south east water

2021/2022
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 2022 along with the populated 2021/22 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 2021/22 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 2022/23 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 10 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 to deliver the best service possible and to face challenges (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 that put 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 that we 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 new performance commitments specifically 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 our vulnerability strategy and we were the first water company to achieve the BS 18477 certification demonstrating that we provide an inclusive service for customers with 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 with 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 and have developed partnerships with Natural England, farmers, universities and environmental groups.

Being a business that plans for the environment
To support our environmental ambitions and to 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 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 for 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 on boarding and employee experience, improving the support 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 92 in 2021 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 are also playing 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 2021/22:

- in the review of our strategic themes:
    - trusted and reliable business on page 26;
    - thriving people on page 54;
    - community and society focused on page 72; and
    - flourishing environment on page 126.
- in our section 172(1) statement on page 78.

Directors' statements and certificates

How we have performed for those we serve in 2021/22

Even though restrictions were less severe, we continued to feel the impact of the Covid-19 pandemic for a large part of 2021/22, including on the delivery of some of our performance commitments. Our main priority has been to maintain our essential service throughout, adapting quickly to the challenges the pandemic presented and then to a "new normal" way of operating as restrictions were lifted.

In this context, our overall performance against our core service delivery commitments was good in 2021/22. Our actual performance was better than target for many of them including leakage reduction, the number of mains repairs, the compliance risk index, unplanned outage, the appearance of water, the taste and odour of water, the number of properties at risk of low pressure and the number of household voids.

We achieved the lowest level of leakage that we have ever recorded and our best performance to date for the compliance risk index which is the DWI's lead measure of water quality since 2018 and has been used by Ofwat as an ODI since 2020.

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. This year we have beaten our leakage target for the 20th year in a row. Our target for 2021/22 was to reduce our annual leakage rate to 94.4 million litres a day (Ml/d) and we reduced our leakage rate to 88.7 Ml/d. We also have a three year rolling average target of 94.7 Ml/d and we more than met this, achieving a rate of 92 Ml/d.

We maintained an upper quartile position in the Consumer Council for Water (CCW) report on complaints but our combined C-MeX score has decreased from 80.70 out of 100 last year to 76.59 in 2021/22. Our final ranking is not yet known and will be determined by Ofwat after the publication of our annual report.

This C-MeX score was disappointing as we work continuously to improve our service to customers.

This year we were awarded the ServiceMark Accreditation with Distinction from The Institute of Customer Service. We are one of 71 organisations, 18 with distinction, to receive this accreditation. This is a national independently run standard that recognised our achievement in customer service and our commitment to upholding service standards. It was awarded based on customer satisfaction feedback and an assessment of employee engagement with our customer service strategy. We have also been judged to be providing best practice for customers in the latest annual CCW assessment of seven key support service areas, becoming the first water only company to achieve this status. This comprehensive assessment from CCW covered: charitable trust or in-house crisis fund, payment matching to clear debt, payment breaks, benefit entitlement checks, water efficiency home audit, lowest bill guarantee as part of meter option, money and debt advice referral arrangements.

The Water Industry National Environment Programme (WINEP) is a series of projects designed to protect and enhance the natural environment. The related ODI measures whether or not we deliver those projects on time. Under WINEP, we must deliver 65 improvement schemes between 2020 and 2025, enhancing the natural environment and ensuring the water we take does not have a negative impact on the environment. Our initial target was to complete 43 projects by the end of 2021/22. In advance of programme, nine projects were signed off by the Environment Agency in 2020/21, most of them relating to sustainable water abstraction. We expected to complete a further 34 projects in 2021/22, reaching our initial target of 43 schemes completed by the end of 2021/22. However, the delivery dates of six of these 34 projects were modified with the agreement of the Environment Agency due to the complexity of the investigations. This meant that we only had to deliver 28 schemes in 2021/22 (and achieved a revised target of 37 schemes completed by the end of 2021/22). We managed to deliver 29 schemes exceeding that revised target by one scheme. However, Ofwat has indicated that it may not take account of the changes of delivery dates agreed with the Environment Agency, and for the purpose of the WINEP ODI may consider that the delivery of 38 schemes in total by the end of 2021/22 does not meet the initial target of 43 schemes.

We also exceeded our targets on engaging and working with land owners to protect raw water quality (our catchment management programme) and on protecting wildlife and increasing biodiversity through the management of land, confirming our commitment to the environment.

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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. During 2021/22 we targeted working with farmers and landowners who manage a total of 5,687 hectares of land and we outperformed this measure achieving a total of 5,986 hectares of managed land.

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 work with Natural England to provide net biodiversity gains during this five year period. We had a target to undertake improvements on 1,218 hectares of land during 2021/22 and we outperformed this target, undertaking improvements on 1,427 hectares of land.

As an indicator of our overall performance improvement against our financial ODIs, we have met 13 of them (out of a total of 15 excluding the PCC and non-household voids commitments, which will be assessed by Ofwat at the end of the current regulatory period, and excluding C-MeX and D-MeX, which are based on the relative performance of all water companies, as our final performance under these comparative measures will be assessed by Ofwat after publication of this statement) and improved performance year on year in respect of 12 of them.

However, our performance on interruptions is below target for the second consecutive year despite the improvement achieved in 2021/22. Our reported interruption figure for 2021/22 (of 01:12:33 against a target of 00:06:08) includes the impact of storm Eunice but we have applied for an exemption to Ofwat due to the exceptional nature of the weather event and the fact that the disruption to our service was caused by repeated interruptions to our own electricity supplies.

Overall, we incurred a net penalty of £2.3 million in 2021/22 (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 £3.8 million in 2020/21 (also excluding C-MeX and D-MeX).

Our total net penalty for 2021/22 including an estimate of penalties under C-MeX and D-MeX would be £3.2 million. This compares to a total net penalty in 2020/21 of £4.4 million (using the final C-MeX and D-MeX figures as assessed by Ofwat). 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.

We have met all our non-financial common performance commitments. These commitments relate to whether or not severe restrictions were imposed in case of drought and to the registration of customers onto our priority service register and maintaining the quality of the data of customers on that register. We also met our commitment relating to the DWI event risk index (ERI).

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

As part of our vulnerability strategy we want all eligible customers to be charged on the basis of our social tariff. We set ourselves a target to register at least 58,000 on our social tariff by the end of 2021/22. At the end of the year 53,981 customers were being charged on our social tariff and we did not achieve our target, but we will continue our efforts to increase the number of beneficiaries of our social tariff, building on our innovative partnerships with local authorities.

We have used the Digital Economy Act 2017 to implement data sharing with local authorities (Maidstone Borough Council and Tunbridge Wells Borough Council). This partnership enables us to put low income households automatically 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.

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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 2021/22:
- in the Chair and CEO joint report on page 8;
- in our business performance section on page 58;
- in the review of our strategic theme: trusted and reliable business on page 26; and
- in tables 3A to 3H of the annual performance report on page 65.

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 in the industry. This is an important tool to enable stakeholders to compare our performance to ensure we are striving for continuous improvement and stretching ourselves to be providing the best possible service.

Progress towards our objectives and the challenges we faced in 2021/22

A major reservoir in Aylesford was affected by multiple sinkholes resulting in loss of water and the unavailability of the reservoir in 2020/21. Remedial works to bring the site back in operation were fast tracked and work on an additional urgent temporary scheme at the site of the future Butler WTW was delivered in record time. This included the construction of a new 10 ML/d temporary water treatment works (10,000m3 per day), the refurbishment, relining and conversion of an existing industrial reservoir to a potable service reservoir, the upgrade and refurbishment of the pumping system and network connections and reconditioning the existing boreholes with new headworks and pipelines. A significant project for the repair of the damaged Aylesford Reservoir has continued throughout 2021/22 with storage being brought back into service ahead of programme. One of the damaged storage tanks has been demolished ahead of programme. We remain on target to reinstate additional storage on the reservoir site by April 2023.

In February 2022, three named storms, Eunice, Dudley and Franklin affected the UK within the space of a week. Two rare red warnings were issued for storm Eunice, the most severe and damaging storm to affect England and Wales since February 2014. Winds gusted widely at over 60 knots (69mph) across southern England. The strong winds from Franklin hampered cleanup operations following Eunice.

Storm Eunice caused widespread and repeated power outages that affected our sites and network at different times and locations. This caused significant disruption to our service and resulted in interruption of supply to some of our customers, especially in Sussex. As our electricity suppliers attempted to repair their network and restore the power supply, despite our preparation our own emergency on site generators were not sufficient to keep all our sites operating.

Extreme weather events are already more frequent, and this emphasises the need to prepare for the future and improve the resilience of our supply system.

As we had set out last year we developed our long term strategies in a number of areas:
- we published our new climate change adaptation report in December 2021 which is available at https://www.southeastwater.co.uk/about/our-environment/adapting-to-a-changing-climate;
- we carried out an assessment of our climate related risks and of the resilience of our strategy to these risks under different scenarios following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our climate related disclosures are included on page 94 of our group annual report;
- we developed a regional water resources plan with Water Resource South East (WRSE) and our own Water Resources Management Plan (WRMP) and our 25 year environment plan which must consider how a number of drivers may combine to impact our supply demand balance and the environment we rely on. Population growth, sustainable abstraction, raw water deterioration, the effectiveness of demand and leakage reduction strategies (determined by policy and technological factors), environmental objectives and targets and climate change need to be considered together to plan for the future and adapt our responses to the conditions that result from the combination of these factors;

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- we have also been developing a series of long-term strategies for key parts of our network. This includes developing a 25 year investment strategy for Barcombe Water Treatment Works, our largest treatment works located in Sussex, that addresses new treatment approaches to deal with future challenges, such as climate change. We have also defined our approach for turning our network "Smart" though a significant deployment of additional sensors and meters, which will allow us to get more real-time information on what is happening on our distribution network. Both of these strategies are critical for improving the resilience of our services, and to address future challenges, and will feed into our next business plan; and
- we submitted our asset management maturity assessment to Ofwat in May. This document laid out our current approach to managing our assets, along with the improvements we plan to make to our capabilities over the next few years.

Challenges ahead

Current economic conditions with high inflation and rising interest rates will be challenging for our financial performance and resilience, and the cost of living crisis will affect many of our customers in 2022/23 with a possible impact into 2023/24. This risk has been assessed as major and increasing in our assessment of principal risks, reflecting the current deterioration of macroeconomic conditions. Our assessment of this risk is set out on page 36. We expect the following challenges in 2022/23:

- our input costs will continue to increase;
- bad debt and the number of customers needing financial support will 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 development activities; and
- our borrowing cost may also increase.

Our good leakage performance this year places us in a strong position for next year, but our ambitious leakage reduction target will remain a challenge for the rest of this regulatory period.

As we experienced in the past few years, weather events can significantly affect our operations, those of our suppliers and our service to customers. Storm Eunice was another example this year of the impact that extreme weather events can have on our supply chain and in this case on our power supply.

In 2022/23, we want to reduce our interruptions and for that will continue to work to improve our readiness, the resilience of our network and our ability to respond to incidents. 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.

Our priorities for 2022/23

2022/23 will be a crucial year for our long term planning to 2050 and beyond and for the preparation of our business plan to 2030 that will represent the first five years of our long term delivery strategy.

We will publish our 25 year environment plan later this year and will consult on our draft water resources management plan based on the WRSE regional plan.

Our long term plans need to take account of greater uncertainty than before and deal with an increasingly complex combination of factors. We will publish a strategic direction statement and will continue to develop our long term adaptive planning methodology to support the preparation of our next business plan.

We will develop the analysis of our climate related risks through scenario analysis and introduce quantitative analysis of the financial impact of climate change.

Our "licence to operate" relies on us getting the basics right by delivering our core services well and constantly improving. This means that in 2022/23 we will continue to focus our efforts on the fundamentals of reliable water supply, high quality drinking water, excellent customer service and driving down leakage.

Building on the performance improvements we have made over the last 12 months we will also work to:

- improve ranking position across key comparative measures;
- create a company-wide resilience plan that will feed into our business plan for PR24;

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- develop a customer service improvement programme and a customer satisfaction improvement programme;
- develop further our successful data share arrangement and partnerships for the delivery of our vulnerability strategy;
- improve PCC reduction through behavioural change;
- implement our cloud strategy and related data strategy;
- procure additional green energy solutions aligned to our sustainability goals and achieving operational net zero by 2030; and
- develop further our plans for the implementation of our leakage, smart network and calm network strategies in AMP7 and AMP8.

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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. We have reviewed the previous format, content and purpose of our March 2021 company monitoring framework publication and streamlined this for March 2022, retaining the elements that worked well to date.

Ofwat has not carried out a formal review of our company monitoring framework, but they have provided some informal feedback. Our action plan in our company monitoring framework has reviewed Ofwat's concerns. We also took account of feedback from the DWI, the Environment Agency, Natural England and CCW.

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 our 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;

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- 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;
- 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 2021/22 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 2021/22 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.

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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.

Atkins role is to assist the board to ensure completeness of the annual reporting, compliance with relevant duties and obligations, and to ensure 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.

Following a tender process during the early part of the financial year, PricewaterhouseCoopers LLP (PwC) were appointed as statutory auditor in August 2021. The appointment has been made for an intended initial five years starting with this 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 22.

For the current reporting period Atkins have reviewed all of 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.

Directors' statements and certificates

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.

Our plans for publishing our future company monitoring frameworks

We will review the current format, content and purpose of our assurance of 2021/22 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 records 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 2021/22.

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	Andrew Farmer Chief Financial Officer
…………………………………………. 14 July 2022	…………………………………………… 14 July 2022

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 the Covid-19 pandemic and 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 2021/22.

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. Our annual reviews have not identified any material deviation from or non-compliance with these obligations and 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 2022, 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).

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.

Directors' statements and certificates

Approved by the Board and signed on its behalf by:

David Hinton Chief Executive Officer	Andrew Farmer Chief Financial Officer
…………………………………………. 14 July 2022	……………………………………………. 14 July 2022

Directors' statements and certificates

Ring-fencing certificate

Under condition P30 of the company's 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 P30 of the Licence.

Condition P33 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 P35 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 confirming 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 2022/23 approved by the board on 14 April 2022 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 providing comfort 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 2025 and 2029. • Our undrawn committed borrowing facilities totalling £125 million entered into in September 2021 will attract an interest based on SONIA on future drawdowns of this facility. 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 141 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 two 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) still reflects an appropriate and sustainable overall underlying performance. • Our actual performance over the last two years taking into account the impact of Covid-19 demonstrating the ability of the company to (i) still deliver its investment programme albeit with a detrimental effect on its ability to achieve targeted efficiencies, and (ii) to deliver its performance commitments subject to any adjustments to the regulatory mechanisms to be determined by Ofwat.	Details on our performance are set out on page 58 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 have maintained our investment grade rating of BBB/Baa2. • Adoption of a STID proposal addressing the potential consequences of Covid-19 on compliance with our financial covenants to improve our financial resilience, in particular preserving the ability to draw down additional debt even under certain trigger event scenarios which will continue to provide additional resilience in other circumstances. • 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. • Our long term viability statement using a baseline scenario reflecting our business model, our current financial position and principal risks that can affect our business and 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 scenarios.	Our long term viability statement on page 134 of our group annual report
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.	

