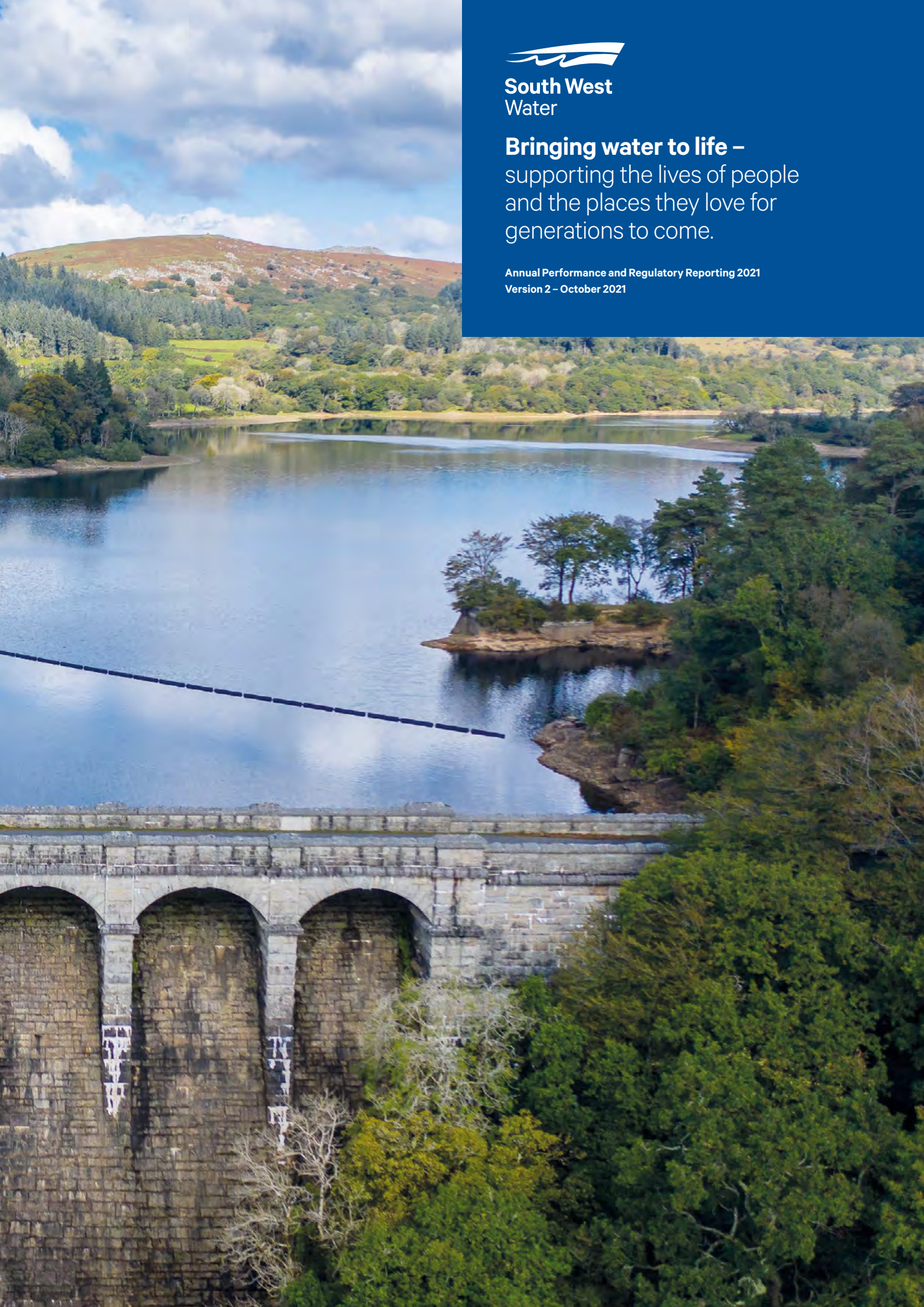




**South West
Water**

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

Annual Performance and Regulatory Reporting 2021
Version 2 – October 2021







HOW TO USE THIS REPORT

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



 **External link**
In the interactive PDF these links are clickable














-  **Page reference**
Pages where you can find more information on a related subject
-  **ESG content**
Content in green relates to environmental, social and governance case studies

Find out more about South West Water:
www.southwestwater.co.uk



Inside this report

Overview	
This Annual Performance Report and Regulatory Report provides a summary of our performance against our regulatory outcomes and performance commitments in this the first year of the 2020-25 regulatory reporting period.	
These outcomes and commitments were agreed as part of our business plan, where we were the only company to be granted fast track status by the regulator, Ofwat, for the second successive occasion.	
The outcomes and commitments themselves were developed following our most extensive ever customer and stakeholder engagement exercise to date.	
The Regulatory Reporting section of this report provides annual reporting in line with Ofwat's Regulatory Accounting Guidelines.	
Our operations at a glance	02
Chair's letter	
	
Business model and strategy	04
Chief Executive's review	06
	
Our Board pledges to 2025	10
Our stakeholders	12
Performance summary	16

Operational performance	
Summaries of operational performance against our eight outcomes have been provided in the sections of the report below. An overall two page summary of our performance is on pages 16 and 17.	
  Our water	18
	
 Our wastewater	24
	
 Our customers	28
	
 Our environment	34
	
 Our resilience	38
	
 Our community and people	44
	
Our people	48
Emerging markets	54
ESG strategy	56
ESG KPI performance	58
Net zero strategy	62
Energy	64
Financial Director's report	66

Regulatory reporting	
Chair's letter on governance	72
Board of Directors	74
The Board and its governance framework	76
Executive Management	88
Audit Committee report	90
Environmental, Social and Governance Committee report	94
Nomination Committee report	96
Remuneration Committee report	98
Directors' remuneration report	100
Annual statement from the Chair of the Remuneration Committee	101
Annual report on remuneration	102
Assurance	114
Summary of significant assurance areas	120
Risk and compliance statement	126
Managing our risks	130
Independent auditor's report	140
Technical auditor's report	143
Additional financial assurance	146
Regulatory disclosures	147
Regulatory financial reporting	150
Price review and other segmental reporting	158
Performance summary	171
Additional regulatory information	179
Cost allocation and transfer pricing	208
Appendix A	213
Glossary	
Glossary	214

Our operations at a glance

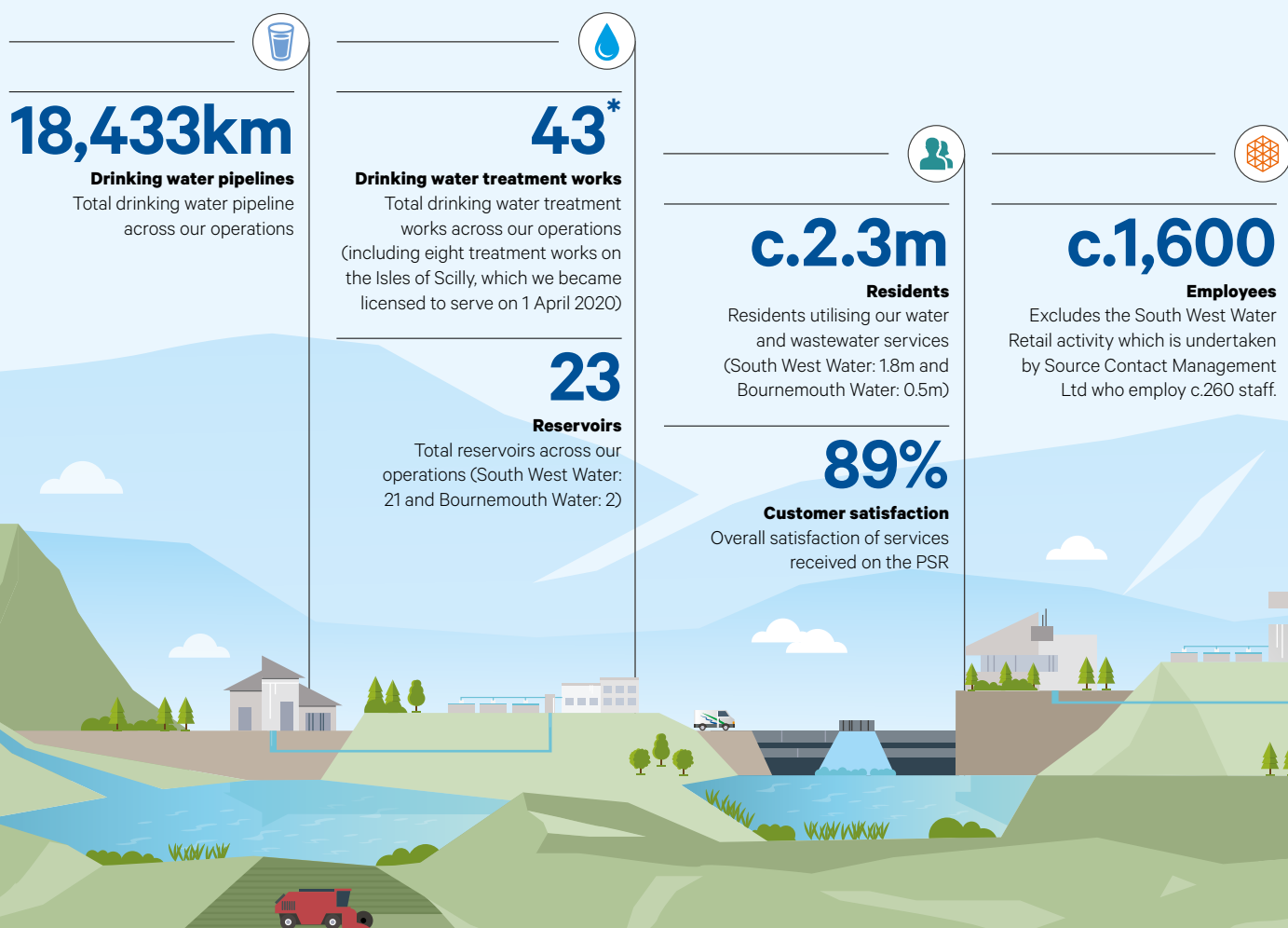
Purpose led business, trusted to deliver

We all know that water companies have a vital role today and every day, providing customers with safe and clean drinking water, and clean bathing waters, with the importance that has on health and hygiene – Bringing water to life. That's a given.

We also believe we have a unique role to play in supporting the lives of people and the places they love for generations to come. That's why we exist.

For us it is not just about what we do but how we do it – and that's why we place such importance on living our core values daily, operating in the public interest, in the regions we support.

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



* This includes both the Crownhill water treatment works and Mayflower water treatment works during their transition.

OUR OPERATIONS



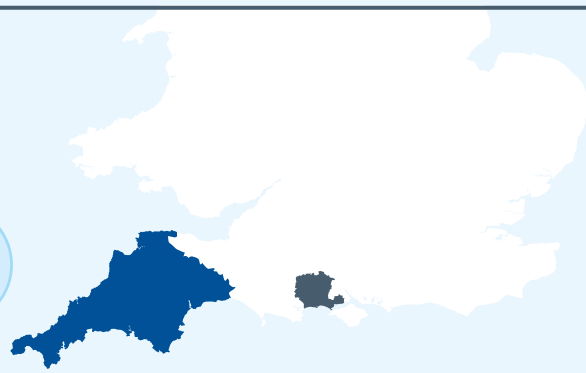
South West Water

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



Bournemouth Water

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



653

Wastewater treatment works

Across our South West Water operations



53

INNS Site Guardians

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

24

Awards received

Awards received through an EU Life pilot project in the South West, AQUA (Aquatic Quality Award). 19 lakes received the Bronze AQUA award, and four lakes have achieved the Silver AQUA award.



89%

Customer bills

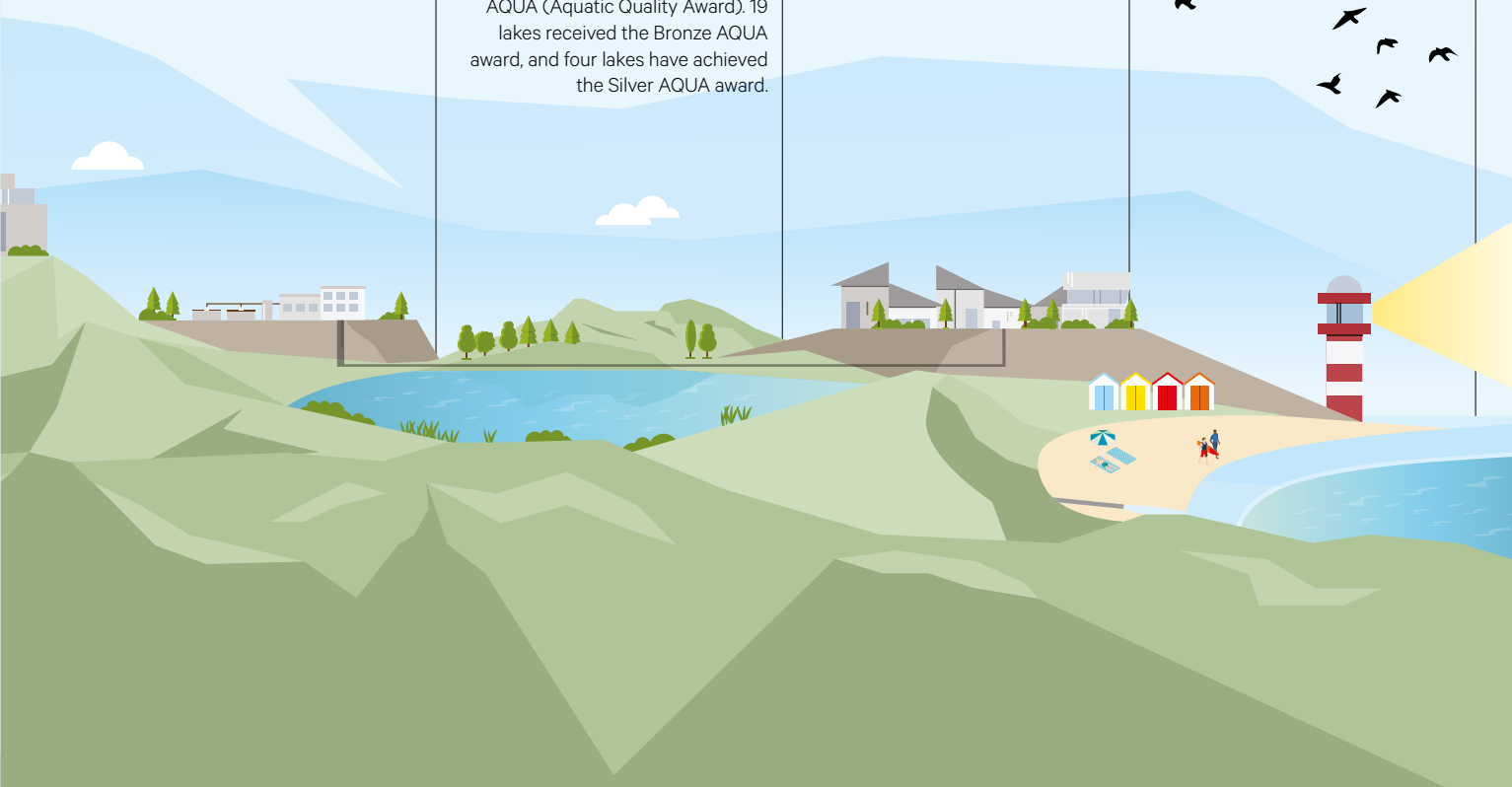
Customers who find their water bills affordable



150

Designated bathing waters

Across our wastewater operational areas



Chair's letter

A year of challenge and opportunity

South West Water – A responsible business, building a sustainable future in the areas we serve.

Values rooted in our culture



Trusted

We do the right thing for our customers and stakeholders



Responsible

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



Collaborative

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



Progressive

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

A year of challenge and opportunity

I am delighted and honoured to have been given the opportunity to chair South West Water at such a pivotal time.

This has undoubtedly been a unique year for South West Water, and for everyone who works within and supports the Company. The human tragedy of loss of life as a result of the pandemic is something that will weigh heavy on us all for generations to come, and there is every sense that things will never quite be the same again.

The worst of times brings out the very best in people and that's so true of everyone who works at South West Water. I am so proud of the way our loyal employees and supply chain partners have responded to the challenge.

My sincere thanks go to our Executive team who, together, have led the Company through this pandemic from the front, demonstrating what it takes to be highly resilient, agile and above all compassionate. With an unwavering responsibility for critical infrastructure providing essential services to customers and communities, we have continued to deliver, given the extraordinary dedication of our exceptionally talented and hard-working employees. On behalf of the Board, I thank you all.

Your Board

In July 2020, we enacted our Board internal succession plan and I was delighted to take on the role of Chair, working alongside our diverse and talented Board, one of the legacies left to South West Water by our outgoing Chair, Sir John Parker.

This also included the retirement of our outgoing Group Chief Executive Officer, Chris Loughlin, stepping down after 14 years leading the Company through some exceptional times and changes.

Susan Davy, previously Chief Financial Officer of Pennon, was appointed as the new Group Chief Executive Officer.

At the same time, we reviewed our Committee structure to ensure that strong governance remains at the core of our successful management of the Company. All Non-Executives now attend all Committees and to ensure we meet the requirements of Ofwat, South West Water Limited maintains separate governance arrangements from our parent company, Pennon Group plc.

In recognition of the growing importance of environmental, social and governance (ESG) matters for all responsible businesses, we refreshed the focus of our Sustainability Committee prioritising ESG. At the same time, we have created a new dedicated Health and Safety Committee to enable the Board to focus on our number one priority, chaired by Jon Butterworth MBE; we are already benefitting from his considerable operational experience. With an ambition to become a leader in Health & Safety performance in the industry by 2025, we know we have more to do.

Our performance

Operationally, we have made a strong start to the new regulatory period, with c.80% of Outcome Delivery Incentives (ODIs) ahead or on track. Despite the challenges posed by the pandemic, the performance of the business has been resilient, and testament to the hard work of all our employees.

We continue to provide excellence in many areas, boosting biodiversity in our regions with improving bathing water quality, tree planting and continued leadership in nature partnerships, and are committed to further improving water quality, and minimising customer supply interruptions.

We also acknowledge that we need to do more in some operational areas, notably pollutions. The Board has focused significant attention on this over the course of the year, ensuring we are working collaboratively with our regulators and have a robust reduction plan in place.

We have consistently demonstrated robust operational and resilient financial performance for many years. We are well placed to provide a sustainable platform for delivery, investment and growth.

Purpose and culture

This year, we refreshed our purpose, reflecting the wider social contract we have with all our stakeholders and the region we support. Our new purpose, Bringing water to life – supporting the lives of people and the places they love for generations to come, shows the importance we place on operating in the public interest for the benefit of our customers and our employees, for now and into the future, underpinned by our core values, which guide everything we do.

Championing diversity

There has never been a more important time for responsible businesses to promote the widest level of diversity in the boardroom and beyond.

The Board has exceeded its target for female representation with 57% of the Board being female. I'm also happy that South West Water's gender pay gap has narrowed for the second year in a row. However, we're not complacent and will continue to focus on recruiting more women into all roles across the business and ensuring that no barriers exist for promotional opportunities.

South West Water, as part of the Pennon Group, also became the first water company to sign up to Change the Race Ratio, harnessing a desire to go further and faster, and leading from the front. We know that change of this magnitude takes time, bravery and commitment especially given the demographic of the regions we support. We are committed to take every opportunity to make a broader societal impact on diversity and inclusion.

Alongside this, as part of the Pennon Group, we have continued our membership of the 30% Club, and South West Water has once again contributed to the industry's Women in Water initiative.

A sustainable future strategy

Our focus on UK Water, together with the geography of the region and communities we support, affords us an opportunity to be at the forefront of environmental leadership.

As we all know, there is no silver bullet to achieving Net Zero and it requires new thinking and resolute leadership. I am personally delighted that the water industry is leading the way, with even more ambitious timelines to achieve Net Zero by 2030, 20 years ahead of the Government target. The Board has set out an implementation roadmap, focused around three key pillars - sustainable living, championing renewables and reversing carbon emissions, ensuring we are well placed to transform ourselves into a different kind of water company, delivering on our purpose, and putting in place the core building blocks for our next price review, and beyond.

We are a high performing business, focused on a sustainable future for all, committed to delivering for all stakeholders, now and into the future.

Focus on Board Assurance

During the year and in our year end reporting, the Board has been committed to ensuring it is able to appropriately assure the data it is providing as well as other key assurances important to our customers and other stakeholders of South West Water.

As summarised on page 10, this year's Annual Performance Report and Regulatory Reporting has taken a more expansive approach to summarising the considerations of the Board in providing this assurance.



Gill Rider
Chair

12 July 2021

Business model and strategy


What we do



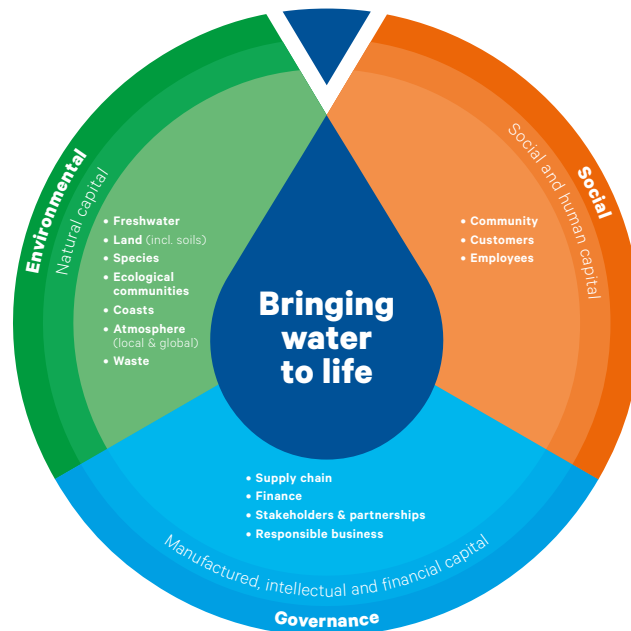
Water

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

More information

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

Our resources and relationships



ENVIRONMENT

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

SOCIAL

-  Community
-  Customers
-  Employees

GOVERNANCE

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

More information

 [ESG strategy](#) pages 56 to 57

For the benefit of our stakeholders



Customers

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



Shareholders and investors

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



Regulators and stakeholders

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



Employees

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



Suppliers and contractors

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

 [Read more on pages 12 to 15](#)

The strengths we rely on

The best people

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

Effective governance

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

High-quality assets

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

Efficient financing

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

Environmental stewardship

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

Strong relationships with our suppliers

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

Well-managed risk

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

Our Board Pledges to 2025

1 We will deliver environmental leadership

2 We will provide outstanding customer service

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

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

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

Our outcomes and other performance

Protecting places



Environment

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



Reliable wastewater services

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

Supporting people



Clean, safe and reliable supply of drinking water

[Read more on pages 20 to 21](#)



Available and sufficient resources

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



Responsive to our customers

[Read more on pages 30 to 31](#)



Benefitting the community

[Read more on pages 46 to 47](#)

See also

Our people

[Read more on pages 48 to 53](#)

Creating value



Resilience

[Read more on pages 38 to 43](#)



Fair charging and affordability for all

[Read more on pages 32 to 33](#)

See also

Financial performance

[Read more on pages 66 to 71](#)

Our values



Trusted

We do the right thing for our customers and stakeholders.



Responsible

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



Collaborative

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



Progressive

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

Chief Executive's review

I believe that the best businesses are those that value people and promote teamwork.

