.2: Totex by wholesale price control and type of cost, 2020-25 (£ million, 2017-18 CPIH deflated prices)	**Water resources**	**Water network+**	**Total**
Base expenditure	75.0	661.2	736.2
Enhancement expenditure	40.8	121.7	162.4
Operating lease adjustment	(0.2)	(0.7)	(0.9)
Gross allowed totex used to calculate cost sharing rates	115.6	782.2	897.7
Strategic regional water resources solutions and other cash items	-	-	-
Third party costs	-	2.2	2.2
Non-section 185 diversions	-	0.4	0.4
Ex-ante cost sharing adjustment	-	-	-
Gross totex	115.6	784.8	900.3
Grants and contributions after adjustment for income offset[1]	-	87.7	87.7
Net allowed totex used in PAYG calculation	**115.6**	**697.1**	**812.6**
Pensions deficit recovery costs[2]	2.5	15.0	17.5
Total	**118.1**	**712.1**	**830.1**

1. Includes price control and non-price control grants and contributions.
2. We are displaying pension deficit recovery costs separately as they are not included in the calculation for PAYG (see section 4).

[1] https://www.ofwat.gov.uk/publication/pr19-final-determinations-south-east-water-final-determination/

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

Table 3.7: Cost sharing rates for 2020-25 and totex for end-of-period reconciliation	Water resources	Water network+	Total
Totex for cost sharing rates – September 2018 business plan	127.6	877.0	
Totex for cost sharing rates – August 2019	127.6	877.0	
Weighted company view of totex for cost sharing rates	127.6	877.0	
Gross allowed totex for cost sharing rates	115.6	782.2	897.7
Cost sharing ratio	1.12		
Cost sharing rate – outperformance	38%		
Cost sharing rate – underperformance	62%		
Grants and contributions	-	108.7[6]	
Abstraction charges and business rates	18.4	77.9	
Net allowed totex subject to cost sharing reconciliation with standard cost sharing rates in this table	97.1	595.6[7]	692.7

1. Amendment made to Grants and contributions before the deduction of income offset (3m) Network plus – Water.
2. Amendment made to Net allowed totex subject to cost sharing reconciliation Network plus - Water

We compare costs for the FD and actual using grants and contributions figures gross of the income offset as set out in Table 3.7 above.

The income offset is not available directly from the financial model. However we have derived this from the SEW Grants and Contributions model[2] in the calculation as set out below. This ties in the numbers from Table 3.2 and Table 3.7. (Note that the numbers from the Grants and Contributions model are slightly different to the numbers used in the financial model. We have used the numbers from the financial model with priority.)

Grants and Contributions (2017-18 prices)	Constant	Unit	Total	2020-21	2021-22	2022-23	2023-24	2024-25
FD G&C net (real)		£m	87.347	17.744	17.590	17.498	17.325	17.190
Opex diversions contributions – NRSWA		£m	0.365	0.075	0.074	0.072	0.072	0.071
FD Total G&C net (real)		£m	87.712	17.820	17.664	17.570	17.398	17.261
SEW BP App28 Income Offset		£m	23.771	4.173	4.695	4.851	4.997	5.055
Water efficiency challenge – (post override)	10.27%							
FD income offset (real)		£m	21.310	3.740	4.210	4.350	4.480	4.530
FD G&C gross (real)		£m	109.022	21.560	21.874	21.920	21.878	21.791
FD income offset		£m	(21.310)	(3.740)	(4.210)	(4.350)	(4.480)	(4.530)
FD Total G&C net (real)		**£m**	**87.712**	**17.820**	**17.664**	**17.570**	**17.398**	**17.261**

These figures match those for grants and contributions in Table 3.2 (after income offset) £87.7 million and Table 3.7 (before income offset) £108.7 million (after deduction of non-price control contributions).

The figures given in the latest version of the Financial Flows data for the income offset are as follows.

WN – Income offset	£m	4.17	4.70	4.85		

[2] https://www.ofwat.gov.uk/wp-content/uploads/2019/12/Grants-and-Contributions-model_SEW_FD.xlsm

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

These total £23.77m and do not agree with the figures published in our Table 3.7. In line with our final determination we believe that the figures quoted in the financial flows should have the 10.27% water efficiency challenge deducted.

We have used figures for the income offset which are consistent with Table 3.7.

SEW Closing RCV at March 2023

Ofwat has published its view of companies RCV taking into account the actual inflation figures for RPI and CPIH at https://www.ofwat.gov.uk/wp-content/uploads/2023/05/RCV-PR19_2023_Overall-.xlsx. We are 0.43 concerned that we are not able to replicate the year end RCV figures provided by Ofwat. From the calculation file published by Ofwat at https://www.ofwat.gov.uk/wp-content/uploads/2023/05/PR19RCV-SEW.xlsx it is apparent that the RPI component of the RCV has been uplifted from year average to year end using CPIH instead of RPI. Given the difference between RPI and CPIH for 2022/23 this leads to an understatement of this component of our RCV. We have used the Ofwat published RCV in our table 4C. However, we believe that Ofwat should be aware of this anomaly in their calculation of the RCV and make suitable corrections in time for the calculation of the March 2023 RCV which is a key source input for our PR24 modelling.

Table calculations

4C.1 FD indexation to outturn ‘Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)‘ 2021-22.

Totex (net of business rates, abstraction licence fees and grants and contributions) (£m 2017-18 prices)	WR	WN	Total
Final determination allowed gross totex (See note 1)	23.388	166.143	189.531
Less FD Third Party costs (opex)	-	0.431	0.431
Less FD Third Party costs (capex)	-	-	-
Less FD Non-sect 185 diversions	-	0.086	0.086
Final determination allowed gross totex - for cost sharing	23.388	165.626	189.014
Less Grants and contributions net of income offset - capital expenditure - price control - real	-	17.498	17.498
Less Grants and contributions net of income offset - operational expenditure - non price control - real	-		-
Less FD grants and contributions (income offset)	-	4.353	4.353
Less FD business rates	0.886	15.437	16.323
Less FD abstraction licence fees	2.797	0.136	2.933
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	19.705	128.203	147.907
CPI(H): Fin year average - inflate from base year 2017-18	118.06%		
FD allowed totex (net of business rates, abstraction licence fees and G&Cs) 2022-23 prices	23.264	151.360	174.624

1. This is consistent with the 5 year total in SEW Specific FD report Table 3.2 of £900.3m.

CPIH - Convert base year to outturn

CPIH 2017/18 FYA - Base Year	Index	104.217
CPIH 2021/22 FYA - Outturn	Index	113.117
CPI(H): Fin year average - inflate from base year 2017-18 average	%	108.54%

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

4C.2 Detail for calculation of "Less the sum of costs excluded from cost sharing or with separate sharing rates".

Actual totex for sharing at standard rates (£m 2022-23 prices)	WR	WN	Total
Actual totex (net)	**28.942**	**200.544**	**229.486**
Less Actual grants and contributions (income offset)	-	2.480	2.480
Less Actual Non price control grants and contributions	-	-	-
Less Actual Third party services (opex)	-	0.435	0.435
Less Actual Third party services (capex)	-	-	-
Less Actual Other cash items	-	-	-
Less Actual Pension deficit recovery costs	0.686	4.142	4.828
Less Actual expenditure on innovation	-		-
Less Actual Non section 185 diversions	-	-	-
Less Actual abstraction licence fees	4.030	0.257	4.287
Less Actual business rates	0.953	17.119	18.072
Less Actual Strategic scheme development costs	-	-	-
Actual totex (net of business rates, abstraction licence fees and G&Cs)	23.273	176.111	199.384

4C.4 Detail for calculation of 'Disallowable costs'.

Disallowable costs (£m 2022-23 prices)	WR	WN	Total
Costs associated with impairment	-	-	-
Costs relating to financing (bond issue etc)	-	-	-
Fines and investigation costs	-	-	-
Compensation claims	0.929	5.055	5.983
Other disallowables	-	-	-
Total	0.929	5.055	5.983

4C.7 Detail for calculation of 'Variance due to timing of expenditure'.