Directors' statements and certificates

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 assessed through communication at board meetings and through direct interaction outside of board meetings.
- The outcome of the latest board evaluation carried out in 2022 which reviewed the balance of skills and experience of the board and concluded that the board operated effectively.

Our board evaluation on page 166 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.
- The extensive staff engagement carried out during 2021/22 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 78 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 48 of our group annual report.

The role of the board on page 153 of our corporate governance statement within our group annual report

Systems of planning and internal control

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

- Our risk management processes described in the strategic report within our group annual report.
- The review of our principal risks including to take account of the impact of the final determination, of Covid-19 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 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 32 of our group annual report.

Our principal risks on page 34 of our group annual report.

Directors' statements and certificates

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.
- 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.
- The effectiveness demonstrated by management in implementing new methods of working to respond to Covid-19.
- Network modelling support for rezoning to minimise the number of customers impacted by incidents and restore supplies as soon as possible.
- Formal lessons learnt process followed 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.

Policies to prevent fraud and other unethical behaviour; whistleblowing policy

- Our whistleblowing policy, anti-bribery policy, anti-facilitation of tax fraud 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.

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 to improve 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 48 of our group annual report.

Our purpose and values on page 16 of our group annual report.

Directors’ statements and certificates

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

- Our internal systems of control and assurance described above.
- Our IT infrastructure and automated reports including audit of relevant reports and systems by auditors and other external consultants on data security.
- Our key operational systems including works management systems, leakage system, laboratory system, billing system.
- Our 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 development of our cloud 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 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.

Material issues or circumstances

- The impact of Covid-19 well into 2021/22 (and persistent impact on the economy) including the experience of the business in implementing methods of working to ensure services to customers and critical facilities are maintained while protecting the health of our employees, customers and suppliers.
- 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 2022/23 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 principal risks on page 34 of our group annual report.

Approved by the board and signed on its behalf by:

David Hinton Chief Executive Officer	Andrew Farmer Chief Financial Officer
…………………………………………. 14 July 2022	…………………………………………… 14 July 2022

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 2022 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D and 10A to 10E and 11A.

In our opinion, South East Water Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2) set out on pages 28 to 31.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") 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.

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 3.13, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

Independent Auditor's report

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 33 to 64 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.

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

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Independent Auditor's report

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 3.13, appendix 2).

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

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

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

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

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

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

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

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included the requirements of The Water Services Regulation Authority ('Ofwat'), UK tax legislation and pensions 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 Listing Rules, health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974), environmental regulations and the Companies Act 2006.

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:

Independent Auditor's report

- Discussions with management, including consideration of known or suspected instances of non-compliance 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: https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%e2%80%99s-responsibilities-for. 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 sewerage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 14 July 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
14 July 2022

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 172 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. It provides details of these arrangements and of the relevant remuneration. 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 that they would 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 does 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 to 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 2020/21

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 2021/22, 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 2021/22 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 2021/22 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 2021/22 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 2022 was 2.5 per cent.

The ordinary appointed business dividend yield was 1.6 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 134 of the group annual report and details of our risk management process and of our principal risks may be found on pages 34 to 47 of the strategic report within our 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. A review was undertaken of the measured income accrual for the year 2020/21, and this indicated that there was a difference of 7.7 per cent between the estimate of unbilled consumption at 31 March 2021 and subsequent bills issued to customers, whereas in earlier years this difference has generally been less than two per cent of the measured income accrual. This underestimate was caused by exceptional Covid-driven household demand over the winter of 2020/21 that was originally assumed to relate to higher levels of leakage. To provide further confidence in the existing methodology for calculating the value of unbilled consumption, we have tested the September 2021 accrual against subsequent billing. The result of this validation has demonstrated that the accrual at September was within 0.5 per cent of the reported interim figure, confirming the view that the methodology is sound and the variance was due to exceptional Covid-related factors that existed during the winter of 2020/21.

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 will 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 will send out letters along 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 then sent. If there is still no response, we will 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 whom 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 £6.5 million in profit before tax, is the for the most part, a result of the capitalisation of insurance receipts of £6.0 million in relation to damages 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 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 thereby increasing interest expense by £2.2 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 2021/22, the provision/accrual made for cost relating to the innovation fund within our statutory accounts has been removed from the regulatory reporting, reducing operating costs by £1.8 million. Lastly, operating costs are adjusted by £0.3 million to reverse the impact of the capitalisation of pension contributions under IAS19 within the statutory accounts; and
- in the statement of financial position, the difference of £29.0 million on net assets is largely due to the removal of cumulative capitalised interest totalling £26.0 million, offset slightly by the removal of cumulative depreciation on capitalised interest of £1.3 million from fixed assets. In addition to this, as explained above, insurance receipts of £6.0 million relating to our reservoirs at Aylesford, Kent have been capitalised within the regulatory accounts thereby reducing the value of fixed assets by £6.0 million. Lastly, current trade and other payables and provisions have both been reduced by £0.9 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 maximise shareholder value and minimise customer bills 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, at the same time we also have an obligation to maximise shareholder value, minimise customer bills and to 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 required to 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 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 2022 a UK corporation rate of 19 per cent has been used as enacted by Finance Act 2021, this is expected to increase to 25 per cent from 1 April 2023.

The deferred tax on temporary differences as at 31 March 2022 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:

	2021/22 Prices £000
Final determination (2017/18 prices)	3,326
Indexation	439
Final determination	3,765
Actual in regulatory accounts	745
Retail tax	(188)
Wholesale tax	557

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

	2021/22 Prices £000
Wholesale tax	557
Contributions and infrastructure charges	513
Capital allowances	(1,896)
Variance in operating profit	5,992
Corporation tax rate reduction	(479)
Other	(922)
Final determination	3,765

The reconciliation of current appointed tax is as follows:

	2021/22 £000
Profit before tax	6,674
Taxation at 19%	1,268
Expenses not deductible	424
Income not chargeable to corporation tax	(972)
Capital allowances exceed depreciation	1,269
Pension movements	(1,244)
Current tax charge for the year	745
Adjustment in respect of prior years	(894)
UK corporation tax charge	(149)

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, however are available within the 2021/22 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. We have however, where deemed necessary, 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 - Income statement for the 12 months ended 31 March 2022

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Revenue	251,276	960	11,543	(10,583)	240,693
Operating costs	(189,369)	6,531	(7,588)	14,119	(175,250)
Other operating income	21,928	(22,812)	-	(22,812)	(884)
Operating profit	83,835	(15,321)	3,955	(19,276)	64,559
Other income	-	11,056	-	11,056	11,056
Interest income	705	(692)	-	(692)	13
Interest expense	(67,586)	(2,186)	(126)	(2,060)	(69,646)
Other interest expense	-	692	-	692	692
Profit before tax and fair value movements	16,954	(6,451)	3,829	(10,280)	6,674
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	16,954	(6,451)	3,829	(10,280)	6,674
UK Corporation tax	(579)	-	(728)	728	149
Deferred tax	(45,298)	-	-	-	(45,298)
Profit for the year	**(28,923)**	**(6,451)**	**3,101**	**(9,552)**	**(38,475)**
Dividends	(9,000)	-	(3,101)	3,101	(5,899)

Tax analysis	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Current year	1,473	-	728	(728)	745
Adjustments in respect of prior years	(894)	-	-	-	(894)
UK Corporation tax	579	-	728	(728)	(149)

Analysis of non-appointed revenue	Non-appointed £000
Imported sludge	-
Tankered waste	-
Other non-appointed revenue	11,543
Revenue	11,543

1A - Income statement for the 12 months ended 31 March 2022

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	(10,520)	-	-	10,520	-	-	-	-
Other operating income	11,480	4,000	(15,928)	448	-	-	-	-
Capitalised interest	-	243	-	-	-	(2,186)	-	(1,943)
Disposal of fixed assets	-	884	(884)	-	-	-	-	-
Capitalisation of Aylesford sinkhole insurance receipt	-	-	(6,000)	-	-	-	-	(6,000)
Pension contributions	-	(272)	-	-	-	-	-	(272)
Return made on pensions	-	-	-	-	(692)	-	692	-
Removal of innovation fund provision/accrual	-	1,764	-	-	-	-	-	1,764
Innovation fund income from/payments to other companies & MOSL	-	(88)	-	88	-	-	-	-
Total difference	**960**	**6,531**	**(22,812)**	**11,056**	**(692)**	**(2,186)**	**692**	**(6,451)**

In the year we received an interim payment of £4.000 million from our insurers in respect of the business interruption element of the Aylesford insurance claim. In line with IFRS this is reported within other operating income in our statutory accounts, however, for the regulatory accounts has been removed from other operating income and reported as an offset against operating costs. This has been completed in order to offset the overspend in relation to the sinkholes at Aylesford, which occurred in September 2020, as we feel it is inappropriate to share this overspend with customers given we have been reimbursed by our insurers for this.

In addition, we received insurance proceeds in the year of £6.000 million as an interim payment in respect of the damage caused to our service reservoirs at Aylesford by the sinkholes. This element of the insurance proceeds is included within other operating income within our 2021/22 statutory accounts, however, has been capitalised within the regulatory accounts in order to offset the capital overspend in relation to the sinkholes at Aylesford in line with the reasoning given above.

Appointed interest expense of £69.646 million, as reported within the income statement above, is comprised of the following:

1A - Income statement for the 12 months ended 31 March 2022

	Interest expense £000
Debenture interest	42
Interest payable to subsidiary	17,047
Indexation payable to subsidiary	21,399
Bank interest and other finance charges	8,415
Financing guarantee fees	1,291
Interest payable on index linked loans	10,087
Indexation on index linked loans	10,763
Lease interest	100
Amortisation of loan issue costs	628
Interest and related fees payable	69,772
Interest capitalised	(2,186)
Interest expense per IFRS	67,586
Reversal of interest capitalisation	2,186
Removal of non-appointed interest expense	(126)
Appointed interest expense	69,646

1B - Statement of comprehensive income for the 12 months ended 31 March 2022

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Profit for the year	(28,923)	(6,451)	3,101	(9,552)	(38,475)
Actuarial gains/(losses) on post-employment plans	14,695	-	-	-	14,695
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**(14,228)**	**(6,451)**	**3,101**	**(9,552)**	**(23,780)**

1C - Statement of financial position for the 12 months ended 31 March 2022

		Adjustments			
	Statutory £000	Differences between statutory and RAG definitions £000	Non-appointed £000	Total adjustments £000	Total appointed activities £000
Non-current assets					
Fixed assets	1,689,127	(22,444)	-	(22,444)	1,666,683
Intangible assets	8,294	(8,294)	-	(8,294)	-
Investments - loans to group companies	-	-	-	-	-
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	57,346	-	-	-	57,346
Total non-current assets	1,754,767	(30,738)	-	(30,738)	1,724,029
Current assets					
Inventories	851	-	-	-	851
Trade & other receivables	83,611	-	1,960	(1,960)	81,651
Financial instruments	-	-	-	-	-
Cash & cash equivalents	11,411	-	-	-	11,411
Total current assets	95,873	-	1,960	(1,960)	93,913
Current liabilities					
Trade & other payables	(72,487)	887	(1,960)	2,847	(69,640)
Capex creditor	(25,318)	-	-	-	(25,318)
Borrowings	(339)	-	-	-	(339)
Financial instruments	-	-	-	-	-
Current tax liabilities	-	-	-	-	-
Provisions	(14,054)	877	-	877	(13,177)
Total current liabilities	(112,198)	1,764	(1,960)	3,724	(108,474)
Net current assets/(liabilities)	(16,325)	1,764	-	1,764	(14,561)
Non-current liabilities					
Trade & other payables	(4,154)	-	-	-	(4,154)
Borrowings	(1,120,478)	-	-	-	(1,120,478)
Financial instruments	-	-	-	-	-
Retirement benefit obligations	(2,869)	-	-	-	(2,869)
Provisions	-	-	-	-	-
Deferred income - G&C's	(4,315)	-	-	-	(4,315)
Deferred income - adopted assets	-	-	-	-	-
Preference share capital	-	-	-	-	-
Deferred tax	(228,790)	-	-	-	(228,790)
Total non-current liabilities	(1,360,606)	-	-	-	(1,360,606)

1C - Statement of financial position for the 12 months ended 31 March 2022

Net assets	**377,836**	**(28,974)**	**-**	**(28,974)**	**348,862**
Equity					
Called up share capital	(49,312)	-	-	-	(49,312)
Retained earnings & other reserves	(328,524)	28,974	-	28,974	(299,550)
Total equity	**(377,836)**	**28,974**	**-**	**28,974**	**(348,862)**

Differences between statutory and RAG definitions	Fixed assets £000	Intangible assets £000	Trade & other payables £000	Provisions £000	Net assets £000	Retained earnings & other resources £000	Total equity £000
Capitalised interest	(26,001)	-	-	-	(26,001)	26,001	26,001
Depreciation on capitalised interest	1,263	-	-	-	1,263	(1,263)	(1,263)
Computer software cost	29,004	(29,004)	-	-	-	-	-
Computer software depreciation	(23,101)	23,101	-	-	-	-	-
Computer software work in progress cost	2,391	(2,391)	-	-	-	-	-
Removal of innovation fund provision/accrual	-	-	887	877	1,764	(1,764)	(1,764)
Capitalisation of Aylesford sinkhole insurance receipt	(6,000)	-	-	-	(6,000)	6,000	6,000
Total differences	**(22,444)**	**(8,294)**	**887**	**877**	**(28,974)**	**28,974**	**28,974**

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 £8.294 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 £6.000 million as an interim payment in respect of the damage caused to our service reservoirs at Aylesford by the sinkholes in 2020. This element of the insurance proceeds is included within other operating income within our 2021/22 statutory accounts, however, has been capitalised within the regulatory accounts in order to offset the capital overspend in relation to the sinkholes at Aylesford as we feel it is inappropriate to share this overspend with customers given we have been reimbursed by our insurers for this. This therefore appears as a reduction to fixed assets in the regulatory accounts as a difference between the statutory and regulatory treatments.

1D - Statement of cash flows for the 12 months ended 31 March 2022

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£000	£000	£000	£000	£000
Operating activities					
Operating profit	83,835	(15,321)	3,955	(19,276)	64,559
Other income	-	11,056	-	11,056	11,056
Depreciation	58,679	(243)	-	(243)	58,436
Amortisation - G&C's	-	-	-	-	-
Changes in working capital	5,122	858	-	858	5,980
Pension contributions	(5,181)	(586)	-	(586)	(5,767)
Movement in provisions	(1,481)	(1,764)	-	(1,764)	(3,245)
Profit on sale of fixed assets	(5,116)	6,000	-	6,000	884
Cash generated from operations	135,858	-	3,955	(3,955)	131,903
Net interest paid	(39,968)	-	(126)	126	(39,842)
Tax paid	(1,096)	-	(728)	728	(368)
Net cash generated from operating activities	94,794	-	3,101	(3,101)	91,693
Investing activities					
Capital expenditure	(91,536)	-	-	-	(91,536)
Grants & contributions	-	-	-	-	-
Disposal of fixed assets	314	-	-	-	314
Other	6,000	-	-	-	6,000
Net cash used in investing activities	(85,222)	-	-	-	(85,222)
Net cash generated before financing activities	**9,572**	**-**	**3,101**	**(3,101)**	**6,471**
Cash flows from financing activities					
Equity dividends paid	(9,000)	-	(3,101)	3,101	(5,899)
Net loans received	(30,602)	-	-	-	(30,602)
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	**(39,602)**	**-**	**(3,101)**	**3,101**	**(36,501)**
Increase/(decrease) in net cash	**(30,030)**	**-**	**-**	**-**	**(30,030)**

The value of net loans received in the period of £30.6 million includes additional borrowings of £50.0 million in the form of fixed rate loan notes and the repayment of drawdowns on our committed loan facilities totalling £80.0 million.