This in turns drive innovation, agility and a passion for doing what's right – for the environment, customers and each other.

Our values



Trusted

We do the right thing for our customers and stakeholders



Responsible

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



Collaborative

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



Progressive

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



Unlocking potential to transform and deliver

One of my first priorities has been to focus everyone on helping make this the best place to work for our employees, and the best company to work for in the South West. For me, great leadership is all about valuing people and unlocking the potential in everyone to deliver, driving innovation and agility. With over 1,500 employees at South West Water, we value everyone.

This year we asked employees how it feels to work for the South West Water using the Great Places to Work Best Workplace Survey™. We achieved our highest ever participation rate of 84% and have officially passed the threshold to become accredited as a Great Place to Work. In a year where the pandemic has changed lives and livelihoods for everyone, I am most proud of this.

In 2020/21, our absolute focus has been on supporting our employees through COVID-19. However, our health and safety long term injury frequency rate (LTIFR) was not in line with our aspiration. We believe that everyone who works for and with the Group should go home safely, every day. We remain committed to delivering on our strategy to 2025 to become industry leading on health and safety. For 2021/22, we aim to have our best performance ever, with a renewed focus on our cultural training and award winning HomeSafe programme, as well as continuing to focus on ensuring that all our sites and employees remain COVID-safe.

UK sector leading water focus

This has been an important year, the first in the new regulatory reporting period, with ambitious performance objectives in challenging circumstances. As the only water company to have been fast-tracked twice in successive price reviews, we have strong credentials on which to build, providing a stable platform for future improvements across the regions we serve.

Building a new kind of water company

At the heart of what we do, and why we do it, is an unwavering ambition to put environmental, social and governance commitments at the forefront of our decision-making, driving sustainability.

The societal responsibility of business has been under more scrutiny than ever, from all stakeholders, and it's clear that organisations need to do more to tap into the public consciousness. Organisations everywhere, across every industry, are reassessing their priorities and purpose for the good of the planet, for people and for profit – in that order for the longer term, they're building agility and flexibility into their strategies, to be able to respond as things change and really listening to public and social sentiment and are doing just that.

“**Our Green Recovery proposals are focused on opportunities to make an even bigger environmental and societal contribution to the South West for the longer term than we already do today.**”

We aim to become a different kind of water company, as we scale up investment in the environment, kickstarting our race to Net Zero by 2030, focusing on sustainable living, championing renewables and reversing carbon emissions, and delivering sustainable solutions for customers, communities and the regions we operate in.

Our New Deal business plan includes our largest environmental programme in 15 years. Our award-winning 'Upstream Thinking' Programme has driven an increase in the region's biodiversity over the past 15 years and during 2020/21, we have realised another c.20,000 hectares in key catchments, improving both water quality and natural capital in our region. Our initial tree-planting commitment to plant 100,000 trees by 2025 has been achieved and we have now extended this to 250,000. We continue to work closely in partnership with wildlife charities, national parks and farmers to deliver continued environmental benefits.

Getting the basics right is also core to what we do. This year, demand for our resources and access to clean drinking water has been the highest it's ever been. We are focused on delivering for our customers and ensuring quality is of the highest standard.

Innovating to deliver a new relationship with customers

I believe there's no better way to respond to or capture public sentiment than building a deeper relationship with customers – really engaging with them and putting them at the heart of our decision-making.

That's why, as part of our New Deal K7 business plan, we launched our innovative WaterShare+ scheme, sharing £20 million of outperformance with customers and giving them not only a say in what we do, but a stake too.

One in 16 households in our region are now shareholders as well as customers, heralding a new era in customer ownership – a true partnership. Our new independent WaterShare+ advisory panel has now held three quarterly panels with customers and it's providing a strong platform to empower customers. This is just the start of real and honest customer engagement, with a richer and deeper relationship with customers.

We're also tapping into the social consciousness of our customers in new ways – having just launched South West Water's industry first Water-Saving Community Fund, empowering customers to champion and drive initiatives to save water locally, whether that's using rainwater to flush a public toilet, or water butts in community allotments. Our new Neighbourhood Fund is also supporting communities with well needed help and support to build back better post the pandemic as well as encouraging employees to give an hour to support communities and causes close to their heart.

Chief Executive' review continued

The things that matter most



500

NEW JOBS GENERATED OVER FOUR YEARS

Our Green Recovery plan aims to generate up to 500 additional jobs over the next four years.

We are currently investing in our largest environmental programme in 15 years.



c.2.3m

BENEFITTING FROM OUR SERVICES

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



1 in 16

HOUSEHOLDS BECOMING SHAREHOLDERS IN THE BUSINESS

Delivery of WaterShare+ benefits to all customers.



600

NEW APPRENTICES AND GRADUATES

We are now certified as a Great Place to Work and a Living Wage Foundation employer.

Operational delivery – driving improved performance and agility

South West Water has made a strong start to K7, thanks to the tireless efforts of all our employees, and continues to demonstrate strong and robust performance, even through the pandemic.

We have concentrated on our customers' top priority of a continued supply of clean drinking water and we have not had water restrictions despite the higher demand. We have, however, missed our leakage target this year despite significant activity on the network. We have a targeted plan in place to recover our performance, and in recent weeks we are already seeing an improvement to our position.

c.80% of ODIs are on track or ahead of target, as we focus on operational delivery, efficiency and innovation. Year on year, we are able to report improving water quality, reduced customer supply interruptions and a resilient service and consistency of supply. 2020 was the 24th consecutive year without water restrictions in the South West Water region, maintaining Bournemouth Water's track record of none. Additionally, we are seeing a reduction in sewer collapses, internal flooding incidents and improved wastewater compliance.

We care deeply about the environment and we have also been redoubling efforts in those areas where performance isn't where it needs to be, particularly around pollutions. We have halved the average monthly pollutions since implementing a new plan in September 2020, closing the gap through innovation, root cause analysis and improving control systems. This, together with additional resources, training and a relentless focus on delivering for customers and the environment – building stronger engagement with regulators, employees and the public – is the key to improvement.

For UK Water, this has been an unprecedented year operationally. We are accustomed to peak demand over the traditional tourist seasons and this year has been no exception but unusually we have also had higher underlying demand with more dispersed usage across our network away from our more concentrated urban environments. We have the largest proportion of second homes in Devon and Cornwall, and overall consumption has been higher than the previous year, with household consumption up +9% net of business usage down -22%.

A responsible business in the communities we serve

The South West's economy has been one of the hardest impacted by the pandemic, and as a responsible employer in the region, South West Water has focused on opportunities to make a bigger societal contribution with our Green Recovery Initiative. We were pleased that our proposals to provide much needed investment have been provisionally approved by Ofwat, with a range of projects focused on improving public health, protecting the environment and addressing climate change. Up to 500 jobs will be created across the region as well as opportunities for our existing workforce to gain new green skills.

We have also continued to expand our innovative affordability and WaterCare programme, undertaking over 3,600 virtual visits to homes and households struggling to meet financial commitments and helping to unlock £2.4 million in support funds for customers. We have also seen an 11% increase in customers benefitting from one or more of our social tariffs. Our societal responsibilities also extend to promoting social mobility, addressing inequality, providing secure employment and ensuring that people are paid fairly for work today and in the future.

I am therefore proud to announce that as part of the Pennon Group, South West Water has become a Living Wage Foundation employer and also one of the first companies in the South West to take placements as part of the Government's Kick Start scheme – offering 16-24-year olds from disadvantaged backgrounds the opportunity for paid work at South West Water in a variety of roles, and we hope they will join permanently. We've also been extending our apprenticeship programme, aiming to attract 500 apprenticeships over the next five years and for 2021 announced a new Graduate scheme, bringing in talent and future leaders for the next generation.

Looking ahead to future growth

South West Water is on track to deliver on its New Deal Board pledges and is well placed to deliver its performance commitments by the end of this regulatory period with strong operational delivery and through innovation.

2020/21 saw the expansion of our license to include the Isles of Scilly, and work is well underway to deliver critical investments to improve infrastructure and assets for the benefit of customers and the economy on the islands and the wider region.

Looking forward, we will play a key role in supporting and enhancing the local economy with our Green Recovery plans. Planned investment will support the creation of up to 500 additional jobs over the next four years, as well as taking extra action on the most pressing environmental issues that our customers tell us they care about.

If the first year of my tenure as Chief Executive Officer has taught me one thing, it's that with a great team around you, you can achieve anything, innovating and creating agility, whatever the circumstances. I believe South West Water, and everyone who works in it, has a clear ambition to deliver on our purpose, for the benefit of all our shareholders and stakeholders, providing a safe and secure future for all, people and planet, and a strong platform on which to grow.

Susan Davy
Chief Executive Officer

12 June 2021

Our Green Recovery Initiative

The South West's economy has been one of the hardest hit by COVID-19, and as a responsible business in the region, South West Water is focused on opportunities to make an even bigger and more societal contribution.

Our Green Recovery Initiative provides much needed investment that will support the creation of up to 500 additional jobs across our regions over the next four years and provide further opportunities for our existing workforce to gain new green skills.

Our initiative has been supported by customers with an acceptance rating of 81% along with support from South West Water's WaterShare+ Advisory Panel.

Following a detailed assessment by regulators, in early May, Ofwat published their draft green economic recovery decision, outlining £81 million of additional environmental investment, with no impact to customer bills up to 2025.

Our proposals incorporate an important and manageable set of schemes in addition to our existing business plan commitments through to 2025, and allow us to take extra action on the most pressing environmental issues reflecting our customer priorities:

- **Knapp Mill Water Treatment Works advancement** – completion of a new water treatment works for Bournemouth Water customers, 18 months ahead of current schedule, benefitting c. 160,000 customers with a more reliable, high-quality water supply.
- **Water resources grid enablement** – protecting water resources for future generations for c.250,000 customers, addressing supply risks in North Devon and supporting resilience in other parts of the country.
- **Smarter, healthier homes** – empowering customers to save water, save money and have even safer and more resilient supplies to their homes, through new pilot initiatives to trial ways to help customers save water, protect customers from the costs of supply pipe failures and reduce health risks from lead pipes.
- **Transforming river quality** – reducing harm from storm overflows and piloting approaches to improving river bathing water quality for the benefit of all those who use them.
- **Catchment management** – an extension to our award winning land regeneration schemes using nature-based solutions which improve water quality, alleviate flooding, enhance natural habitats and reduce the South West's carbon footprint on the road to achieving Net Zero.

up to 500

ADDITIONAL JOBS

£81m

ADDITIONAL INVESTMENT

81%

CUSTOMER ACCEPTANCE

10,000

HECTARES IMPROVED

A key feature of our new deal is WaterShare+

A stake and a say in our business

£20 million

OF OUTPERFORMANCE

(2015-20)

1

2

5

3

4

“
WaterShare+
ensures customers
are at the heart
of our service and
success, building
trust through
transparency.”

South West Water's biggest
ever customer consultation



Customers invited to
choose how they would
like to receive their £20

- a credit on their water bill or,
- shares in Pennon Group plc, SWW's parent company

A greater say for customers

- WaterShare+ Advisory Panel – customer champions
- Dedicated Customer AGM

One in 16 households opted to
take shares in Pennon Group

– more than tripling the number of
Pennon's shareholders

Our Board pledges to 2025

Our business plan to 2025 focuses on a new deal for customers, the environment and our people. We have made strong progress against our Board pledges to deliver a step change in our relationship with our customers and other stakeholders.

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

KEY



On Track



Marginal



Area of focus

PLEDGES	DETAILED PLEDGE	2020-21 PROGRESS	STATUS AND ACTIONS TAKEN
We will deliver efficiency, keeping bills as low as possible and address water poverty	Target zero customers in water poverty by 2025	✓	We are ahead of our affordability target, with 89.4% of customers finding their bill affordable. We also placed significant focus on our affordability initiatives with COVID-19
	In real terms reduce average customer bills and South West Water customer bills are forecast to be lower in 2025 than they were 15 years earlier.	✓	On track with bill reductions, aligned with our Final Determination
	Continue to focus on cost control and the use of innovation and markets to drive efficiency	✓	We continued to deliver Totex efficiency through innovative and sustainable solutions
We will provide outstanding customer service	Target excellent service performance across all areas and sector leading C-MeX performance.	⊙	South West Water was 12 th in 2020/21 and plans are in place improve in this area. We were 6 th in the Customer Satisfaction Survey
	Meet stretching service performance commitments in the areas which matter most to customers	✓	We have achieved almost 80% of our commitments in 2020/21 and have plans covering areas of focus
	Continue to provide a resilient service for now and the long term, regardless of any challenges faced	✓	We have excelled in many areas such as internal sewer flooding despite the challenges of COVID-19
	Deliver major drinking water quality enhancement programme to deliver wide scale benefits for customers	✓	We have started five schemes at five of our treatment works to reduce taste, smell and colour incidents
We will deliver environmental leadership	100% wastewater compliance	✓	Although performance is lower than planned at 99% (at numeric permitted sites), this is South West Water's best ever achievement and within the regulatory tolerance
	Strive to eliminate harmful pollutions to the environment and reduce minor pollutions to record lows in the industry	✗	Although this remains an area of focus, our Pollution Incident Reduction Plan is already seeing strong improvements
	Upstream Thinking programme improving 80% of our catchments	✓	We have significantly exceeded our 2020/21 target
	Targeting industry leading leakage, delivering 15% reduction from 2020	✗	We have a plan to significantly improve in this area
	Our largest environmental improvement plan for 15 years to deliver region wide benefits for the environment and economy.	✓	South West Water has achieved all of its WINEP deliverables this year
	Deliver our 2050 Environment Plan	✓	We are on track to deliver this plan
	Future new water transfer to promote resilience and efficiency.	✓	We are part of the West Country Water Resources Group and our Green Recovery Initiative includes additional water resources investment increase our resilience and supports future transfers
We will empower our customers by giving them a stake and more of a say in our business	Share the benefits of success with customers fairly and transparently, developing our transformational WaterShare+ framework	✓	We have established the independent WaterShare+ advisory panel
	Evolve our sharing mechanism for customers to continue to benefit from financing gains	✓	A new framework is in place for 2020-25, which includes showing embedded debt outperformance with customers – SWW is the only company to do this
	Receive oversight from the independent WaterShare+ panel.	✓	Three meetings have now been held
	Introduce a first of its kind customer share ownership option from 2020	✓	The Watershare+ share scheme launched in September 2020. One in 16 of our household customers became opted to become shareholders. Our stakeholders pages 12 to 15
	Hold customer annual general meetings where customers can vote.	✓	The first meeting is scheduled for Autumn 2021 to reflect on our progress in 2020/21, the first year of the regulatory period
	Hold quarterly public customer meetings chaired by independent WaterShare+ panel.	✓	Three meetings have now been held to date which have been positively received

PLEDGES	DETAILED PLEDGE	2020-21 PROGRESS	STATUS AND ACTIONS TAKEN
We will deliver our promises, supporting the regional economy and our communities	Invest over £1bn in the region to enhance the communities and environment we serve	✓	We have advanced key investments in the year including bathing water enhancements
	Deliver key projects to protect rivers, bathing and shellfish waters for our customers, tourists and businesses who depend on them	✓	We are ahead of schedule in delivering improvements in these areas including bathing water schemes
	Invest in two new water treatment works in the Bournemouth region	✓	Both schemes are on track for delivery as scheduled
	Extend our area of operation to include the Isles of Scilly	✓	We were appointed on 1 April 2020 and have made good progress in establishing services on the Islands
	Provide new employment opportunities through our regional investments	✓	Our Green Recovery proposals have been approved in draft and will provide further regional employment
	Use our regional supply chain to support regional economic growth	✓	We continue to use suppliers based in our region
	Invest in people, skills and personal development, including our apprenticeship programme	✓	We have recruited extensively this year, including apprentices and through the Kickstart scheme



Summary of Board Assurance

In pages 120 to 125 we have laid out in detail the assurance activities which we have performed which have enabled the Board to sign the Assurance Statement on page 129 within the Risk and Compliance Statement.

In the Assurance Statement the Board has confirmed that data that the Company has published in the year as well as provided to Ofwat, other regulators and significant stakeholders is accurate and complete in the opinion of the Board. The Board has not identified any exceptions to this.

We have confirmed that sufficient assurance activity has been performed, including assurance commissioned from independent external assurance providers, to allow the Board to make this statement.

This Annual Performance Report and Regulatory Reporting has been reviewed by the Board which has considered both the assurance performed over the data we are reporting as well as the consistency of the narrative throughout the report with the data, our performance and how the Company operates.

The Board's Assurance Statement has considered in more detail the areas which we consider 'Significant Areas for Assurance,' which have been identified in our published Assurance Plan given their importance to our customers and/or other stakeholders.

For full statement and details of assurance performed see pages 116 to 125



EY has performed regulatory audit procedures as well as agreed-upon-procedures work providing assurance over specified financial data contained in this report. They have also performed statutory audit procedures covering our Annual Report and Financial Statements.

Independent auditor's report pages 140 to 142

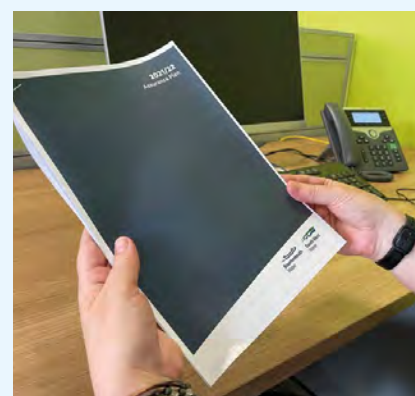
Jacobs

Jacobs has performed technical audits on all performance commitment data reported in this report in addition to all other non-financial data in the Regulatory Reporting section.

Technical auditor's report pages 143 to 145

WaterShare+

The refreshed, independent WaterShare+ advisory panel represents customers and wider stakeholders and has reviewed and reported on South West Water's operational performance.



South West Water's latest annual Assurance Plan was published following approval by the Board in March 2021. This includes the plan for post-year end assurance of technical and financial data contained in this report as well as other year end reporting relating to the 2020/21 year end.

It also contains other areas identified as key areas for assurance relating to the 2021/22 year. The full statement of Board Assurance is supported by details of assurance performed across our key areas for assurance.

Full statement of Board Assurance pages 120 to 125

Assurance Plan 2021/22
www.southwestwater.co.uk/SysSiteAssets/document-repository/regulatory-submissions/sww-fap2020-final-250321.pdf and see page 115

Our stakeholders

Empowered by our purpose

The sector we operate in has a high profile with a wide stakeholder group. We are committed to listening, engaging and reflecting our stakeholders' needs and priorities in our business plans and operations.

The work we do delivers a wide range of benefits to a variety of stakeholders, creating long-term sustainable value. Our engagement approach involves regular dialogue that is timely and open, building meaningful relationships based on trust and transparency.

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

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

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

Build loyalty and satisfaction – engagement, particularly with employees, customers and investors, builds understanding and knowledge of our business.

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

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

 **Stakeholder engagement** – See South West Water Annual Report on page 6

Our customers



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

Our engagement approach

We engage regularly with our customers on service quality, cost of service, value for money and our strategy. This includes regularly conducting customer satisfaction surveys, holding focus groups, co-creation workshops and convening forums, providing ongoing feedback to our teams to recognise good service and make improvements where needed. With the introduction of WaterShare+ as part of our New Deal 2020-25 business plan, customers now have a tangible stake and a say in the business, including the opportunity to participate in a customer Annual General Meeting, the first of which will be held in the autumn of 2021.

We also engage with key trade and customer bodies, including CCW⁽¹⁾ – the voice for water consumers. We have a well-established independent WaterShare+ advisory panel which reviews and challenges our performance against our business plan commitments and will support the development of our five-year business plan.

 **Find out more pages 28 to 33**

89%

SOUTH WEST WATER'S CUSTOMER SATISFACTION

target: year on year increase in customer satisfaction scores

94%

CUSTOMER TRUST SCORE

94% of customers have trust and confidence in South West Water and Bournemouth Water

12th

CUSTOMER SERVICE SCORE (CMEX)

(1) CCW – previously known as the Consumer Council for Water.

Our people



Our employees are our greatest asset. We provide the opportunity for them to be engaged at multiple levels of the business and through a variety of two-way dialogue and feedback channels.

Our engagement approach

We continually engage and communicate with our people on their health, safety and wellbeing, as well as our organisational culture, diversity and inclusion, training and development. We use our annual employee trust and engagement survey as a mechanism to measure progress and obtain feedback. Our senior leaders meet monthly with established engagement forums, where employee representatives discuss business challenges. We also recognise trade union partners and maintain an open dialogue with them. We hold Big Chat video calls with employees, providing them with the opportunity to hear directly from the Executive and ask any questions they wish. Employees can also directly email our CEO with comments and questions via an 'Ask Susan' facility in addition to speaking with her and the wider Executive during regular site visits.

 **Find out more** pages 48 to 53

Our communities



Our businesses operate in the heart of local communities, so we work closely with these stakeholders through regular liaison meetings and community events. Our education facilities and outreach programmes support environmental learning and our charity donation schemes support hundreds of good causes in communities where we operate.

Our engagement approach

We engage regularly with our communities on local projects and initiatives and host regular community liaison groups at our sites. We also engage with our communities through print, digital and social media and use these channels to great effect with our behavioural change campaigns including Love Your Loo, and Think Sink! South West Water holds a Conservation and Recreation Forum twice a year to get input from a range of stakeholders including South West Lakes Trust, National Farmers Union, Dartmoor National Park and the Royal Yacht Association.

We also work closely with the South West Lakes Trust to support access to our land and sites for recreation in the South West.

Our Neighbourhood and Water-Saving Community Funds

The Neighbourhood Fund builds on our work to support our communities with funding available for community groups, offering physical activities, education, health and wellbeing and delivering positive environmental outcomes. Community groups supported to date include: The Hugs Foundation – offering therapeutic and supportive interventions for those suffering from mental ill health, social exclusion, disadvantages and disabilities, and the Cornwall Accessible Activities Programme – supporting families and children with additional needs to access activities during the school holidays.

Our Water-Saving Community Fund promotes ideas to help our customers and communities to get involved in water conservation projects including support for organisations to create drought tolerant gardens, to install water butts in community allotments or provide educational training and displays in schools.

 **Find out more** pages 44 to 47

1.59

LONG TERM INJURY FREQUENCY RATE (LTIFR)

LTIFR of 1.59 is behind our target. Our HomeSafe programme and refocused health and safety approach should deliver improvements required to reach our target of 0.50 by 2025, which would make us a health and safety sector leader

71%

GREAT PLACE TO WORK

We have achieved our target of becoming a Great Place to Work with 71% of employees confirming this

66%

TRUST INDEX

Our Trust Index® score rose to 66% in 2020/21

57.1%

FEMALE REPRESENTATION AT BOARD LEVEL

Exceeding the 30% Club target

c.2m

VISITORS TO SOUTH WEST WATER'S RESERVOIRS

in line with 2019/20

76

BEACH CLEANS

held through our BeachCare partnership

Our stakeholders continued

Our environment



We work closely with a range of environmental partners including South West Lakes Trust, Westcountry Rivers Trust, The Wildlife Trusts, Natural England and various conservation and environmental interest groups and charities to help ensure we deliver our environmental commitments.

Our engagement approach

We meet regularly with our environmental stakeholders on natural capital stewardship and other areas of focus. This includes regular meetings and liaison with the Wildlife Trusts in our operational areas and with the Westcountry Rivers Trust, both of whom are partners in our catchment management projects.