Timing differences in the year 2022-23	WR	WN	Total
WR Opex	-	-	-
WN Opex (See note 1)	-	(2.000)	(2.000)
WR Schemes (See note 2)	(1.000)	-	(1.000)
WN Schemes (See note 3)	-	(23.428)	(23.428)
Variance due to timing of expenditure (£m 2022-23 prices)	(1.000)	(25.428)	(26.428)

1. This is a partial unwinding of the c£4m timing difference reported in 2020-21 for opex related to leakage (c£4m).
2. There was a delay to expenditure on the Butler WTW scheme which is expected to be spent during the remaining period.
3. This is an unwinding of the £18.4m timing difference reported in 2020-21 where a number of base totex schemes were brought forward from the FD allowance. A further £5m in timing difference is reflected here as a result of the reprofiled WINEP schemes resulting in a delay in WN expenditure to subsequent years.

Cumulative timing differences	WR	WN	Total
WR Opex	-	-	-
WN Opex (See note 1)	-	2.188	2.188
WR Schemes (See note 2)	(11.200)	-	(11.200)
WN Schemes (See note 3)	-	(5.000)	(5.000)
Variance due to timing of expenditure (£m 2022-23 prices)	(11.200)	(2.812)	(14.012)

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

1. This reflects the reprofiling of allowed opex expenditure related to leakage.
2. The majority of our WR variance due to timing expenditure is on our WINEP programme, for which we have agreed extended delivery dates with the EA on several of the projects. Just under half of our WINEP programme is due for delivery in year 5, this means we will see higher WINEP expenditure in the final two years of the price review period.
The Bewl/Darwell project has also remained in the design phase throughout the first 3 years of the price review period due to the added complexity of design and routes, as well as the required extension to Bewl WTW. Commencement of construction is anticipated in 2023-24 which will see this timing adjustment reversed with additional expenditure in years 4 and 5.
3. The £5m timing difference in WN schemes is the result of the reprofiled WINEP schemes resulting in a delay in WN expenditure to subsequent years.

4C.8 Commentary on 'Variance due to timing of expenditure'.

We do not believe that the labelling of this line is very clear, particularly when there is an overspend. Variances in expenditure are as a result of several factors and not simply 'efficiency' or 'inefficiency'.

In the year 2022-23 (£m 2022-23 prices)	WR	WN	Total
Variance in totex for cost sharing at standard sharing rates	-0.920	19.696	18.776
Impact of timing of expenditure	1.000	25.428	26.428
Combined variance in the year	0.080	45.124	45.205

In general we are experiencing a significant overspend on base totex related expenditure, an unexpectedly high level of disallowable (compensation) costs. This is slightly offset by an underspend on enhancement expenditure.
As in previous years a significant component of the Water Network totex overspend (c12m) arises as a result of a shortfall in developer contributions. As part of our final determination an additional £31m (2017-18 prices) developer contributions was allowed to fund enhancement development expenditure of c42m (2017-18 prices). (See page 60 of our SEW specific FD report). This was to be funded through increasing infrastructure charges and an increasing income offset. We discussed this approach to funding new development with Ofwat at an early stage and identified that we were constrained both by the rules for setting infrastructure charges and practical developer considerations. We identified that the assumptions in the FD would result in us reporting a significant shortfall in collection of developer contributions, particularly in the early years.

The balance of overspend is generally on base totex. The key areas of this overspend are general increases in power costs, incident costs, chemical and materials costs.

The cumulative position is shown in the following table:

Cumulative position (£m nominal prices)	WR	WN	Total
Variance in totex for cost sharing at standard sharing rates	-11.401	56.078	44.678
Impact of timing of expenditure	11.200	2.812	14.012
Combined variance to date	-0.201	58.891	58.690

The shortfall in Grants and Contributions received compared to our final determination allowance (described in previous sections) accounts for c£33m, over half of the cumulative overspend in WN expenditure.
The balance of c£25m represents overspend on base totex. The key areas of this overspend are general increases in power costs, incident costs, chemical and materials costs.

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

4C.12 FD indexation to outturn ‘Final determination allowed totex -business rates and abstraction licence fees‘

Totex - business rates and abstraction licence fees			
FD business rates	0.886	15.437	16.323
FD abstraction licence fees	2.797	0.136	2.933
FD allowed totex - business rates and abstraction licence fees	3.683	15.573	19.256
CPI(H): Fin year average - inflate from base year 2017-18	118.06%		
Final determination allowed totex - business rates and abstraction fees (£m 2021-22 prices)	4.348	18.386	22.734

4C.18 FD indexation to outturn ‘Final determination ‘totex not subject to cost sharing‘

Totex not subject to cost sharing			
FD Third party services (opex)	-	0.431	0.431
FD Third party services (capex)	-	-	-
FD Non-sect 185 diversions	-	0.086	0.086
FD Strategic scheme development costs	-	-	-
FD totex - not subject to cost sharing	-	0.517	0.517
CPI(H): Fin year average - inflate from base year 2017-18	118.06%		
Final determination allowed totex - not subject to cost sharing (£m 2021-22 prices)	0.000	0.611	0.611

4C.19 Detail for calculation ‘Actual ‘totex not subject to cost sharing‘

Actual totex not subject to cost sharing	WR	WN	Total
Actual Third party services (opex)	-	0.435	0.435
Actual Third party services (capex)	-	-	-
Actual Other cash items	-	-	-
Actual expenditure on innovation	-	-	-
Actual Non section 185 diversions	-	-	-
Actual Strategic scheme development costs	-	-	-
Actual totex - not subject to cost sharing (£m, 2021-22 prices)	-	0.435	0.435

4C.25 Adjustment for ODI outperformance payment or underperformance payment

None of our ODIs for 2021-22 impact our RCV.

Changes in methodology since prior years

There are no changes in our methodology from the previous year.

Risks to data accuracy and robustness

We have some differences in understanding of the year end RCV and financial flows figures with Ofwat – particularly when cross referencing to our financial model and SEW specific final determination report. The data we have used in this table is sourced from and consistent with our SEW financial model and the SEW specific financial determination report.

4D - Totex analysis for the 12 months ended 31 March 2023 - water resources and water network+

	Water resources	Network+				Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£000	£000	£000	£000	£000	£000
Operating expenditure						
Base operating expenditure	20,053	813	223	31,357	73,346	125,792
Enhancement operating expenditure	-	-	-	923	7,395	8,318
Developer services operating expenditure	-	-	-	-	211	211
Total operating expenditure excluding third party services	20,053	813	223	32,280	80,952	134,321
Third party services	-	-	-	-	435	435
Total operating expenditure	20,053	813	223	32,280	81,387	134,756
Grants and contributions - operating expenditure	-	-	-	-	-	-
Capital expenditure						
Base capital expenditure	2,483	1,611	-	22,623	29,943	56,660
Enhancement capital expenditure	5,720	-	-	8,997	8,377	23,094
Developer services capital expenditure	-	-	-	-	19,011	19,011
Total gross capital expenditure excluding third party services	8,203	1,611	-	31,620	57,331	98,765
Third party services	-	-	-	-	-	-
Total gross capital expenditure	8,203	1,611	-	31,620	57,331	98,765
Grants and contributions - capital expenditure	-	-	-	-	8,863	8,863
Net totex	28,256	2,424	223	63,900	129,855	224,658

4D - Totex analysis for the 12 months ended 31 March 2023 - water resources and water network+

	Water resources	Network+				Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£000	£000	£000	£000	£000	£000
Cash expenditure						
Pension deficit recovery payments	686	19	-	1,733	2,390	4,828
Other cash items	-	-	-	-	-	-
Totex including cash items	**28,942**	**2,443**	**223**	**65,633**	**132,245**	**229,486**
Atypical expenditure						
Weather incidents - Personnel	-	-	-	-	-	-
Weather incidents - Power and chemicals	-	-	-	-	-	-
Weather incidents - Contractors (Leakage Recovery)	-	-	-	-	-	-
Weather incidents - Contractors (Other)	-	-	-	-	-	-
Weather incidents - Compensation	-	-	-	-	-	-
Weather incidents - Other Sundry	-	-	-	-	-	-
Total atypical expenditure	-	-	-	-	-	-

.4F - Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2022

During the year to 31 March 2023, no project which incurred expenditure fell into the definition of a major project as defined within section 15 of RAG 4.10. As such we have not reproduced this table within this regulatory report.