1D - Statement of cash flows for the 12 months ended 31 March 2022

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	(15,321)	-	-	-	-	-	-	(15,321)
Rental income	-	448	-	-	-	-	-	448
Grants and contributions income	-	10,520	-	-	-	-	-	10,520
Depreciation on capitalised interest	-	-	(243)	-	-	-	-	(243)
Pension asset	-	-	-	858	-	-	-	858
Pension contributions	-	-	-	-	(586)	-	-	(586)
Innovation fund provision/accrual	-	-	-	-	-	(1,764)	-	(1,764)
Innovation fund income from/payments to other companies & MOSL	-	88	-	-	-	-	-	88
Capitalisation of Aylesford sinkhole insurance receipt	-	-	-	-	-	-	6,000	6,000
Total differences	**(15,321)**	**11,056**	**(243)**	**858**	**(586)**	**(1,764)**	**6,000**	**-**

1E - Net debt analysis (appointed activities) at 31 March 2022

	Fixed rate	Floating rate	Index linked RPI	Index linked CPI/CPIH	Total
	£000	£000	£000	£000	£000
Interest rate risk profile					
Borrowings (excluding preference shares)	395,501	120,000	611,623	-	1,127,124
Preference share capital					-
Total borrowings					1,127,124
Cash					(11,411)
Short term deposits					-
Net Debt					**1,115,713**
Gearing					
Gearing (%)					74.836
Adjusted Gearing (%)					-
Interest					
Full year equivalent nominal interest cost	15,864	1,990	74,946	-	92,800
Full year equivalent cash interest payment	15,864	1,990	18,257	-	36,111
Indicative interest rates					
Indicative weighted average nominal interest rate (%)	4.011	1.659	12.254	-	8.233
Indicative weighted average cash interest rate (%)	4.011	1.659	2.985	-	3.204
Time to maturity					
Weighted average years to maturity	11.080	3.000	13.960	-	11.782

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

	£000
Short term borrowing per table 1C	339
Long term borrowing per table 1C	1,120,478
Total borrowings per table 1C	1,120,817
Removal of unamortised loan arrangement costs	6,307
Borrowing per table 1E above	**1,127,124**

1F - Financial flows for 12 months ended 31 March 2022 (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)	531,889	531,889	325,243			
Return on regulatory equity	3.88	2.37	3.88	20,637	12,619	12,619
Financing						
Impact of movement from notional gearing		1.51	1.06		8,018	3,439
Gearing benefits sharing		-	-		-	-
Variance in corporation tax		0.71	1.16		3,761	3,761
Group relief		-	-		-	-
Cost of debt		(0.57)	(1.18)		(3,043)	(3,839)
Hedging instruments		-	-		-	-
Return on regulatory equity including financing adjustments	3.88	4.01	4.91	20,637	21,355	15,980
Operational performance						
Totex out/(under) performance		(0.06)	(0.09)		(305)	(305)
ODI out/(under) performance		(0.43)	(0.70)		(2,279)	(2,279)
C-MeX out/(under) performance		(0.08)	(0.12)		(401)	(401)
D-MeX out/(under) performance		(0.04)	(0.07)		(239)	(239)
Retail out/(under) performance		(0.63)	(1.02)		(3,329)	(3,329)
Other exceptional items		-	-		-	-
Operational performance total		(1.23)	(2.01)		(6,553)	(6,553)
RoRE (return on regulatory equity)	3.88	2.78	2.90	20,637	14,802	9,427
RCV growth	6.90	6.90	6.90	36,700	36,700	22,442
Voluntary sharing arrangements		-	-		-	-

1F - Financial flows for 12 months ended 31 March 2022 (2017-18 financial year average CPIH)

Total shareholder return	10.78	9.68	9.80	57,338	51,503	31,869
Dividends						
Gross dividend	3.00	1.02	1.67	15,957	5,436	5,436
Interest receivable on intercompany loans	-	-	-	-	-	-
Retained value	**7.78**	**8.66**	**8.13**	**41,381**	**46,067**	**26,433**
Cash impact of 2015-20 performance adjustments						
Totex out/(under) performance		(0.20)	(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 notional regulatory equity specific to the company for the 2021/22 period prescribed by Ofwat is £531.9 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 £325.2 million is calculated as the average regulatory capital value ("RCV"), calculated as the average of opening and closing RCV as published by Ofwat, being £1,414.7 and £1,490.9 million respectively, less average net debt, calculated as the average of opening and closing net debt as reported within table 1E in 2020/21 and 2021/22, being £1,083.9 and £1,115.7 million respectively. The sum of which has been deflated to 2017/18 prices.

The notional return on regulatory equity specific to the company for 2021/22, as published by Owat on their website within the financial flows data source file, is 3.88 per cent.

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 £1,099.8 million as a percentage of its average regulatory capital value of £1,452.8 million, equates to 75.70 per cent. The variance between the notional and actual gearing ratios of 15.70 per cent, together with the difference between the allowed return on regulatory equity of 3.88 per cent and the company's allowed cost of debt of 2.24 per cent results in a saving in financing on the average regulatory capital value of £3.4 million in 2017/18 prices being 1.06 per cent of actual regulatory equity.

1F - Financial flows for 12 months ended 31 March 2022 (2017-18 financial year average CPIH)

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 2022 of 74.84 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 2021/22 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 £1.3 million in 2017/18 prices equating to 0.25 and 0.41 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

-1.439 = (74.84% - 65.00%) x 50.00% x (6.27% - 8.23%) x 1,490.880

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 2021/22 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 £3.8 million being 0.71 and 1.16 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 6.28 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 3.66 per cent and 2.24 per cent respectively, resulting in a higher than allowed interest rate of 0.38 per cent equating to a cost of debt value, unadjusted for hedging instruments, of £3.0 million and £3.8 million based upon the notional gearing and the company's actual gearing structure respectively.

1F - Financial flows for 12 months ended 31 March 2022 (2017-18 financial year average CPIH)

	Reconciliation of net interest £000
Total interest paid (per note 8 to the financial statements)	67,586
Removal of impact of capitalised interest	2,186
Amortisation of loan issue costs	(628)
Interest margin charged on intercompany bonds/loans	(23)
Total interest paid relevant to table 1F	69,121
Interest received on cash balances/bank interest	(13)
Total net interest charge relevant to table 1F	**69,108**

Operational impacts
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 RAG guidelines indicate that this data should be the same as the data in line 4C.25, converted into a 2017/18 price base. However, in response to a query raised to Ofwat during completion of the APR, Ofwat have since confirmed that, following changes to table 4C resulting in 4C.25 now conveying the customer share of totex over or underspend, the company value of totex over or underspend to be used in calculating totex out/underperformance within table 1F should be calculated as the sum of lines 4C.13, 4C.14, 4C.21 and 4C.24. The calculation of this is shown below

1F - Financial flows for 12 months ended 31 March 2022 (2017-18 financial year average CPIH)

	%	£m
Table 4C.13 - Company share of totex overspend – 2021/22 prices		(0.458)
Table 4C.14 - Company share of totex underspend – 2021/22 prices		-
Table 4C.21 - Company share of totex over/underspend – business rates and abstraction licence fees – 2021/22 prices		(0.078)
Table 4C.24 - Costs not subject to cost sharing variance – 100% company allocation – 2021/22 prices		0.205
Total company share of totex over/underspend		(0.331)
CPI(H): Fin year average - inflate from base year 2017/18 average	108.54%	
Total company share of totex over/underspend – 2017/18 prices		(0.305)
Net totex out/(under) performance 2017/18 prices		(0.305)

As illustrated within the above table, the company marginally underperformed against its totex allowance defined within the PR19 final determination, with the company's share of the totex overspend equating to £0.3 million (2017/18 prices).

In the year, the company received interim payments of £6.0 million and £4.0 million from its insurers in respect of damages and business interruption respectively, caused by sinkholes which appeared beneath our service reservoirs at Aylesford, Kent in September 2020. As explained within the commentary to table 1A, both elements of the insurance proceeds have been offset against totex in order that the overspend resulting from this incident is not shared with customers via the cost sharing mechanism given that the cost of this has been reclaimed by the company through its insurers.

In addition to this 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.

Further commentary on the cost variances can be found within the commentary for 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 2021/22 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.

1F - Financial flows for 12 months ended 31 March 2022 (2017-18 financial year average CPIH)

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

		%	£m
FD cost to serve all Residential retail customers - real	£m 2017-18 prices		16.118
Actual retail costs (APR Table 2C)	£m nominal		20.260
Depreciation on assets since 2015 and recharges	£m nominal		0.848
Total retail costs excluding third party and pension deficit repair costs - nominal	£m nominal		21.108
CPI(H): Fin year average - inflate from base year 2017-18 average	%	108.54	
Actual Retail costs	£m 2017-18 prices		18.666
Depreciation on assets since 2015 and Recharges	£m 2017-18 prices		0.781
Total retail costs excluding third party and pension deficit repair costs - 2017-18 prices	£m 2017-18 prices		19.447
Cash retail costs outperformance/(underperformance) - 2017-18 prices	£m 2017-18 prices		(2.548)
Depreciation on assets since 2015 and Recharges	£m 2017-18 prices		(0.781)
Retail costs outperformance/(underperformance) - 2017-18 prices	£m 2017-18 prices		(3.329)

There are two main drivers of the retail cost underperformance. The first is an increase in bad debt as a result of Covid-19. The second is as a result of 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 £0.8 million (2021/22 prices).

There were 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)	528,975	528,975	317,218			
Return on regulatory equity	3.87	2.32	3.87	20,471	12,276	12,276
Financing						
Impact of movement from notional gearing		1.55	1.03		8,195	3,353
Gearing benefits sharing		(0.20)	(0.33)		(1,060)	(1,060)
Variance in corporation tax		0.55	0.91		2,950	2,950
Group relief		-	-		-	-
Cost of debt		(1.02)	(2.14)		(5,447)	(6,969)
Hedging instruments		-	-		-	-
Return on regulatory equity including financing adjustments	3.87	3.20	3.34	20,471	16,914	10,550
Operational performance						
Totex out/(under) performance		(0.71)	(1.16)		(3,770)	(3,770)
ODI out/(under) performance		(0.76)	(1.24)		(4,049)	(4,049)
C-MeX out/(under) performance		(0.04)	(0.06)		(201)	(201)
D-MeX out/(under) performance		(0.02)	(0.04)		(119)	(119)
Retail out/(under) performance		(0.50)	(0.81)		(2,636)	(2,636)
Other exceptional items		-	-		16	16
Operational performance total		(2.02)	(3.31)		(10,759)	(10,759)
RoRE (return on regulatory equity)	3.87	1.18	0.03	20,471	6,155	(209)
RCV growth	3.97	3.97	3.97	21,000	21,000	12,594
Voluntary sharing arrangements		-	-		-	-

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

Total shareholder return	7.84	5.15	4.00	41,472	27,156	12,385
Dividends						
Gross dividend	3.00	13.48	22.48	15,869	71,299	71,299
Interest receivable on intercompany loans	-	(0.20)	(0.33)	-	(1,051)	(1,051)
Retained value	**4.84**	**(8.53)**	**(18.81)**	**25,602**	**(45,194)**	**(59,965)**
Cash impact of 2015-20 performance adjustments						
Totex out/(under) performance		(0.20)	(0.33)		(1,039)	(1,039)
ODI out/(under) performance		(0.04)	(0.06)		(189)	(189)
Total out/(under) performance		**(0.23)**	**(0.39)**		**(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 and 2021/22, being £526.1 million and £531.9 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, as published by Ofwat within the appropriate regulatory capital values file, and the actual regulatory equity for 2021/22 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 and 2021/22, being 3.86 per cent and 3.88 per cent respectively.

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 and 2021/22, calculated in accordance with the detail given beneath the financial flows for the 12 months ended 31 March 2022, being £3.3 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 and 2021/22, both 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 £1.1 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.

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

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 and 2021/22, being £2.1 million and £3.8 million respectively, resulting in an average variance to date of £3.0 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 and higher than allowed cost of debt in 2021/22 as detailed above is an average higher than allowed cost of debt of £5.4 million and £7.0 million based upon the company's notional and actual gearing structure respectively.

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 two 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 both 2020/21 and 2021/22.

The ODI out/(under) performance is calculated as the average of the total underperformance payments, as reported within APR table 3A, for 2020/21 and 2021/22, being £5.8 million and £2.3 million respectively, resulting in an average underperformance payment in the price review to date of £4.0 million.

As any reward/(penalty) from the C-MeX and D-MeX mechanisms is reported one year in arrears, once all companies data is known, we are currently in receipt of the performance for one year of the AMP to date only. As a result, the average performance to date represents the average of nil reward/(penalty) for both mechanisms reported in 2020/21 and penalties of £0.4 million and £0.2 million for C-MeX and D-MeX respectively as reported for the 12 months ended 31 March 2022. This equates to performance for the price review to date of £0.2 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 two years of the AMP to date, being underperformance payments in both years of £1.9 million in 2020/21 and £3.3 million in 2021/22. The retail cost underperformance in both years has been driven by increased bad debt as a result of Covid-19 and depreciation.

Other exceptional items has been calculated as the average of the two years of the AMP to date. 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 2021/22 period, the resulting average equates to £0.015 million.

2A - Segmental income statement for the 12 months ended 31 March 2022

	Residential retail £000	Business retail £000	Water resources £000	Water network+ £000	Total £000
Revenue - price control	21,041	(11)	20,618	198,194	239,842
Revenue - non price control	-	-	-	851	851
Operating expenditure - excluding PU recharge impact	(20,260)	-	(15,652)	(80,902)	(116,814)
PU opex recharge	235	-	(789)	554	-
Operating expenditure - including PU recharge impact	(20,025)	-	(16,441)	(80,348)	(116,814)
Depreciation - tangible fixed assets	(1,083)	-	(6,185)	(51,168)	(58,436)
Amortisation - intangible fixed assets	-	-	-	-	-
Other operating income	(25)	-	(28)	(831)	(884)
Operating profit	**(92)**	**(11)**	**(2,036)**	**66,698**	**64,559**
Surface water drainage rebates					-

At the point at which we exited the non-household retail market on 1 May 2018, transferring our non-household retail business to Invicta Water Limited, one of our group companies which was then later sold by the group to Castle Water Ltd, all customer accounts were invoiced up to the 30 April 2018. In instances where no meter read was available to bill up to the point of exit, the meter readings were estimated based on the customer's average consumption.