We also hold a twice-yearly BeachWise Forum with key stakeholders to discuss matters relating to bathing water quality.

 **Find out more** pages 34 to 37

Our suppliers



Our supply chain partners play a vital role in supporting sustainable growth and cost base efficiency across the business. Through rationalising and segmenting our supply chain partners to reflect either strategic, key, preferred or transactional relationships, we are developing an approach that maximises our engagement with each supply chain partner.

Our engagement approach

We have formal contracts and framework agreements with all supply chain partners that meet the appropriate balance between commercial, quality and sustainably focused delivery. Our e-procurement platform supports a structured, fair and transparent approach to supplier engagement. As part of the Pennon Group we work collaboratively to support skills development and investment throughout the supply chain.

Following its launch in 2018/2019, we continue to operate our sustainable procurement policy and supplier Code of Conduct.

3

CATEGORY 2 INCIDENTS

3 category 2 wastewater pollution incidents, up from 1 in 2020

c.250,000

TREE PLANTING COMMITMENT

The number of trees we are committed to planting by 2030, supporting Water UK's commitment to plant 11 million trees

Net Zero

OUR CARBON COMMITMENT

South West Water's commitment to achieve Net Zero Carbon emissions by 2030

85,100

HECTARES OF BIODIVERSITY ENHANCEMENT (CUMULATIVELY)

Rationalised

SUPPLY BASE

2021/22 target continued delivery of our supply base rationalisation programme to reduce the current supply base

100%

SUPPLY CHAIN ENGAGEMENT

with our Code of Conduct for supply chain partners by end 2021/22

100%

SUPPLY CHAIN COMPLIANCE

Following supplier segmentation and rationalisation, work with all suppliers to ensure 100% compliance with the five objectives⁽¹⁾ identified within our sustainable procurement policy by end 2021/22. 100% of our suppliers to be engaged

Focused

ACTIVE PROMOTION

of EU skills accord and environmental, social & governance (ESG) commitments

⁽¹⁾ see www.pennon-group/sustainability/responsible-supply-chain.

Our regulators



We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Department for Environment, Food & Rural Affairs (Defra), the Environment Agency, the Drinking Water Inspectorate and the Health and Safety Executive (HSE) to ensure that our business plans address their priorities and concerns.

Our engagement approach

We engage regularly with all our regulators on our business plans, strategy, performance, risks and opportunities and delivery for customers. We attend regular meetings, provide reports and reviews, respond to consultations and join workshops, to ensure trust and transparency within these relationships.

Our policy makers

Engaging with national and local Government, MPs and peers, Local Enterprise Partnerships, the HSE, HM Revenue & Customs (HMRC), the Department for Business, Energy & Industrial Strategy (BEIS) and Defra, we have a good ongoing dialogue with policy makers and stakeholders who influence and shape our social contract.

Our engagement approach

We regularly discuss our strategy, performance and risks and opportunities with policy makers and key opinion formers. We engage through a regular meeting programme, briefings, round tables, consultation responses, and through trade bodies including Water UK and British Water.



Performance summary

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

Key

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

How we're doing

7

Area of Excellence

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

12

Outperformance

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

15

On track

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

7

Marginal underperformance

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

3

Area of focus

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

South West Water has met, exceeded or is within the regulatory deadband/tolerance for 34 of its 44 performance commitments, however there are a number of areas of focus where plans have been developed to ensure performance commitments are achieved in future years.

South West Water's Board has categorised these 34 commitments as either areas of excellence, outperformance or on track as defined above.

The remaining ten commitments have been classified by the Board as either marginal underperformance or areas of focus.

The Board is targeting achieving all commitments by the end of the 2020-25 regulatory period.

Section 3 of Regulatory Reporting (pages 171 to 178) contains a full breakdown of current year performance, prior year performance (where applicable) as well as regulatory financial rewards and penalties which are forecast to be applied for the year.

“

I support it. It all seems like quite important things for them to be working on

SWW customer, Female, Age 18



(1) Treatment works compliance was not achieved this year but is within the regulatory deadband and is considered 'on track' for future years.

Water



7 of 10

2020/21 TARGETS MET/ON TRACK

- ✓ Water supply interruptions
- ✓ Mains repairs
- ✓ Unplanned outage
- ✓ Taste, smell and colour contacts*
- Water restrictions placed on customers
- Efficient delivery of the new Alderney WTW
- ✗ Water quality compliance (CRI)*
- ✗ Leakage
- ✗ Per capita consumption
- Efficient delivery of the new Knapp Mill WTW**

Wastewater



6 of 9

2020/21 TARGETS MET/WITHIN REGULATORY DEADBAND

- ✓ Internal sewer flooding
- ✓ Sewer collapses
- ✓ External sewer flooding incidents
- ✓ Sewer blockages
- Odour contacts from wastewater treatment works
- Treatment works compliance*/***
- ✗ Total wastewater treatment works (WWTW) compliance*
- ✗ Descriptive compliance*
- ✗ Compliance with sludge standard*

Customer



11 of 12

2020/21 TARGETS MET

- D-MeX
- ✓ Operational contacts resolved first time – water
- Operational contacts resolved first time – wastewater
- Customer satisfaction with value for money
- British Standard for Inclusive Service Provision
- ✓ Overall satisfaction of services received on the PSR
- ✓ Installation of AMR meters
- ✓ Number of customers on one of our support tariffs
- ✓ Voids for residential retail
- Percentage of customers who find their water bill affordable
- ✓ Priority services for customers in vulnerable circumstances

Sub-measures

- ✓ Priority services for customers in vulnerable circumstances – reached
- ✓ Priority services for customers in vulnerable circumstances – actual contacts
- ✓ Priority services for customers in vulnerable circumstances – attempted contacts
- ✗ C-MeX

Environment



3 of 6

2020/21 TARGETS MET

- ✓ Biodiversity – enhancement
- Biodiversity – compliance*
- ✓ Biodiversity – prevent deterioration
- ✗ Pollution incidents (v7)*
- ✗ Number of pollution incidents cat 1-3 (water only)*
- ✗ EPA*

Resilience



5 of 5

2020/21 TARGETS MET

- Resilient water and wastewater services on the Isles of Scilly
- ✓ Resilience in the round – wastewater
- ✓ Resilience in the round – water
- Risk of sewer flooding in a storm
- Risk of severe restrictions in a drought

Community



2 of 2

2020/21 TARGETS MET/ON TRACK

- ✓ Bathing water quality
- Abstraction incentive mechanism**

* Calendar Year Incentive

** Two performance commitments have no commitment for 2020/21 but on track for future years' commitments

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

Our water

This strategic focus area includes drinking water quality for which we have commitments aligned to two of our outcomes which are the most important to our customers: ‘Clean, safe and reliable drinking water’ and ‘Available and sufficient resources’.

A woman with short grey hair, wearing a dark blue t-shirt, is smiling and drinking water from a clear glass. The background is a blurred indoor setting with shelves and a patterned cushion.

**We are safeguarding
our water supplies
by investing
and innovating
sustainably.**

Outcomes



Clean, safe and reliable drinking water

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



Available and sufficient resources

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

2020-25 ODIs

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

Risks

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

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

More information pages 133 to 139

Accountability

Outcome
Delivery
Incentive
Committee

Group
Executive
Management

South West
Water Board and
Committees

Performance key



Area of excellence



Outperformance



On track



Marginal



Area of focus

Our water continued



Clean, safe and reliable drinking water



Efficient delivery of capital schemes in the Bournemouth Water area

South West Water is commencing work on two significant new water treatment works at Alderney, near Bournemouth and Knapp Mill, near Christchurch, to serve the majority of customers in the Bournemouth Water area.

These new water treatment works will feature state-of-the-art technology, utilising our experience in building the new Mayflower Water Treatment works.

Both schemes are currently on track for completion in line with business plan commitments and there is therefore no delay to report in line with the business plan commitment for Alderney's delivery.

Although there is no 2020/21 commitment in respect of Knapp Mill, our technical assurer has reviewed early progress and is satisfied with our assessment that the Company is on track with both projects. Knapp Mill is now planned to be delivered earlier than initially planned as part of our Green Recovery proposals.

0



EFFICIENT DELIVERY OF THE NEW ALDERNEY WTW Months project is delayed by

2020 Actual	0 (On track)
2020/21 Target	0 (On track)
2019/20 Actual	N/A

0*



EFFICIENT DELIVERY OF THE NEW KNAPP MILL WTW* Months project is delayed by

2020/21 Actual	0 (On track)
2020/21 Target	N/A
2019/20 Actual	N/A

* This target has no 2020/21 commitment, but is on track for future year commitments.



Water quality compliance (CRI)

For the 2020-2025 regulatory period all water companies' performance will be reported in terms of their Compliance Risk Index (CRI) as reported by the DWI.

South West Water's performance this year has been affected by a small number of failures at treatment works where we are delivering water quality improvements as part of our long-term drinking water quality strategy. Despite this, the Company's score has again improved this year from 3.64 in 2019 to 2.06 for the 2020 calendar year, outside our performance commitment of 0.00 (representing no failures) and slightly above the regulatory deadband of 2.00.

Despite the significant impacts of COVID-19, we completed two major water quality improvement schemes at Mayflower and College water treatment works in 2020, benefitting over 200,000 customers in the Plymouth and Falmouth areas of our region. By prioritising drinking water quality, we also delivered our regulatory water quality monitoring obligations in line with our regulator's expectations.

Important collaborative research is progressing well with respect to the new treatment facilities we will deliver in Bournemouth and Christchurch and in identifying where customers' properties are at high risk of containing lead plumbing.

We are also investing in enhanced maintenance within our distribution network.

2.06



WATER QUALITY COMPLIANCE (CRI)* CRI score

2020 Actual	2.06
2020 Deadband Target	2.00
2019 Actual	3.64

* Calendar Year Incentive

Taste, smell and colour contacts¹

We recognise that customers expect their drinking water to look and taste great and that this is important in maintaining customers' trust in the safety of our supplies. South West Water continues to invest in this key area by delivering advanced treatment (granular activated carbon, Ultraviolet (UV), enhanced manganese removal), enhanced maintenance, monitoring improvements to our network and working closely with landowners in our catchments to improve the quality of the water in our rivers and reservoirs.

Following a decade of improvements that has resulted in a 75% reduction in customer contacts to just 2.04 per 1,000 population in 2019, our performance in 2020 was further improved to 1.65; outperforming our performance target of 1.68 contacts per 1,000 population.

This year was especially challenging due to changes in water usage patterns associated with COVID-19 but our long-term strategic investments, outlined above, alongside enhanced maintenance strategies and innovative approaches to managing our network, mean we are well placed to continue to deliver on our customers' number one priority of clean, safe and reliable drinking water they can trust.

Schemes to reduce taste, smell and colour incidents have also begun at five of our treatment works (Restormel, St Cleer, Prewley, Stithians and Littlehempston).

1.65



TASTE, SMELL AND COLOUR CONTACTS* Nr/1,000 pop

2020 Actual	1.65
2020 Target	1.68
2019 Actual	1.91

¹ Excludes Isles of Scilly
* Calendar Year Incentive



Water treatment unplanned outage

Water treatment unplanned outage is a new measure for the 2020-25 regulatory period. It assesses the performance and reliability of our 43 water treatment works. It tracks temporary loss, water production capacity (compared to peak capacity) and results from unplanned breakdowns or failures of production assets.

2020/21 has continued to show strong performance compared to the end of the 2015-20 regulatory period when this new measure was developed as a 'shadow' metric. Our performance typically compares well with the rest of the industry and is founded on effective investment and maintenance regimes to ensure that unplanned failures are minimised. This in turn minimises the risk of any production outages resulting in service impacts for our customers.

In order to maintain our strong performance, we embarked on a new initiative during the year by investing in a dedicated proactive maintenance team who carry out a cyclical programme of site-based 'asset health' checks and 'MOTs'. They operate on a cyclical programme basis targeting all our production sites on a prioritised basis. This model has worked very well during the year and we are looking to expand and accelerate this approach through the remainder of the 2020-25 regulatory period.

Our performance for 2020/21 was an outage figure of only 1.01%, despite significant demand, achieving a better performance than our target of 2.34%.

1.01

UNPLANNED OUTAGE
%

2020/21 Actual	1.01
2020/21 Target	2.34
2019/20 Actual	0.72

Interruptions to supply

Customers rely on a continuous supply of high-quality drinking water. Over the last 12 months, the COVID-19 pandemic has further emphasised the importance of this service in maintaining both public health and customer confidence.

During 2020/21, we achieved our best ever performance level of an average of 5 minutes 38 seconds (for interruptions of 3 hours or longer), a c.40% year on year reduction for those customers who have an outage for more than three hours, two years ahead of target.

Alongside our continued development of predictive network analytics, we have developed our Alternative Water Supply (AWS) strategy which has seen the introduction of a team dedicated to the temporary restoration of supplies during mains burst events. This is complemented by investment in our supply chain contracts with additional equipment and resources aligned to rapid response and resolution of issues on our network.

We continue to embrace innovation and have been working with industry partners. Through our Centre for Resilience in Environment, Water and Waste initiative with Exeter University, we are making sure that we leverage maximum benefit from developments in analytics, preventative maintenance and no-dig repair techniques.

00:05:38

WATER SUPPLY INTERRUPTIONS
hh:mm:ss

2020/21 Actual	00:05:38
2020/21 Target	00:06:30
2019/20 Actual	00:09:10

Number of mains repairs

Prevention of mains failures is integral to the continued reduction in the number and impact of our supply interruption events.

In 2020/21 we have been able to marginally outperform our target of 152.3 burst repairs per 1,000 km of mains with our year end position of 150.4/1,000 km of mains. This has been achieved despite the impact of a prolonged cold spell in January which saw 556 burst mains repairs against a monthly average of around 200.

We will continue to invest in the replacement of those water mains at greatest risk of failure, extending the coverage of our pressure management capability and increasing preventative maintenance of air valves across our network.

150.4

MAINS REPAIRS
nr/1,000km mains (nr)

2020/21 Actual	150.4 (2,772)
2020/21 Target	152.3 (2,798)
2019/20 Actual	119.2

Our water continued



Available and sufficient resources



Leakage

Our customers feel very strongly that we should prevent water being lost due to damage and leakage, and we continue to invest significantly to prevent and manage leaks on our network. Our network was tested throughout the year with increased demand due to customer behaviour during the multiple lockdown periods and a higher than normal regional population given the significant proportion of second home ownership in our region.

As a result, increased pumping has been required to more rural areas, away from concentrated urban environments. With a record number of bursts seen in early 2021, our teams provided a robust response to this increased network activity. This resulted in a c.40% increase in the number of leaks detected. Despite this, our leakage performance for the year rose to 136.0MI/d, bringing the average three-year leakage performance to 126.8MI/d. This represents a 2.1% increase on our baseline position and therefore has not met our target of a 30% decrease.

Expenditure of £22.2m reflects a 30% increase in leakage investments from the prior year. We have invested a significant amount to reduce leakage. During the year a number of improvements were made to support our targeted acceleration of activity in future years. In total £7.3m was invested in mains repairs, replacement and active leakage control as well as additional data loggers, new PRV installations and the delivery of our new cutting-edge leakage management visualisation tool, Leaksure.

Over the second half of the year and into the second lockdown period, we continued our technology roll-out, including the implementation of the new iQuarius Mobile Leak Detection Solution for surveying, correlating and pinpointing water leaks. We also completed the delivery of our new cutting-edge leakage management visualisation tool, Leaksure. This gives field staff and managers spatial visualisation of leakage across the region, job status and auto prioritisation of targeting to improve speed of response. This is a key enabler to help meet future large reductions in leakage targets.

126.8

LEAKAGE
ml/d (three-year average total)

2020/21 Actual	126.8 (2.1% inc)
2020/21 Target	120.5 (3.0% dec)
2019/20 Actual	124.2

A targeted action plan to continue to recover performance is now in place focusing on:

- **Detection and repair** – even more investment to reduce leak running times
- **Focus on customer leaks** – proactive identification and support for supply pipe repairs
- **Data and control systems** – increasing network monitoring and innovative combined smart meters
- **Reducing own use** – making our operations more water efficient
- **Reducing customer usage** – water efficiency initiatives including customer education programmes to reduce demand.

Significant investment continues, with earlier than planned upgrades in our network to accelerate our plan to deliver a 15% reduction in leakage by 2025.

Per capita consumption

Household demand on the network has increased during the year, arising from both additional occupancy of households in our region due to a higher proportion of properties being occupied, as well as households being occupied for a greater proportion of the time (e.g. during lockdown restrictions). There has also been a varied pattern of demand on the network placing additional strain upon it during certain periods.

South West Water has commissioned external analysis to review the household population, including where second homes are now main places of residence. Per capita consumption (PCC) for the year has slightly decreased to 138.6MI/d (2020: 144.0MI/d). Excluding these impacts identified in the analysis, PCC would have shown an increase to 152.6MI/d.

We will perform further analysis of this over the forthcoming year and make any adjustments required.

The performance commitment operates over a three-year average period compared to our baseline position at the start of the regulatory period, and as a result we have seen a 0.8% decrease (target 1.1% decrease).

To help customers reduce their consumption over the year we:

- released a Water-Saving Community Fund to support reduction in water use
- implemented virtual water audits
- delivered a programme of commercial water audits.

144.9

PER CAPITA CONSUMPTION
Litres/person/day (three-year average total)

2020/21 Actual	144.9 (0.8% dec)
2020/21 Target	144.4 (1.1% dec)
2019/20 Actual	146.0

Management Plan

Water Resources Management Plan

2020/21 saw the first year of the delivery of our latest Water Resources Management Plan. This included:

- costing and feasibility of a pumped storage scheme at Roadford reservoir
- delivery of our programme of reducing water use at three of the five planned sewage treatment works for the period
- completing the first two phases of our new financial decision-making tool
- modelling of the impact of more extreme droughts on our system response.

We have also completed the West Country South schemes as part of our regional planning. This has examined the feasibility of future strategic options in the region and the ability to transfer water across to the South East should it be needed.

The 2020/21 period was also the first year of our Abstraction Incentive Mechanism scheme in the Otter Valley, which we continue to operate.

Looking forward, in 2021/22 we will be focusing on the development of the West Country Regional Water Resources Plan, preparing for our Draft Water Resources Management Plan due in 2024 and completing our Drought Plan which was delivered for consultation in April 2021.



Water restrictions placed on customers¹

2020 was South West Water's 24th consecutive year without water restrictions despite exceptionally high demand during the spring and summer.

Bournemouth Water's track record of no water restrictions was also successfully maintained.

Despite high demand over the year, we successfully managed resources and were able to take advantage of the wet periods over the winter to replenish storage. At the end of the year our total storage placed us in the best position possible for what we expect to be a very high demand spring and summer for a second year running, with an anticipation that the regions we serve will be busy with a high number of people taking advantage of a 'staycation'.

On 1 April 2020, South West Water's licence was extended to cover the Isles of Scilly. Although this commitment does not apply to the Isles of Scilly, the Company is working to strengthen resilience into the water supply on the islands, where restrictions were required to be imposed more recently in 2014 (see page 41 for further details).

Although following winter, our reservoirs are at a healthy level, throughout the summer of 2021, we anticipate high numbers of people taking holidays within our region again with potential restrictions on foreign travel remaining in place.

The Company has publicised the following top 10 tips to our household customers to save water:

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

South West Water Final Water Resources Management Plan From April 2020



Final Water Resources Management Plan
www.southwestwater.co.uk/environment/a-precious-resource/water-resources-management-plan/



West Country Water Resources Plan
www.wcwr.org/siteassets/document-repository/reports/wcwr-rps.pdf

0

WATER RESTRICTIONS PLACED ON CUSTOMERS Number

2020/21 Actual	0
2020/21 Target	0
2019/20 Actual	0

¹ Excludes Isles of Scilly

Our wastewater

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



We are improving the resilience of the region's wastewater services to minimise our impact on the environment.

Outcomes



Reliable wastewater services

The health of the natural environment is essential.

2020-25 ODIs

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

Risks

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

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

More information pages 133 to 139

Accountability



Performance key



Our wastewater continued



Reliable wastewater services



External sewer flooding

In line with the positive internal sewer flooding performance, during 2020/21 the number of external sewer flooding cases decreased slightly compared to the previous year, resulting in a total of 1,499. The unusually wet August also resulted in more external sewer flooding incidents than average for the month. Performance over the previous five years had seen a reduction over the period and our performance targets being met, which demonstrates a positive downward trend.

1,499

EXTERNAL SEWER FLOODING INCIDENTS
nr/yr

2020/21 Actual	1,499
2020/21 Target	1,665
2019/20 Actual	1,923

Internal sewer flooding

During 2020/21 the number of internal sewer flooding cases decreased from the previous year, resulting in a total of 105 internal sewer flooding incidents (or 1.34 per 10,000 sewer connections). The South West had an unusually wet August which resulted in an increased incidence of flooding above the average for that month. This included some storms which were one in 1,000-year events. Despite this, performance for the year is better than the target.

South West Water performs a comprehensive set of checks and controls for categorising sewer flooding incidents and has performed a manual review of every incident.

Awareness campaigns to educate on sewer misuse, which is a key cause of internal flooding, have been compromised by the COVID-19 pandemic this year. However, other activities have been focused around improved processes to stop repeat flooding and developing systems using lead indicators to identify areas at risk of flooding, which can then be mitigated. Ongoing activities to mitigate the risk continue, such as sewer cleansing and targeted investment to address defects.

1.34

INTERNAL SEWER FLOODING
nr/10,000 sewer connections/yr (nr/yr)

2020/21 Actual	1.34 (105)
2020/21 Target	1.68 (126)
2019/20 Actual	2.12



Sewer blockages and collapses

Sewer blockages have decreased by 3% and collapses per 1,000km of sewer have decreased by 24%. In both cases this is better performance than our performance commitments (6,484 blockages against a commitment of 7,540 and 9.76 sewer collapses per 1,000km of sewer against a target of 17.06).

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

This historically low performance demonstrates the continued effectiveness of our programmes of work on the network through investigating, cleaning and repairing sewers. The COVID-19 pandemic has restricted our interactions with our customers, resulting in the scaling back of our award-winning Love Your Loo and ThinkSink campaigns.

6,484

SEWER BLOCKAGES
nr/yr

2020/21 Actual	6,484
2020/21 Target	7,540
2019/20 Actual	6,662

9.76

SEWER COLLAPSES
nr/1,000km of sewer/yr (nr/yr)

2020/21 Actual	9.76 (186)
2020/21 Target	17.06 (298)
2019/20 Actual	12.79

Wastewater treatment works (WWTW) compliance, numeric & descriptive compliance

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

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

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

In 2020 we improved performance from 2019 at numerically permitted sites to 99.04% compliance with only three of the 305 numerically permitted treatment works being deemed non-compliant by the Environment Agency (EA), meaning we were within the regulatory deadband with no financial penalty. Our compliance was 99.04% for these numeric works.

Compliance at our smaller 'descriptive' permitted sites fell slightly to 98.8%, also therefore was slightly under the target of 100%.

The resultant combined figure for total treatment works compliance therefore was slightly beneath the 100% compliance target at 98.9%.