4H - Financial metrics for the 12 months ended 31 March 2023

	Current Year	AMP to date
Financial indicators		
Net debt (£m)	1230.727	
Regulatory equity (£m)	433.153	
Regulatory gearing (%)	73.97	
Post tax return on regulatory equity (%)	(19.12)	
RORE (return on regulatory equity) (%)	(2.39)	0.94
Dividend yield (%)	1.49	
Retail profit margin - household (%)	(1.76)	
Retail profit margin - non household (%)	1.30	
Credit rating - Fitch	N/A	
Credit rating - Moody's	Baa2 (Stable)	
Credit rating - Standard and Poor's	BBB (Negative)	
Return on RCV (%)	2.62	
Dividend cover (dec)	(9.11)	
Funds from operations (FFO) (£m)	53.980	
Interest cover (cash) (dec)	2.44	
Adjusted interest cover (cash) (dec)	0.87	
FFO/net debt (dec)	0.04	
Effective tax rate (%)	0.76	
Retained cash flow (RCF) (£m)	47.523	
RCF/net debt (dec)	0.04	
Borrowings		
Proportion of borrowings which are fixed rate (%)	32.11	
Proportion of borrowings which are floating rate (%)	12.15	
Proportion of borrowings which are index linked (%)	55.74	
Proportion of borrowings due within 1 year or less (%)	2.45	
Proportion of borrowings due in more than 1 year but no more than 2 years (%)	-	
Proportion of borrowings due in more than 2 years but no more than 5 years (%)	9.72	
Proportion of borrowings due in more than 5 years but no more than 20 years (%)	87.65	
Proportion of borrowings due in more than 20 years (%)	0.17	

The company does not currently receive credit ratings from Fitch Rating, therefore no value has been entered in the above table for this.

The value of interest paid on borrowings used in calculating the interest cover (cash) and adjusted interest cover (cash) values above is comprised of the following:

4H - Financial metrics for the 12 months ended 31 March 2023

	Interest £000
Fixed rate bond (£166m)	9,268
Loan notes (£100m)	3,220
Loan notes (£75m)	2,205
Loan notes (£50m)	1,020
Right-of-use-leases	153
Perpetual debentures	42
Total fixed rate borrowings	**15,908**
Bank loan (£120m)	4,201
Revolving credit facility	147
Total variable rate borrowings	**4,348**
Index linked bond (£130m)	5,325
Index linked loan (£100m)	3,344
Artesian loan (£135m)	9,432
Artesian loan (£34m)	1,675
Total index linked borrowings	**19,776**
Secondary leases	22
Less non-appointed interest	(164)
Other & non-appointed	**(142)**
Total interest paid on borrowings	**39,890**
Indexation on index linked borrowings	76,619
Financing guarantee fees	1,237
Bank and other finance charges	739
Amortisation of loan issue costs	652
Interest expense per table 1A	**119,137**

4I - Financial Derivatives

This table has not been reproduced in this regulatory report as the company has no financial derivatives to report on under the RAGs.

4J - Base expenditure analysis for the 12 months ended 31 March 2023 - water resources and water network+

	Water resources	Network+				Total
		Raw water distribution	Raw water storage	Water treatment	Treated water distribution	
	£000	£000	£000	£000	£000	£000
Operating expenditure						
Power	7,780	380	-	1,532	18,592	28,284
Income treated as negative expenditure	(9)	-	-	-	(22)	(31)
Bulk supply/bulk discharge	1,451	-	-	5,865	-	7,316
Renewals expensed in year (infrastructure)	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-
Other operating expenditure	5,848	236	8	22,261	38,829	67,182
Local authority and Cumulo rates	953	197	215	1,442	15,265	18,072
Service charges						
Canal & river trust abstraction charges/discharge consents	-	-	-	-	-	-
Environment agency/NRW abstraction charges/discharge consents	4,030	-	-	257	-	4,287
Other abstraction charges/discharge consents	-	-	-	-	-	-
Location specific costs & obligations						
Costs associated with traffic management act	-	-	-	-	573	573
Costs associated with lane rental schemes	-	-	-	-	109	109
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	20,053	813	223	31,357	73,346	125,792
Capital expenditure						
Maintaining the long term capability of the assets - infra	-	(31)	-	170	8,962	9,101
Maintaining the long term capability of the assets - non-infra	2,483	1,642	-	22,453	20,981	47,559
Total base capital expenditure	2,483	1,611	-	22,623	29,943	56,660

4J - Base expenditure analysis for the 12 months ended 31 March 2023 - water resources and water network+

	Water resources	Network+				Total
		Raw water distribution	Raw water storage	Water treatment	Treated water distribution	
	£000	£000	£000	£000	£000	£000
Traffic management act						
Projects incurring costs associated with traffic management act (nr)	-	-	-	-	18,931	18,931

As detailed above in relation to tables 1A, 1C and 2B, in the year we received interim payments of £3.4 million and £1.2 million from our insurers in relation to damages and business interruption respectively.

In order that we do not reclaim an overspend from customers in relation to the cost incurred as a result of the sinkholes, which we feel would be inappropriate considering this has been reclaimed through our insurance, we have offset the £3.4 million insurance receipt against our water network+ other operating expenditure. Similarly, the £1.2 million insurance receipt has been offset against our water network+ non-infrastructure capital expenditure to maintain the long term capability of assets.

4L - Enhancement expenditure for the 12 months ended 31 March 2023 - water resources and water network+

WINEP/INN's

WINEP in the AMP will be underspent due to the following:

- WINEP RSA/Catchment Management/INN investigations have delivered efficiencies through establishing long term relationships and working partnerships with our framework consultants and Natural England. The Environmental team looked from late AMP6 to drive early engagement with the supply chain and working partnerships to deliver its WINEP programme.

- INNs (Bewl/Darwell) – the company is exploring the solution to look to providing additional resilience to the Kent region. The water of Darwell starts in Kent and moves south to Sussex, the company is developing a solution that meets its obligation commitment whilst adding additional resilience to the Kent region. This scheme is due for completion in 2025.

WINEP years 4 and 5 expenditure

Several WINEP projects have had extended dates agreed with the EA which has pushed some of the expenditure into later years. The just under half of our WINEP projects are due for delivery in year 5, so we expect higher expenditure in years 4 and 5.

The Bewl Darwell project is still in design due to added complexity of design and routes, as well as the required extension of Bewl WTW. We plan to start construction in the 2023/24 period. Again, higher expenditure is expected in years 4 and 5 of the AMP.

WINEP investigations

Our expenditure on WINEP investigations in table 4L is reported as 0. We are completing our WINEP investigation schemes as per the agreed timeframes and programme in the AMP to date. However, the expenditure is spread amongst the other WINEP lines in 4L as our reporting systems are currently unable to accurately report only the expenditure associated with investigations. We are looking at how we can improve our reporting process for APR 24 so that we can accurately report these lines.

Butler/Aylesford WTW

This scheme has been split into 2 elements. The first being an initial step taken in 2020/21 to construct a smaller works on site to help with the change in demand from customers during and post COVID. We successfully constructed for summer demand in 2022. The result of this was a delay in the construction of the larger works. The approval to full construction was gained in December 2023 the full output will be complete by March 2025.
It should also be noted that the scheme was delayed in the design and procurement due to the purchase of the land and licenses occurring later than planned in March 2020.

Resilience

Construction has commenced on the Wellwood to Potters main following approval to construction in March 2023, and will be complete for March 2025. The scheme was delayed in its planning stage as it required 4 sets of councils to approve the route which was granted in February 2023. The project is on schedule for a March 2025 completion.

Leakage Expenditure

Our reporting of prior year Leakage enhancement has previously been understated due to the exclusion of leakage-driven reactive maintenance costs. This oversight was identified during the August 2022 data return. An explanation of the revised methodology is included under table 6D.

4N - Developer services expenditure for the 12 months ended 31 March 2023 - water resources and water network+

	Water network+; Treated water distribution		
	Capex	Opex	Totex
	£000	£000	£000
New connections	5,132	-	5,132
Requisition mains	5,062	-	5,062
Infrastructure network reinforcement	7,685	-	7,685
s185 diversions	1,132	-	1,132
Other price controlled activities	-	211	211
Total developer services expenditure	19,011	211	19,222

The company has spent £19.0 million on developer services and network reinforcement projects in the year. This continues to be a high spend area driven by more houses being built in the South East. These projects include the directly constructed onsite works and NAV and Self lay projects undertaken by other parties. We did see a drop off of both Onsite, NAV and Self Lay in the second half of the year (presumably driven by market forces such as higher interest rates).