During the year, further corrective meter readings on a number of non-household customer's bills were adjusted in order to reimburse the over-estimation of bills at the point at which we exited the non-household retail market. These reimbursements have led to negative revenue of £0.011 million in the year as reported in the table above, in respect of the non-household retail business.

2B - Totex analysis for the 12 months ended 31 March 2022 - wholesale

	Water resources £000	Water network+ £000	Total £000
Base operating expenditure			
Power	5,745	14,726	20,471
Income treated as negative expenditure	(5)	(13)	(18)
Service charges/discharge consents	2,996	144	3,140
Bulk supply/bulk discharge	1,026	4,148	5,174
Renewals expensed in year (infrastructure)	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-
Other operating expenditure (including location specific costs & obligations)	5,726	41,791	47,517
Local authority and Cumulo rates	953	17,119	18,072
Total base operating expenditure	16,441	77,915	94,356
Other operating expenditure			
Enhancement operating expenditure	-	1,864	1,864
Developer services operating expenditure	-	211	211
Total operating expenditure excluding third party services	16,441	79,990	96,431
Third party services	-	358	358
Total operating expenditure	16,441	80,348	96,789
Grants and contributions			
Grants and contributions - operating expenditure	-	-	-
Capital expenditure			
Base capital expenditure	873	54,259	55,132
Enhancement capital expenditure	5,891	12,412	18,303
Developer services capital expenditure	-	23,095	23,095
Total gross capital expenditure excluding third party services	6,764	89,766	96,530
Third party services	-	-	-
Total gross capital expenditure	6,764	89,766	96,530
Grants and contributions			
Grants and contributions - capital expenditure	-	(11,440)	(11,440)
Net totex	23,205	158,674	181,879
Cash expenditure			
Pension deficit recovery payments	698	4,215	4,913
Other cash items	-	-	-
Totex including cash items	**23,903**	**162,889**	**186,792**

2B - Totex analysis for the 12 months ended 31 March 2022 - wholesale

As detailed above in relation to tables 1A and 1C, in the year we received interim payments of £6.000 million and £4.000 million from our insurers in relation to damages and business interruption respectively, caused by sinkholes which appeared beneath our service reservoirs in Aylesford, Kent.

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 already been reclaimed through our insurance, we have offset the £4.000 million insurance receipt against our water network+ operating costs reported within 'other operating expenditure (including location specific costs & obligations)'. Similarly, the £6.000 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 2022 - retail

	Residential £000	Business £000	Total £000
Operating expenditure			
Customer services	7,012	-	7,012
Debt management	645	-	645
Doubtful debts	5,208	-	5,208
Meter reading	1,027	-	1,027
Service to developers		-	-
Other operating expenditure	6,097	-	6,097
Local authority and Cumulo rates	271	-	271
Total operating expenditure excluding third party services	20,260	-	20,260
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	1,051	-	1,051
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)	5	-	5
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	(247)	-	(247)
Net recharges costs	(235)	-	(235)
Total retail costs excluding third party and pension deficit repair costs	21,108	-	21,108
Third party services operating expenditure	-	-	-
Pension deficit repair costs	-	-	-
Total retail costs including third party and pension deficit repair costs	**21,108**	**-**	**21,108**
Debt written off	**1,349**	**-**	**1,349**
Capital expenditure	**248**	**-**	**248**

2C - Cost analysis for the 12 months ended 31 March 2022 - 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	233
Demand-side water efficiency - expenditure funded by wholesale	(162)
Demand-side water efficiency - net retail expenditure	71
Customer-side leak repairs - gross expenditure	1,437
Customer-side leak repairs - expenditure funded by wholesale	(1,204)
Customer-side leak repairs - net retail expenditure	233

Comparison of actual and allowed expenditure	Total £000
Cumulative actual retail expenditure to reporting year end	39,970
Cumulative allowed expenditure to reporting year end	34,661
Total allowed expenditure 2020-25	88,215

Residential

Overall expenditure for household retail is above final determination (FD) expectations, with total operating costs (excluding third party services) at £21.1 million versus an FD of £17.4 million. Household retail cost has increased from the previous period which was £18.9 million. This is primarily a consequence of the doubtful debt charge increasing by £1.7 million from £3.5 million to £5.2 million. The provision is based on our cash collection history for the past three years. This places greater emphasis on our recent cash collection history and reflects the current economic circumstances. The increase in bad debt reflects the collection of older debts through the year remaining problematic, coupled with the increasing inflationary pressures on household finances and the prospective view required by IFRS 9 on future expectations.

2D - Historic cost analysis of tangible fixed assets at 31 March 2022

	Residential retail £000	Business retail £000	Water resources £000	Water network+ £000	Total £000
Cost					
At 1 April 2021	17,419	-	167,268	1,783,914	1,968,601
Disposals	(61)	-	(1,050)	(6,181)	(7,292)
Additions	248	-	6,764	89,766	96,778
Adjustments	-	-	-	283	283
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2022	17,606	-	172,982	1,867,782	2,058,370
Depreciation					
At 1 April 2021	(8,939)	-	(33,768)	(296,639)	(339,346)
Disposals	35	-	1,023	5,037	6,095
Adjustments	-	-	-	-	-
Charge for year	(1,083)	-	(6,185)	(51,168)	(58,436)
At 31 March 2022	(9,987)	-	(38,930)	(342,770)	(391,687)
Net book amount at 31 March 2022	**7,619**	**-**	**134,052**	**1,525,012**	**1,666,683**
Net book amount at 1 April 2021	**8,480**	**-**	**133,500**	**1,487,275**	**1,629,255**
Depreciation charge for year					
Principal services	(1,083)	-	(6,185)	(51,168)	(58,436)
Third party services	-	-	-	-	-
Total	(1,083)	-	(6,185)	(51,168)	(58,436)

The net book value includes £105.5 million in respect of assets in the course of construction.

The adjustment of £0.3 million to water network+ cost relates to a legacy item following the company's adoption of IFRS in April 2014, regarding the revaluation of new plant and machinery at the time.

2E - Analysis of 'grants and contributions' for the 12 months ended 31 March 2022 - 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	5,179	-	-	5,179
Infrastructure charge receipts - new connections	4,732	-	-	4,732
Requisitioned mains	-	1,579	-	1,579
Diversions - s185	-	1,391	-	1,391
Other contributions (price control)	-	632	-	632
Price control grants and contributions before deduction of income offset	9,911	3,602	-	13,513
Income offset	(2,073)	-	-	(2,073)
Price control grants and contributions after deduction of income offset	7,838	3,602	-	11,440
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total grants and contributions	**7,838**	**3,602**	**-**	**11,440**
Value of adopted assets	2,529	-		2,529

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 2022 - water resources and water network+

Movements in capitalised grants and contributions	Water resources £000	Water network+ £000	Total £000
Brought forward	-	4,830	4,830
Capitalised in year	-	3,602	3,602
Amortisation (in income statement)	-	(2,177)	(2,177)
Carried forward	**-**	**6,255**	**6,255**

2F - Residential retail for the 12 months ended 31 March 2022

	Revenue £000	Number of customers 000s	Average residential revenues £
Residential revenue			
Wholesale revenue	175,236		
Retail revenue	21,041		
Total residential revenue	196,277		
Retail revenue			
Revenue recovered (“RR”)	21,041		
Revenue sacrifice	-		
Actual revenue (net)	21,041		
Customer information			
Actual customers (“AC”)		892.237	
Reforecast customers		889.324	
Adjustment			
Allowed revenue (“R”)	19,441		
Net adjustment	(1,600)		
Other residential information			
Average household retail revenue per customer			23.582

2I - Revenue analysis for the 12 months ended 31 March 2022

	Household £000	Non-household £000	Total £000	Water resources £000	Water network+ £000	Total £000
Wholesale charge - water						
Unmeasured	17,282	965	18,247	1,721	16,526	18,247
Measured	157,699	42,611	200,310	18,897	181,413	200,310
Third party revenue	255	-	255	-	255	255
Total wholesale water revenue	175,236	43,576	218,812	20,618	198,194	218,812
Wholesale total	175,236	43,576	218,812			
Retail revenue						
Unmeasured	2,099	(3)	2,096			
Measured	18,942	(8)	18,934			
Retail third party revenue	-	-	-			
Total retail revenue	21,041	(11)	21,030			
Third party revenue - non-price control						
Bulk supplies - water			-			
Other third party revenue – non-price control			116			
Principal services - non-price control						
Other appointed revenue			735			
Total appointed revenue			**240,693**			

The wholesale revenue for 2021/22 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 swing from non-household usage to household usage in 2020/21 due to the impact of Covid-19 has partially reversed with non-household usage in 2021/22 equating to 87 per cent of pre-pandemic levels. This is largely in line with SEW's expectations set out in the publication of the 2021/22 charges statement.

The table below reconciles the allowed and actual wholesale revenues.

	£000
Allowed wholesale revenue for the year	214,806
Increase due to higher consumption	4,006
Movement due to mix of properties	-
Actual revenue for the year	218,812

2I - Revenue analysis for the 12 months ended 31 March 2022

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 2022

	Network reinforcement capex £000	On site / site specific capex (memo only) £000
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	10,689	11,434
Pumping and storage facilities	33	-
Other	-	1,113
Total	**10,722**	**12,547**

2K - Infrastructure charges reconciliation for the 12 months ended 31 March 2022

	Water £000
Impact of infrastructure charge discounts	
Infrastructure charges	4,732
Discounts applied to infrastructure charges	-
Gross infrastructure charges	4,732
Comparison of revenue and costs	
Variance brought forward	2,203
Revenue	4,732
Costs	(10,722)
Variance carried forward	**(3,787)**

Across the south east we have a high 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 of our schemes are then planned and completed on a risk based approach to avoid impacting our existing customers but to deliver 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 and this can mean a number of species surveys which are only carried out at certain times of the year. Where environmental concerns arise the schemes often have to be delivered during times that least impact the local environment and this can 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 in 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 2021/22 financial year and therefore a proportion of the costs will be reported in future years.

Although there is approximately a £3.8 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 2022

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 2022 - wholesale

	Water resources £000	Water network+ £000	Total £000
Revenue recognised			
Wholesale revenue governed by price control	20,618	198,194	218,812
Grants & contributions (price control)	-	11,440	11,440
Total revenue governed by wholesale price control	20,618	209,634	230,252
Calculation of the revenue cap			
Allowed wholesale revenue before adjustments (or modified by CMA)	20,837	193,969	214,806
Allowed grants & contributions before adjustments (or modified by CMA)	-	19,377	19,377
Revenue adjustment	-	-	-
Other adjustments	-	1,275	1,275
Revenue cap	20,837	214,621	235,458
Calculation of revenue imbalance			
Revenue cap	20,837	214,621	235,458
Revenue recovered	20,618	209,634	230,252
Revenue imbalance	**219**	**4,987**	**5,206**

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		42.028	
Number of residential customers not on social tariffs			
Residential water only no social tariffs customers		850.209	
Social tariff discount			
Average discount per water only social tariffs customer			91.844
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	3,860		
Average customer funded cross-subsidy per water only social tariffs customer			4.326
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			5.890
Maximum contribution to social tariffs supported by customer engagement			5.890

In addition to tariffs such as Watersure which are set nationally we also provide a single Social Tariff for customers that are on 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 resulting through 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 table shows the performance against the company's 40 outcomes for 2021/22.

2021/22 performance

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

Overall, we incurred a net penalty of £0.8 million in 2021/22 (excluding C-MeX and D-MeX as the assessment of these two measures has not yet been carried out by Ofwat, and excluding the impact of storm Eunice on our interruption performance, as an application for an exemption was made to Ofwat – as described below - due to the exceptional nature of this event). This compares with a net penalty of £3.8 million in 2020/21 (also excluding C-MeX and D-MeX). If you include the storm Eunice impact, the net penalty is £2.3 million.

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.

2021/22 outperformance 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 2023/24 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 2021/22, we incurred 14.99 minutes of supply interruptions, leading to a penalty of £1.683 million. In addition we experienced major interruptions following storm Eunice and a series of other storms which all arrived within seven days (Eunice, Dudley and Franklin). These storms caused major outages of the electricity network, and the scale and duration of the outages overwhelmed our back up facilities and the suppliers of emergency generation capacity. This resulted in 57.56 minutes of interruptions to supply for customers. We are making a case (submitted separately) for Ofwat to exclude the resulting interruptions, as they were the result of a civic emergency that was beyond our control. Ofwat will take a view on these exclusions in their determination of the in-period ODIs. Following advice from Ofwat, we have included the storm Eunice interruptions in table 3A, which results in a reported performance of 72 minutes and 33 seconds, causing us to hit the penalty collar of £3.157 million.

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. We will propose solutions to these structural issues in our Business Plan for PR24.

3A - Outcome performance - water common performance commitments

In 2021/22, we have outperformed our leakage reduction target of 0.4 per cent. Our performance was a 3.3 per cent reduction from 95.1Ml/d, 3 year average baseline figure equating to a reward of £1.023 million. This has been achieved by further distribution network pressure optimisation, identifying network pressure transients leading to bursts, large scale planned maintenance and repair programme of our network pressure reducing valves, introduction of Leakage Analysts to further improve the targeting of leaks in the field, use of satellite technology to identify leaks in urban areas, supporting customers to repair their supply pipe leaks through a new process and surveying our larger distribution trunk mains for leaks and meter data availability.

For the reporting year 2021/22 the water balance gap was 2.3 per cent. This has decreased from the 4.1 per cent observed in the 2020/21 reporting year. This is well within the 3 per cent threshold where the convergence method requires that it is explained to Ofwat, and represents an improving position from last year's 4.1 per cent, this is primarily due to the completion of phase one of the meter under-registration project completed during the year. Phase two of the meter under registration project will commence during the 2022/23 reporting year.

In 2021/22 we outperformed our mains repairs measure and therefore did not accrue any underperformance payment in the year as this measure has an underperformance incentive payment only.

The total length of potable water mains on 31 March 2022 was 14,929.0km and has been taken from Table 6C line 1. The total number of mains for the report year 2021/22 is 1,929 or 129.3/1,000km. This is below our FD target of 2,530 or 171.5/1,000km. There has been 1,216 or 81.5/1,000km reactive repairs over the year and 713 or 47.8/1,000km pro-active repairs.

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 3.76 per cent.

Bespoke PCs

In 2021/22 we outperformed and therefore have accrued an outperformance payment of £0.038 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 £0.016 million outperformance payment.

We have accrued a £0.111 million outperformance payment for performing better than our voids-household properties performance commitment.

We outperformed our company sites as 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 zero sites in 2021/22, by protecting 20 sites. 45 out of the original 95 sites identified in the Jacobs flooding report have been surveyed this year. The detailed surveys from year one and two have shown 16 if the sites are compliant with having adequate protection to all assets from a one in 1,000 flooding event. We have also completed works at four sites identified in the year one surveys as requiring further flood protection works. This is at Lasham, Hoplands Farm, Godmersham and Amberstone. Therefore, for year two we reporting 20 sites protected to a one in 1,000 flood event. In total 65 sites have now had surveys and the remaining 30 will be completed in year three.

For the report year 2021/22 we have 29 (last year 44) properties failing low pressure – DG2 as recorded on the register. This is below the target of less than 50 properties. The number of connected properties as of 31 March 2022 is 1,049,890 connected properties; this equates to 0.27 per 10,000 connections. We have therefore earnt a £0.015 million outperformance payment.