99.04

TREATMENT WORKS COMPLIANCE* (NUMERIC)
%

2020 Actual	99.04
2020 Target	100.00
2019 Actual	98.71

98.9

TOTAL WASTEWATER TREATMENT WORKS (WWTW) COMPLIANCE*
%

2020 Actual	98.9
2020 Target	100.0
2019 Actual	99.1

98.8

DESCRIPTIVE COMPLIANCE*
%

2020 Actual	98.8
2020 Target	100.0
2019 Actual	99.4



Odour contacts from wastewater treatment works

In 2020/21 odour contacts were received from 126 different customers across the region. We liaise proactively with a small number of these customers through our active liaison groups.

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

We have achieved our target of fewer than 230 contacts in the year.

219

ODOUR CONTACTS FROM WASTEWATER TREATMENT WORKS
nr/yr

2020/21 Actual	219
2020/21 Target	230
2019/20 Actual	242

Compliance with sludge standard¹

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

Biosolids recycling is a regulated and closely monitored practice with 2020 seeing the introduction of the Biosolids Assurance Scheme. However, the COVID-19 pandemic during 2020 has impacted some of the biosolids recycling processes associated with the scheme, and the Environment Agency updated the industry that compliance reporting would be suspended for 2020.

In 2020, South West Water marginally missed its performance commitment in this area, but has successfully transferred the management of field disposal to a new contract supplier. Under this new contract we are aiming to improve our compliance in future years.

98.39

COMPLIANCE WITH SLUDGE STANDARD*
%

2020 Actual	98.39
2020 Target	100.00
2019 Actual	99.62

* Calendar Year Incentive

1 Excludes Isles of Scilly

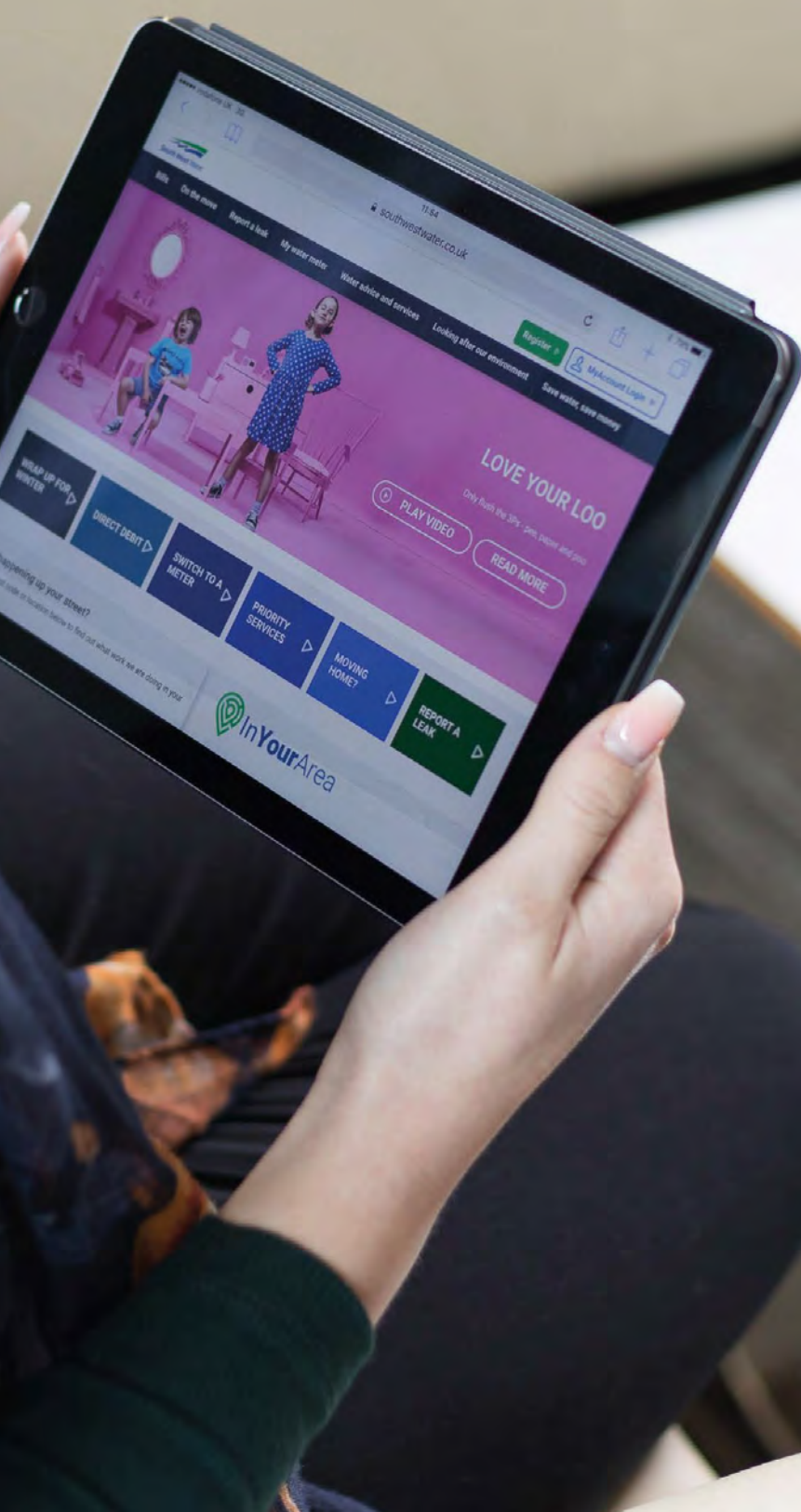
Our customers

Meeting our customers' needs

and ensuring value for money is critical to our success as a business.



**Our aim is to offer
the best experience
to our customers,
continuing to
deliver a high
level of service.**



Outcomes



Responsive to customers

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



Fair charging for all

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

2020-25 ODIs

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

Risks

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

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

More information pages 133 to 139

Accountability

Outcome
Delivery
Incentive
Committee

Group
Executive
Management

South West
Water Board and
Committees

Performance key



Area of excellence



Outperformance



On track



Marginal
underperformance



Area of focus

Our customers continued



Responsive to customers



C-MeX

The Customer Measure of Experience (C-MeX) was introduced on 1 April 2020. This new industry-wide measure of customer satisfaction is designed to incentivise companies to further improve the experience they provide to customers.

Although South West Water's annual C-MeX score has improved year on year to reach 80.96, it is marginally below the industry average, ranked 12th overall.

Although South West Water scores better than average in respect of its customer satisfaction score for the customer service survey, it has a below average score in the customer experience survey (these two surveys are combined to form the annual C-MeX score).

Improvements already put in place during 2021/22 or planned during the remainder of the year include:

- Improvements to modernise the navigational experience and appearance of the Company's 'MyAccount' platform, including simplifying billing information
- Enhancements to the billing system to allow improved proactive customer contact where measured billing plans see increases
- Improved analysis of contacts to allow us to identify more easily what is driving customer feedback.

The lower customer experience survey score is in part influenced by some customers having no opinion/being ambivalent. We are increasing our efforts to connect with customers and the communities we live in, through initiatives such as WaterShare+ (see page 9) and increased promotion of added value services such as facilities available via the South West Lakes Trust, an enhanced free educational programme at Roadford Reservoir and co-ordinated community partnerships.

80.96

C-MEX
score

2020/21 Actual	Below median (80.96)
2020/21 Target	Median
2019/20 Actual	N/A

Customer satisfaction with value for money

Our customers' satisfaction with overall service remains high at 90%. While the indicator is no longer a regulatory performance commitment for 2020-25, we continue to track the measure as a complementary key performance indicator alongside the Ofwat industry measure of customer satisfaction, C-Mex.

We have retained 'Customer satisfaction with value for money' as a reputational performance commitment for 2020-25. In recognition of the value for money of the services we deliver for them, customers' satisfaction levels have increased, and with results of 70% we have achieved our performance commitment target for 2020/21.

Developer Services Measure of Experience (D-MeX)

In readiness for the launch of D-MeX on 1 April 2020 the Company delivered a team restructure to provide more robust jeopardy management and focus upon providing developer customers with the highest level of customer service.

COVID-19 impacted construction activity early in the financial year although non-construction activities such as new applications increased, as developer customers focused on preparation in readiness for the lifting of restrictions, along with concentrating on the closedown of existing projects.

Changes to the D-MeX methodology were introduced by the regulator during the year and the Company has continued to implement process improvements and online transactional services such as application forms and payment facilities. We have continued to engage with our customers and have introduced improved jeopardy management tools to help to deliver improved delivery performance and customer experience.

70

**CUSTOMER SATISFACTION WITH
VALUE FOR MONEY**
%

2020/21 Actual	70
2020/21 Target	70
2019/20 Actual	60

85.88

D-MEX
score

2020/21 Actual	Median (85.88)
2020/21 Target	Median
2019/20 Actual	N/A

Specifically, our D-MeX performance during 2020/21 of 85.88 placed us as the median company thereby resulting in no ODI under or overperformance.

To further improve our performance in 2021/22 the Company is currently undertaking recruitment to provide improved specialised analysis and insight within our Developer Services team to bring further focus upon the key priorities of our developer customers.

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

Preventing any reasons which cause customers to contact us is the foundation of our customer service strategy. When a customer contacts us with an operational issue, our aim is to resolve it as quickly as possible. This continues to be our focus throughout the COVID-19 pandemic with our people working 24/7 to keep taps running and toilets flushing.

In the drinking water side of the business we have continued to deliver strong performance, exceeding the yearly target for the fifth year in a row and resolving 96.0% of contacts first time.

In wastewater we also continued to resolve a high number of contacts first time, though at 95.1% this was marginally above the 95.0% target for the year. We are optimising our field schedules and communications to make sure we keep our customers updated on response times to ensure we enhance our service even further.

96.0

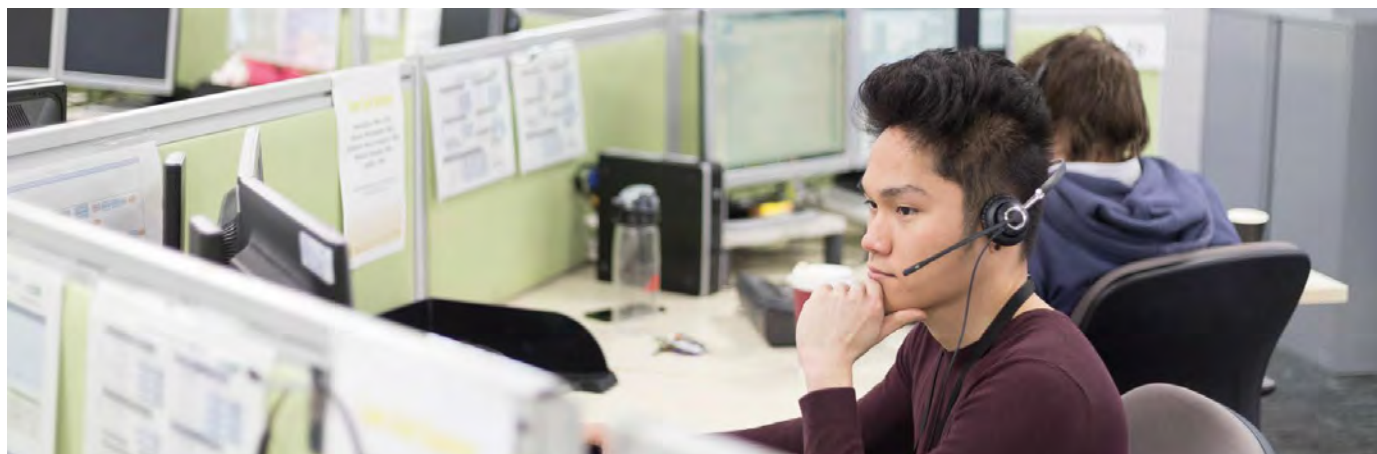
**OPERATIONAL CONTACTS RESOLVED
FIRST TIME – WATER**
%

2020/21 Actual	96.0
2020/21 Target	95.0
2019/20 Actual	96.2

95.1

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

2020/21 Actual	95.1
2020/21 Target	95.0
2019/20 Actual	93.6



Supporting customers in vulnerable circumstances

As a provider of an essential service we understand how important it is that customers in vulnerable circumstances are not limited in the way they access or receive our services as a result of their vulnerability.

We strive to understand the needs of our customers in vulnerable circumstances to ensure that our services are inclusive and that we provide additional support as needed, both during the normal course of business and during events or emergencies.

For example, our:

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

To support our customers during the pandemic, we established an additional, dedicated COVID-19 PSR for those who were self-isolating, shielding or at high risk, to ensure that they would receive doorstep deliveries of water in the event of supply interruptions. Over 22,000 customers registered for this service. As and when this separate register is no longer required, we will contact these customers to transfer them over to our business as usual PSR where they would continue to benefit.

To demonstrate our commitment to providing support to customers in vulnerable circumstances, our 2020-25 business plan contains a number of challenging performance commitments which highlight the quality of service we provide. We have achieved or exceeded all of these for 2020/21.

We now have 45,093 customers on our PSR, 4.6% of all households that we serve, and are on track to exceed our 2025 target of 7%. We have increased the number of customers on our PSR by nearly 75% in the last 12 months through:

- additional promotion of the benefits of priority services via our contact centre, social media and in local newspapers, and
- one-way data-sharing with the electricity Distribution Network Operators who overlap our service areas to simplify registration to multiple PSRs for customers who register with them.

We have also exceeded our targets for contacting customers every two years to ensure they continue to receive the right support. We have attempted to contact over 50% of customers whose details are due to be checked and have updated or confirmed the details of 39.1%, exceeding the 2020/21 performance commitment levels of 45% and 17.5%, respectively.

We proactively monitor customers' satisfaction with services received under the PSR to ensure that those in vulnerable circumstances are satisfied with the support they receive. For 2020/21 we achieved 89% satisfaction, significantly ahead of the target of 73%, and demonstrating we are well positioned to meet our 2025 target of 93%.

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

Achieved

BRITISH STANDARD FOR INCLUSIVE SERVICE PROVISION

Category

2020/21 Actual	Achieved
2020/21 Target	Achieved
2019/20 Actual	N/A

89

OVERALL SATISFACTION OF SERVICES RECEIVED ON THE PSR

%

2020/21 Actual	89
2020/21 Target	73
2019/20 Actual	82

MET ALL MEASURES

PRIORITY SERVICES FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Sub-measures

4.6

PRIORITY SERVICES FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES – REACH %

2020/21 Actual	4.6
2020/21 Target	2.5
2019/20 Actual	2.6

39.1

PRIORITY SERVICES FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES – ACTUAL CONTACTS %

2020/21 Actual	39.1
2020/21 Target	17.5
2019/20 Actual	N/A

51.2

PRIORITY SERVICES FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES – ATTEMPTED CONTACTS %

2020/21 Actual	51.2
2020/21 Target	45.0
2019/20 Actual	N/A

Our customers continued



Fair charging and affordable bills for all



Affordability and assistance for those struggling to pay

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

For some of our customers affordability of their water bills is not likely to be an isolated concern, and can often be an indicator of broader issues. We know that through our affordability toolkit we can have a broader impact, which is why our toolkit of measures goes beyond just providing help with water bills. We proactively support customers to identify and claim additional income, improving the whole of the household financial situation, with associated social and economic benefits.

To further demonstrate our commitment to keeping bills as low as possible for all our customers, our Board has pledged to address water poverty by 2025, five years ahead of the water industry commitment. We are monitoring this through our performance commitment to increase the percentage of customers who find their water bill affordable. Households that spend less than 5% of their income (equivalised and after housing costs) on their bill are classified as having an affordable bill. Our innovative WaterCare+ programme, introduced in 2007, continues to offer support to customers through a number of initiatives including direct account reviews and benefit entitlement checks, in addition to working in partnership with organisations such as Social Housing Providers and Carer Organisations to ensure that our schemes are promoted and easy for our customers to access.

The impact of these activities should not be understated. Each benefit check that we do identifies on average an additional £67 per week to the household and 30,565 customers currently benefit from one of our support tariffs – ahead of our 2020/21 target of 27,000.

Our FreshStart fund helps customers who are new to debt and who find themselves in vulnerable circumstances, through bereavement, long-term illness or loss of a job. Last year £185k of financial support was provided to customers, bringing the total amount to over £165m since it was introduced.



COVID-19 has had a significant economic impact on our customers, both in terms of reduced household incomes and increased water usage, resulting in higher than usual bills for customers paying a metered charge.

Throughout the pandemic we have reviewed and adapted the support we offer to customers who are experiencing affordability issues, and will continue to do so as the economic effects of the pandemic continue. Some of the steps we have taken this year include:

- Contacted over 330,000 customers by email to provide reassurance that their safety and support was our top priority
- Our support measures were promoted online and via social media, with a new form introduced on our website for customers to register any affordability issues arising from COVID-19. To date 6,300 customers have used this service
- To make the application for support easier for customers who had to shield, or who were unable to complete a form of one of our tariffs, we adapted our WaterCare home visit service to provide this support over the telephone
- We have automatically renewed customers on social tariffs and offered higher discounts to those customers who need it the most
- Offered payment support and converted cash payers to other methods.

Our efforts to support customers through this period have helped to mitigate the downward impact on the number of customers paying an affordable bill. We have exceeded our 2020/21 target, with 89.4% of households paying less than 5% of their income on their water and wastewater bill.

Looking ahead we are continuing to expand the support we provide to help customers who struggle to pay their bills and those that are in water poverty. From 1 April 2021 we are expanding our WaterCare Tariff to include higher bill discounts for customers who need a greater depth of support to take them out of water poverty. We are also relaunching our FreshStart Fund to work in partnership with a wide range of organisations to provide improved accessibility and ensure that customers who need it will continue to receive support from the fund.

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

30,565

NUMBER OF CUSTOMERS ON ONE OF OUR SUPPORT TARIFFS
Number

2020/21 Actual	30,565
2020/21 Target	27,000
2019/20 Actual	25,584

89.4

PERCENTAGE OF CUSTOMERS WHO FIND THEIR WATER BILL AFFORDABLE
%

2020/21 Actual	89.4
2020/21 Target	89.0
2019/20 Actual	87.4

CASE STUDY: HOLISTIC SUPPORT



Our WaterCare Advisors go above and beyond supporting vulnerable customers who need our help the most.

A member of our WaterCare Team recently supported a very vulnerable customer who was struggling to pay their water bill due to going through cancer treatment.

The customer was able to complete a WaterCare application over the telephone and was accepted onto the WaterCare Tariff, giving them a 15% reduction on their bill, and completed an application for a FreshStart grant to clear the customer's debt.

The customer also explained that they were meant to be shielding but was struggling without a washing machine which is particularly challenging given the side effects of the customer's treatment.

Our Advisor put the customer in contact with a charitable organisation that delivered a new washer dryer for the customer.

15%

REDUCTION ON BILL



Voids for residential retail

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

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

This has meant we have been able to keep the percentage of households which are correctly noted as vacant with no charges levied under the 0.91% performance commitment level at 0.84%.

Installation of AMR meters

Our customers have told us that it is important we have performance commitments that ensure bills are fair and affordable for all. Our customers tell us they want us to help them use less water to protect valuable resources and support household budgeting. They also want us to be proactive and drive leakage as low as is practical and affordable to do so. Based on this feedback we have developed four performance commitments around affordability and fair bills. One of these is the replacement of visual read household meters with meters which can be read remotely (AMR). 82% of residential customers are on a water meter.

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

We have been installing AMR meters since 2015 and our commitment for the 2020-25 period is to continue installing AMR to give a total of 245,964 installed by 2025. This will help identify and reduce leakage and put more customers in control of their water usage. In the first year of this period we are slightly ahead of track having exceeded our 2020/21 performance commitment.

0.84

VOIDS FOR RESIDENTIAL RETAIL
%

2020/21 Actual	0.84
2020/21 Target	0.91
2019/20 Actual	0.75

165,685

INSTALLATION OF AMR METERS
nr/yr

2020/21 Actual	165,685
2020/21 Target	161,332
2019/20 Actual	144,217

Our environment

Our 'New Deal' Business Plan includes our largest environmental programme in 15 years, recognising that a healthy environment is vital for the long-term sustainability of the services we provide to customers.



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

Outcomes



Protecting the environment

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

Consistency measures from 2020

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

Risks

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

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

More information pages 133 to 139

Accountability



Performance key



Our environment continued



Protecting the environment



Biodiversity – enhancement

Catchment management protects and improves river quality and critical water abstraction sources to provide clean, safe and reliable drinking water without the need to provide additional infrastructure. It is supported by our customers as part of South West Water's commitment to protect and enhance the environment in the catchments in which we operate. This performance commitment is designed to incentivise an increase in the area of land under active improved catchment management as part of our 'Upstream Thinking' project interventions. The annual target is 10,000 hectares (50,000 hectares for the 2020-25 regulatory period).

In 2020/21 we achieved a cumulative ODI total of 85,100 hectares, which is equivalent to 21,891 hectares of new catchment management, 11,891 hectares above the target. This is a combination of new catchment management in 2020/21 and early delivery achieved in 2019-20 following our fast track business plan status.

2020/21 delivery was challenging due to the impact of COVID-19 on the work of our partners in the catchments as they came to terms with new working arrangements. COVID-19 restrictions have reduced and impacted on farmer contacts and visits which is the starting point of the engagement process that brings new land into new Upstream Thinking grant agreements or changed management through advice. This could also have consequences on the supply of new agreements into Year 2. Our delivery partners in the catchments have taken on extra staff to counter this and enable a quick recovery once COVID-19 restrictions are lifted.

85,100



BIODIVERSITY – ENHANCEMENT
Hectare

2020/21 Actual	85,100
2020/21 Target	73,209
2019/20 Actual	73,150

Biodiversity – prevent deterioration

Invasive Non-Native Species (INNS) can impact on all aspects of the business. During 2020/21 we have been delivering biosecurity measures at South West Water sites to prevent the introduction of new, and the spread of existing, INNS.

Our programme has been accelerated and has exceeded the target of measures at 21 sites for this year. Delivery includes:

- signs at 40 sites; double the target for this year
- 12 biosecurity facilities including nine dip tanks for equipment cleaning (at eight sites), two hosepipe wash-downs at Longham and Roadford cafe for walkers and an exemplar multi-use biosecurity demonstration site at Roadford Activity Centre.

The target for 2020-25 is to install a total of 12 wash down facilities with three further boating-scale washdown facilities.

Stakeholder engagement is also needed to help to adopt the new measures and we are delighted to have had great support from a range of stakeholders. Highlights include:

- established 53 INNS Site Guardians, who have received training at 31 lakes
- received 24 awards through an EU Life pilot project in the South West, AQUA (Aquatic Quality Award) – a biosecurity accreditation scheme. 19 of our lakes have achieved the Bronze AQUA award, and four lakes (both Longham Lakes, Squabmoor Reservoir and Roadford Lake) have achieved the Silver AQUA award.