Network reinforcement is £7.7 million, with key project being the Fleet to Greywell.

Overall, operating expenditure of £0.2 million relates to service to developer costs which has historically been reported within table 2C against services to developers.

4P - Expenditure on non-price control diversions for the 12 months ended 31 March 2023

This table has not been reproduced in this regulatory report as the company incurred minimal non-price control diversion expenditure in the year which, when rounded to pounds million to three decimal places, would report nil values.

4Q - Developer services - New connections, properties and mains

	Water
Connection volume data	
New connections (residential - excluding NAVs)	6,837
New connections (business - excluding NAVs)	301
Total new connections served by incumbent	7,138
New connections - SLPs	2,670
Properties volume data	
New properties (residential – excluding NAVs)	8,066
New properties (business – excluding NAVs)	301
Total new properties served by incumbent	8,367
New residential properties served by NAVs	1,151
New business properties served by NAVs	4
Total new properties served by NAVs	1,155
Total new properties	**9,522**
New properties - SLP connections	2,670
New water mains data	
Length of new mains (km) - requisitions	53
Length of new mains (km) - SLPs	4

This years' submitted figures for 4Q.13 Length of new mains (km) - requisitions and 4Q.14 Length of new mains (km) - SLPs are higher than expected due to under reporting on these lines between years 2020 to 2022 due to lag. We had been reporting previous years Lag on Lines 6C.3 and 6C.4 in previous audits, hence why and discrepancy in figures for 4Q.13, 4Q.14 and 6C.4.

We expect every year to report some lag for the previous years due to a delay in data entry on our WAMS but the figures will be more in line with lines 6C.4. This year's SLP current number is 0 and we expect this number to be higher later in the year once completed schemes for 2022/23 are adding to our WAMS.

4R - Connected properties, customers and population

	Unmeasured 000s	Measured 000s	Total 000s	Voids 000s
Customer numbers - average during the year				
Residential water only customers	88,200	813,294	901,494	17,975
Business water only customers	2,010	42,209	44,219	7,453
Total customers	**90,210**	**855,503**	**945,713**	**25,428**

	Unmeasured 000s	Measured 000s	Total 000s
Property numbers - average during the year			
Residential properties billed	88,200	813,294	901,494
Residential void properties			17,975
Total connected residential properties			919,469
Business properties billed	2,010	42,209	44,219
Business void properties			7,453
Total connected business properties			**51,672**
Total connected properties			**971,141**

Property and meter numbers - at end of year	Unmeasured water					
	No meter 000s	Basic meter 000s	AMR meter 000s	AMI meter (capable) 000s	AMI meter (active) 000s	Total 000s
Total new residential properties connected in year	-	-	-	-	-	-
Total number of new business properties connections	-	-	-	-	-	-
Residential properties billed at year end	87,994	-	-	-	-	87,994
Residential void properties at year end						3,834
Total connected residential properties at year end						91,828
Business properties billed at year end	1,967	-	-	-	-	1,967
Business void properties at year end						559
Total connected business properties at year end						2,526
Total connected properties at year end						**94,354**

4R - Connected properties, customers and population

Property and meter numbers - at end of year	Measured water					
	No meter 000s	Basic meter 000s	AMR meter 000s	AMI meter (capable) 000s	AMI meter (active) 000s	Total 000s
Total new residential properties connected in year	-	-	8,066	-	-	8,066
Total number of new business properties connections	-	-	301	-	-	301
Residential properties billed at year end	-	692,367	125,224	-	-	817,591
Residential void properties at year end						14,115
Total connected residential properties at year end						831,706
Business properties billed at year end	-	41,927	-	-	-	41,927
Business void properties at year end						7,025
Total connected business properties at year end						48,952
Total connected properties at year end						**880,658**

Property and meter numbers - at end of year	Unbilled		
	Uneconomic to bill 000s	Other 000s	Total 000s
Residential properties unbilled at year end	-	80,126	80,126
Business properties unbilled at year end	-	-	-

Property and meter numbers - at end of year	Total 000s
Total new residential properties connected in year	8,066
Total number of new business properties connections	301
Residential properties billed at year end	905,585
Residential properties unbilled at year end	80,126
Residential void properties at year end	17,949
Total connected residential properties at year end	1,003,660
Business properties billed at year end	43,894
Business properties unbilled at year end	-
Business void properties at year end	7,584

4R - Connected properties, customers and population

Total connected business properties at year end	51,478
Total connected properties at year end	1,055,138

	Water 000s
Population data	
Resident population	2,288,545

	Water		
	Resident population 000s	Non-resident population 000s	Total 000s
Household population data			
Household population	2,250,896	-	2,250,896
Household measured population	1,936,068	-	1,936,068
Household unmeasured population	314,828	-	314,828

The split between basic and smart for residential properties has been calculated using the percentage of wireless reads our external meter readers report over the year, rather than the type of meter installed.

Because our Retailers have largely been using customer or visual reads, we have reported our NHH meters as ‘basic’ as we have not been able to evidence that a remote read has been taken.

Our AddressBase project has enabled us to accurately identify ‘child properties’ that we believe should be included within table 4R of the APR, which over the past two reporting years have been excluded. Therefore, for APR 23 we will be including these properties in the ‘Unbilled Other’ section of line 4R.20. This will help to bring our property numbers back in line with historical reporting, while also enhancing accuracy and confidence. This does have an impact on our total connected properties at year end (4R.27), increasing our APR 23 property number from 973.604 without including unbilled, to 1,055,138 with the inclusion. This is an increase of 7.7%. However, this is closer to our APR 20 property number of 1030.439, with a 2.3% increase over the three years representing growth, but also some refinement delivered by the AddressBase project.

Population
During the third year of AMP7 South East Water as one of the members of the Water Resources South East group and in partnership with Edge Analytics, have calculated population figures using data from the Office for National Statistics (ONS) such as the 2011 Census and the available data at the time from the 2021 Census, the 2022 mid-year population estimate for both local authority districts and for individual Census Output Areas, as well as the most recent sub-national population projection (SNPP), together with accompanying assumptions on fertility, mortality and migration.

The approach used for population forecast is to produce local authority district level projections, which are then used to output area estimates and projections. The final step is to aggregate a set of output area estimates to WRZ level using a postcode best-fit methodology. The trend-based approach used is consistent with UKWIR and EA guidance on population, household, property and occupancy forecasting. South East Water have excluded estimated figures for properties, customers and population supplied and billed by new appointments of variations (NAVs). Using South East Water’s billing system data and WRMP assumptions on occupancy rates, an estimated NAVs population figure has been calculated which has then been subtracted to the population figures reported as part of APR23.

4W - Defined benefit pension schemes

Scheme Details	Units	Pension Scheme 1	Pension Scheme 2
Scheme name	Text	South East Water Pension Scheme	Kid Kent Group Pension Scheme
Scheme status	Text	Closed to the accrual of future defined benefits	Closed to the accrual of future defined benefits
Scheme valuation under IAS/IFRS/FRS			
Scheme assets	£m	132,503	72,202
Scheme liabilities	£m	112,692	68,171
Scheme surplus / (deficit) Total	£m	19,811	4,031
Scheme surplus / (deficit) Appointed business	£m	19,811	4,031
Pension deficit recovery payments	£m	4,416	918
Scheme valuation under part 3 of Pensions Act 2004			
Scheme funding valuation date	Date	31/3/20	31/3/20
Assets	£m	171,200	124,400
Technical Provisions	£m	197,400	120,800
Scheme surplus / (deficit)	£m	(26,200)	3,600
Discount rate assumptions	Text	Market implied gilt yield curve plus 0.8% pa until 31 March 2025, then plus 0.5% pa thereafter.	Market implied gilt yield curve plus 0.8% pa until 31 March 2025, then plus 0.5% pa thereafter.
Recovery plan (where applicable)			
Recovery Plan Structure	Text	Employer shall pay deficit reduction contributions at a rate of £3,770,104 per annum, increasing each 1 April in line with RPI inflation (based on the 12 month increase to the preceding November), with effect from 1 July 2021 to	No recovery plan as Scheme in surplus
Recovery plan end date	Date	31 March 2025, although full funding on the 2020 Technical Provisions was expected to be met before this date, the Company was committed to continuing contribution until 2025 in order to meet the longer-term funding	N/A
Asset Backed Funding (ABF) arrangements	Text	N/A	N/A
Responsibility for ABF arrangements	Text	N/A	N/A