We outperformed our engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration 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 5,687 Hectares in 2021/22.

3A - Outcome performance - water common performance commitments

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 1,427 Hectares in 2021/22.

Our original WINEP target for 2021/22 was to complete 43 schemes. However, we have agreed amended completion dates for six schemes with the Environment Agency and Natural England. These schemes have all been extended in the best interest of customers and the environment. As such we believe that our target should be changed to 37 for this year. We are not able to change the targets in the model, therefore it currently shows that we have completed 38 schemes against a target of 43 (one other scheme has been completed early). We have submitted a separate paper on this subject with our APR, and we think that Ofwat should recognise this revised target when determining in-period ODIs.

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 2021/22. The total volume abstracted above baseline on AIM days was nearly exactly the same in the 2020/21 reporting year (72.19Ml/d) as with the 2021/22 reporting year (72.52Ml/d). However the net AIM performance was significantly greater in 2021/22 (-147.52) as opposed to the previous year (-39.32). The difference in values here are due to Itchel being in AIM conditions throughout the entirety of the previous year, as such the net AIM performance was able to grow significantly whilst the site was run under the AIM baseline. 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 £11.137 million underperformance payment for the total period of 2020/25. This excludes C-MeX and D-MeX. It also excludes PCC and non-household voids which will be reviewed as part of PR24.

Table 3E – Non-financial performance commitments

J.1 Vulnerability
We have a broad range of performance commitments that measure our performance on vulnerability and affordability support to our customers. These measures are published annually on the Performance, People and Planet website. Our updated strategy review will be published in 2022 based on external horizon scanning following the pandemic.

Reach measure – We have exceeded the annual target for reach in the year based on a higher target set in the final determination than the industry common performance commitment for companies.

Data revalidation – attempted contacts – We have overachieved the challenging targets set in this performance commitment utilising many channels of validation with our customers on the Priority Service Register.

Data revalidation – actual contacts – Significantly overachieved a challenging target.

Household customer satisfaction C1 to 1R
We have continued to see a trend of lower than forecast customer satisfaction against an increasing target for our attitudinal segments. In our PR19 submission we recognised that segmented reporting was innovative.

We have seen a number of external influencers that are potentially influencing these results, including:
- differentiation of companies in the South East region is proving an additional challenge to companies; and
- customers are particularly unable to differentiate between water companies and wastewater companies in regards to the reputational aspects of pollution events.

We continue to see satisfaction of customers experiencing payment difficulties achieving our challenging targets.

3A - Outcome performance - water common performance commitments

We had a challenge this year with PSR customers agreeing to participate in this survey, which is recognised as a segment of customers who are particularly vulnerable post the pandemic with a growing awareness of scam callers.

Additionally, we had a ratio of customers participating who were disrupted as a result of storm Eunice and this has potentially reflected our overall customer scoring as well as the additional aspect of many customers having had disruptions to both power and water, some for several days. This was also impacted during this unprecedented impact when we had to prioritise our delivery of bottled water to those at risk.

We achieved our challenging satisfaction of vulnerability stakeholders which measures how our stakeholders feel in relation to how we work with them and also the support we offer to our customers. We continue to measure our relationship maturity with this stakeholder group.

Affordability and vulnerability
We have a broad range of performance commitments that measure our performance on vulnerability and affordability support to our customers. These measures are published annually on the Performance, People and Planet website.

Our refreshed vulnerability strategy will include reporting our performance in this area and will be available in a format that is accessible for both customers and stakeholders alike.

We hold an annual Vulnerability Stakeholder Network event which last year saw attendance from a varied stakeholder group and which is always used to publicise all elements of performance in vulnerability and affordability.

We did not achieve the target set out in this performance commitment (I.1) based on the number of household properties on either our Watersure or Social Tariff.

Throughout this AMP, despite a significant programme of activities, we remain short of the volume of customers signing up for the tariffs. Our programme focused specifically on;

- working with local Borough Councils to auto enrol eligible customers onto our Social Tariff schemes, We have three councils currently providing data under the Digital Economy Act with two further councils finalising the data share agreement;
- trusted partnership with local stakeholders to directly register customers on our PSR and tariffs (two funded projects with Citizens Advice); and
- continued training with local stakeholders on support schemes.

We provide a broad range of support mechanisms to support customers who are struggling to pay their water charges and examples of these are provided below;

Improving accessibility
We work with local vulnerability stakeholders to increase awareness and registration of our support tariffs. These activities include;

- scheme awareness training with stakeholders through our Vulnerability Strategy Team;
- attendance at local stakeholder conferences and events;
- development of a trusted partner scheme that provides stakeholders with a direct registration site for registering customers on schemes;
- working with debt advice network to support awareness of the support tariffs available;
- auto enrolment of customers on schemes through data provided by local councils utilising Digital Economy Act; and
- simplified eligibility rules purely based on household income for Social Tariff.

Improving affordability for customers
We manage this through a number of routes;

- improved access to payment plan management for customers through our My Account digital platform;
- payment breaks and holidays to support customers with short term financial difficulties;
- range of tariffs including;
    - Social Tariff;

3A - Outcome performance - water common performance commitments

  - Helping Hand Arrears Scheme;
  - WaterSure;
  - Single Room Discount; and
  - Single occupier Tariff (unmetered properties).
- Fliexible payment frequencies.

Impact of Covid-19

Covid-19 has had a smaller impact on our operations than in the previous year. In common with the rest of the economy, our working practices were generally much better adapted to working safely within pandemic restrictions. Government lockdowns did however continue into the year, and had some minor impacts on our operations.

The main impact was on our PCC level. The general increase in working from home continued throughout the year, with particular peaks during lockdown periods. It is still unclear to what extent the increase in working from home is a permanent change. However it does seem likely that there will be at least some increase in long-term working from home. A pattern seems to be emerging where 'white collar' workers are more able to work effectively from home than 'blue collar workers'. We serve an area of the South East England that is high in white collar workers and the shift to working from home is therefore likely to have a greater proportional effect on us compared to other water companies.

Generally speaking, the increase in water use at home should be roughly countered by reductions in use by non-household customers. This assumption may not hold in our case because we have traditionally been an exporter of commuters, particularly to London. If such commuting is reduced in the long-term, we would expect to see a long-term increase in our demand.

Abated ODIs

Two ODIs have been abated by Ofwat and will be considered as part of PR24. Performance levels for these ODIs are shown in table 3A, but not any associated ODIs

PCC has been abated from the in-period ODI process because of the effects of Covid-19. However, managing the level of demand remains of key strategic importance. We need to achieve reductions in customer demand in order to maintain headroom in our supply demand balance, both during AMP7 and in future periods. We have submitted a separate report to Ofwat on what we are doing to manage demand in the context of the effects of Covid-19 on demand management activities and our plans to ensure that we do achieve the demand reductions assumed in the Final Determination, even if those reductions do come in the context of a higher 'base level' of demand resulting from any permanent changes to working practices (the increase in working from home increases domestic demand).

Our performance for voids – business properties has improved from last year. However, performance is still below target. We are doing a lot of extra work to check the data from the MOSL system (CMOS), and we are finding a lot of inaccuracies. The corrected data has been carefully reviewed by our assurance partner.

We report on a number of measures relating to the non-household competitive retail market. The data is taken from the Central Market System (CMOS) which is managed by the market operator MOSL. We have a specific ODI relating to business properties which are void; those which are connected to mains water and/or sewerage systems but are not charged because they are recorded as empty. We are keen to reduce the number of these properties by identifying those that are actually occupied. To ensure we are charging retailers correctly for consumption recorded on the meters.

Based on our historic performance, we set ourselves the 2021/22 target to maintain the number of void business properties at 8.10 per cent.

The number of void business properties reported this year is at 10.24 per cent, this is well below the industry average which has been reported at 16 per cent. This increase is believed to be largely due to the economic impact of Covid-19 resulting in a number of business properties being temporarily vacant and then since this time the change in the way we are all working and the economic climate meaning more properties are genuinely vacant.

3A - Outcome performance - water common performance commitments

During the year our staff have continued to carry out field surveys to help identify over 2,000 occupied properties. We are continuing our work to reduce void properties and our staff, many of whom live across our supply area, continue to get involved too using the PikaVoid app. The app can be voluntarily downloaded onto phones and staff mark whether a property is empty or occupied while out and about.

As we identify occupied properties we work with the customer's retailer to get the status changed in the market. This process can take some time to make the amendments so we adjust our reported year end figures where we have identified properties that are occupied but have yet to be updated in the CMOS system.

In the current year the number of completed meter reads has been lower than what we would have hoped and so we are working with retailers to submit wholesale reads into the market to ensure up to date consumption information is available. Moving forward we will be looking to provide a wholesaler meter reading service to support the water retailers in identifying businesses that have reopened or have changed their use and therefore should be shown as occupied on the market system or excluded from the market. Because our retailers have largely been using customer or visual reads we have reported our meters as 'basic' as we haven't been able to evidence that a remote read has been taken.

We have noted that current economic climate and the change in remote working is putting pressure on small town centre businesses and a number of commercial offices are downsizing or relocating out of town centres to other locations which is temporarily impacting the number of vacant properties. We continue to work closely with developers to identify where properties are changing use to ensure that CMOS data is as accurate as possible.

However, this is not an efficient process for the industry. In response to MOSL's recent strategic consultation, we have suggested that the ability to flag properties as void should be removed from retailers as we are finding that many properties flagged as void are in fact occupied.

Our strong performance in household voids, where we are ahead of target, clearly demonstrates the robustness of our processes for managing voids.

Impact of Storm Eunice

A major externally driven shock in the year was storm Eunice and storms Dudley and Franklin, which followed in the next seven days and prevented our local electricity supplier from being able to safely restore supplies damaged by Eunice. Storm Eunice's impact was most severe in South East England.

1.3 million homes and businesses were impacted by power outages, including a major HV (high voltage) failure in the Hastings region of Sussex. The combination of the scale and duration of these events overwhelmed our backup generation capacity and our emergency supplier was also overwhelmed by demand and not able to meet our requests. This was an unprecedented event with over 100 of our sites impacted. UK Power Networks (UKPN) were only able to prioritise response to SEW after storm Franklin had passed. 69 DMAs and 85,000 customers were affected. Two sites suffered fire damage as UKPN incomers overheated due to power fluctuations and low/high voltage issues.

Because of the extent of the issues in Sussex, we escalated this emergency to Sussex LRF (Local Resilience Forum). An Emergency TCG (Tactical Co-Ordinating Group) was established, led by Sussex Police with UKPN and SEW as tier two responders. A regular meeting and update structure was established to help co-ordinate response. Sussex 4x4 and Sussex fire and rescue supported our response on alternative water for livestock and some care homes. Water tankers were deployed.

SEW fully engaged with response groups and set up two tactical sub group cells for vulnerable customers and communications. A full data share was implemented to prioritise vulnerable customers both on SEW PSR and Sussex LRF registered. Hospital response plans were co-ordinated with the LRF group. Three plans were triggered, and two further plans put in place in case the situation deteriorated.

This had a major impact on three ODIs.

3A - Outcome performance - water common performance commitments

Unfortunately C-MeX survey week was the week in which the majority of our interruptions occurred. We did suggest to Ofwat that this was not a fair week in which to survey our customers as they had just experienced one of the worst operational incidents of the last thirty years. However, Ofwat decided to continue with the process. We are not suggesting that Ofwat make any adjustments to our C-MeX score as this would be very hard to meaningfully quantify, and the C-MeX ODI contains no mechanisms for such adjustments.

Some unplanned outages resulted from this disruption. We have excluded these outages from the reported numbers, in line with the guidelines on this ODI. Even if we did include the Eunice related outages, we would still be below target on this measure and not incur any penalty (it is a penalty only ODI).

The largest impact was on supply interruptions as discussed above. We have made representations to Ofwat to exclude the interruptions which resulted from power outages which were beyond our control. Ofwat will take a view on this as part of the in-period determinations process.

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	1.21	Yes	-	(1.855)
Water supply interruptions	PR19SEW_B.1	hh:mm;ss	01:12:33	No	(3.157)	(9.261)
Leakage	PR19SEW_D.1	%	3.3	Yes	1.023	3.107
Per capita consumption	PR19SEW_E.1	%	(8.3)	No	-	N/A
Mains repairs	PR19SEW_B.2	number	129.3	Yes	-	(4.389)
Unplanned outage	PR19SEW_B.3	%	3.44	Yes	-	(0.681)
Bespoke PCs - water and retail (financial)						
Appearance of tap water	PR19SEW_A.2	nr	0.98	Yes	0.038	0.123
Taste and odour of tap water	PR19SEW_A.3	nr	0.36	Yes	0.016	0.080
Voids – household properties	PR19SEW_L.2	%	1.97	Yes	0.111	(0.086)
Voids – business properties	PR19SEW_L.3	%	10.24	No	-	N/A
Company sites protected from risk of flooding	PR19SEW_B.4	nr	20	Yes	-	-
Low pressure	PR19SEW_B.6	nr	0.3	Yes	0.015	0.023
Engaging and working with landowners and farm managers to improve catchment resilience related to raw water quality deterioration	PR19SEW_H.1	nr	5,985.9	Yes	-	-
Protecting wildlife and increasing biodiversity	PR19SEW_H.2	nr	1,427.0	Yes	-	-
Water industry national environment programme	PR19SEW_H.3	nr	38	No	(0.325)	0.325
Bespoke abstraction incentive mechanism (AIM)	PR19SEW_H.5	nr	(148)	Yes	-	-
Strategic main Wellwood to Potters Corner	PR19SEW_H.7	number	-	Yes	-	-
Financial water performance commitments achieved		%		76		
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%		63		

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

	Value
Annual customer satisfaction score for the customer service survey	75.70
Annual customer satisfaction score for the customer experience survey	77.49
Annual C-MeX score	76.59
Annual net promoter score	15.50
Total household complaints	2,376
Total connected household properties	993,872
Total household complaints per 10,000 connections	23.906
Confirmation of communication channels offered	True

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

	Value
Qualitative component annual results	64.82
Quantitative component annual results	97.87
D-MeX score	81.34
Developer services revenue (water) (£000)	13.513

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	81.55	
W3.1 s45 quotations – within target	99.83	
W4.1 s45 service pipe connections – within target	97.53	
W6.1 Mains design <500 plots – quotations within target	98.60	
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	100.00	
W18.1 Mains diversions – construction/commissioning within target	100.00	
W20.1 Self-lay Point of Connection report <500 plots etc – reports issued within target	86.36	
W21.1 Self-lay Point of Connection report >500 plots etc – reports issued within target	100.00	
W23.1 Self-lay design and terms request <500 plots etc – quotation within target	100.00	
W24.1 Self-lay design and terms request >500 plots etc – quotations within target	100.00	
W27.1 Self-lay permanent water supply – provided within target	95.65	
W30.1 Self-lay plot references and costing details – issued within target	100.00	
SLPM-S7/1 Make Service Connections (Stage 7 – Part 2) – Water Company – SLPM – S7/1 – Validate notification and provide consent to progress with connection	100.00	
WN1.1 Confirmations issued to the applicant within target period	100.00	
WN2.2 Bulk supply offer letters issued to the applicant within target period	100.00	
WN4.1 Main laying schemes constructed and commissioned within target period	100.00	
WN4.3 Permanent supplies made available within the target period	100.00	
D-MeX quantitative score	97.87	
D-MeX quantitative score		0.98