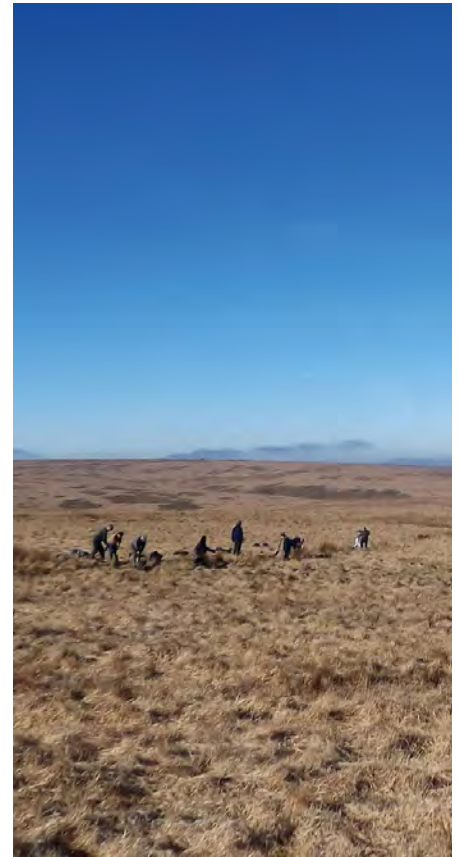
COVID-19 has driven our acceleration of this programme. Following lockdown, South West Lakes Trust (and other water companies, the Angling Trust and British Canoeing) have seen a 50% increase in site use. It has become increasingly urgent to ensure these many new visitors to our sites have a reasonable understanding of biosecurity, health and safety requirements at reservoirs and the impact of INNS on reservoirs for recreational and operational activities or biodiversity. The risk for spreading INNS is dramatically increased with larger numbers of visitors and requires additional measures so everyone can continue to enjoy our sites safely.

46



BIODIVERSITY – PREVENT DETERIORATION
Number

2020/21 Actual	46
2020/21 Target	21
2019/20 Actual	N/A



Biodiversity – compliance

The purpose of this performance commitment is to incentivise the Company to avoid pollution that harms special wildlife conservation areas. Wildlife conservation areas are particularly vulnerable to environmental damage from pollution incidents and this measure helps make sure that we avoid these.

There were zero events in 2020/21 against a target of zero.

0



BIODIVERSITY – COMPLIANCE*
Number

2020 Actual	0
2020 Target	0
2019 Actual	N/A

* Calendar Year Incentive



Pollution incidents (wastewater cat 1-3)

Our performance in respect of wastewater pollution incidents did not achieve the improvements we had targeted. We have intervened and restructured our operation, established a new wastewater leadership team and aligned our business to improving our environmental performance. Alongside the health, safety and wellbeing of our people, this is our number one priority.

As a result of performance, we launched our Pollution Incident Reduction Plan in September 2020, which has delivered immediate and sustained improvements in our performance with the average number of monthly pollutions now less than half of that seen before the implementation of the new plan.

We are committed to delivering a step change in our performance in order to achieve the challenging targets set. Our plan centres around the following key initiatives:

- Root cause analysis – enhanced data modelling supporting proactive interventions
- Control systems and early warning – dedicated task force and 24/7 incident recovery
- Asset-specific plans – accelerated investments at key hotspot locations
- Influencing customer behaviour – targeted educational campaigns
- Improving our environmental culture – additional training, resources and empowerment for local teams to find and fix issues immediately.

A number of our reported pollutions are on older, adopted assets that are associated with missing lengths from version three of the Environmental Performance Assessment (EPA) reporting methodology. Version seven of the methodology includes an additional 1,600km of sewer relating to these adopted assets.

We have presented pollution incidents both including the total length and all incidents as per version seven of the EPA methodology, which is consistent with the Environmental Performance Assessment Report published by the Environment Agency on 13 July 2021, and excluding the length in line with version three methodology and associated pollution incidents left. Data reported in tables 3B and 3G is in line with the EPA version 3 methodology.

Number of pollution incidents cat 1-3 (water only)¹

Our performance in the number of pollution incidents relating to our drinking water assets was also outside of our target at 10 as a result of less serious category 3 incidents. We did however have no serious pollution incidents in this area. This improvement in performance comes from training and embedding of a new cultural and procedural programme within both our internal workforce and wider supply chain partnerships.

During 2021 we will continue to drive improvement through continuous development of our processes and procedures. We will also continue to invest in innovative plant and equipment that better manages losses of water from our assets.

Environmental Performance Assessment (EPA)

Our EPA performance commitment incentivises us to improve our EPA rating from the Environment Agency. Meeting the criteria for a higher rating in the EPA demonstrates we are improving our environmental performance. The EPA measure is a bundle of measures which includes:

1. Numeric permit compliance including water treatment works discharge compliance
2. Total pollution incidents (categories 1, 2 and 3) for the sewerage system
3. Serious pollution incidents (category 1 & 2) from the sewerage system
4. Percentage of self-reporting of category 3 pollution incidents
5. Water Industry National Environment Programme (WINEP) scheme delivery
6. Security of Supply Index (SoSI).

For the 2020 calendar year we were rated as two-star. This was confirmed in the final assessment published by the Environment Agency on 13 July 2021.

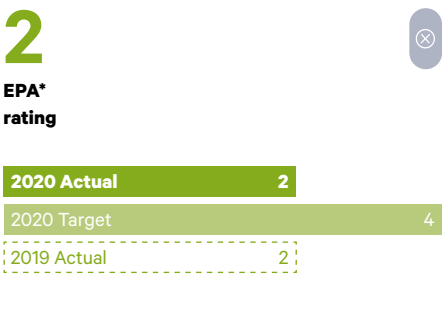
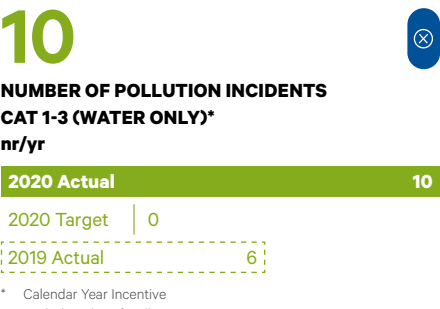
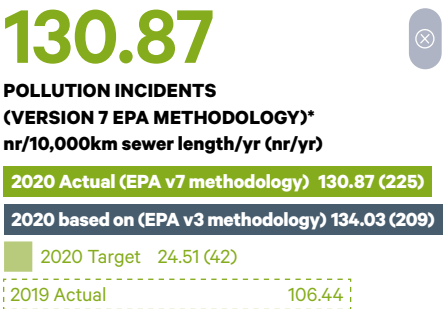
The two-star assessment was due to our performance on pollution incidents which were rated as red (total and serious pollution incidents). One red measure dictates that a maximum of two stars can be achieved. As detailed left (in the pollution incidents section), we have put a huge amount of effort into our Pollution Incident Reduction Plan which we believe will bring benefits in 2021 and bring us to our targeted four-star status by the 2024 calendar year.

The security of supply index is an industry measure which assesses the overall reliability of a company to supply drinking water during drought conditions.

Whilst 2020/21 was not a drought year in terms of resource availability, we and other water companies saw exceptionally high demand during the year. For South West Water this was a combination of hot and dry weather in the spring and summer, coupled with staycations and increased resident population in the South West due to COVID-19 restrictions.

Whilst there was sufficient water resources and no supply risk, the high demand meant this index reduced from 100 to 99, which were therefore assessed as amber. We have put in place additional infrastructure investment to mitigate the impacts of the high demand. Looking to 2021, summer staycations and higher resident population in the South West means we expect the system to remain under pressure.

In the other three areas South West Water's performance was assessed as green.



Our resilience

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



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

Outcomes



Resilience

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

2020-25 ODIs

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

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

Risks

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

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

More information pages 133 to 139

Accountability



Performance key



Our resilience continued



Resilience



Resilience in the round – water

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

In 2020/21, 197 properties were affected by an unplanned supply interruption greater than 12 hours. This was significantly lower than our performance target for the year of 767 properties. With this performance we have achieved our target for the 2020/21 year and attained the performance level required in 2024/25 and it reflects a c.82% reduction from 2019/20 at 1,085.

In line with the overall improvements made in respect of supply interruptions, the number of longer duration supply interruptions has also been significantly within the targeted performance level.

This measure is particularly impacted by South West Water's proactive response when we become aware that supplies may be impacted, including mobilising alternative temporary supply measures quickly when they may potentially be needed.

For further details on our response to supply interruptions, see page 21.

197

RESILIENCE IN THE ROUND – WATER
Number

2020/21 Actual	197
2020/21 Target	767
2019/20 Actual	1,085

Resilience in the round – wastewater

This measure relates to the ability to protect and quickly recover treatment processes at wastewater treatment works in the case of extreme weather events. It is measured as the number of resilience action plans put in place for the wastewater treatment works.

South West Water has developed plans for 104 treatment works during the year, significantly in excess of the target of 20.

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

104

RESILIENCE IN THE ROUND – WASTEWATER
Number

2020/21 Actual	104
2020/21 Target	20
2019/20 Actual	N/A

Risk of severe restrictions in a drought

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

Our 2020-25 Business Plan forecast was that we did not expect any customers to be at risk from severe restrictions.

2020/21 saw a very high level of demand in the regions we serve, and whilst challenging, especially in one of our three water supply zones in the South West of England, this did not lead to a risk that, had a 1 in 200-year drought event occurred, significant water restrictions may have been required.

Averaged over a 25-year period this results in a 0% risk of restrictions under such 1 in 200 year events and is therefore in line with target.

0%

RISK OF SEVERE RESTRICTIONS IN A DROUGHT
Risk of severe restrictions in a 1 in 200 year event

2020/21 Actual	0%
2020/21 Target	0%
2019/20 Actual	0%



Risk of sewer flooding in a storm

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

We currently have a 2020/21 commitment to have no more than 30.54% of the region's population at risk from internal hydraulic flooding, and we are currently forecasting well below this figure at 14.61%. This significant outperformance is primarily due to 10 large catchments being assessed more accurately in respect of identifying the population at risk, whilst noting a slight increase in the number of hydraulic flooding issues during the five-year assessment period.

14.61

RISK OF SEWER FLOODING IN A STORM
%

2020/21 Actual	14.61
2020/21 Target	30.54
2019/20 Actual	14.74

* Calendar Year Incentive

Resilient water and wastewater services on the Isles of Scilly

2020/21 saw the expansion of our licence to include the Isles of Scilly with operations transferred seamlessly into South West Water. Assets were successfully transferred, key suppliers are now in place and our operational teams continue to work hard to deliver essential water and wastewater services. Work is well underway to deliver improvements in critical infrastructure as well as improvements for both customers and the environment.

The 2020-25 Business Plan highlighted investment needs on the islands based on South West Water's inspections and surveys. These included investments to:

- protect groundwater resources
- improve quality and resilience of water treatment and distribution
- repair and replace approximately 10km of water networks
- install smart metering and the roll-out of water efficiency and rainwater harvesting.

Water quality and environmental legislation enactment from 1 April 2020 is supported by a Local Enforcement Position (LEP) agreed with the Environment Agency, and memorandum of understanding with the Drinking Water Inspectorate that recognises the investment journey required to satisfy the mainland standards.

Appointed

RESILIENT WATER AND WASTEWATER SERVICES ON THE ISLES OF SCILLY
Category

2020/21 Actual	Appointed
2020/21 Target	Appointed
2019/20 Actual	N/A

Our investment programme includes water quality improvements, a new sewage treatment facility on St Mary's, a sewer repair and replacement programme for circa 5km of sewers and sewerage improvements to reduce blockages and sewer flooding. Additional investments include security measures, South West Water depot and office facilities, telemetry, island-wide connectivity and transport provision in vehicles and boating costs. Specific progress made to date includes:

- recruitment – one technical assistant, one full-time scientist and one operations technician to bolster the existing team of five TUPE'd staff from the Council of the Isles of Scilly.
- moving towards a multidisciplinary operational team across all islands
- a safety inspection programme roll-out
- an operational office – a 'Field Support Centre' establishment
- seawater intake deployment by contractors
- increased sampling programme with increased knowledge
- developing business continuity plans
- continued partnership working with the Council of the Isles of Scilly
- the roll-out of training and progression schemes for operational staff
- increasing asset and service resilience
- raising community awareness
- launch of the metering programme.

ODI reporting requirements will apply to the islands, although nine measures will have shadow reporting through 2020-2025 and specific targets for the islands will be submitted as part of PR24, which will set our 2025-30 Business Plan.

Our resilience continued

CASE STUDY: WATER EFFICIENCY

South West Water is championing several water efficiency initiatives to encourage everyone to save our valuable resource now and for generations to come.

We've partnered with a number of third party organisations to promote water efficiency, including RHS Rosemoor during National Gardening Week for a second year running to promote water-saving tips in the garden. Our partnership with the RHS has included a targeted leaflet campaign offering tips on how to save water.

We continue to offer a range of free, and subsidised, water-saving products on the Save Water Save Money website.

South West Water has also been proactive during the year in promoting water efficiency through local press and media.

£75,000

MONEY DONATED FOR WATER EFFICIENCY COMMUNITY FUND

478,377

LITRES WATER SAVED THROUGH FREE WATER PRODUCTS

232

NUMBER OF WATER AUDITS OFFERED TO HIGH CONSUMPTION USERS



www.mosl.co.uk/groups-and-forums/industry-groups-forums/retailer-wholesaler-group/rwg-related-documents/3851-delivering-greater-water-efficiency-in-the-business-sector-action-plan/file



Water saving schemes
www.southwestwater.co.uk/save-water/



Storm overflows

Our customers and communities place increasing importance on river quality, given its impact on biodiversity, recreation, and wellbeing.

We care deeply about the environment and the priorities of our customers and communities – the environment is a top priority, alongside clean drinking water and the safety of our people.

We recognise that improving river quality will require long-term investment, working in partnership with other organisations, and increased transparency and information sharing to build trust and understanding. Although less than 1% of the water industry impact on 'Good' status is attributed to intermittent storm discharges in the South West area, we want to do our bit in driving these elements forward.

We know that identifying the sources and impacts of storm overflows is critical if we are to introduce effective new targets and improve river quality. To gain understanding and trust, there is a need for transparency and information sharing. We know it is important that we have up to date monitoring of storm overflows, and we have committed to ensuring complete monitoring across our region despite this not being funded in our 2020-25 plans, and we are committed to making data publicly available in real-time.

Regulation has driven an outcomes-based approach which encourages all sectors to play their part – but now needs to ensure water companies are incentivised to improve through partnership working, and that those partners are incentivised to engage. Systems level approaches require multiple sectors and drainage bodies to all play their part.

Experience has taught us that working in partnership and understanding how most effectively to intervene is essential if we are to play our part in delivering a step-change in river quality. This requires pilot schemes to prove the case for investment and identify best practice, which we are proposing for the rivers Dart and Tavy as part of our Green Recovery Initiative.

We welcome the opportunity to discuss our approach towards storm overflows at the forthcoming Environment Audit Committee (EAC).

Our storm overflow data

Good quality data will allow informed choices to be made.

Our internal performance team monitor Event Duration Monitoring (EDM) data on a daily basis, identifying asset performance issues liaising with operational staff to attend sites and rectify any problems identified. The team also monitors the performance of the regulatory monitoring equipment itself, ensuring it is operating within specifications. Data is also used to assess changes in asset performance data, including when spills have not occurred, to help decision-making on how to operate assets effectively.

Regular review meetings are held covering policy, latest developments, any limit exceedances, rectifications required to equipment. These meetings also cover the Company's data transparency and our BeachLive reporting website (which now provides real time reporting for 61 bathing waters all year round).

However, data on how often a storm overflow operates is not on its own an effective measure of environmental impact. The new Storm Overflow Assessment Framework (SOAF) is a regulatory mechanism to address this. The SOAF process is a trigger to investigate the storm overflows which operate frequently and looks at the root cause, environmental conditions and the economic case to improve – this is shared with the Environment Agency to create new investment drivers where supported.

SOAF investigation work has commenced for assets which have a record of spilling more often with root cause assessments being performed. Improvement options are then assessed to inform short term decision-making as well as longer term investments (including in preparation for our 2025-30 business plan).

An alarm system has now been established using low flow at an inlet or rising main and levels rising in the first point of storage (where possible) to allow for prompt action to be taken to prevent spills which may be about to occur. Already in 2021, more than 100 potential pollution incidents have been prevented through this process.

Additional plans to improve the usage and accuracy of our data

As identified in our 'Event and Duration Monitoring 2020' report (www.southwestwater.co.uk/edm2020), we accept that there is further work to undertake to improve the accuracy of our data and we are undertaking a number of measures to further improve the accuracy of the data as well as impact that the data is able to provide in helping us reduce storm overflow events.

South West Water is establishing an action plan to be overseen by the Executive. Some additional actions are already underway including:

- **Meniscus trial for sewer management and storm overflows** – We have commenced a trial with Meniscus Systems Ltd to provide real time and predictive analysis, real time rainfall radar data, weather forecasts, which coupled with other operational data predict flows in sewers, pumping stations and combined sewer overflows. We are trialling this approach with the aim of enhancing sewer blockage detection and a more targeted operational intervention approach to prevent pollution incidents
- **Dedicated maintenance team** – South West Water is establishing a dedicated EDM meter maintenance team to prioritise routine maintenance of EDM assets and timely maintenance when required. This will ensure high operability levels and improve data accuracy

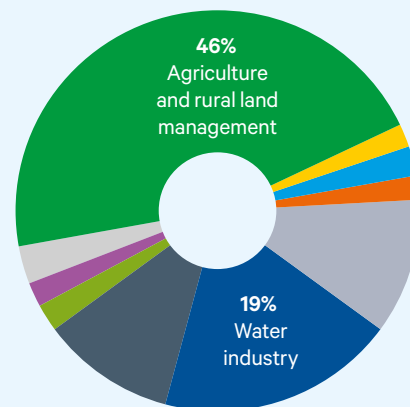
An Independent Group Internal audit of the Company's approach to storm overflows has been scoped and will be performed during 2021/22.

Overall status

Good progress has been made on improving the data quality, assurance and review. South West Water has robust reporting of storm overflows related assets and their performance as well as their environmental impact.

A plan for further improvements, including those noted above is being implemented for further enhance the quality of the data as well as our processes to ensure continued compliance with legal obligations.

Reasons for rivers not achieving 'Good' status in the South West Water area



- Industry
- Flood protection
- Domestic general public
- No sector responsible
- Mining and quarrying
- Sector under investigation
- Urban transport
- Other

Source



Event and duration monitoring 2020
www.southwestwater.co.uk/edm2020

DID YOU KNOW?

Less than 1% of the water industry impact on 'Good' status is attributed to intermittent storm discharges in the South West area.

Our community and people

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

A photograph of two young children, a boy and a girl, sitting on a rocky path. The boy is in the foreground, wearing a light blue sweater, and the girl is partially visible next to him, wearing a plaid shirt. They are both looking towards a stream in the background. The scene is outdoors with green foliage and rocks.

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

Outcomes



Benefitting the community

Our people strategy is designed to attract, retain and develop the right people with the right skills.

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

2020-25 ODIs

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

Risks

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

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

More information pages 133 to 139

Accountability



Performance key



Our community and people continued



Benefitting the community



Abstraction incentive mechanism resources

As part of the 2020-25 regulatory period we included an Abstraction Incentive Mechanism, or AIM, for a key groundwater source in East Devon. The purpose of the AIM is to promote the switch of water resource mix if groundwater levels are low.

The very wet weather in February 2020 meant that groundwater levels were high going into the spring and the AIM scheme was not triggered this year.

Our normal groundwater abstractions were lower than normal in 2020/21 due to restrictions we made on abstraction to protect supplies from a water quality perspective.

Bathing water quality

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

This performance commitment is based on the following factors:

- the number of bathing waters meeting or exceeding Environment Agency requirements identified in the WINEP
- the number of bathing waters downgraded during 2020-25 (based on Environment Agency annual classification data) where the cause is solely attributable to South West Water
- the number of bathing waters where South West Water is investigating the potential for improved status under the WINEP, and deliver an improved bathing water classification because of improvement actions identified in those investigations (and agreed with the Environment Agency) directly or through partnership activities.

There are currently 150 designated bathing waters in the South West Water region. This follows Defra's de-designation of Ilfracombe (Wildersmouth) at the beginning of the 2020 bathing season.

Of the eight bathing water improvement measures included within the WINEP we have delivered four within 2020/21. This represents delivery four years earlier than the original compliance dates set out by the Environment Agency. The measures being implemented early will benefit bathing waters at Par, Goodrington, Portmellon and Seaton (Cornwall). A further three improvement projects are proposed for delivery in 2021/22.

As a result of the COVID-19 pandemic the Environment Agency did not complete the regulatory monitoring programme for bathing waters in 2020. Consequently, no bathing water classifications were issued for the 2020 season. Defra has confirmed that beach managers can display the 2019 classification at bathing waters for the 2021 season, and the Environment Agency has indicated its intent to complete the regulatory monitoring programme in 2021 and to classify at the end of the 2021 season. The regulatory process for classification at the end of the 2021 season is still to be determined by Defra and the Environment Agency.

Given the regulatory position for the 2020 season, and using the 2019 classifications, 149 (99.3%) of the bathing waters would have been rated as 'sufficient' or better and 125 (83.3%) would have achieved 'excellent'. This still represents the highest proportion of 'excellent' bathing waters in our region since the new standards came into effect in 2015. Since the de-designation of Ilfracombe (Wildersmouth) the only 'poor' bathing water in the region is Combe Martin and its 2019 classification is not connected with the performance of South West Water's assets.

The improvements at 11 bathing waters to 'excellent' reported for 2019 and the four that dropped from 'excellent' to 'good' (Plymouth Hoe East, Porthcurnick, Penzance and Croyde Bay) remain unchanged. As reported in 2019, those that dropped to 'good' were unrelated to the performance of South West Water's assets.

Bathing water quality can be influenced by many factors, including storm overflows, run-off from agricultural land, sewage from privately owned treatment works, septic tanks, boats and even animals, such as dogs and birds. These factors are made worse by heavy rainfall.

Through our 'BeachWise' partnership and other regional groups and initiatives, we continue to support sustainable catchment-wide improvements in bathing water quality across the region. Our partners include local councils, beach managers, community groups, non-governmental organisations (NGOs), landowners, conservation organisations and the Environment Agency.

During the rest of the 2020-25 regulatory period, further investments will be made in improvements to the performance of our assets. This includes investigations to improve our understanding of current bathing water quality issues, as well as improvement measures at existing assets to reduce the impact of storm overflows and three additional Event and Duration Monitors to complete the monitoring coverage of all storm overflows at bathing water locations.

0

ABSTRACTION INCENTIVE MECHANISM* MI

2020/21 Actual | 0

2020/21 Target 365

2019/20 Actual | 0

* This target has no 2020/21 commitment, but is on track for future year commitments.

-4**

BATHING WATER QUALITY Number

2020/21 Actual -4

2020/21 Target -8

2019/20 Actual -8

** -4 represents a net improvement of 4 from the -8 baseline and target (see commentary above).

CASE STUDY: BATHING WATERS**£1.6 million boost for bathing water quality in the South West**

Bathing water quality at four of the region's beaches is set to improve following a £1.6 million investment by South West Water.

The projects, which were due for completion by the end of March 2025, were brought forward and completed ahead of this summer.

The four beaches are Seaton, Portmellon and Par Sands in Cornwall and Goodrington in Devon.

South West Water's Engineering Director, Matt Crabtree, said: "We care deeply about sustainability and take our guardianship of the natural environment very seriously and so it's great that the team were able to accelerate these improvements.

"We are currently investing over £150 million in our largest environmental programme for 15 years. This includes significant investment to improve bathing and river water quality.

"We're proud of our bathing water performance in the South West, where over 99% of beaches meet strict quality standards with 85% rated as 'excellent', and this major investment will help improve bathing water quality yet further at four of our region's beautiful beaches.

"But, as our investigations at Goodrington show, we've all got a part to play. Everyone can help protect bathing water quality by only flushing the 3Ps – pee, paper and poo – to help reduce blockages and sewer flooding, as well as bagging and binning dog poo and disposing of other waste responsibly."