5A - Water resources asset and volumes data for the 12 months ended 31 March 2023

	Units	Input
Water from impounding reservoirs	Ml/d	1.09
Water from pumped storage reservoirs	Ml/d	47.26
Water from river abstractions	Ml/d	95.30
Water from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	402.99
Water from artificial recharge (AR) water supply schemes	Ml/d	-
Water from aquifer storage and recovery (ASR) water supply schemes	Ml/d	-
Water from saline abstractions	Ml/d	-
Water from water reuse schemes	Ml/d	-
Number of impounding reservoirs	nr	1
Number of pumped storage reservoirs	nr	5
Number of river abstractions	nr	6
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	155
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	-
Number of reuse schemes	nr	-
Total number of sources	nr	167
Total number of water reservoirs	nr	6
Total volumetric capacity of water reservoirs	Ml	9,485
Total number of intake and source pumping stations	nr	265
Total installed power capacity of intake and source pumping stations	kW	11,646
Total length of raw water abstraction mains and other conveyors	km	1.65
Average pumping head - raw water abstraction	m.hd	45.57
Energy consumption - water resources	MWh	47,719.717
Total number of raw water abstraction imports	nr	2
Water imported from third parties to raw water abstraction systems	Ml/d	15.91
Total number of raw water abstraction exports	nr	-
Water exported to third parties from raw water abstraction systems	Ml/d	-
Water resources capacity (measured using water resources yield)	Ml/d	595.45
Total number of completed investigations (WINEP/NEP), cumulative for AMP	nr	39

2022/23 saw an increase in demand from the previous year and remains above the norm in many areas due to both the impact of Covid-19 and the high Summer temperatures in the year.

The average pumping head values are largely dependent on demands due to increased pumping necessary when using less efficient sources. Raw water resource is also governed by the ground water levels and has increased from 43.56 m·hd to 45.57 m·hd.

The process to obtain data for all Water Resources related lines remains the same as previous years.

5B - Water resources operating cost analysis for the 12 months ended 31 March 2023

	Impounding reservoir £000	Pumped storage £000	River abstractions £000	Groundwater, excluding MAR water supply schemes £000	Artificial recharge (AR) water supply schemes £000	Aquifer storage and recovery (ASR) water supply schemes £000	Other £000	Total £000
Power	16	673	1,356	5,736	-	-	-	7,781
Income treated as negative expenditure	-	(8)	-	(1)	-	-	-	(9)
Abstraction charges/discharge consents	1	176	690	3,163	-	-	-	4,030
Bulk supply	-	1,451	-	-	-	-	-	1,451
Other operating expenditure								
Renewals expensed in year (infrastructure)	-	-	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-	-	-
Other operating expenditure excluding renewals	12	506	1,020	4,311	-	-	-	5,849
Local authority and Cumulo rates	15	516	81	340	-	-	-	953
Total operating expenditure (excluding third party)	**44**	**3,315**	**3,147**	**13,549**	**-**	**-**	**-**	**20,054**

We have disaggregated account separation tables for water resources to complete this table. To allocate cost we have primarily used the proportion of distribution input from source, provided in table 6B.

Our accounting separation allows visibility of cost centres, and therefore we have been able to separate departments to either direct or indirect. The pension deficit payment appropriate for water resources is not included in this table.

6A - Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2023

	Units	Input
Raw water transport and storage		
Total number of balancing reservoirs	nr	6
Total volumetric capacity of balancing reservoirs	Ml	554
Total number of raw water transport stations	nr	3
Total installed power capacity of raw water transport pumping stations	kW	415
Total length of raw water transport mains and other conveyors	km	135.33
Average pumping head ~ raw water transport	m.hd	2.25
Energy consumption ~ raw water transport	MWh	2,373.060
Total number of raw water transport imports	nr	-
Water imported from third parties to raw water transport systems	Ml/d	-
Total number of raw water transport exports	nr	-
Water exported to third parties from raw water transport systems	Ml/d	-
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	km	-

	Surface water		Ground water	
	Water treated Ml/d	Number of works nr	Water treated Ml/d	Number of works nr
Water treatment - treatment type analysis				
All simple disinfection works	-	-	32.53	8
W1 works	-	-	-	-
W2 works	29.00	-	15.62	4
W3 works	-	-	117.64	30
W4 works	-	-	129.15	26
W5 works	124.29	8	101.30	12
W6 works	-	-	-	-

	% of total DI	Number of works
Water treatment - works size		
WTWs in size band 1	2.0	15
WTWs in size band 2	10.4	23
WTWs in size band 3	16.2	20
WTWs in size band 4	24.5	16
WTWs in size band 5	34.5	12
WTWs in size band 6	12.4	2
WTWs in size band 7	-	-
WTWs in size band 8	-	-

6A - Raw water transport, raw water storage and water treatment data for the 12 months ended 31 March 2023

	Units	Input
Water treatment - other information		
Peak week production capacity (PWPC)	Ml/d	745.57
Total peak week production capacity (PWPC) having enhancement expenditure for grey solution improvements to address raw water quality deterioration	Ml/d	2.81
Number of treatment works requiring remedial action because of raw water deterioration	nr	1
Zonal population receiving water treated with orthophosphate	000s	777,814
Average pumping head – water treatment	m.hd	1.76
Energy consumption - water treatment (MWh)	MWh	6,602.029
Total number of water treatment imports	nr	1
Water imported from 3rd parties to water treatment works	Ml/d	8.65
Total number of water treatment exports	nr	1
Water exported to 3rd parties from water treatment works	Ml/d	-

The following comments explain where we have either applied significant judgement and/or changed our methodology in completing a section or line in the table as well as where the value reported has seen significant change to values reported in prior years:

- with regards to the reporting of balancing reservoirs, we have made the assumption that 'supports another abstraction' only applies when a material volume of water is released from the reservoir back into the river, as this would be required to enable further extraction downstream;
- the value for average pumping head, raw water transport varies depending on the volume of water that needs to be transferred into Bewl Water and varies not only due to rainfall in the current year but on levels in the surface reservoir at the start of the year.
- total length of raw water transport mains and other conveyors includes raw water transport mains from boreholes; and
- total length of raw and pre-treated (non-potable) water transport mains for supplying customers is zero as SEW doesn't provide raw or pre-treated water to customers.

The process to obtain data for all Water Resources related lines remains the same as previous years

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2023

	Units	Input
Assets and operations		
Total installed power capacity of potable water pumping stations	kW	39,858
Total volumetric capacity of service reservoirs	Ml	938.0
Total volumetric capacity of water towers	Ml	4.3
Water delivered (non-potable)	Ml/d	-
Water delivered (potable)	Ml/d	451.14
Water delivered (billed measured residential properties)	Ml/d	282.89
Water delivered (billed measured business)	Ml/d	85.48
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.002
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.087
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.174
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.737
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	-
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	237
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	71
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	6
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	155
Number of potable water pumping stations that pump water imported from a third party supply into the treated water distribution system	nr	5
Total number of service reservoirs	nr	169
Number of water towers	nr	10
Energy consumption ~ treated water distribution	MWh	111,882.588
Average pumping head - treated water distribution	m.hd	108.23
Total number of treated water distribution imports	nr	4
Water imported from third parties to treated water distribution systems	Ml/d	24.39
Total number of treated water distribution exports	nr	-
Water exported to third parties from treated water distribution systems	Ml/d	-
Peak 7 day rolling average distribution input	Ml/d	623.14
Peak 7 day rolling average distribution input / annual average distribution input	%	113.99

The following comments explain where we have either applied significant judgement and/or changed our methodology in completing a section or line in the table as well as where the value reported has seen significant change to values reported in prior years:

- For the reporting year 2022-23 Distribution input is 541.67, this has increased on average by 4.97 Ml/d from the reporting period 2021-22 (536.68). This is due to the long period of warmer than average weather and record summer temperatures experienced across the region.
- there was no non-potable water delivered during the reporting year 2021/22;
- for the reporting year 2022-23 potable water delivered was 451.14 Ml/d. This is split out among the different property classifications as seen in the table below.