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	%	-	Yes
Priority services for customers in vulnerable circumstances - PSR reach	PR19SEW_J.1	%	5.2	Yes
Priority services for customers in vulnerable circumstances - attempted contacts	PR19SEW_J.1	%	93.5	Yes
Priority services for customers in vulnerable circumstances - actual contacts	PR19SEW_J.1	%	57.5	Yes
Bespoke PCs				
Segmented satisfaction of household customers – segment 1	PR19SEW_C.2	score	4.0	No
Segmented satisfaction of household customers – segment 2	PR19SEW_C.3	score	4.2	No
Segmented satisfaction of household customers – segment 3	PR19SEW_C.4	score	4.0	No
Segmented satisfaction of household customers – segment 4	PR19SEW_C.5	score	4.2	No
Segmented satisfaction of household customers – segment 5	PR19SEW_C.6	score	4.1	No
Segmented satisfaction of household customers – segment 6	PR19SEW_C.7	score	4.0	No
Satisfaction of household customers who are experiencing payment difficulties	PR19SEW_C.8	score	4.3	Yes
Satisfaction of household customers who are receiving non-financial support	PR19SEW_C.9	score	4.3	Yes
Satisfaction of household customers on our vulnerability schemes during a supply interruption	PR19SEW_C.10	%	3.2	No
Household customers receiving financial support	PR19SEW_I.1	nr	53,981	No
Satisfaction of stakeholders in relation to assistance offered by South East Water	PR19SEW_J.2	%	3.8	Yes
Gap sites	PR19SEW_L.1	nr	42	Yes
Event risk index (ERI)	PR19SEW_B.5	score	20.463	Yes
Greenhouse gas emissions	PR19SEW_H.4	nr	30.4	Yes
Engaging and working with abstractors to improve catchment resilience to low flows	PR19SEW_H.6	%	-	Yes
Satisfaction with value for money	PR19SEW_C.11	score	3.6	No
WINEP delivery	PR19SEW_NEP01	text	Not Met	No
Non-financial performance commitments achieved		%		52

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	14,921.37	1,216	81.49
Mains repairs – proactive	Mains repairs per 1,000km	Mains length in km	14,921.37	713	47.78
Mains repairs	Mains repairs per 1,000km	Mains length in km	14,921.37	1,929	129.28
Per capita consumption (PCC)	lpd	Household population (000s) and household consumption (Ml/d)	2,233.11	354	158.64

Performance commitments measured against a calculated baseline	Unit	Performance level - actual (2017-18)	Performance level - actual (2018-19)	Performance level - actual (2019-20)	Baseline (average from 2017-18 to 2019-20)	Performance level - actual (2020-21)	Performance level - actual (2021-22)	Performance level 3 year average (current and previous 2 years)	Calculated performance level to compare against PCLs
Leakage	Ml/d	95.9	95.0	94.5	95.1	92.7	88.7	92.0	3.3
Per capita consumption (PCC)	lpd	143.6	145.3	143.1	144.0	165.9	158.6	155.9	(8.3)

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	959.35	69,604,158	66,865	01:12:33

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	723.46	24.92	3.44

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	897.40	47,027	5.2	10,713	10,018	93.5	6,158	57.5

Registered Number: 02679874

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	(0.47)
Water network+	(1.92)
Residential retail	0.11
Business retail	-
Dummy control	-
Initial calculation of end of period revenue adjustment by price control	
Water resources	0.76
Water network+	(0.64)
Residential retail	(1.64)
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	723.46	10.96	1.51

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	647.16	18.36	539.73	51.64	2,304.28	-

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	1,780.207	513	
River Medway Scheme	7,591.044	767	
Weirwood	1,048.287	622	
Affinity (Egham)	5,268.176	2,383	
Darwell	418.480	1,060	
Total bulk supply imports	16,106.194	5,345	

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 16,106.193 Ml (3dp). The total cost associated with bulk supply imports comes to £5.345 million (3dp).

This compares to a total imported in 2020/21 of 18,035.552 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 £183.0 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 £4.8 million compared to £2.0 million in table 1E, resulting in a variance of £2.8 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)	21,848	134,138	44,628	246,213
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	18,558	134,765	36,130	281,180
Transition expenditure	-	-	-	-
Disallowable costs	(217)	(580)	(569)	(1,315)
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	18,341	134,185	35,561	279,865
Variance	(3,507)	47	(9,067)	33,652
Variance due to timing of expenditure	4,200	-	10,200	(22,616)
Variance due to efficiency	693	47	1,133	11,036
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	264	18	432	4,204
Customer share of totex underspend	-	-	-	-
Company share of totex overspend	429	29	701	6,832
Company share of totex underspend	-	-	-	-
Final determination allowed totex - business rates and abstraction licence fees	3,998	16,903	7,854	33,207
Actual totex - business rates and abstraction licence fees	3,949	17,263	7,835	34,543
Variance - business rates and abstraction licence fees	(49)	360	(19)	1,336
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	(37)	270	(14)	1,002
Company share of totex over/underspend - business rates and abstraction licence fees	(12)	90	(5)	334
Final determination allowed totex - not subject to cost sharing	-	563	-	1,108
Actual totex - not subject to cost sharing	-	358	-	1,976
Variance - 100% company allocation	-	(205)	-	868
Total customer share of totex over/underspend	**227**	**288**	**417**	**5,206**

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

RCV	12 months ended 31 March 2021		Price control period to date	
	Water resources £000	Water network+ £000	Water resources £000	Water network+ £000
Total customer share of totex over/underspend	227	288	417	5,206
PAYG rate (%)	56.86	67.08	54.79	70.44
RCV element of cumulative totex over/underspend	98	95	189	1,539
Adjustment for ODI outperformance payment or underperformance payment			-	-
Green recovery			-	-
RCV determined at FD at 31 March			92,899	1,397,982
Projected 'shadow' RCV			93,088	1,399,521

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)	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 (net of business rates, abstraction licence fees and grants and contributions)	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~~/2E.27~~ Non price control grants and contributions (negative number) – sum of 2E.4-6/2E.17-19~~/2E.29-31~~ 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 ~~ Strategic scheme development costs – 4L.37~~

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

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.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.

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

Table completion methodology discussion

Inconsistency in calculations in block 4C.8 to 4C.14
We identified a formula error in Table 4C.

For the customer share of totex overspend (4C.11), the formula is calculating based of the incorrect cost sharing rate. The formula is currently calculating using the customer cost sharing rate for outperformance (underspend) however should be using the customer cost sharing rate for underperformance (overspend), as such the formula should be adjusted as below;

4C.11 – water resources (current year)
- formula is currently "=IF(E16>0, E16*E17,0)" but should be "=IF(E16>0, E16*E18,0)".

4C.11 – network+ (current year)
- formula is currently "=IF(F16>0, F16*F17,0)" but should be "=IF(F16>0, F16*F18,0)".

4C.11 – water resources (price control to date)
- formula is currently "=IF(J16>0, J16*J17,0)" but should be "=IF(J16>0, J16*J18,0)".

4C.11 – network+ (price control to date)
- formula is currently "=IF(K16>0, K16*K17,0)" but should be "=IF(K16>0, K16*K18,0)".

We confirmed these changes with Ofwat and have made the relevant corrections to our Table 4C.

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 available at https://www.ofwat.gov.uk/publication/pr19-final-determinations-south-east-water-final-determination/.

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).

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[1]	
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[2]	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 available at https://www.ofwat.gov.uk/wp-content/uploads/2019/12/Grants-and-Contributions-model_SEW_FD.xslm 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 1k of the Financial Flows data for the income offset do not tie in to the figures used in our Table 3.7.

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

Costs not subject to cost sharing WN	Unit	2020-21	2021-22	2022-23	2023-24	2024-25	Comments
WN – Opex third party services for financial flows – Real	£m	0.43	0.43	0.43	0.43	0.43	2.16
WN – Capex third party services for financial flows – Real	£m	-	-	-	-	-	
WN – Opex strategic water resources development scheme for financial flows – Real	£m	-	-	-	-	-	
WN – Capex strategic water resources development scheme for financial flows – Real	£m	-	-	-	-	-	
WN – Opex other cash items for financial flows – Real	£m	-	-	-	-	-	
WN – Capex other cash items for financial flows – Real	£m	-	-	-	-	-	
WN – Opex Non-s185 diversions for financial flows – Real	£m	0.09	0.09	0.09	0.09	0.08	0.43
WN – Capex Non-s185 diversions for financial flows – Real	£m	-	-	-	-	-	
WN Conditional Allowance	£m	-	-	-	-	-	
WN – Income Offset	£m	4.17	4.70	4.85	5.00	5.06	23.77
WN – Grants and contributions – capital expenditure – non price control – real	£m	-	-	-	-	-	
WN – Grants and contributions – operational expenditure – non price control – real	£m	(0.08)	(0.07)	(0.07)	(0.07)	(0.07)	(0.37)
Total Costs not subject to cost sharing – WN - Real	£m	4.62	5.14	5.30	5.44	5.50	

We have used figures for the income offset which are consistent with Table 3.7 of our final detmination document.

SEW closing RCV at March 2022
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/2022/05/RCV-PR19_2022_Overall-.xlsx. We note that Ofwat has changed the reporting presentation from that used in 2020/21.

We are 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/2022/06/PR19RCVv03b_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 2021/22 this leads to an understatement of our RCV.

We have used the Ofwat published RCV in our table 4C however, as set out above we are unable to replicate the year end figures. We believe that Ofwat should revise their calculation of the RCV in time for the calculation of the March 2023 RCV which is a key source input for PR24 modelling.

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

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)	23.812	161.553	185.364
Less FD Third Party costs (opex)	-	0.431	0.431
Less FD Third Party costs (capex)	-	-	-
Less FD Non-sect 185 diversions	-	0.088	0.088
Final determination allowed gross totex - for cost sharing	23.812	161.034	184.845
Less grants and contributions net of income offset – operational expenditure – non price control - real	-	17.590	17.590
Less grants and contributions net of income offset – capital expenditure – non price control - real	-	0.074	0.074
Less FD grants and contributions (income offset)	-	4.213	4.213
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) CPI(H): Fin year average - inflate from base year 2017-18 108.54%	20.129	123.584	143.713
FD allowed totex (net of business rates, abstraction licence fees and G&Cs)	21.848	134.138	155.986

1. This ties in to the five year total in SEW Specific FD report table 3.2 of £900.3 million.
2. See discussion above regarding allowed grants and contributions in our financial model totex calculations and SEW Specific FD report.

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.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 2021-22 prices)	WR	WN	Total
Actual totex (net)	23.205	158.674	181.879
Less Actual grants and contributions (income offset)	-	2.073	2.073
Less Actual Non price control grants and contributions	-	-	-
Less Actual Third party services (opex)	-	0.358	0.358
Less Actual Third party services (capex)	-	-	-
Less Actual Other cash items	-	-	-
Less Actual Pension deficit recovery costs	0.698	4.215	4.913
Less Actual expenditure on innovation	-	-	-
Less Actual Non section 185 diversions	-	-	-
Less Actual abstraction licence fees	2.996	0.144	3.140
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)	18.558	134.765	153.323

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

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

Disallowable costs (£m 2021-22 prices)	WR	WN	Total
Costs associated with impairment	-	-	-
Costs relating to financing (bond issue etc)	-	-	-
Fines and investigation costs	-	-	-
Compensation claims	0.217	0.580	0.797
Other disallowables	-	-	-
Total	0.217	0.580	0.797

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

Variance due to timing (£m 2021-22 prices)	WR	WN	Total
WR Opex	-	-	-
WN Opex	-	-	-
WR Schemes (See Note 1)	(4.200)	-	(4.200)
WN Schemes	-	-	-
Variance due to timing of expenditure (£m 2020-21 prices)	(4.200)	-	(4.200)

1. WR has underspent on the following projects which are still expected to be delivered over the five year period.

WR timing differences in 2021/22	£m 2021-22 prices	
WINEP (National Environment Programme)	(2.4)	New programme dates agreed with EA
ANP (Butler – SOSI Scheme)	(1.3)	Scheme works from 22/23 to 23/25
Bewl to Darwell (INNs Project)	(0.2)	Scheme at design stage
Flooding (Investigations)	(0.1)	Programme investigations in years 1 & 2; delivery years 3 to 5
Other	(0.2)	
Total	(4.2)	

A significant component of the water network totex overspend arises as a result of 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 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. This conversation took place before the impact of Covid-19 which has further impacted our developer activity and contributions.

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

Totex – business rates and abstraction licence fees		WR	WN	Total
FD business rates		0.886	15.437	16.323
FD abstraction rates		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 average	108.54			
Final determination allowed totex – business rates and abstraction fees (£m 2021/22 prices)		3.998	16.903	20.900

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

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

Totex not subject to cost sharing	WR	WN	Total
FD Third party services (opex)	-	0.431	0.431
FD Third party services (capex)	-	-	-
FD Non-sect 185 diversions	-	0.088	0.088
FD Strategic scheme development costs	-	-	-
FD totex - not subject to cost sharing	-	0.519	0.519
CPI(H): Fin year average - inflate from base year 2017-18 average – 108.54%			
Final determination allowed totex - not subject to cost sharing (£m 2021-22 prices)	-	0.563	0.563

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)	-	0.358	0.358
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)	-	0.358	0.358

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

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

Changes in methodology since last year

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 RCV 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. We will use the query process with Ofwat to understand any differences.

4D - Totex analysis for the 12 months ended 31 March 2022 - 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	16,441	661	221	23,635	53,398	94,356
Enhancement operating expenditure	-	-	-	296	1,568	1,864
Developer services operating expenditure	-	-	-	-	211	211
Total operating expenditure excluding third party services	16,441	661	221	23,931	55,177	96,431
Third party services	-	-	-	-	358	358
Total operating expenditure	16,441	661	221	23,931	55,535	96,789
Grants and contributions - operating expenditure	-	-	-	-	-	-
Capital expenditure						
Base capital expenditure	873	438	-	29,523	24,298	55,132
Enhancement capital expenditure	5,891	-	-	10,682	1,730	18,303
Developer services capital expenditure	-	-	-	-	23,095	23,095
Total gross capital expenditure excluding third party services	6,764	438	-	40,205	49,123	96,530
Third party services	-	-	-	-	-	-
Total gross capital expenditure	6,764	438	-	40,205	49,123	96,530
Grants and contributions - capital expenditure	-	-	-	-	(11,440)	(11,440)
Net totex	23,205	1,099	221	64,136	93,218	181,879

4D - Totex analysis for the 12 months ended 31 March 2022 - water resources and water network+

Cash expenditure						
Pension deficit recovery payments	698	20	-	1,764	2,431	4,913
Other cash items	-	-	-	-	-	-
Totex including cash items	**23,903**	**1,119**	**221**	**65,900**	**95,649**	**186,792**
Atypical expenditure						
COVID-19 wholesale personnel opex impact	25	1	-	81	255	362
COVID-19 wholesale power & chemicals opex impact	612	32	-	221	1,479	2,344
COVID-19 wholesale contractors opex impact	138	-	-	-	178	316
Total atypical expenditure	775	33	-	302	1,912	3,022

Atypical costs reflect the financial impact of Covid-19 on the wholesale business and totals £3.0 million in 2021/22. The primary impact is on power costs where the extra demand as a result of Covid-19 and the costs of purchasing extra power to cover that demand continue to generate additional costs to the business. Other costs include remote working facilitation, health and safety costs and activities on void property assessments and water efficiency devices, both recognised by Ofwat as being impacted by Covid-19.