The Environment Agency's Bruce Newport, Area Environment Manager, said: "We are delighted to see the sewer improvements made by South West Water ahead of this summer. We know there is a long way to go and ask householders, farmers and businesses to ensure their wastewater does not enter our rivers and streams which all end up in the sea and foul our beautiful coast."

The projects

Seaton (Cornwall): We have removed some highways and land drainage from the combined sewerage network. This will reduce the number of storm overflows during extremely wet weather. We'll be making further improvements to our network after this year's bathing water season, when visitor numbers are lower and we'll cause less disruption.

Portmellon: We have decommissioned Gorran Churchtown Wastewater Treatment Works, which used to discharge treated wastewater into the stream that flows across Portmellon beach. The works has been replaced with a pumping station which transfers wastewater to Gorran Haven Wastewater Treatment Works, where it is treated to the highest possible standards including ultraviolet disinfection to protect bathing water quality, and discharges via a sea outfall at Scurvella Point.

Par Sands: To improve bathing water quality at Par Sands, a 300-cubic metre storm storage tank has been constructed at Luxulyan Wastewater Treatment Works to reduce the number of storm overflows during extremely wet weather.

Goodrington: We have investigated potential sources of pollution in the Clennon Valley Stream, which enters the sea at Goodrington. This revealed that dog fouling and waste disposal are negatively impacting water quality in the stream. We have shared this information with the Environment Agency and Torbay Council so they can take appropriate measures to address these sources of pollution. Wider investigations into bathing water quality at Goodrington will be completed later this year.

Our people



Adele is the Group Chief People Officer for Pennon, accountable for HR, Health & Safety and Corporate Communications.

“

Our people strategy, approved by the Board in 2017, ‘talented people doing great things for customers and each other’, means that my team and I are focused on doing everything we can to recruit, train, develop and support all of our employees, whatever their background, experience or outlook, unlocking their potential now and for the longer term.

At South West Water, we believe our people are our best asset. It's an honour and a huge responsibility, supporting a team of over 1,600 amazing individuals, especially during a pandemic. The wellbeing and safety of everyone is our number one priority. However we strongly believe that if we all live by our values, with humility, care and compassion, we can achieve anything.

GREAT PLACES TO WORK BEST WORKPLACE SURVEY™ 2021 RESPONSE HIGHLIGHT

93%

FAIR TREATMENT REGARDLESS OF RACE OR SEXUAL ORIENTATION

93%

DIVERSITY, RESPECT AND INCLUSION

92%

MANAGEMENT TAKING HEALTH & SAFETY SERIOUSLY

90%

UNDERSTANDING SAFETY-RELATED RESPONSIBILITIES

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

Supporting our employees through a challenging COVID-19 year

Our first priority has been to support employees during the pandemic. We have always been fully aware of the essential service we provide for customers and the requirements to ensure that whatever the weather or circumstance, we must keep water flowing 24 hours a day, seven days a week.

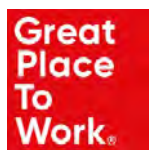
We ensured that none of our employees were furloughed or made redundant as a result of the pandemic and all employees who were shielding, self-isolating or supporting family members have remained on full pay. We also extended our 24/7 employee assistance service to cover additional family members and introduced a new Group-wide income protection scheme to support employees who are unable to work due to long-term illness. During the year we have actually increased headcount to enhance our service to customers.

81% of our employees believe we have supported and communicated with them well throughout the COVID-19 pandemic.

Creating the best place to work

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

At the heart of any great business are the people who work in it. With over 1,600 employees, our people strategy is centred around talented people doing great things for customers and each other, and creating the best place to work.



We want to be the best place to work for our employees and we value the expertise, dedication, adaptability, flexibility and commitment of everyone who works with us as one amazing team. It was great to see Pennon and South West Water being recognised as the winner in Britain's Most Admired Companies (Utilities) – the longest-running annual survey of corporate reputation in the UK. This award demonstrates our commitment to engaging employees in our strategy and the important role they play in delivering it. We know companies with high trust cultures enjoy better financial results, outperform the market by 2 to 3% a year over a 25-year period, have strong leadership, a talented workforce and are more collaborative and innovative.

We are officially 'A Great Place to Work'

This year we asked employees how it feels to work for South West Water using Great Places to Work Best Workplace Survey™. We achieved our highest ever participation rate of 81% and have officially passed the threshold to become accredited as a Great Place to Work with our Trust Index® score increasing to 66%. This is significantly higher than the national average of 53%.

The survey measures effectiveness in a range of categories including Innovation, Maximising Human Potential, Values, Leadership Effectiveness and Wellbeing. Our most improved category was Values, demonstrating that we are becoming a purpose led and value driven organisation. The Group's highest scoring questions for 2021 included people being treated fairly regardless of their race (93%) or their sexual orientation (90%) in recognition of the Group's approach to respect and diversity and my manager takes health & safety seriously (92%) and I understand my safety-related responsibilities (90%) confirming our approach to health and safety being our number one priority.

These results show we have made good progress during the year in embedding the Group's HR strategy but importantly in a year dominated by COVID-19 how we have worked hard to ensure our employees have felt supported.

Listening and acting on employees' views

Under the Financial Reporting Council's code of standards, companies are required to explain how they are incorporating employee views in Board decisions.

Over the course of this year, we have continued to develop and evolve the opportunities for employees' views and input as well as enabling staff forums across the Group to ensure employees are represented and have opportunities to understand and feed into discussions on matters that impact them and the work they do.

Employee forums

The South West Water Employee Engagement Forum has become a well-established forum which meets regularly to create a two-way communication between senior managers of the Group and employees and this year has been chaired by the Group Chief Executive Officer. This forum helps to influence and support business changes and ensures that our employees are front and centre in all that we do, including being the employee voice in the evolving changes to working arrangements in response to COVID-19 during the year. We also have trade union recognition agreements in place for our Craft and Industrial employees and continued to meet frequently across the year to discuss relevant topics including the modernisation of our pension schemes, pay awards, business planning, employee survey and engagement, IT system developments and innovation.

Our Speak Up whistleblowing policy continued to operate throughout 2020/21, providing another engagement channel. Speak Up helps to create an open, transparent and safe working environment, where workers feel able to speak up and are supported if they do so.

 Further information can be found on pages 82 to 83

CASE STUDY: SUPPORTING OUR PEOPLE

Your Big Chat

Over the course of the year, we have evolved our Big Chat to become Your Big Chat, moving from a conference call facility to video enabled, enabling all employees access to the Group Executive and creating opportunities to ask questions and suggest topics that employees would like to hear more about. The frequency was also increased to weekly to ensure regular and timely updates are provided to employees. We continued to receive positive feedback from employees who welcome the opportunity to hear from the Directors and ask them questions on key business matters.

In line with government recommendation, where possible, many of our office-based teams have been working from home, placing greater importance on supporting our employees with timely communications. Discussions have largely focused on health & safety, COVID-19 working arrangements, employee wellbeing, business plan delivery and investments in apprenticeships and future workforce development.

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

Our people continued

Diversity and equal opportunities

South West Water's parent company Pennon is now one of a handful of top FTSE businesses to have both a female CEO and Chair. If there was ever a time for us to put gender and ethnic diversity at the top of its agenda, leading from the top, then that time is now. Building a sustainable, agile and diverse workforce is a key pillar of our HR strategy. Once again, Pennon was listed in the 2021 Bloomberg gender equality index, as one of 380 companies globally committed to disclosing their efforts to support gender equality through policy development, representation and transparency.

South West Water has continued to focus on diversity and equal opportunities during the year but has seen a slight reduction in the proportion of female employees in our workforce during the year.

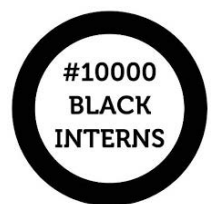
We have a workforce comprising 1,650 employees and have a gender split of 78% male and 22% female. Our permanent workforce is supported by over 114 temporary and agency employees.



CBI Change the Race Ratio initiative

In 2020, South West Water, and Pennon, pledged its support to the CBI Change the Race Ratio initiative, a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels and was the first water company to do so.

South West Water operates and employs people in the South West of England which traditionally has some of the lowest proportions of ethnic diversity in the country. However, as a responsible business, we believe we have an important role in ensuring we support mobility of all types. Sometimes assumptions can be made, and actions taken, which unintentionally affect certain groups of people in a negative way, leading to a lack of opportunity, difficulty in accessing services or a failure to have a need identified. With fewer than 1% of employees currently self-identifying as BAME, we want to change this, either by encouraging our existing employees to have the confidence to share their backgrounds, or by encouraging diversity in our recruitment and attraction.



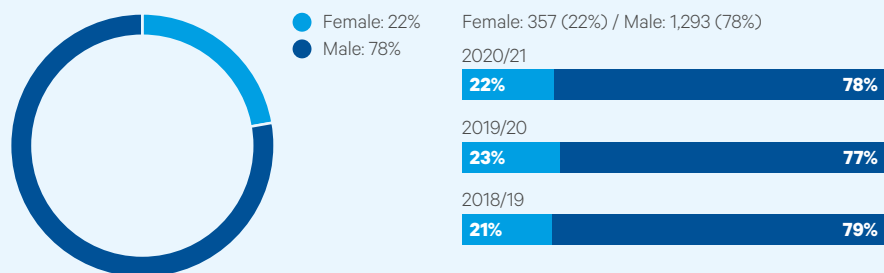
10,000 black interns initiative

One of the ways we intend to achieve this is by become a sponsoring business of the 10,000 black interns initiative. We have signed up to support the programme next year and see this as an important scheme to not only offer black students an opportunity to understand our business but also to improve the levels of ethnic diversity across our industry.

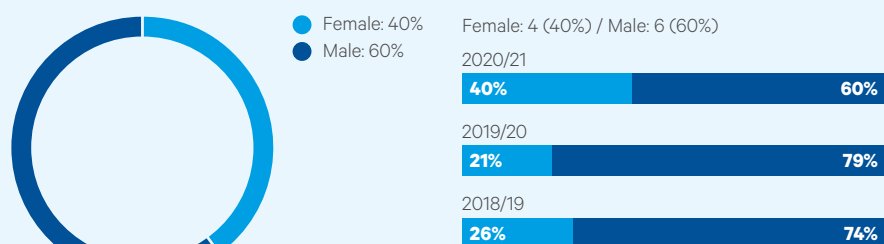
Diversity dashboard

Pennon Group (incorporating South West Water) was listed in the 2021 Bloomberg gender equality index, as one of 380 companies globally committed to disclosing their efforts to support gender equality through policy development, representation and transparency.

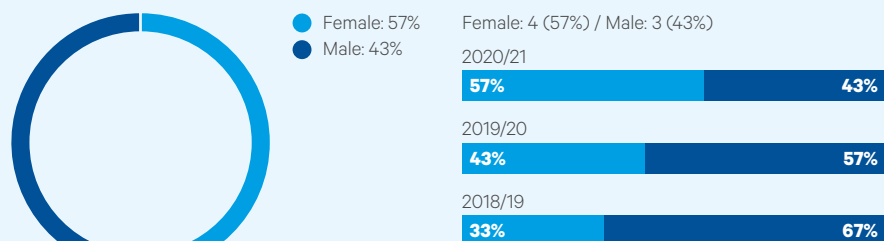
GENDER – EMPLOYEES



GENDER – SENIOR MANAGEMENT



GENDER – BOARD



KEY

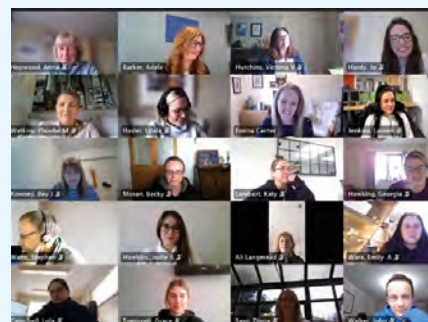
● Female ● Male

* 2020/21 figures are Continuing Group only – excluding Viridor.

INTERNATIONAL WOMEN'S DAY

South West Water supported International Women's Day on 10 March – an annual worldwide event that celebrates women's achievements, while calling for gender equality.

We promoted the day on our social media channels and held a virtual get together for employees to share personal experiences, talk about role models and inspirations and celebrate our employees and their stories.



Recruitment

Changing our approach to diversity and inclusion has also changed the way we monitor diversity in all Group job applications. The Group now uses a software gender decoder tool which allows us to check all our job advertising for masculinity to reduce the potential risk of alienating female applicants. In addition, we have refreshed our equal opportunities forms to be included in all onboarding packs. The new version allows us to monitor, analyse and utilise diversity data to inform and shape our business activities to become a more diverse workplace.

Training

We have also commenced a new programme of unconscious bias training and will roll this out to most leadership and all hiring managers during the coming year. Across South West Water we have been undertaking Lived Experience Group sessions to understand what it is like to work at South West Water for employees from minority groups. The outputs have been shared with our Diversity Committee to understand these perspectives and consider appropriate actions when issues are raised.

Women in Water network

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

Our gender pay gap

This is the fourth year where employers in Great Britain with more than 250 staff have been required by law to publish their gender pay gap on their own website and on a government website. The current national average gender pay gap is 15.5% for all employees.

South West Water improved its gender pay gap to 4.9% from 5% last year.

The Board promotes equality of opportunity and diversity across all areas, including gender and ethnicity. The Company has more to do in this area which remains a key focus.

 **Nomination Committee report** pages 96 to 97

Training and development

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



CASE STUDY: LUCY RIDGMAN

Lucy Ridgman is a new Operational Apprentice Technician within the Resource & Production function who joined us in early 2021. Lucy is based at Northcombe Water Treatment Works and is undertaking a Level 3 Water Process Technician apprenticeship and following the Treatment pathway.

Lucy is thoroughly enjoying her apprenticeship and says she chose to do an apprenticeship because she knew she didn't want to continue with education full-time and wanted to get some experience working while still being able to complete a qualification.

She likes how everyone sees her as part of the team straight away despite being completely new to the Company. She really likes the combination of work and training as it allows her to develop practical skills and whilst learning key principles within the formal training sessions.

She says the thing she likes most about South West Water is the people; everyone is willing to help wherever they can and it makes her feel really welcome. Her manager encourages her to work on her diploma and has supported her in settling in to the team and getting used to everyday tasks.

Since starting her apprenticeship she has learnt how to do many of the daily tasks required on site and improve her teamworking and communication skills.

Lucy is expected to complete her apprenticeship in around 18 months and we wish her well with her studies and progression through her course and in becoming a fully qualified Water Treatment Technician.

Our people continued

Apprenticeships

We continue to embrace apprenticeships and since 2017, 377 new apprentices have been employed across the Company. This increased by 50 during the last year with a greater focus on recruiting operational apprentices to ensure we have the future skills to deliver our essential services. To further demonstrate our ongoing commitment to apprenticeships, we have set a Group target to offer 500 new apprenticeships over the next five years. Find out more online at www.southwestwater.co.uk/careers/apprenticeships.

Graduate programme launch

More recently we have launched our 2021 graduate programme and will look to offer 20 new graduates the opportunity to experience a two-year structured programme of training, work experience and career development before moving into key permanent roles across the Company. The programme enables graduates to gain practical experience in our core business areas of Operations; Engineering; Projects; and Customer Service which will be vital in helping them find their ultimate leadership position.

During the year we have delivered 9,905 training days for our 1,600 employees, ensuring that on average each employee has received 44 hours of training.

Senior leaders development

We have developed a new senior leaders talent development programme to provide structured assessment and development opportunities for our top 40 leaders.

Responsible employer

As a responsible employer, South West Water has worked hard during the year to mitigate and minimise the impact of COVID-19 on our business activities and the potential knock on effects for customers and employees. South West Water has not taken any government furlough funding and has not made any COVID-19 related redundancies.

Kickstart

We continued to live our values and demonstrate we are a responsible employer during the year, doing what we can to support communities in the South West. South West Water was therefore one of the first companies to sign up to participate in the government's new Kickstart scheme this year, offering 16-24 years olds, deemed at risk of long-term unemployment, six-month paid work placements and has committed to 50 placements.



Social Mobility Pledge

We also continue to be a signatory of the Social Mobility Pledge, the cross-party campaign to improve social mobility in the UK established by the Rt Hon Justine Greening MP. This pledge reflects our social commitments through our partnerships with local schools, our open door approach to visitors and our provision of work experience opportunities. As part of our Social Mobility Pledge we are undertaking a gap analysis to help us develop a detailed action plan to drive further improvements during this year. Our head office and customer call centre are based in Exeter, providing jobs and investment to the local community. In addition to directly employing 1,600 employees, South West Water employs around 100 temporary employees and contractors.

Slave-Free Alliance membership

South West Water and Pennon have maintained their membership of the Slave-Free Alliance, which is part of Hope for Justice, the global anti-slavery charity. Our membership demonstrates our commitment to the highest employment standards for both our direct employees and those within our supply chain.

Human rights

We are fully supportive of the principles set out in the UN Declaration of Human Rights and the Group ethics policy outlines the high standards of employment practice with which everyone in South West Water is expected to comply. The Group also supports the International Labour Organization's core conventions for the protection and safety of employees wherever they may work throughout the Group. These standards are also embedded in our sustainable supply chain and documented in our procurement policy and code of conduct for supply chain partners.

Health & Safety

The health, safety and wellbeing of our employees is paramount. At South West Water, we believe everyone who works for us and with us should go home safe to their families and loved ones every day, and this has never had more resonance than in the current climate. Keeping our employees COVID-19-safe and our work environments COVID-19-secure has been our top priority throughout 2020/21 and we have worked hard to support employees physically and emotionally.

HomeSafe

The Company's flagship health & safety programme, HomeSafe, has continued to provide the framework for all health & safety related activities, and in response to COVID-19, a COVID Steering Committee has met weekly supported by a COVID-19 Management Team who have overseen our approach to keeping employees safe including case management of suspected cases, occupational health support, employee communications, approach to testing, facilities management and ongoing policy and guidance. More broadly, through the Local Resilience Forum in the South West, we have continued to play an active role externally, supporting the localised industry response to the pandemic, as well as the transition from the EU.

E-learning

E-learning has continued to be the main delivery mechanism for continued health and safety awareness during the reporting period and it was pleasing to see the high scores in the recent engagement survey with my manager takes health & safety seriously (90%) and I understand my safety-related responsibilities (90%) confirming our approach. In response to the higher number of injuries continuing to being related to strains and sprains, SWW has introduced Olympian manual handling training techniques to its operational teams.

LTIFR (Lost Time Injury Frequency Rate)

LTIFR continues to be the Group's primary measure of performance and across the year we reported 29 injuries compared to the 24 reported last year. Despite this increase, injuries reported to the Health and Safety Executive (HSE) fell slightly in the review period. There were no HSE prosecutions for the Continuing Group.

Future plans

During the year we also carried out independent benchmarking to help us better understand our strengths and development areas and this will be a key underpin for future plans. South West Water will also seek formal certification for its Occupational Health & Safety Management system to ISO 45001 standards. Our ambition for health & safety is to be the leader for health and safety in the UK water industry by 2025.

Wellbeing

To better support employees' wellbeing and mental health, our e-learning module on mental health was reissued to all employees and we also extended our Employee Assistance Programme to include family members, allowing families to access trained independent counsellors for support.

We are currently expanding our Mental Health First Aiders (MFHA) programme and undertaking training for new recruits. The MHFAs are largely focused to support our colleagues within our Drinking Water and Wastewater teams. We currently have 24 MHFAs across the Company with more scheduled to join and receive training in the coming months.

We have recently joined the InsideOut Charter in support of creating mentally healthier workplaces. It provides a tangible way of demonstrating leadership engagement in and commitment to the mental health agenda by signing up to a number of core, actionable principles. As an organisation we are publicly affiliating with InsideOut through signing up to the InsideOut Charter. We are committed to showing that we are an organisation willing to take the lead in social change through speaking openly about mental health.

We will be asking colleagues to put themselves forward to be 'Wellbeing Champions' as our next step as this is a big part of focusing on making our workplace a safe place to talk about mental health problems should employees wish to do so. We're investing in cultivating an environment that is a safe space to talk about mental health.



CASE STUDY: COMMUNITY – KICKSTART

South West Water was one of the first companies to sign up to participate in the government's new Kickstart scheme this year.

The scheme offers 16-24 years olds, who are deemed at risk of long-term unemployment, a six-month paid work placement incorporating work readiness training. South West Water set a target of offering up to 50 opportunities and has already passed this halfway point in the first few months of the scheme. We are also pleased that 52% of the current participants are female. Our unique programme offers Kickstarters the opportunity to train and learn and also a £500 completion bonus to encourage them to successfully complete their placements. Feedback from managers supporting the Kickstarters is very positive and we hope to recruit many of them into permanent roles at the end of their placements.

50

OPPORTUNITIES AS A TARGET

52%

FEMALE PARTICIPANTS

 See sustainability strategy pages 56 to 57

Emerging markets



Business retail

Engagement

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

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

Market performance

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

South West Water has actively supported retailers during the COVID-19 pandemic and this has been reflected through our strong performance as measured by MOSL within the market performance framework.

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

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

Credit terms

The business retail market has now been established for four years and is continually being developed to enhance opportunities for market competition, innovation and customer benefit.

In support of this, during the year South West Water has expanded its credit term offerings by creating two new 'Schedule 3' arrangements – Schedule 3 are bespoke terms provided by individual wholesalers within their regions rather than market wide terms available from all wholesalers.

These reduce the financial burden upon retailers and reduce their working capital requirements – this makes it easier for new retailers to enter the market, frees up funding within the market to be re-invested in innovation and added value services or the retailer savings can be passed back to customers through reduced retail charges, all of which provide opportunities to enhance market competition.

The additional terms offered by South West Water include:

- a simple £10k discount of the credit support requirement, this is of particular benefit to small retailers or those previously only able to access pre-payment terms
- for larger retailers there is an option that builds on the £10k discount to provide additional unsecured credit based on a combination of their credit score and their payment history.

There are currently 26 retailers operating in our region, of which 11 have taken up these new offerings since their launch in mid-February. This has removed c.£215k of monthly working capital requirements from these retailers. As the market continues to evolve South West Water will continue to review opportunities to further support the business retail market.

Developer services

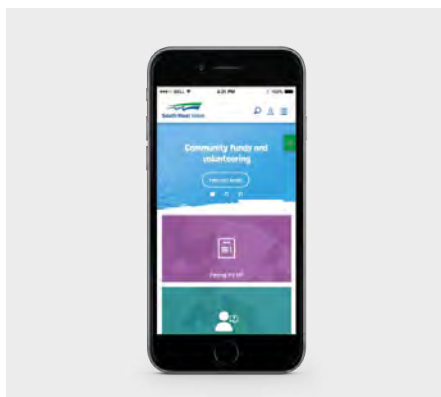
As a company we continue to promote competition and developer choice through the Self-Lay Provider (SLP) and New Application and Variation (NAV) markets as well as through our arrangements which allow developer customers to undertake excavation and reinstatement of service trenches on their sites thus allowing them to control these costs and programming rather than having to rely upon us and our contractors.

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

- engaging with self-lay providers through regular meetings, held virtually during the COVID-19 restrictions, to receive feedback on our procedures to make improvements to make it easier for these providers to deliver services within our operating area
- engaging with developer customers to ensure that they fully understand the options that they have to procure new water mains and connection services
- reviewing our website and literature ensuring that customer choice is prominent
- contributing proactively with the regulator on Industry consultations to support the further development of the self-lay market
- maintaining a dedicated team to manage all interactions with NAVs and self-lay providers operating within our area to provide separation from services provided to developers by the Company and our incumbent contractor.