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2023

Water delivered volumes	Billed measured	Household	Ml/d	270.17
		Non-Household	Ml/d	84.83
		Total	Ml/d	354.99
	Billed unmeasured	Household	Ml/d	68.07
		Non-Household	Ml/d	2.53
		Total	Ml/d	70.61
Total annual leakage			Ml/d	102
Distribution system operational use			Ml/d	3.48
Water taken unbilled			Ml/d	9.88
Distribution input			Ml/d	541.67
Distribution input (pre-MLE)			Ml/d	546.64
Leakage upstream of DMA			Ml/d	-
Distribution main losses			Ml/d	86.18
Customer supply pipe losses – measured households excluding void properties			Ml/d	12.72
Customer supply pipe losses – unmeasured households excluding void properties			Ml/d	2.23
Customer supply pipe losses – measured non-households excluding void properties			Ml/d	0.66
Customer supply pipe losses – unmeasured non-households excluding void properties			Ml/d	0.05
Customer supply pipe losses – void measured households			Ml/d	0.49
Customer supply pipe losses – void unmeasured households			Ml/d	0.13
Customer supply pipe losses – void measured non-households			Ml/d	0.23
Customer supply pipe losses – void unmeasured non-households			Ml/d	0.02

- for the reporting year 2022/23 the water delivered (billed measured residential) volume is derived from the 813,034 occupied measured household properties in the South East Water region;
- for the reporting year 2022/23 the water delivered (billed measured business) volume is derived from the 42,000 occupied measured non-household properties in the South East Water region;
- for the reporting year 2022/23 South East Water has reported in line with the consistency in reporting measures guidance, this has been assured and there were two points highlighted as reportable exceptions to compliance;

The current commercial night use monitor is deployed across the region based on a completely random selection from properties with an average billed volume of < 36m³/d, everything greater than this is permanently logged according to the guidance. The loggers for the night use are recording and sending 15-minute flow data which is used for the calculation and have been in place for c4 years.
We had plans last year to improve our coverage of non-household night use loggers. Due to operational issues with the equipment, we were unable to complete these actions in time for 2022-23 reporting. We have plans to finish this exercise in 2023.

The overall water imbalance is 2.8 per cent, which is within the 3 per cent threshold where the convergence method requires that it is explained to Ofwat.

For the reporting year 2022/23 distribution losses were 86.18 Ml/d, this is derived from total leakage minus all measured and unmeasured household underground supply pipe leakage (UGSPL).

For the reporting year 2022/23 water taken unbilled was 9.88 Ml/d, this is derived from water taken legally and illegally unbilled. Water taken legally consists of volume from, standpipe hire schemes, trickle flow plugs fitted to new build properties, concessions, tanker filling points, KFB firefighting and self-lay mains flushing . The volume for water taken illegally is from a study conducted in conjunction with Thames Water.

For commentary on our leakage performance please see accompanying narrative with table 6D.

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2023

	South East Water											
Coverage	1	a										
Availability	2	a										
Properties	3	a	b	c	d	e						
Night Flow Period	4	a	b	c	d	e	f	g	h	i	j	k
Household Night Use	5	a	b	c	d	e	f	g				
Non Household Night Use	6	a	b	c	d	e	f	g	h			
HDF	7	a	b	c								
Annual Distribution Leakage	8	a	b									
Trunk Main Losses	9	a	b	c								
Service Reservoir Losses	10	a	b	c								
Distribution Input	11	a	b	c	d	e	f					
Metered Consumption	12	a	b	c	d	e						
Unmeasured Consumption	13	a	b	c	d	e	f	g	h	i		
Company Own Water Use	14	a	b	c								
Other Water Use	15	a	b	c								
Water Balance	16	a	b	c	d	e						

- the size of the commercial night use monitor (element 6e) is currently insufficient, although it is representative; and
- Overall imbalance has improved but is just within the amber range (2.8 per cent) under element 16e

The current commercial night use monitor is deployed across the region based on a completely random selection from properties with an average billed volume of < 36m³/d, everything greater than this is permanently logged according to the guidance. The loggers for the night use are recording and sending 15 minute flow data which is used for the calculation and have been in place for c4 years.

We had plans last year to improve our coverage of non-household night use loggers. Due to operational issues with the equipment, we were unable to complete these actions in time for 2022-23 reporting. We have plans to finish this exercise in 2023.

The overall water imbalance is 2.8 per cent, which is within the 3 per cent threshold where the convergence method requires that it is explained to Ofwat.

For the reporting year 2021/22 distribution losses were 86.18 Ml/d, this is derived from total leakage minus all measured and unmeasured household underground supply pipe leakage (UGSPL).

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2023

For the reporting year 2022/23 water taken unbilled was 9.88 Ml/d, this is derived from water taken legally and illegally unbilled. Water taken legally consists of volume from, standpipe hire schemes, trickle flow plugs fitted to new build properties, concessions, tanker filling points, KFB firefighting and self-lay mains flushing . The volume for water taken illegally is from a study conducted in conjunction with Thames Water.

For commentary on our leakage performance please see accompanying narrative with table 6D.

The same process to obtain the data for all Water Resources lines remains the same as done in previous years.

6C - Water network+ - Mains, communication pipes and other data for the 12 months ended 31 March 2023

	Units	Input
Treated water distribution - mains analysis		
Total length of potable mains as at 31 March	km	14,994.40
Total length of potable mains relined	km	-
Total length of potable mains renewed	km	11.70
Total length of new potable mains	km	30
Total length of potable water mains (≤320mm)	km	14,104.70
Total length of potable water mains >320mm and ≤450mm	km	481.10
Total length of potable water mains >450mm and ≤610mm	km	300.20
Total length of potable water mains >610mm	km	108.4
Treated water distribution - mains age profile		
Total length of potable mains laid or structurally refurbished pre-1880	km	11.5
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	86.3
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	807.2
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	3,512.80
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	3,699.60
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	2,625.90
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	2,092.50
Total length of potable mains laid or structurally refurbished between 2001 and 2020	km	1,945.80
Total length of potable mains laid or structurally refurbished during and after 2021	km	122.5
Communication pipes		
Number of lead communication pipes	Nr	31,257
Number of galvanised iron communication pipes	Nr	77,660
Number of other communication pipes	Nr	864,688
Number of lead communication pipes replaced or relined for water quality	Nr	1
Other		
Company area	km^2	5,577
Compliance risk index	nr	1.49
Event Risk Index	nr	287
Properties below reference level at end of year	nr	59

The following comments explain where we have either applied significant judgement and/or changed our methodology in completing a section or line in the table as well as where the value reported has seen significant change to values reported in prior years.

Distribution
The reported number of galvanised iron communication pipes has increased from last year, this is not due to more galvanised communication pipes being installed, but due to data improvements, we now have a better understanding of the number of galvanised communication pipes within our network.

Company area
- there have been no changes to the licensed company area; and
- NAVs are no longer excluded from the company area as per the RAG 4.11 guidance.

6D - Demand management - Metering and leakage activities for the 12 months ended 31 March 2023

	Units	Basic meter	AMR meter	AMI meter
Metering activities - totex expenditure				
New optant meter installation for existing customers	£m	-	487	-
New selective meter installation for existing customers	£m	-	-	-
New business meter installation for existing customers	£m	-	-	-
Residential meters renewed	£m	-	480	-
Business meters renewed	£m	-	152	-
Meter activities - explanatory variables				
New optant meters installed for existing customers	000s	-	367	-
New selective meters installed for existing customers	000s	-	22	-
New business meters installed for existing customers	000s	-	13	-
Residential meters renewed	000s	-	6,530	-
Business meters renewed	000s	-	2,074	-
Replacement of basic meters with smart meters for residential customers	000s	-	2,640	-
Replacement of AMR meter with AMI meters for residential customers	000s	-	-	-
Replacement of basic meters with smart meters for business customers	000s	-	1,658	-
Replacement of AMR meter with AMI meters for business customers	000s	-	-	-
New residential meters installed for existing customers – supply-demand balance benefit	Ml/d	-	0.02	-
New business meters installed for existing customers – supply-demand balance benefit	Ml/d	-	-	-
Replacement of basic meter with smart meters for residential customers – supply-demand balance benefit	Ml/d	-	0.03	-
Replacement of AMR meter with AMI meter for residential customers– supply-demand balance benefit	Ml/d	-	-	-
Replacement of basic meter with smart meters for business customers – supply-demand balance benefit	Ml/d	-	0.13	-
Replacement of AMR meter with AMI meter for business customers– supply-demand balance benefit	Ml/d	-	-	-
Residential properties - meter penetration	%	76.50	13.80	

	Units	Maintaining leakage	Reducing leakage	Total
Leakage activities				
Total leakage activity	£m	14,761	9,128	23,889
Leakage improvements delivering benefits in 2020-25	Ml/d			(13.35)
Per capita consumption (excluding supply pipe leakage)				
Per capita consumption (measured)	l/h/d	139.54		
Per capital consumption (unmeasured)	l/h/d	216.23		

All new meters being installed have drive-by technology.