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

During the year to 31 March 2022, 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 2022

	Current Year	AMP to date
Financial indicators		
Net debt (£m)	1,115.713	
Regulatory equity (£m)	375.168	
Regulatory gearing (%)	74.84	
Post tax return on regulatory equity (%)	2.03	
RORE (return on regulatory equity) (%)	2.78	1.18
Dividend yield (%)	1.57	
Retail profit margin - household (%)	(0.03)	
Retail profit margin - non household (%)	(0.03)	
Credit rating - Fitch	N/A	
Credit rating - Moody’s	Baa2 (Stable)	
Credit rating - Standard and Poor’s	BBB (Stable)	
Return on RCV (%)	5.25	
Dividend cover (dec)	(6.52)	
Funds from operations (FFO) (£m)	85.713	
Interest cover (cash) (dec)	3.46	
Adjusted interest cover (cash) (dec)	1.87	
FFO/net debt (dec)	0.08	
Effective tax rate (%)	11.16	
Retained cash flow (RCF) (£m)	79.814	
RCF/net debt (dec)	0.07	
Borrowings		
Proportion of borrowings which are fixed rate (%)	35.09	
Proportion of borrowings which are floating rate (%)	10.65	
Proportion of borrowings which are index linked (%)	54.26	
Proportion of borrowings due within 1 year or less (%)	-	
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 (%)	10.65	
Proportion of borrowings due in more than 5 years but no more than 20 years (%)	80.39	
Proportion of borrowings due in more than 20 years (%)	8.96	

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 2022

	Interest £000
Fixed rate bond (£166m)	9,268
Loan notes (£100m)	3,220
Loan notes (£75m)	2,205
Loan notes (£50m)	335
Right-of-use-leases	100
Perpetual debentures	42
Total fixed rate borrowings	15,170
Bank loan (£120m)	1,661
Revolving credit facility	254
Total variable rate borrowings	1,915
Index linked bond (£130m)	4,742
Index linked loan (£100m)	3,037
Artesian loan (£135m)	8,565
Artesian loan (£34m)	1,522
Total index linked borrowings	17,866
Secondary leases	22
Less non-appointed interest	(126)
Other & non-appointed	(104)
Total interest paid on borrowings	**34,847**
Indexation on index linked borrowings	32,162
Financing guarantee fees	1,291
Bank and other finance charges	718
Amortisation of loan issue costs	628
Interest expense per table 1A	**69,646**

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 2022 - 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	5,745	303	-	452	13,971	20,471
Income treated as negative expenditure	(5)	-	-	-	(13)	(18)
Bulk supply/bulk discharge	1,026	-	-	4,148	-	5,174
Renewals expensed in year (infrastructure)	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-
Other operating expenditure	5,726	161	6	17,449	23,263	46,605
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	2,996	-	-	144	-	3,140
Other abstraction charges/discharge consents	-	-	-	-	-	-
Location specific costs & obligations						
Costs associated with traffic management act	-	-	-	-	720	720
Costs associated with lane rental schemes	-	-	-	-	192	192
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	16,441	661	221	23,635	53,398	94,356
Capital expenditure						
Maintaining the long term capability of the assets - infra	-	438	-	221	12,897	13,556
Maintaining the long term capability of the assets - non-infra	873	-	-	29,302	11,401	41,576
Total base capital expenditure	873	438	-	29,523	24,298	55,132

4J - Base expenditure analysis for the 12 months ended 31 March 2022 - water resources and water network+

Traffic management act Projects incurring costs associated with traffic management act (nr)	-	-	-	-	22,888	22,888

As detailed above in relation to tables 1A, 1C and 2B, in the year we received interim payments of £6.000 million and £4.000 million from our insurers in relation to damages and business interruption respectively, caused by sinkholes which appeared beneath our service reservoirs in Aylesford, Kent.

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 £4.000 million insurance receipt against our water network+ other operating expenditure. Similarly, the £6.000 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 2022 - water resources and water network+

Table 4L takes the enhancement expenditure from table 4D and splits into the different costs drivers. Analysis is completed by reviewing each project against the Ofwat guidance set out in the Regulatory Accounting Guidelines.

Enhancement capex including network reinforcement is £18.303 million for the year, this equates to 19 per cent of the total gross capex.

Our Keleher project has been commissioned and is in service and we have started the design of our new works at Aylesford (Land and Licence purchase was completed and reported in APR20).

SEW has in the year installed a temporary treatment works at the Aylesford site to cater for the additional demand seen on the back of Covid-19. This temporary plant will work whilst the new works is being designed and constructed.

Our main SOSI scheme in the AMP is at Aylesford Kent, this is in the design stage at present with significant work ongoing to review, design and implement a new water treatment works in the period.

A key activity at present is site investigations preliminary works, as well as outline design and project planning process.

During the year we completed the existing borehole surveys including some refurbishment of two boreholes, added site security and groundwater modelling. We have also submitted applications for planning and groundwater exploration.

WINEP costs are split across a number of lines in the table, the total cost for the year was £5.1 million.

SEMD costs incurred is £0.1 million in the year, this is due to additional security requirements arising from audits and an increase to attempted break-ins.

New developments and network reinforcement includes both the onsite works for developers and also the offsite mains needed to connect the development to our existing infrastructure, this is now recorded under table 4N in our annual performance report.

Capital expenditure on leakage enhancements in year was £1.2 million.

In year we constructed a new nitrate removal plant at Woodgarston, this has a DWI date of 31 December 2021.

Work also continues on our second DWI Project at College Avenue which has a DWI date of 31 March 2025.

Included in table 4L is £0.2 million relating to the early investigations on Broadoak and Arlington, both of which are long term schemes from AMP9 onwards. We continue to liaise with local councils and stakeholders on both of these projects. Broadoak is due to be passed to our Capital Delivery team within the next 12 months so they can start early design and contractor involvement as the scheme will need extension design and review over the next few years

4N - Developer services expenditure for the 12 months ended 31 March 2022 - water resources and water network+

	Water network+; Treated water distribution		
	Capex £000	Opex £000	Totex £000
New connections	5,096	-	5,096
Requisition mains	7,020	-	7,020
Infrastructure network reinforcement	10,684	-	10,684
s185 diversions	295	-	295
Other price controlled activities	-	211	211
Total developer services expenditure	23,095	211	23,306

The company has spent £23.1 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.

Network reinforcement is £10.7 million, with key projects being the Fleet to Greywell and Solefields main.

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 2022

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)	8,403
New connections (business - excluding NAVs)	324
Total new connections served by incumbent	8,727
New connections - SLPs	3,183
Properties volume data	
New properties (residential – excluding NAVs)	9,618
New properties (business – excluding NAVs)	324
Total new properties served by incumbent	9,942
New residential properties served by NAVs	433
New business properties served by NAVs	3
Total new properties served by NAVs	436
Total new properties	**10,378**
New properties - SLP connections	3,183
New water mains data	
Length of new mains (km) - requisitions	71
Length of new mains (km) - SLPs	22

We have an assumption that we are accurately capturing the number of properties served off bulk supplies, this will not be resolved until our properties project is complete, however our auditor, Atkins, was happy with the approach taken.

4R - Connected properties, customers and population

	Unmeasured 000s	Measured 000s	Total 000s	Voids 000s
Customer numbers - average during the year				
Residential water only customers	88.550	803.687	892.237	19.492
Business water only customers	2.053	42.491	44.544	7.322
Total customers	**90.603**	**846.178**	**936.781**	**26.814**

	Unmeasured 000s	Measured 000s	Total 000s
Property numbers - average during the year			
Residential properties billed	88.550	803.687	892.237
Residential void properties			19.492
Total connected residential properties			911.729
Business properties billed	2.053	42.491	44.544
Business void properties			7.322
Total connected business properties			51.866
Total connected properties			**963.595**

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	88.406	-	-	-	-	88.406
Residential void properties at year end						3.660
Total connected residential properties at year end						92.066
Business properties billed at year end	2.010	-	-	-	-	2.010
Business void properties at year end						0.575
Total connected business properties at year end						2.585
Total connected properties at year end						**94.651**

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	-	-	9.618	-	-	9.618
Total number of new business properties connections	-	-	0.324	-	-	0.324
Residential properties billed at year end	-	652.803	156.194	-	-	808.997
Residential void properties at year end						14.340
Total connected residential properties at year end						823.337
Business properties billed at year end	-	42.070	-	-	-	42.070
Business void properties at year end						7.138
Total connected business properties at year end						49.208
Total connected properties at year end						**872.545**

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

Property and meter numbers - at end of year	Total 000s
Total new residential properties connected in year	9.618
Total number of new business properties connections	0.324
Residential properties billed at year end	897.403
Residential properties unbilled at year end	-
Residential void properties at year end	18.000
Total connected residential properties at year end	915.403
Business properties billed at year end	44.080
Business properties unbilled at year end	-
Business void properties at year end	7.713

4R - Connected properties, customers and population

Total connected business properties at year end	51.793
Total connected properties at year end	967.196

	Water 000s
Population data	
Resident population	2,277.599

	Water		
	Resident population 000s	Non-resident population 000s	Total 000s
Household population data			
Household population	2,233.108	-	2,233.108
Household measured population	1,917.568	-	1,917.568
Household unmeasured population	315.540	-	315.540

Exclusion of cattle troughs
We currently haven't got an accurate record of cattle troughs to use in excluding these values. We are currently running a property project which will enable us to determine these figures for next year. However, to complete this, we would also need a full definition of what a cattle trough applies too, as the term cattle seems to mean only troughs with certain animals using them would be classed as an exclusion.

For your information we have done a search of property addresses for the words ‘cattle trough’, of which we have 39 billed residential properties and 8 residential void properties and 278 business properties. We are not confident in these figures being accurate, and due to the small numbers they would not make a material difference to the total figures, therefore we have not made any exclusions for APR22.

We confirm that we have potentially overstated NHH voids in 4R as we have proved that some properties marked as vacant were found to be occupied and have used a lower number in our NHH ODI sub table. This is a pre-cautionary approach to ensure that we do not benefit against our leakage ODI.

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 current level of data granularity doesn’t allow us to accurately report ‘Unbilled other’ properties. We are therefore reporting these as zeros.

Population
During the second year of AMP7 South East Water, in partnership with Edge Analytics, have calculated population figures using data from the Office for National Statistics (ONS) such as the 2011 Census, the 2021 mid-year population estimate for both local authority districts and for individual Census Output Areas, as well as the 2018-based sub-national population projection (SNPP), together with accompanying assumptions on fertility, mortality and migration.

4R - Connected properties, customers and population

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 water resource zone (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. This year, 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 from the population figures reported as part of APR22.

5A - Water resources asset and volumes data for the 12 months ended 31 March 2022

	Units	Input
Water from impounding reservoirs	Ml/d	2.72
Water from pumped storage reservoirs	Ml/d	42.93
Water from river abstractions	Ml/d	98.62
Water from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Ml/d	390.21
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	154
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	166
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	263
Total installed power capacity of intake and source pumping stations	kW	11,445
Total length of raw water abstraction mains and other conveyors	km	2.30
Average pumping head - raw water abstraction	m.hd	43.56
Energy consumption - water resources	MWh	45,113.000
Total number of raw water abstraction imports	nr	2
Water imported from third parties to raw water abstraction systems	Ml/d	13.19
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	595.54

2021/22 saw a reduction in demand from the previous year but still elevated above the norm in many areas due to both the impact of Covid-19 and resultant population movement.

Raw water abstraction mains has increased due to data improvements having identified 500m of previously missing pipework.

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 38.65 m·hd to 43.56 m·hd.

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

5B - Water resources operating cost analysis for the 12 months ended 31 March 2022

	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	29	461	1,060	4,195	-	-	-	5,745
Income treated as negative expenditure	-	(4)	-	(1)	-	-	-	(5)
Abstraction charges/discharge consents	1	131	513	2,351	-	-	-	2,996
Bulk supply	-	1,026	-	-	-	-	-	1,026
Other operating expenditure								
Renewals expensed in year (infrastructure)	-	-	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-	-	-
Other operating expenditure excluding renewals	29	460	1,056	4,181	-	-	-	5,726
Local authority and Cumulo rates	15	516	81	341	-	-	-	953
Total operating expenditure (excluding third party)	**74**	**2,590**	**2,710**	**11,067**	**-**	**-**	**-**	**16,441**

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 2022

	Units	Input
Raw water transport and storage		
Total number of balancing reservoirs	nr	5
Total volumetric capacity of balancing reservoirs	Ml	6
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	134.49
Average pumping head ~ raw water transport	m.hd	2.29
Energy consumption ~ raw water transport	MWh	2,375.333
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	-	-	31.78	8
W1 works	-	-	-	-
W2 works	-	-	14.98	4
W3 works	-	-	118.73	31
W4 works	-	-	120.22	24
W5 works	127.67	8	100.31	12
W6 works	-	-	-	-

	% of total DI	Number of works
Water treatment - works size		
WTWs in size band 1	1.9	13
WTWs in size band 2	10.5	25
WTWs in size band 3	15.7	19
WTWs in size band 4	24.7	16
WTWs in size band 5	34.8	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 2022

	Units	Input
Water treatment - other information		
Total water treated at more than one type of works	Ml/d	-
Number of treatment works requiring remedial action because of raw water deterioration	nr	4
Zonal population receiving water treated with orthophosphate	000s	771.116
Average pumping head - water treatment	m.hd	1.85
Energy consumption ~ water treatment	MWh	6,876.071
Total number of water treatment imports	nr	1
Water imported from third parties to water treatment works	Ml/d	8.75
Total number of water treatment exports	nr	-
Water exported to third 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;
- raw water transport mains has seen a net reduction of 1.3km (1 per cent) mainly due to data improvements;
- 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. It is again mid-range this year at 2.29 m·hd against a previous year value of 2.15 m·hd;
- average pumping head, water treatment is slightly lower than last year at 1.85 m·hd compared to 1.87 m·hd;
- 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 same process to obtain the data for all Water Resources related lines remains the same as done in previous years.