Over the past few years, whilst SLP and NAV levels have been relatively low within the South West, we have seen a consistent increase in activity across both areas, particularly SLPs activity. We have seen a higher proportion of SLPs operating within the Bournemouth area although we have also seen new SLPs operating within the South West over the past year.

As an example, 70% of the water mains laid in the Bournemouth supply area this financial year were undertaken via SLPs compared to 2016 when this was zero.



NAVs

We have continued to build relationships with NAVs in our region and refine our approach to ensure that we meet their needs efficiently and effectively, and we are committed to maintaining and evolving our programme of NAV Advocacy in line with market developments.

During the year we undertook our most extensive NAV consultation to date, and we are continuing to work with NAVs to understand what they need from us. For example, we have started the redesign of our website to make it easier to find the information they want in a clear format and to increase the number of self-service opportunities.

The number and diversity of NAV contacts the Company now receives demonstrates the ongoing evolution of the market. We welcome this. Looking ahead we will continue to work collaboratively with NAVs to find optimal solutions when new and unique scenarios arise for both parties, whilst also seeking to learn from the process in order that we can add future value. We will also seek opportunities to engage in initiatives to support market development.



Bioresources

We have continued to drive compliance and efficiency in our existing assets, while maximising use and protection of the agricultural outlet and using innovative market solutions which inform our next strategic enhancements.

The new bioresources market was opened in 2020. Over the last year we have:

- supported the Ofwat/Jacobs led market review including questionnaires, workshops and consultations – these have identified various matters that would benefit from clarification and/or standardisation
- continued our asset maintenance programme
- continued to provide access to market enabling information on our webpages
- responded to market queries, which have included contacts from farmers/landowners interested in bioresources for recycling, academics and commercial companies offering services which had already been procured through our transport and recycling contract tender process in 2019.

COVID-19 has created pressure on business as usual activities. Our formal market testing to inform strategic approaches for beyond 2025 has been put on hold whilst we have focused on near-term customer service and environmental protection. As we move forward in 2021, we want to engage with the market at a time when we will get the highest levels of interest and response.



Water resources

During 2020/21 we rolled out a range of activity for developing emerging markets. For non-households we ran a water efficiency fund to allow retailers to bid for investment for their customers. We have taken feedback from the last year and updated our process to allow smaller projects in the bid assessment framework.

We have also taken a leading role in water efficiency for non-households across the sector by chairing the Retail Working Group.

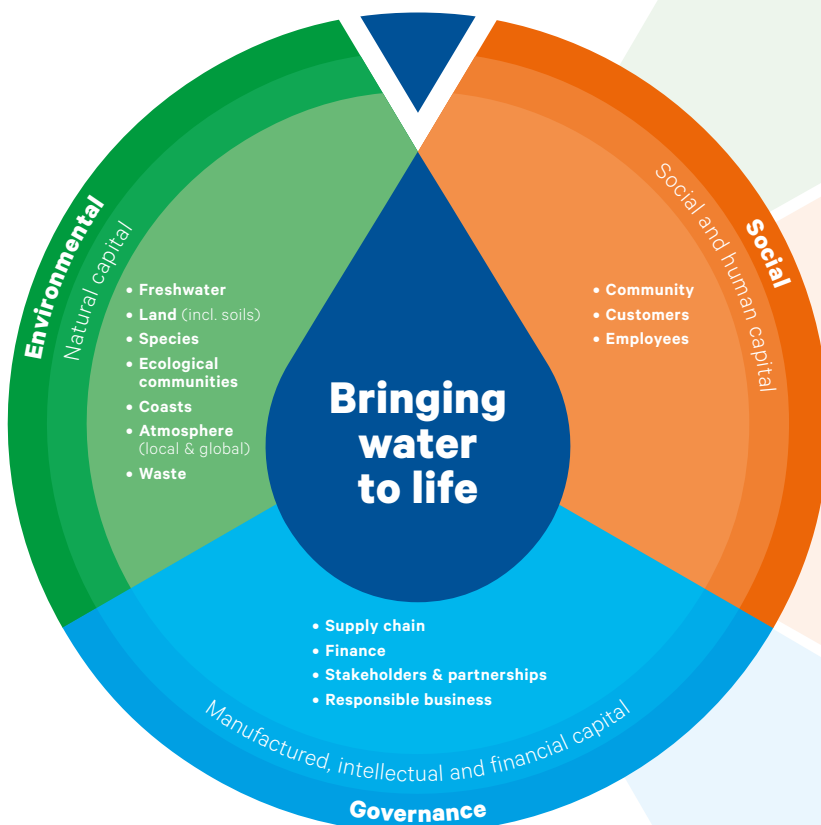
As part of the West Country Water Resources Regional Group, we have promoted the need for possible future options to come forward for the draft plan.

ESG (Environmental, Social and Governance) strategy

Sustainability at the heart of our business

Our ESG strategy continues to deliver during a year of significant change.

Highlights over the past year include the creation of the new Pennon Group-wide ESG Capitals Strategy and Framework including new ESG targets. South West Water makes the most significant contribution to this. The Group showed strong performance across external ESG ratings demonstrating our commitment and management of risk across the ESG agenda. And in a year of critical climate action we have made significant progress in implementing the TCFD recommendations (see Risk section).



ENVIRONMENT

Protecting and enhancing our environment for generations to come.

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

SOCIAL

Supporting our people and communities (to increase our social value).

- Community
- Customers
- Employees

GOVERNANCE

Being a responsible business for all our stakeholders.

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

INTRODUCING OUR NEW ESG CAPITALS FRAMEWORK

As part of our Group-wide ESG strategy we set targets to improve our natural and social capital from a 2019/20 baseline. We developed our baseline account for Natural, Social and Human Capital in 2020. We have since expanded this to produce our new ESG Capitals Framework (below). This broadly aligns to internationally accepted capitals frameworks structured around and building on our existing ESG strategy. We capture Natural Capital under 'Environment', Social and Human Capital under 'Social' and Manufactured, Intellectual and Financial Capital under a broad 'Governance' categorisation.

Selected Year 1 Group capitals highlights

19,000

HECTARES OF NEW CATCHMENT
MANAGEMENT

>50,000

TREES PLANTED

6

4 EEL PASSES AND 2 EEL SCREENS INSTALLED

>11,500

MWh OF RENEWABLE ENERGY GENERATED

Selected Year 1 Group capitals highlights

96

NEW TALENT RECRUITED (APPRENTICES,
GRADUATES, KICKSTARTS)

66%

EMPLOYEE TRUST INDEX SCORE ROSE
TO 66% (2020: 65%)

>2 million

VISITORS TO OUR LAND

70%

CUSTOMER SATISFACTION WITH
VALUE FOR MONEY (SWW)

Selected Year 1 Group capitals highlights

Improved

SUSTAINALYTICS ESG SCORES

75%

OF DEBT RAISED THROUGH SUSTAINABLE
FINANCE FRAMEWORK

117

ENGAGEMENTS WITH INVESTORS

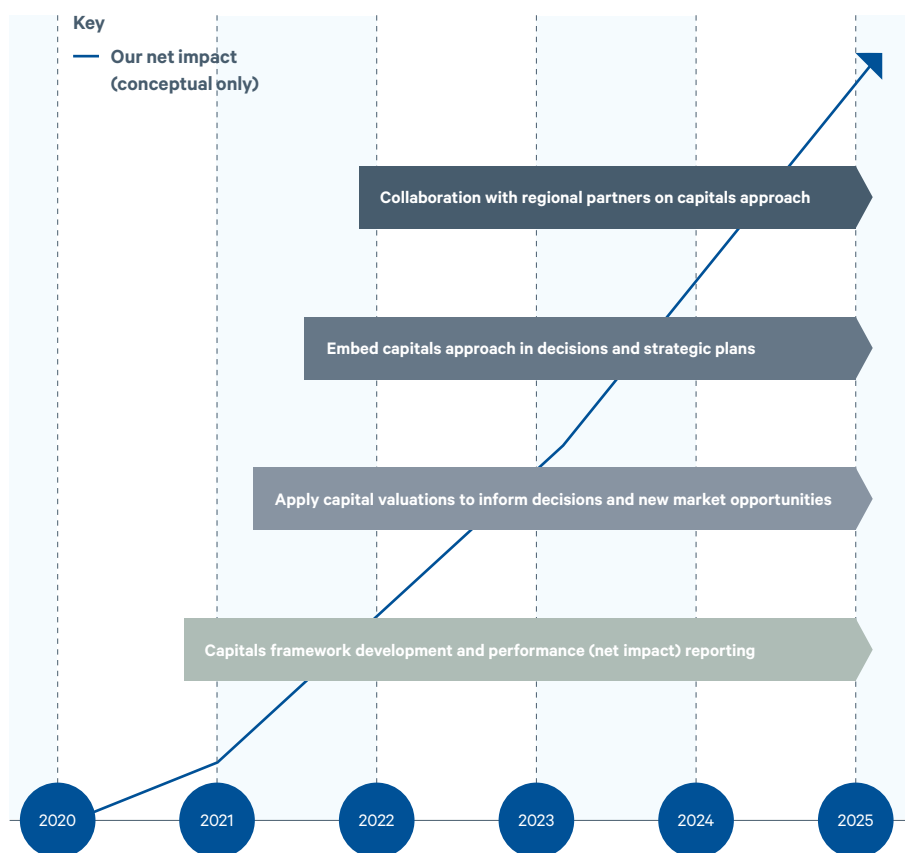
150

NUMBER OF MAINS REPAIRS

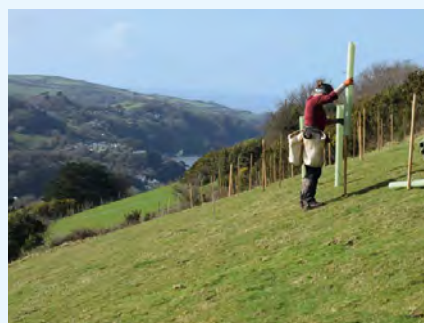
Our Capitals Strategy

Our new Group-wide Capitals Strategy will support decision making to deliver the best outcomes for our customers, communities and the environment. The reporting of our capital performance, which will allow us to evaluate and report on our overall 'net impact', is one phase of our planned capitals programme which also includes:

- Establishing an ESG aligned capitals framework and accompanying metrics
- Applying appropriate valuations to inform our understanding and use of capitals information
- Embedding our capitals approach in our decision making and plan making
- Collaboration with regional partners to apply capitals thinking in practice
- Enhanced reporting and assurance of our performance.



CASE STUDY: NATURAL CAPITAL THINKING: USING 40,000 TREES TO HELP IMPROVE BATHING WATER QUALITY IN COMBE MARTIN



An ambitious project to plant 40,000 trees to help improve bathing water quality in Combe Martin began in early 2021. South West Water in partnership with local landowners, North Devon Biosphere Foundation, the Environment Agency, the Woodland Trust and Natural England's Catchment Sensitive Farming Partnership will identify areas where tree planting, hedging and fencing can help protect the River Uمبر from bacteriological contamination. The River Uمبر flows into the sea at Combe Martin beach and can affect bathing water quality, especially during wet weather.

ESG KPI performance

2020/21 performance

Our targets are informed by a review of the issues we and importantly our stakeholders considered of greatest importance.

The materiality assessment which informed our 2020/21 targets is available on our website at www.pennon-group.co.uk/sustainability.

PERFORMANCE KEY



Achieved/
On track



Behind target



Missed

2020/21 KPI	2020/21 PERFORMANCE	COMMENTARY
To achieve at least a B-rated 'CDP Climate' disclosure assessment score	✓	Achieved 2020 B rating. Replaced with greenhouse gas reduction target under Atmosphere .
To achieve zero major or significant environmental incidents (Category 1 & 2)	✗	Three Category 2 incidents in 2020. Updated in 2021/22 to reflect Category 1-3 as per South West Water regulatory commitment under Freshwater .
Achieve 5% biodiversity net gain across all sites with biodiversity management plans in place	✓	New wildflower meadow delivered 293% improvement in biodiversity units (2.16 Biodiversity Units) at Roadford Reservoir. New target under Species .
Evaluate relevant operational areas and projects for net natural capital gain (using defined methodology), demonstrating 3% year on year improvement from a 2019/20 baseline	✓	Our 2020/21 natural capital account shows an overall improvement above 3% from the 2019/20 baseline. Our expanded capitals framework and the targets associated with this will replace this target for 2021/22.
Evaluate relevant operational areas and projects for net social capital gain (using defined methodology), demonstrating 3% year on year improvement from a 2019/20 baseline	✓	Our 2020/21 social capital account shows an overall improvement above 3% from the 2019/20 baseline. Our expanded capitals framework and the targets associated with this will replace this target for 2021/22.
Annual targeted reduction in Lost Time Injury Frequency Rate (LTIFR) with overall target of 0.5 by end of 2024/25	–	There have been 29 LTIs during the year, resulting in an LTIFR of 1.59*. The Homesafe programme and re-focused H&S efforts within the operational businesses should deliver an improving trend to get us back on track for our long-term target of 0.5 by 2025. Target retained under Employees .
Annual targeted improvement to increase proportion of female employees in the Group from 21% in 2019 to 25% in 2022	✓	At 31 March 2021, the South West Water has 22% female employees. Target updated for 2021/22 to target at least 30% female employees by 2022 under Employees .
Achieve a 65% Trust Index score by 2021/22, as measured by our Great Place to Work employee survey, demonstrating continual improvement in building an engaged workforce	✓	Trust Index score rose to 66% in 2020/21. We achieved the Great Place to Work accreditation which we look to retain in 2021/22 as part of the new Employees KPI.
Achieve upper quartile scores in our peer group for leading external ESG disclosure assessments	✓	Majority ESG ratings and indices improved or maintained score with FTSE4Good score in 2020 an exception and expected improving trend in 2021 score. 2021/22 target to focus on Sustainalytics ESG rating under Responsible Business .
Target 25% of total finance raised within the Pennon Sustainable Financing Framework	✓	A total of c.£90 million of funding aligned to the framework was raised in 2020/21 which accounted for 75% of new and renewed facilities, in excess of the 25% target. Target increased in 2021/22 under Finance .
Ensure 2% year on year increase in customer satisfaction from a 2019/20 baseline	✓	SWW – C-MeX** performance has improved by 6% at 80.96 (against a 2019/20 baseline of 76.35). PWS – Trustpilot score of 4.8/5 for the year, 7% higher than 2019/20 baseline figure. Both C-MeX and Trustpilot retained as customer satisfaction targets under Customers element.
Targeted annual application to ensure all suppliers are 100% compliant with the objectives identified within our Sustainable Procurement Policy by end 2021/22	✓	Post the sale of Viridor, segmentation of our remaining 2,500 suppliers completed. Supplier ESG engagement and reporting programme to begin in 2021/22. Target retained under Suppliers .

* KPI assured by DNV at a group level.

** C-MeX – Customer Measure of Experience, baseline position under 2019/20 shadow reporting – some industry-wide changes to the methodology were made for 2020/21.

Priority programmes

Our priority programmes focus progress in particular areas of our ESG strategy. COVID-19 has of course impacted progress on some aspects but at the same time has accelerated other areas, for example, infrastructure to support smarter working programme. A summary of progress in 2020/21 is provided below.



COMMUNITY BENEFIT & SOCIAL VALUE

Launched South West Water's 2020-50 community vision "To sustainably improve our services while having a positive impact on the communities we serve and the people we employ".

Announced new Neighbourhood and Water-Saving Community Funds providing direct support to community groups and initiatives.

We will be building on these programmes over the coming year whilst establishing ways to better measure our community impact to support our capitals framework and place-based approaches to investment.



SUSTAINABLE TRANSPORT, TRAVEL AND SMARTER WORKING

COVID-19 has meant the planned roll out of new agile working approaches was accelerated which enabled all of our office based staff who were able to work effectively from home as a result of the lockdowns. The new IT capability has facilitated new ways of working which will continue post lockdown. We are undertaking trials of new electric vehicles with the ambition to roll out further EVs across our fleet in support of our Net Zero strategy and we have announced continued support for sustainable travel choices such as the cycle to work scheme.



CIRCULAR WORKPLACE

Over 90% of our employees told us in our recent company survey that we should be a leader in sustainability. The objective of the programme is to ensure a consistent approach to workplace sustainability, to implement and maintain the best standards possible at our head office and to facilitate improvements in Group wide sustainability in our workplaces. This will involve employee engagement on sustainability best practice, collaboration with our key service providers, provision of new recycling infrastructure at our sites and link to operational focused energy efficiency, waste management and water efficiency programmes.

ESG performance – external benchmarking

Pennon Group plc's ESG performance is assessed by a number of independent ESG rating agencies. As the largest operational part of the group, South West Water has the most significant contribution in most areas of the assessments. Our performance across these assessments is a useful indicator of our progress with our ESG strategy both in confirming ESG topics where we are performing well, but also, importantly, areas we still need to improve. Overall we improved or maintained performance across all indices except FTSE4Good (based on March 2020 assessment). We have worked hard over the past year to improve our overall ESG performance and disclosures and are confident this will return an improving trend when the 2021 scores are announced.

LATEST GROUP EXTERNAL ASSESSMENT SCORES



16.8

ESG RISK
(Previous rating: 19.9)

75/100

ESG RATING
(Previous rating: 69)



AA

MSCI ESG INDEXES
(Previous rating: AA)



52/100

(Previous rating: 49/100)



B rating

**CDP CLIMATE
CHANGE RATING**
(Previous rating: B)

B-

**CDP WATER
SECURITY**
(Previous rating: B-)



3.5/5

(Previous rating: 3.6/5)



Prime status

ISS CORPORATE RATING
(Previous rating: Prime)



B

**GRESB INFRASTRUCTURE
PUBLIC DISCLOSURE**
(Previous rating: B)

ESG KPI performance

2021/22 KPIs

Pennon Group 2021/22 ESG targets* have been updated, and those relevant to South West Water are set out here, reflecting the new strategy and expanded ESG Capitals framework.

We will create new three-year targets over the coming year (for the period April 2022 – March 2025). To inform this update our materiality assessment and review the UN Sustainable Development Goals (SDGs) and how our new targets can further support implementation of the goals.

Find out more online:
www.pennon-group.co.uk/sustainability

* Targets to be reached by end 2021/22 unless otherwise stated.





Environment



Capital	Target	Link to SDG
 Species	Deliver our biodiversity enhancement target of 93,150 hectares (cumulative) of land in active management	
 Ecological communities	Plant 50,000 trees per year towards our new target of 250,000 by 2025	
 Land & soils	Restore 300 hectares of peatland across the South West	
 Freshwater	Reduce water use within our operations by 6 Megalitres/day	
	Reduction in category 1-3 pollution incidents per 10,000km sewers	
 Atmosphere	Target 3% reduction in Scope 1 & 2 (market-based) emissions towards our Net Zero 2030 target	
	Increase renewable generation (MWh) by 4% year on year	
 Coasts	Improve bathing water quality classification at eight additional beaches by 2025	
 Waste	Continual improvement in operational waste recycling rate	












Social



Capital	Target	Link to SDG
 Employees	Maintain the Great Place to Work accreditation	
	Increase the proportion of female employees in the Group to at least 30%	
	Target top 25 ranking in Hampton Alexander Index	
	Targeted reduction in Lost Time Injury Frequency Rate (LTIFR) at 1.1 (23 LTIs) with overall target of 0.5 LTIFR by end of 2024/25	
 Customers	2% year on year increase in SWW C-MeX performance	
 Community	Number of community investment schemes supported increased year on year	
	Increased visitor numbers to our land by 2% year on year	

Governance



Capital	Target	Link to SDG
 Responsible business	Continual improvement in Sustainalytics ESG Score	
	Maintain asset health as measured by performance across basket of asset health metrics	
 Stakeholders & partnerships	Support an increased number of engagements with Pennon Group investors year on year	
 Finance	Target 50% of total finance raised within the Pennon Sustainable Financing Framework	
	Target 30,000 customers on one of our support tariffs by end 2021/22	
 Supply chain	Target 100% compliance with the objectives within our Sustainable Procurement Policy by end 2021/22	
	Aim to pay all our suppliers within 30 days	

Net Zero strategy

As part of a world first national sector-wide commitment of its kind, we have made a commitment to Net Zero Carbon by 2030. Additionally, we have signed the Race to Zero pledge through which we will extend the activities in our Net Zero boundary towards a 2045 target. Our commitments will focus our strategy, enabling us to transform into a different kind of water company. Our approach to Net Zero is aligned to our purpose and values as a responsible business.

Three key pillars

Our strategy is structured around three key pillars:



SUSTAINABLE LIVING

- Reducing emissions through changes to our operational practices, increasing energy efficiency, and switching to lower carbon fuel sources.
- Meeting our commitments to reduce leakage and help customers to use less – protecting the environment and saving carbon.



CHAMPIONING RENEWABLES

- Maximising our own self-generation of renewable energy at our sites across our region – working with partnerships and utilising our expertise.
- Where we cannot generate enough ourselves to meet all our needs, 100% of the energy we purchase will be from renewable sources.



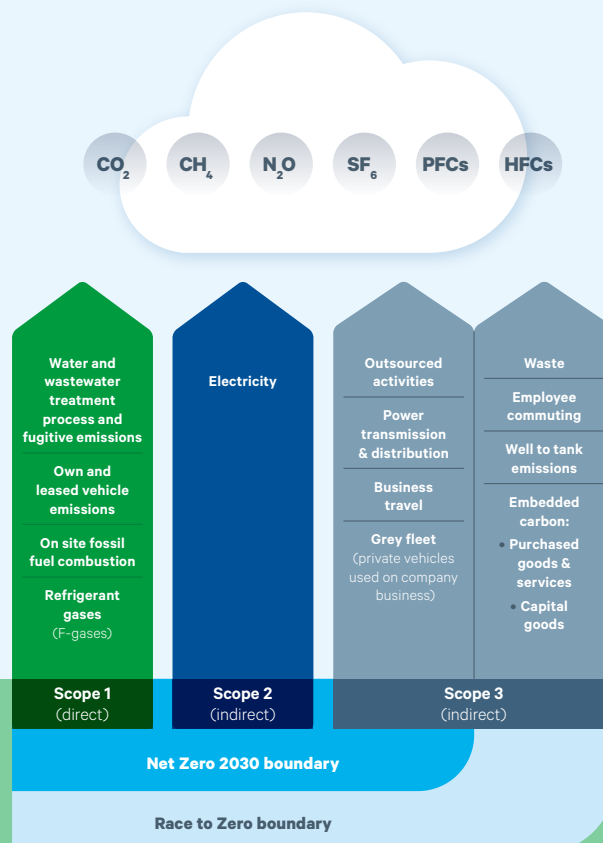
REVERSING CARBON EMISSIONS

- Working in partnership to deliver natural carbon sequestration through activities such as peatland restoration and tree planting.
- Supporting the development of innovative solutions to develop low carbon footprint processes through R&D.

Our Net Zero boundaries

Our 2030 Net Zero Carbon commitment aligns with the Water UK Net Zero Boundary which focuses on our own, operational (Scope 1 and 2) greenhouse gas (GHG) emissions as well as certain value chain (Scope 3) GHG emissions where a core activity is outsourced. Our Race to Zero pledge adopts the same Water UK Net Zero boundary to 2030 and thereafter includes additional Scope 3 activities including GHG emissions associated with purchased goods and services ('embodied' carbon) and those associated with waste generated. Our aim is to deliver Net Zero under this wider boundary by 2045.