Leakage Improvements Delivering Benefits

6D - Demand management - Metering and leakage activities for the 12 months ended 31 March 2023

All new meters being installed have drive-by technology.

Leakage Improvements Delivering Benefits

Our leakage has increased by 13.35 ml/d on last year, therefore we are unable to report benefits in this line. The outcome in year was delivered against a challenging backdrop of environmental factors including drought, which seen an increase in network and customer leakage and unaccounted for consumption. Later in the year we entered a freeze thaw that significantly impacted our network leakage and customer leakage for a second time in year.

To get back on track we have made changes to the way we deliver work and repairs. This includes extra supporting projects to assist us in recovery, however the significant impact of these weather events on leakage means we were unable to meet our leakage target for year (2022/23). We have implemented a leakage recovery plan and are delivering an enhancement programme of work which is an additional 4.5 million pounds to assist our target recovery and is in addition to our substantial leakage commitment in year. The recovery is built around accuracy of data and optimisation of systems which is an approach that will enable the South East water leakage team to better manage network leakage, customer leakage, commercial consumption and unaccounted for use. We will be better placed and more accurate when targeting areas of our network and customer supplies that will benefit most from additional work. Granularity of data is critical to making sure we maximise our effectiveness when managing leakage.

Despite our performance against target in 2022/23 south east water remains fully committed to delivering everything we can to meet our 15% reduction commitment in leakage over the course of this 5-year asset management period.

Total leakage activity

Our previous reporting of line 6D.22 included direct costs generated in the Leakage function. This consists of a ‘head of’ cost centre and three regional cost centres, all tasked with maintaining base leakage, plus a separate (new for AMP 7) cost centre 12713 for Leakage Optimisation, implemented to facilitate reducing leakage. The enhancement element of total leakage expenditure is derived by comparing actual costs incurred in the Leakage Optimisation cost centre with a historical cost centre for similar activities, plus the inclusion of three roles in the regional cost centres that are identified as working specifically on reducing leakage. This equated to 38% of total leakage costs.

During the completion of the August 2022 data return it became apparent that we should also be reporting an element of reactive maintenance expenditure as leakage, so reactive maintenance generated by leakage techs was included in the August return. Upon further reflection we have expanded the scope to include all leakage driven reactive maintenance expenditure – generated by leakage techs and non-leakage techs such as distribution and production techs, plus meter readers. To apportion the reactive maintenance expenditure between base and enhancement, we have applied the same 38% enhancement allocation attached to the direct leakage function activities.

At a totex level this has changed 6D for 2022/23 as below:

Original methodology:

Year 3	Capex	Opex	6D lines
Base	0.15	4.20	4.35
Enhancement	1.69	1.00	2.69

Revised methodology:

Year 3	Capex	Opex	6D lines
Base	2.02	12.74	14.76

6D - Demand management - Metering and leakage activities for the 12 months ended 31 March 2023

Enhancement	2.84	6.29	9.13

To facilitate accurate and consistent reporting, we have restated the prior two years table 6D values as below. Please note the below are in outturn.

Original methodology:

Year 1	Capex	Opex	6D lines
Base	0.638	3.988	4.626
Enhancement	1.048	1.560	2.608

Year 2	Capex	Opex	6D lines
Base	0.594	3.987	4.581
Enhancement	1.112	1.146	2.258

Revised methodology:

Year 1	Capex	Opex	6D lines
Base	1.971	11.841	13.812
Enhancement	2.018	5.767	7.785

Year 2	Capex	Opex	6D lines
Base	2.392	10.509	12.900
Enhancement	1.997	5.767	7.785

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6F - WRMP annual reporting on delivery - non-leakage activities

Capital expenditure

Following the high demand of summer 2020 (Covid-19 related), SEW took the opportunity to install a temporary treatment process at its Aylesford site to cover summer demands whilst a new permanent solution is designed, constructed, and commissioned.

The Butler WT Scheme utilises water from the recently acquired land at Aylesford and produces a peak 8Ml/d. The scheme is designed to be used in the summer but can be used in winter if required. This has delayed the full scheme, which is now scheduled for completion in January 2025.

The interconnector scheme linked to Aylesford Newsprint, labelled as “Greater Maidstone (WRZ6 Zonal Scheme – Mains from Aylesford to Beech)” in the table, has been amended with a different route and subsequently the cost changed for the scheme.

There are two long lead schemes in the WRMP19 (Arlington and Broadoak). The costs to date are related to investigations and will continue through the AMP and form part of the WRMP24 submission.

There are three mains schemes in the plan as per WRMP19, but with an updated delivery schedule where they have changed. Changes in delivery dates will be due to a number of factors such as complexity of delivery such as rail and motorway crossings, highways entry which is now proving to be more difficult and raw material availability.

Operating expenditure

Keleher

This is a roll over scheme from the previous AMP.

Keleher has not reached peak full licence output (68 Mld) since commission in 2021 due to some optimisation work required on the existing WTW plant, the resolution of which includes long lead times and in-depth technical analysis. However, we are able to achieve the average abstraction daily licence output of 45 Mld, compared to nearer 30 Mld before the upgrade.

The opex impact can be robustly captured as we have a distinct cost analysis code for the Keleher site in Operations West. The cost for 22/23 is derived by taking the value of spend against the code and comparing it to the cost recorded against the site in 21/22 which was before any significant ramp up in output and cost following commissioning. In addition to the site cost, we have also included the cost of a distinct additional FTE employed to work on the facility.

The only current planned increase in future years of the AMP is an additional FTE to help manage the extra output from the site.

Method	2020-21	2021-22	2022-23	2023-24	2024-25	After 2024-25
FTE (1 x in 22/23 - 2 budgeted in 23/24)			46,000.00	92,000.00	92,000.00	92,000.00
Spend against site code 11830WST	468,612.74	462,880.25	663,364.81	663,364.81	663,364.81	663,364.81
Total	468,612.74	462,880.25	709,364.81	755,364.81	755,364.81	755,364.81
Incremental impact			246,484.56	292,484.56	292,484.56	292,484.56

Aylesford Newsprint

Due to delays to expected commissioning, there is only projected opex impact now after 2024/25 and the assessment from the original contractor was of opex costs of £1.0 million including a contingency for the recent increase in power costs. This is slightly less than £1.286 million in the business plan but will be reviewed each year end to check the value is still reasonable.

6F - WRMP annual reporting on delivery - non-leakage activities

Forest Row

This is a roll over scheme from the previous AMP and the opex has been left at business plan levels.

Butlers WTW Summer 2021

There was no business plan costs for this scheme as the scheme is a new one, in response to a sinkhole at our Aylesford Reservoir in the 2021/22, to maintain resilience in the network.

The scheme is expected to be in use (some elements permanently, some temporarily) through to March 2025, after which a separate permanent works (Aylesford Newsprint above) will be commissioned on site and some of the assets from the temporary works will be utilised as part of that scheme.

These operations include a permanent pumping station that has been pumping water into the network since July 2021, plus a summertime WTW that was operational during periods of high demand.

The costs associated with this scheme include actual generator hire and fuel costs, specifically coded to the running of the operation, a development on the process for 21/22 when a 50/50 approach was taken to the costs in the absence of more clarity. These costs have been partly offset by the reversal of a £150k provision recognised previously for unbilled electricity charges when the scheme was implemented and subsequently confirmed as no longer required.

Water efficiency

The water efficiency costs represent the incremental cost of reducing per capital consumption (PCC) compared with the previous AMP. These costs are simple to identify as they are managed in distinct cost centres.

There is a jump in cost of nearly £0.7m between 2021/22 and 2022/23. There was £0.2 million of works were deferred into 2022/23 from the previous year, however most of the uplift in costs is due to our response to exceptional summer demand. Predominantly this involved accelerating our water efficiency device programme.