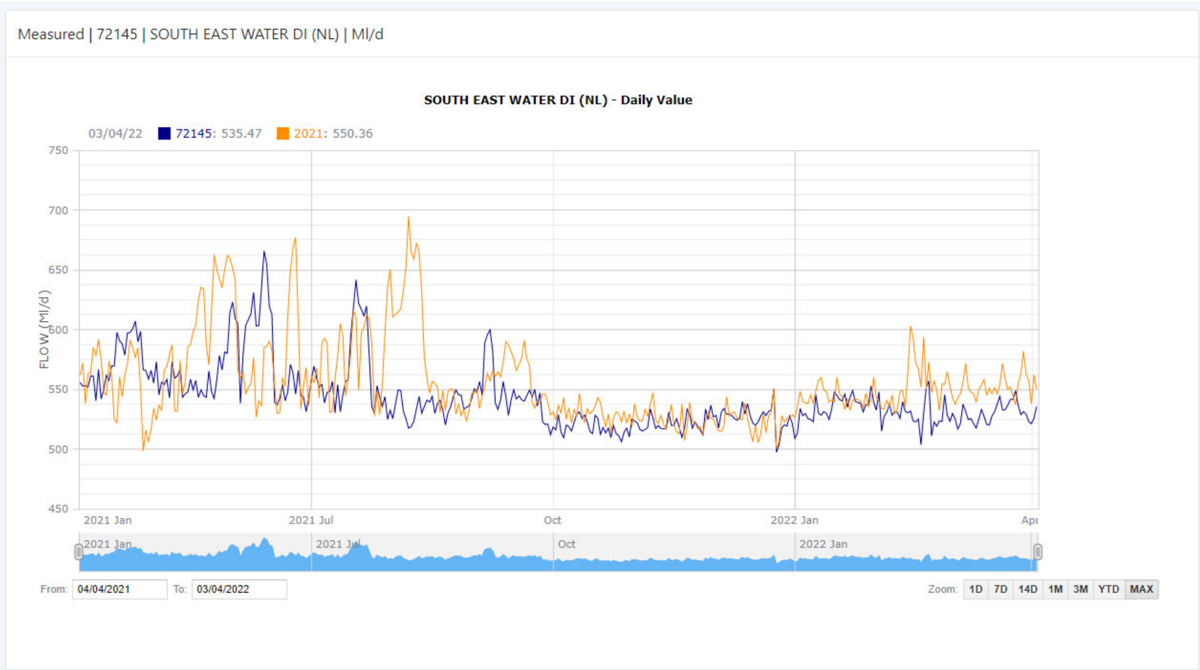
6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2022

	Units	Input
Assets and operations		
Total installed power capacity of potable water pumping stations	kW	42,552
Total volumetric capacity of service reservoirs	Ml	943.0
Total volumetric capacity of water towers	Ml	4.3
Distribution input	Ml/d	536.68
Water delivered (non-potable)	Ml/d	-
Water delivered (potable)	Ml/d	459.45
Water delivered (billed measured residential properties)	Ml/d	292.29
Water delivered (billed measured business)	Ml/d	76.90
Total annual leakage	Ml/d	88.65
Distribution losses	Ml/d	72.90
Water taken unbilled	Ml/d	10.47
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.005
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.080
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.185
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.730
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	247
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	77
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	7
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	157
Number of potable water pumping stations that pump water imported from a third party supply into the treated water distribution system	nr	6
Total number of service reservoirs	nr	169
Number of water towers	nr	10
Energy consumption ~ treated water distribution	MWh	111,875.235
Average pumping head - treated water distribution	m.hd	105.27
Total number of treated water distribution imports	nr	4
Water imported from third parties to treated water distribution systems	Ml/d	22.20
Total number of treated water distribution exports	nr	1
Water exported to third parties from treated water distribution systems	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:

- for the reporting year 2021/22 distribution input has decreased on average by 5.8 Ml/d from the reporting period 2020/21 (542.48 Ml/d). This is due to the reduced periods of warmer weather experienced across the region than the previous year, and a reduction of lockdown periods than the previous year;

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2022



- there was no non-potable water delivered during the reporting year 2021/22;
- for the reporting year 2021/22 potable water delivered was 459.45 Ml/d, this line is made up of billed measured, household and non-household, billed unmeasured and household and non-household, and water taken unbilled. The table below demonstrates the distribution between these property classifications;

Water delivered volumes	Billed measured	Household	Ml/d	292.29
		Non-Household	Ml/d	76.90
		Total	Ml/d	369.20
	Billed unmeasured	Household	Ml/d	76.83
		Non-Household	Ml/d	2.95
		Total	Ml/d	79.79
Water taken unbilled		Total	Ml/d	10.47

- due to the relaxation of lockdown measures and shorter summer period there has been a small decrease in the billed measured non-household water delivered, which is c20 Ml/d lower than in previous years;
- for the reporting year 2021/22 the water delivered (billed measured residential) volume is derived from the 804,043 occupied measured household properties in the South East Water region;
- for the reporting year 2021/22 the water delivered (billed measured business) volume is derived from the 42,264 occupied measured non-household properties in the South East Water region;
- for the reporting year 2021/22 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;

	South East Water											
Coverage	1	a										
Availability	2	a										
Properties	3	a	b	c	d	e						

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2022

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 (2.3 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 c3 years.

It was planned that following this period to capture seasonality they would be moved to another set of randomly selected properties for the collection of data, these would stay in place for a calendar year to encompass all seasons so as not to skew the resultant data.

However, due to the Covid-19 situation ensuing in to the early and latter parts of the reporting year, the planned activity has been limited, and it has not been possible to complete all of the planned activity in the reporting year 2021/22, this has now been planned in for the 2022-23 reporting year.

6B - Treated water distribution - assets and operations for the 12 months ended 31 March 2022

The overall water imbalance is 2.3 per cent, which is well within the 3 per cent threshold where the convergence method requires that it is explained to Ofwat. This represents an improving position from last year's 4.1 per cent and is primarily due to the completion of phase one of the meter under-registration project completed during the year.

For the reporting year 2021/22 distribution losses were 72.90 Ml/d, this is derived from total leakage minus all measured and unmeasured household underground supply pipe leakage (UGSPL).

For the reporting year 2021/22 water taken unbilled was 10.47 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.

Average pumping head, distribution has dropped slightly back to pre-covid levels from 107.52m·hd to 105.27m·hd corresponding with the reduction in demand.

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 2022

	Units	Input
Treated water distribution - mains analysis		
Total length of potable mains as at 31 March	km	14,929.0
Total length of potable mains relined	km	-
Total length of potable mains renewed	km	4.4
Total length of new potable mains	km	50.7
Total length of potable water mains (≤320mm)	km	14,048.7
Total length of potable water mains >320mm and ≤450mm	km	472.8
Total length of potable water mains >450mm and ≤610mm	km	299.1
Total length of potable water mains >610mm	km	108.4
Communication pipes		
Number of lead communication pipes	nr	31,540
Number of galvanised iron communication pipes	nr	77,047
Number of other communication pipes	nr	858,609
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	86.4
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	809.1
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	3,522.0
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	3,703.7
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	2,628.4
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	2,094.4
Total length of potable mains laid or structurally refurbished post 2001	km	1,995.0
Other		
Company area	km^2	5,569
Number of lead communication pipes replaced for water quality	nr	3
Compliance risk index	nr	1.21
Event risk index	nr	20

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 have increased by 1.34 km^2 giving a total deduction from our company area of 8.16km^2.

6D - Demand management - metering and leakage activities for the 12 months ended 31 March 2022

	Units	Basic meter	AMR meter	AMI meter
Metering activities - totex expenditure				
New optant meter installation for existing customers	£m	-	0.505	-
New selective meter installation for existing customers	£m	-	-	-
New business meter installation for existing customers	£m	-	-	-
Residential meters renewed	£m	-	0.597	-
Business meters renewed	£m	-	0.085	-
Meter activities - explanatory variables				
New optant meters installed for existing customers	000s	-	0.395	-
New selective meters installed for existing customers	000s	-	0.024	-
New business meters installed for existing customers	000s	-	0.017	-
Residential meters renewed	000s	-	7.129	-
Business meters renewed	000s	-	1.446	-
New residential meters installed for existing customers - supply-demand balance benefit	Ml/d	-	-	-
New business meters installed for existing customers - supply-demand balance benefit	Ml/d	-	-	-
Residential meters renewed - supply-demand balance benefit	Ml/d		-	-
Business meters renewed - supply-demand balance benefit	Ml/d		-	-
Residential properties - meter penetration	%	72.7	17.4	-

	Units	Maintaining leakage	Reducing leakage	Total
Leakage activities				
Total leakage activity	£m	4.581	2.258	6.839
Leakage improvements delivering benefits in 2020-25	Ml/d			4.02
Per capita consumption (excluding supply pipe leakage)				
Per capita consumption (measured)	l/h/d	145.85		
Per capital consumption (unmeasured)	l/h/d	236.39		

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:

- all new meters being installed have drive by technology;
- in relation to supply demand balance benefits from meter installations, there was not significant remaining activity available in this area, as our metering programme had already metered all the properties that were viable for metering. As such the potential saving was far too small for this activity to have been included as an option as part of the supply demand balance. Therefore zeros have been input for all these lines; and
- the leakage improvements were the result of further distribution network pressure optimisation, identifying network pressure transients leading to bursts, large scale planned maintenance and repair programme of our network pressure reducing vales, introduction of leakage analysts to further improve the targeting of leaks in the field, use of satellite technology to identify leaks in urban areas, supporting customers to repair supply pipe leaks through a new process and surveying our larger distribution trunk mains for leaks and meter data availability.

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

Capital expenditure

The capital delivery against the original table has changed in terms of the following;

- carry over of AMP6 schemes;
    - there are three schemes included as carryover from AMP6, these are Keleher, Forest Row and Coggins Mill. There are a number of reasons for this, such as contractor disputes, Covid-19, process and yield issues.
- carry over scheme details;
    - Keleher – contractor dispute, combined with Covid-19 led to a delay in the scheme;
    - Forest Row – contractor dispute around final sludge treatment led to a delay;
    - Coggins Mill – water resource borehole did not give the expected yield.
- 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;

  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; and
- 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 full output (68 Mld) since commission in 2021 due to some issues on site, the resolution of which includes long lead times. It is believed the average output has been approximately 40 Mld, compared to nearer 30 Mld before the upgrade.

The opex impact is not easy to decipher so a judgement has been applied of £0.1 million to cover assumed increases in power, consumables and by-products, plus the recruitment of two additional tech roles (pro-rata in the year). The increase to £0.15 million is based on a projected average 45 Mld but this will be monitored.

Aylesford Newsprint
Due to delays to expected commissioning, there is only projected opex impact now from 2024/25 and the assessment from the original contractor is 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.

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 year to maintain resilience in the network.

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

The scheme is expected to be in use (some elements permanently, some temporarily) through to 2024/25, 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 for eight weeks through the summer demand.

The costs associated with this scheme include a provision for unbilled power costs of £0.15 million up to November 2021, plus some actual generator hire and fuel costs from November 2021 to March 2022. There are difficulties around the separation of supply for the operational works and the capital scheme works being undertaken, so a 50/50 approach has been taken until such time as more clarity is received.

Water efficiency

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

	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m	After 2024-25 £m
Cost Centre 12509 (Water Resources)	0.096	0.071	0.073	0.075	0.077	
Cost Centre 12541 (Water Efficiency Delivery)	0.572	0.570	0.855	0.737	0.750	
Total	0.668	0.641	0.928	0.812	0.827	1.370
Inflation	0.024					
	0.692	0.641	0.928	0.812	0.827	1.370
Less average 2017-20	(0.217)	(0.217)	(0.217)	(0.217)	(0.217)	(0.217)
Enhancement	**0.475**	**0.424**	**0.711**	**0.595**	**0.610**	**1.153**

The costs incurred and projected in AMP7 are less than in the Business Plan due to a lower level of funding in our Corporate Plan. After 2024/25 we have reverted back to Business Plan levels.

2020/21 and 2021/22 saw an increase from the baseline of approximately £0.1 million (included in table 4D – a-typical) due to the impact of Covid-19 which is acknowledged by Ofwat. In 2021/22 however £0.2 million of works were deferred into 2022/23, hence the uplift in projected costs in 2022/23, before they reduce back to expectation from 2023/24.

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	857
Revenue collected for the purposes of the innovation competition	
Innovation fund income from customers	857
Income from customers to fund innovation projects the company is leading on	20
Income from other water companies to fund innovation projects the company is leading on	174
Income from customers that is transferred to other companies as part of the innovation fund	39
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	180	20	20	-	178	20	(158)	160	2	2
Total	**180**	**20**	**20**	**-**	**178**	**20**	**(158)**	**160**	**2**	**2**

	Current year £000
Administration	
Administration charge for innovation partner	39

9A - Innovation competition

In the year, a total of £0.8 million was included in customer bills by South East Water in respect of the Innovation Fund, these funds were 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 £0.8 million. £0.1 million was paid in the year in respect of payments to other water companies and contributions to the scheme, with the residual amounts collected in 2020/21 and 2021/22 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 £1.3 million.

In April 2021, Ofwat announced the results of the first Innovation in Water Challenge competition. South East Water Limited's project, titled CatchmentLIFE, was successful in the competition. The project has received £178,000 in funding from the Innovation Fund in the 2021/22 financial year. However, no costs were incurred on this project during the year but a provision has been recognised."

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 2022

	Water tCO_2e
Scope one emissions	
Burning of fossil fuels	509.863
Process and fugitive emissions	1,393.191
Vehicle transport	1,575.542
Total scope one emissions	3,478.596
Scope one emissions; GHG type CO_2	2,057.086
Scope one emissions; GHG type CH_4	0.802
Scope one emissions; GHG type N_2O	1,297.940
Scope two emissions	
Purchased electricity - location based	30,844.863
Purchased electricity - market based	-
Purchased heat	-
Electric vehicles	3.721
Removal of electricity to charge electric vehicles at site	(3.721)
Total scope two emissions	30,844.863
Scope two emissions; GHG type CO_2	30,533.314
Scope two emissions; GHG type CH_4	116.229
Scope two emissions; GHG type N_2O	199.042
Scope three emissions	
Business travel	29.494
Outsourced activities	3,229.805
Purchased electricity; transmission and distribution - location based	2,729.595
Purchased electricity; transmission and distribution - market based	-
Purchased heat; transmission and distribution	-
Total scope three emissions	5,988.894
Scope three emissions; GHG type CO_2	5,913.841
Scope three emissions; GHG type CH_4	10.597
Scope three emissions; GHG type N_2O	64.457
Gross operational emissions (Scope 1, 2 and 3)	
Gross operational emissions - location based	40,312.354
Gross operational emission - market based	9,467.491
Emissions reductions	
Exported renewables (location based)	-
Exported biomethane (location based)	-
Green tariff electricity offsets	30,844.863
Other emissions reductions	-
Total emissions reductions	30,844.863
Net annual emissions	
Net annual emissions - location based	40,312.354
Net annual emissions - market based	9,467.491
Net annual emissions	-

11A - Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2022

	Water kgCO2e/Ml
GHG intensity ratios	
Emissions per Ml of treated water	184.867

For 2021/22 we purchased REGO backed green power, therefore our purchased electricity – market based emissions for the reporting period are 0.

Our purchase of REGO green electricity has led to a significant decrease in our market-based gross operational emissions.

Transactions with associate companies

Loans from associate companies

Associate	Interest	Loan period	2022 £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 60,932
South East Water (Finance) Limited	Index linked plus 0.01% margin fee Indexation	Repayable in December 2037	100,000 29,705

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)	38,445
South East Water (Finance) Limited	Ambac fees on £166 million	Monoline fees	336
South East Water (Finance) Limited	Facility fees	Commitment fees on loan facilities	544

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.