Benefits

The planning period for SEW’s WRMP is 60 years, from 2020 to 2080. However, for the water efficiency line, the benefits after 2024/25 are taken as benefits forecast up to 2044/45. This is to provide alignment and consistency with water companies that may only plan for the minimum 25 statutory WRMP reporting period.

9A - Innovation competition

	Current year £000
Allowed	
Allowed innovation competition fund price control revenue	933
Revenue collected for the purposes of the innovation competition	
Innovation fund income from customers	933
Income from customers to fund innovation projects the company is leading on	-
Income from customers as part of the inflation top-up mechanism	-
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	1,176
Non-price control revenue (e.g. royalties)	-

	Total amount of funding awarded to the lead company through the innovation fund £000	Forecast expenditure on innovation fund projects in year (excl 10% partnership contribution) £000	Actual expenditure on innovation fund projects in year (excl 10% partnership contribution) £000	Difference between actual and forecast expenditure £000	Forecast project lifecycle expenditure on innovation fund projects (excl 10% partnership contributions) £000	Cumulative actual expenditure on innovation fund projects (excl 10% partnership contribution) £000	Difference between actual and forecast expenditure £000	Allowed future expenditure on innovation fund projects £000	In year expenditure on innovation projects funded by shareholders £000	Cumulative expenditure on innovation projects funded by shareholders £000
CatchmentLife	178	40	5	(35)	178	5	(173)	173	-	2
Total	**178**	**40**	**5**	**(35)**	**178**	**5**	**(173)**	**173**	**-**	**2**

	Current year £000
Administration	
Administration charge for innovation partner	36

9A - Innovation competition

In the year, a total of £0.9 million was included in customer bills by South East Water in respect of the Innovation Fund, included in water revenue in table 1A. Costs equalling this income were accrued setting up a provision for the expected future distribution of these funds, however, in line with ‘IN 22/01 Expectations for monopoly company annual performance reporting 2021/22’, this provision has been reversed as a difference between the statutory and regulatory definitions in the financial statements reported within the annual performance report.

The total collected during the year in respect of the Innovation Fund is calculated at 97 per cent of billing amounting to £0.9 million. £1.2 million was paid in the year in respect of payments to other water companies and contributions to the scheme, with the residual amounts collected, held by South East Water awaiting distribution to successful applicants to the fund. Therefore, the closing cash balance for the year in respect of the Innovation Fund was £1.0 million.

The 97 per cent calculation is based on the aged analysis of cash collections in year in comparison to the annual household billing.

11A - Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

	Water tCO_2e
Scope one emissions	
Burning of fossil fuels (location-based)	1,747.386
Burning of fossil fuels (market-based)	1,747.386
Process and fugitive emissions	1,274.10
Vehicle transport	1,820.854
Emissions from land	-
Total scope one emissions (location-based)	4,842.380
Total scope one emissions (market-based)	4,842.380
Scope one emissions; GHG type CO_2	3,520.725
Scope one emissions; GHG type CH_4	2.069
Scope one emissions; GHG type N_2O	1,219.815
Scope one emissions: GHG other types	27.770
Scope two emissions	
Purchased electricity - location based	28,790.054
Purchased electricity - market based	62,826.573
Purchased heat	-
Electric vehicles	6.264
Removal of electricity to charge electric vehicles at site	(6.264)
Total scope two emissions (location-based)	28,790.054
Total scope two emissions (market-based)	62,826.573
Scope two emissions; GHG type CO_2	28,466.988
Scope two emissions; GHG type CH_4	119.103
Scope two emissions; GHG type N_2O	203.963
Scope three emissions	
Business travel	44.656
Outsourced activities	3,074.044
Purchased electricity; transmission and distribution - location based	10,155.287
Purchased electricity; transmission and distribution - market based	10,155.287
Purchased heat; transmission and distribution	-
Purchased fuels; extraction, production, transmission and distribution	1,576.748
Chemicals	5,913.672
Disposal of waste	-
Total scope three emissions (location-based)	20,764.406
Total scope three emissions (market-based)	20,764.406
Scope three emissions; GHG type CO_2	20,720.318
Scope three emissions; GHG type CH_4	0.567
Scope three emissions; GHG type N_2O	43.522
Gross operational emissions (Scope 1, 2 and 3)	
Gross operational emissions - location based	54,396.841
Gross operational emission - market based	88,433.360

11A - Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

	Water tCO_2e
Emissions reductions	
Exported renewables (location based)	-
Exported biomethane (location based)	-
Green tariff electricity offsets	-
Other emissions reductions	-
Total emissions reductions	-
Net annual emissions	
Net annual emissions - location based	54,396.841
Net annual emissions - market based	88,433.360
Net annual emissions	-
	Water kgCO2e/Ml
GHG intensity ratios	
Emissions per Ml of treated water	275.140
	Water tCO_2e
Capital projects	
Capital projects (cradle-to-gate)	-
Capital projects (cradle-to-build)	21,523.032
Purchased goods and services	
Purchased goods and services	25,753.092

Scope 1 emissions

Scope one emissions have increased by 39%, primarily driven by burning of fossil fuels. The biggest contributor is the burning of diesel for resilience generators. This has had a large increase due to a number of exceptional operational incidents in the year that led to more reliance of generator use following largescale (grid) power outages. Overall diesel purchase in 2022-23 increased by 325%.

Scope 2 emissions

For 2022-23 SEW withdrew from the REGO market, hence our energy product for 2022-23 was exposed to a significant increase in market-based emissions rate. From a zero CO2e performance in 2022-23 this increased to 62,840 tCO2e. The output is clearly in stark contrast to location-based reporting and reflects the limited use of zero-carbon fuels used in our energy product.

Scope 3 emissions

Overall scope 3 variation from the previous period is not possible due to Ofwat extending the boundary of emissions to be included as part of scope 3. Given the increased boundary of scope 3 emissions, associated CO2e has increased to 21,000 tCO2e and now represents 38% of gross operational emissions.

11A - Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

Purchased electricity; extraction, production, transmission and distribution.

We have recorded 10,155 tCO_2e for 2022-23. In 2021-22 we recorded 2,730 tCO_2e but was limited to just transmission and distribution. The current CAWv17 does not report the full extent of this emission requirement – we have therefore utilised a template from United Utilities supplied to the Carbon Water Working Group, thus providing consistency across the industry. We expect the CAW will be updated for the next period.

Purchased fuel; extraction, production, transmission and distribution

This was not recorded previously. As per electricity we have utilised the United Utilities template to populate this field.

Chemicals

The CAW does report emissions associated with chemicals, which we have used to populate this category. Overall chemical emissions are 5,914 tCO_2e – therefore reflecting a notable 11% of gross operational emissions under location based reporting. Not all chemicals are included in the CAW – however individually the omitted chemicals accounted for less than 10% of total recorded SEW chemical emissions and were therefore excluded from the APR table as their emissions were not considered material. To ascertain materiality for these chemicals we assigned the highest chemical emission rate factor in the CAW to determine each individual chemical's emissions contribution against the total chemical emissions, as per Ofwat's guidance).

We included the following chemicals as part of our calculations:

- SulphericSulphuric acid
- PAC
- Caustic
- Chlorine
- Ferric chloride
- Ferric sulphate
- Phosphuric acid
- Kalic lime
- Polyelectrolyte
- Sodium bisulphate
- Sodium hypochlorite
- Sulphur dioxide

Transactions with associate companies

Loans from associate companies

Associate	Interest	Loan period	2023 £000
South East Water (Finance) Limited	Fixed rate	Repayable in March 2029	166,000
South East Water (Finance) Limited	Index linked plus 0.01% margin fee Indexation	Repayable in December 2041	130,000 86,038
South East Water (Finance) Limited	Index linked plus 0.01% margin fee Indexation	Repayable in December 2037	100,000 45,308

Interest and related fees payable to associate companies

Associate	Nature of transaction	Terms of supply	2022 £000
South East Water (Finance) Limited	Interest, RPI indexation and margin fees on intercompany loans (see below)	(See above)	49,379
South East Water (Finance) Limited	Ambac fees on £166 million	Monoline fees	340
South East Water (Finance) Limited	Facility fees	Commitment fees on loan facilities	425

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in compliance with condition I and RAGs 3.13 and 5.07.