The figure illustrates which activities are within our Net Zero Carbon 2030 and Race to Zero 2045 target boundaries based on the Greenhouse Gas Protocol boundaries.



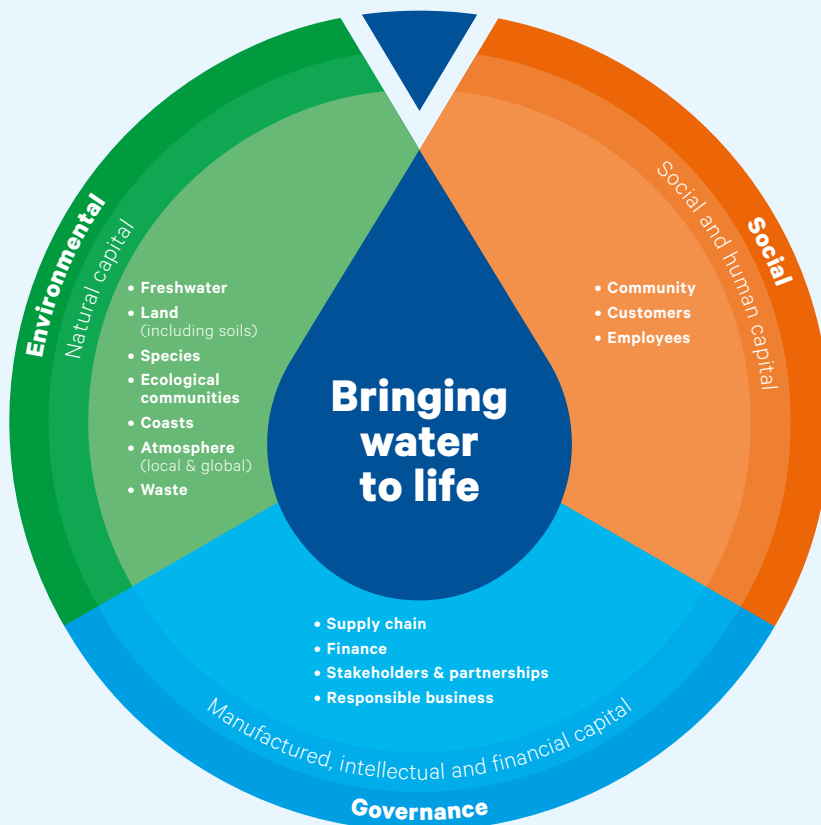
Alignment to ESG strategy

Our new ESG Capitals framework and strategy will ensure carbon is integrated into our decision making but also that Net Zero plans consider wider environmental and social impacts.

Our Net Zero strategy also supports our implementation of the TCFD recommendations. We will undertake scenario analysis to test and challenge the resilience of our Net Zero plans to different climate scenarios.

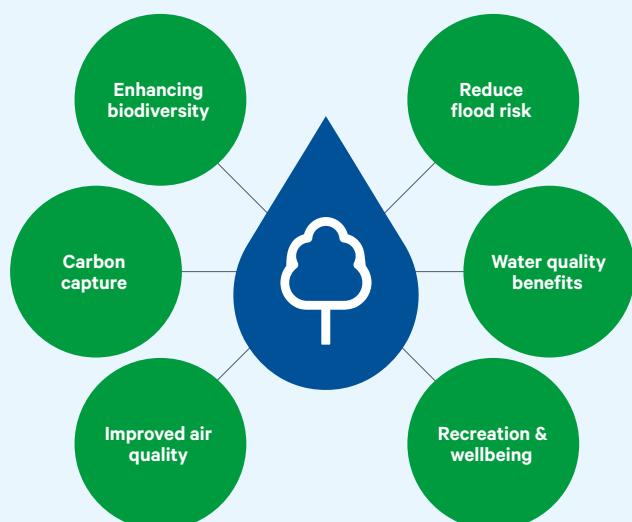
More information

 TCFD page 139

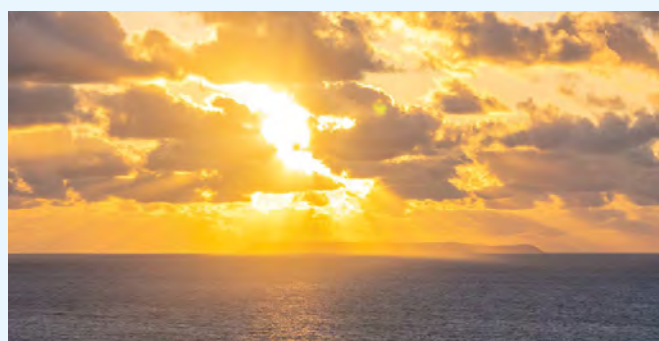


MORE THAN JUST CARBON

Our tree planting and peatland restoration activity will contribute to global climate regulation through protecting and enhancing these natural carbon stores as well as delivering further local environmental and societal benefits or 'ecosystem services' such as flood protection and water quality improvements.



NEXT STEPS ON OUR NET ZERO JOURNEY



We will look to transparently report our progress towards our Net Zero targets both in terms of our overall footprint and our wider contribution to positive climate action.

We are committed to better understanding emissions sources across our value chain. For example we have reported Scope 3 GHG emissions for the past two years and we will expand our collaboration and key suppliers in 2021 to obtain more specific information on GHG emissions associated with the goods and services they supply.

As our Net Zero Carbon journey evolves, we will report progress so we can work collaboratively with our stakeholders towards our common climate goals.

More information

 GHG emissions report page 64

Energy

For more than a decade, South West Water has been publicly disclosing our annual operational greenhouse gas (GHG) emissions within our annual reporting.

Reporting annual 2020/21 GHG emissions

In 2006 the UK water industry recognised the need to develop a more standardised sector wide means of accounting for GHG emissions. This led to the UK's first sector wide carbon accounting tool, the UKWIR Carbon Accounting Workbook (CAW), providing a consistent and common approach to accounting for GHG emissions across the sector.

The practice of GHG accounting has evolved over the intervening years and the CAW has kept pace with GHG reporting methodologies including Government published emissions conversion factors as well as developing and updating bespoke water industry emissions factors not covered by the Government's emissions factors. The CAW is based on the internationally accepted Greenhouse Gas Protocol Corporate Standard accounting system and the emissions guidance from the Department of Environment, Food and Rural Affairs (Defra).

Our reporting here is the aggregated emissions of our business activities in the South West and in the Bournemouth Water regions. We use the 'Financial control boundary' to define the scope of direct and indirect operational emissions and report on our Scope 1, 2 and 3 emissions from the 'appointed business' in line with the organisational boundary defined within the Water UK Net Zero 2030 Routemap.

This year we are voluntarily reporting in line with Ofwat's future reporting requirements in this Annual Performance Report.

Our carbon accounting data reported here for the 'appointed business' is independently verified by Jacobs external auditors. The assumptions, methods and procedures that are followed in the development of the reported data have been tested and the data has been audited for accuracy and consistency.

Breakdown of emissions of greenhouse gases by type and emissions scopes

The main GHGs we report are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O), and the breakdown of emissions of these gases for 2020/21 is shown in the 'Operational emissions by greenhouse gas' table on page 65. Emissions are also reported as either Scope 1, 2 or 3, where Scope 1 are emissions that are released directly into the atmosphere as a result of activities from our owned and controlled assets, Scope 2 are the indirect emissions from the electricity we import from the UK electricity grid and Scope 3 are emissions from activities that arise as a consequence of our actions but which occur from sources that we do not own or control. Our aggregated emissions represent our overall carbon footprint.

Gross and net emissions

In the table on page 65 we report on both a 'Gross' and 'Net' emissions position. Gross emissions are a measure of our total operational emissions volume without including the impact of the electricity we export from own renewable energy generation. To calculate net emissions, we subtract the emissions benefit of our renewable electricity export from the gross emissions. We have not purchased any Woodland Carbon Units or carbon offsets during 2020/21 but if we had we would also show the benefit of those here.

Market and location based emissions

Also reported in the table are gross location-based emissions and net market-based emissions. Reporting market-based emissions in this way allows us to include the emissions benefit of our choice to engage in contractual arrangements to purchase renewable electricity from third party electricity suppliers. Where we do source renewable electricity from third party suppliers we ensure this purchase is backed by the appropriate renewable energy certification, in this case with Renewable Energy Guarantees of Origin (REGOs). We retire these REGOs so they cannot be sold to anyone else and this allows us to report

a reduced emissions figure under a market-based measure. Location-based emissions ignores the impact of any special contractual arrangements for renewable electricity that we may have entered into and instead uses the average emissions intensity of grid supplied electricity, with in this case the 'location' being the UK's electricity grid.

Emissions intensity

Here we report our emissions intensity metrics consisting of values for the quantity of emissions per megalitre of water delivered into our supply network and per megalitre of treated wastewater, as well as values for emissions for water and wastewater per £million of company revenue. This is shown in the table on page 65.

Commentary on 2020/21 emissions

Our operational emissions peaked in 2015/16 and since then have been steadily reducing. This reduction in emissions is predominantly a result of the gradual decarbonisation of the UK's electricity grid although our expanding portfolio of renewable energy schemes and our efforts to improve our efficient usage of energy is also a key contributory factor in the steady decline in our emissions to date.

Strengths, weaknesses, opportunities and threats

Our analysis below comments on where the strengths, weaknesses, opportunities and threats to our Net Zero strategy are.

Strengths

South West Water considers our main strengths in reducing emissions is in our direct control through changes to our operational practices, including increasing energy efficiency, switching to lower carbon fuel sources and in utilising renewable energy. Around 70% of our reportable operational emissions are associated with our usage of energy, predominantly electricity, and to help reduce these emissions we are aiming to continuously add to our portfolio of onsite renewable energy installations, as well as investing in offsite private wired renewable energy opportunities with third party suppliers. We also plan to transition to electric vehicles over the next decade, utilising the development of electric vehicle technology as the range of vehicle options continues to expand and improve.

Weaknesses

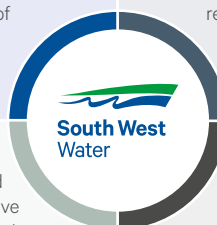
We have identified the hardest to remove emissions are those from our wastewater treatment and sludge processes, principally the emissions of methane and nitrous oxide. We plan to review all our wastewater treatment and sludge processes with the aim of optimising our control of emissions from these activities and will explore innovative treatment options to further emissions reduction, including GHG emissions capture technologies should these develop into commercially viable options. However, we do anticipate needing to purchase verifiable carbon offsets for emissions that we find difficult to remove using our own direct interventions.

Opportunities

Given our geographical positioning and work in our regional catchments, we have a unique opportunity to build natural carbon sequestration through our moorland work and reverse carbon emissions – a key differentiator for the business and the South West. We aim to work in partnership to deliver these nature-based solutions through activities such as peatland restoration and tree planting.

Threats

Our emissions accounting approach relies on having good data to report on and over the years we have improved our data capture and measurement for all sources of emissions. We are mindful of the robustness of our data capture systems and the accuracy of our accounting process, particularly where some uncertainty exists in relation to estimates of Scope 1 process and fugitive emissions and Scope 3 emissions from activities that we do not own or control. Improving the emissions accuracy in these areas will allow us to better understand the risks and opportunities but may also lead to unplanned for changes in emissions that will require us to develop further innovative strategies in order to mitigate.



As the UK electricity grid continues to decarbonise, the proportion of non-electricity related emissions, such as the emissions of methane and nitrous oxide from our water and wastewater treatment processes, makes up an increasing proportion of our carbon footprint. Our Scope 1 emissions in this area increased in 2020/21 compared to 2019/20 and we are currently exploring the most appropriate and cost-effective ways of driving down these emissions.

Despite the marginal increase in Scope 1 emissions in 2020/21 our overall net operational emissions continues to reduce and we recorded emissions of 107,727 tCO₂e under the location-based measure, down from 112,750 tCO₂e in 2019/20 under the equivalent measure. This year we are also reporting a net operational market-based measure; this takes account of our market-based activity to reduce our emissions and will be the measure we use to track our journey to Net Zero Carbon by 2030. For 2020/21 this emissions value is 98,844 tCO₂e.

Net Zero by 2030

In April 2019 South West Water signed up to the Water UK Public Interest Commitment for the industry to become Net Zero Carbon for operational emissions by 2030. As a result we are currently accelerating our plans to reduce emissions within the Net Zero boundary with the aim of becoming a Net Zero company by 2030.

In June, we joined the UN global initiative 'Race to Zero' targeting further reductions across all emissions by 2045.

Operational greenhouse gas emissions reporting

Gross operational emissions (location-based)	Water (tCO ₂ e)	Wastewater (tCO ₂ e)				
Scope 1 emissions						
Direct emissions from burning of fossil fuels	1,061	1,175				
Process and fugitive emissions	4	14,503				
Transport: Company owned or leased vehicles	2,213	1,964				
Total Scope 1 emissions	3,278	17,642				
Scope 2 emissions						
Grid electricity used by Company (including Combined Heat and Power (CHP) electricity purchased)	36,523	35,885				
Scope 3 emissions						
Business travel on public transport and private vehicles used for Company business	15	13				
Outsourced activities	4,054	4,235				
Electricity transmission and distribution	3,141	3,086				
Total Scope 3 emissions	7,210	7,334				
Operational emissions totals						
Total gross operational emissions (location-based)	47,011	60,861				
Emissions removals						
Exported renewables (generated onsite and exported)	(122)	(23)				
Emissions reduction from purchased renewable energy (market-based carbon accounting benefit)	(4,673)	(4,211)				
Operational emissions totals						
Total net operational emissions (market-based)	42,216	56,627				
Operational emissions by greenhouse gas						
	Water (tCO ₂ e)			Wastewater (tCO ₂ e)		
	CO ₂	CH ₄	N ₂ O	CO ₂	CH ₄	N ₂ O
Scope 1	992	800	1,484	5,341	4,306	7,989
Scope 2	36,194	113	216	35,562	111	212
Scope 3	7,037	10	163	7,158	10	166
Operational emissions intensity metrics						
Annual operational GHG intensity ratio values (kgCO ₂ e/MI)				Water (tCO ₂ e)	Wastewater (tCO ₂ e)	
				198.65	216.18	
GHG emissions in relation to turnover (tCO ₂ per £m turnover)				74.99	100.58	

* For 'Water' measure MI = measured water into supply. For 'Wastewater' measure MI = full measured flow to treatment

** Full £m turnover value applied to both 'Water' and 'Wastewater' measure

Embedded/embedded emissions

South West Water is seeking to reduce emissions from our capital programme and from our purchase of goods and services. Embedded or embodied emissions are those generated to produce a built asset or when replacing an existing asset, as well as those from our purchased goods and services. For 2020/21 we have commissioned an estimate of our embedded/embedded carbon emissions which is based on our capital spend during the year and we are voluntarily reporting the outcome of this assessment in the table below. Over the coming year we aim to develop bespoke carbon calculation tools to improve the accuracy of this constituent of our emissions accounting and reporting. With this information we can better understand the impact our capital programme and our purchase of goods and services has on emissions, enabling us to better plan for lower whole life carbon solutions.

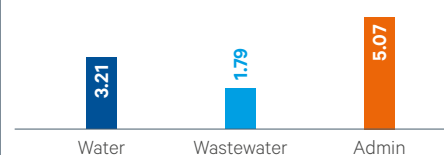
Estimate of embedded emissions	Total (tCO ₂ e)
Capital programme	54,791
Purchased goods and services	62,460
Total	117,251

Renewable energy

The chart/figures below show how investing in our own embedded renewable energy generation and by choosing to contractually purchase REGO backed renewable electricity from third party suppliers, either through private wire schemes or via the electricity grid, we are increasing the proportion of electricity we use from renewable sources. For 2020/21 we have calculated that a total of 24.89% of our total electricity usage was sourced from renewables, with percentages of 14.31%, 10.52% and 0.06% for Water, Wastewater and Admin activities respectively.

Percentage of renewable and low carbon energy sourced

SELF-GENERATED RENEWABLE ELECTRICITY CONSUMED (% OF TOTAL ENERGY CONSUMED)



PURCHASE OF REGO-BACKED ELECTRICITY VIA PRIVATE WIRE AND GRID (% OF TOTAL ENERGY CONSUMED)



TOTAL RENEWABLE ENERGY SOURCED (% OF TOTAL ENERGY CONSUMED)*



* All data in this table based on electricity generation and usage only, no heat generation and usage is included in this measure

Finance Director's report

Strong financial performance in the first year of the new 2020-25 period

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



Financial highlights

Significant capital investment

Investment in major capital projects to deliver long-term improvements to customers.

[Read more on page 67](#)

Wholesale and retail Totex outperformance

Outperformance in Totex in both our wholesale and retail operations

[Read more on page 68](#)

Launch of 'New Deal' WaterShare+ scheme

Enhanced customer transparency and ownership with benefits returned

[Read more on page 71](#)

Strong liquidity and funding position

Decrease in net debt and continued low effective interest rates

[Read more on page 70](#)

Strong financial policies and prudent investment decisions are critical to ensuring a successful future for our business and the major role we play in the regional economy.

Overview

Despite the challenges posed by COVID-19 the performance of the business has been resilient. 2020/21 was the start of the new regulatory period and South West Water has made a robust start in delivering our New Deal business plan for customers.

The Company has made a strong start to the new regulatory period through continued outperformance in respect of Totex⁽¹⁾ efficiency and financing, with continued low effective interest rates.

The momentum of cost efficiencies delivered to date in K7 is comparable to those in K6, with c.£70 million recognised during 2020/21, of which approximately 25% has been achieved through operating cost efficiencies and the remaining efficiencies from capital investment savings.

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate at 2.5% (2019/20: 3.4%), significantly lower than Ofwat's nominal cost of debt of 4.2%. Over half of the 90 basis point reduction from the prior year is linked to active management of our debt portfolio in the current rate environment, whilst the remainder relates to index-linked debt.

Despite the potential future impact of COVID-19, cash collections have remained robust with underlying bad debt costs c.0.5% of revenue, in line with last year and ahead of our K7 target.

Our business plan contained an ambitious programme of capital investment including two new water treatment works in Bournemouth. 2020/21 saw the commencement of these large projects in addition to important upgrades to other water and wastewater treatment works in addition to important improvements to our network.

Our New Deal business plan includes our largest environmental programme in 15 years, recognising that a healthy environment is vital for the long-term sustainability of the services we provide to customers. During the year we delivered capital improvements at four bathing waters, representing 50% of our commitment to 2025.

Following the UK Government's commitment to both build back better and build back greener, we were pleased to have been asked to consider ways in which we could support the green economic recovery. Our Green Recovery Initiative, developed with customers and stakeholders, proposed a set of schemes benefitting our region – delivering significant benefits for customers, society and the environment.

Statutory financial performance

South West Water's statutory results show a decline in profit before tax to £141.8 million (2019/20: £171.1 million). In 2020/21 a non-underlying reduction in revenue of £20.4 million has been recognised due to the WaterShare+ scheme and a curtailment charge of £3.5 million in respect of the defined benefit pension scheme being closed to future accrual from 30 June 2021 (see note 6 of the South West Water Annual Report and Financial Statements).

Revenue

Underlying total revenue has decreased by 1.3% to £564.3 million primarily reflecting the transition to the new K7 regulatory period, net of inflationary increases reducing bills, and lower developer services revenue as a result of reduced construction activity during lockdown and subsequent restrictions. This was partially offset by a net increase in customer demand following COVID-19 with household demand up by c.9% compared to last year, offsetting a reduction in non-household demand (down by c.22% compared to last year). 84% of our household customers in the South West area are now benefitting from a metered supply, with 3,636 customers opting for a meter in 2020/21 (2019/20: 5,065). 74% of households in the Bournemouth Water region are metered with 524 switching in the year (2019/20: 1,197). Going forward, household demand is expected to trend to more typical pre COVID-19 levels following high seasonal demand in 2021/22 reflecting higher volume due to prolonged staycations in the South West.

Allowed revenue

The high levels of demand seen in 2020/21 resulted in c.£21.3m higher outturn compared to the allowed revenue as shown in the table below. (note Ofwat's definition of allowed revenue is different to statutory revenue).

Operating costs

Operating costs including depreciation for the first year of the period were £345.5m (2019/20: £329.4m).

The c.4.9% increase compared to 2019/20 reflects the impact of price changes on power and wages, volume changes and other one-off costs. South West Water's bad debt performance remains strong with a charge of 0.5% of revenue (2019/20: 0.5%), reduced from 1.7% at March 2015. This continues to be driven by efficient collections as we work with our customers to manage their debt and strive to support those customers in vulnerable situations with affordability challenges.

Capital expenditure

South West Water's capital expenditure this financial year was £168.2 million, compared to £161.0 million in 2019/20, reflecting planned and advanced expenditure in both water and wastewater operations offset by efficient delivery of schemes in conjunction with key partners.

Advanced expenditure includes the delivery of two bathing water quality improvements ahead of schedule with economies of scale achieved through the delivery of multiple schemes at the same time.

Significant investment continues to be advanced with earlier than planned upgrades in our network to accelerate our plan to deliver a 15% reduction in leakage by 2025. This includes proactive network replacement at susceptible locations and the installation of combined smart meters with acoustic loggers to improve monitoring.

Upgrades to water treatment works continue with the completion of the granular activated carbon filters installed at College water treatment works and the commencement of installation of granular activated carbon and UV filters at other locations including Stithians and Littlehempston. Work also commenced during the year on our new water treatment works in Bournemouth with pilot plants built to test our innovative technology with the unique raw water supplies in those catchments.

As part of our focus on reducing wastewater pollution incidents, additional expenditure has been incurred upgrading wastewater treatment works and pumping stations at key locations with a greater risk of pollution events.

Allowed revenue reconciliation²

	Water	Wastewater
	£m	£m
Final Determination revenue allowance (outturn prices)	243.36	264.96
Customer demand and profile	6.22	17.77
New connection numbers ³	0.07	(0.63)
Meter optants	0.02	0.00
Capitalised requisitions	(0.66)	(1.47)
Actual outturn (see table 21)	249.01	280.63

² The above table represents the allowed revenue as per the Revenue Forecasting Incentive Mechanism (RFI), which differs to the statutory revenue.

³ New connections impact both the water and wastewater revenue as well as revenue for connection and infrastructure charges.

¹ Total expenditure.

Finance Director's report continued

Wholesale

South West Water continues to target and deliver efficiency against our Final Determination in all four price controls whilst accelerating investment from later in the regulatory period.

Accelerated investments aim to deliver benefits to customers, for example earlier delivery of bathing water schemes and resilience upgrades to secure water resources to enhance capacity for peak demand.

Efficient delivery has been achieved through benefitting from economies of scale – for example delivering multiple bathing water schemes at the same time and through delivery of benefits achieved through our key partners.

Further additional expenditure has been incurred to support improvement in the ODI areas of focus.

Retail

Total retail expenditure was lower than Final Determination due to continued focus on cash collections and cost efficiency. A strong focus on service driving both higher levels of service, for example 3% lower written complaints has also drive lower cost.

Collections performance continued to be strong during the year despite the challenges faced through the pandemic. This helped drive continued low bad debt charges which was only 0.5% of revenue, in line with last year and significantly lower than March 2015.

The Isles of Scilly non-household metering installation commitment was achieved during the year, resulting in c.90% of non-household customers now having a meter installed.

Net finance costs

Net finance costs for the appointed business have decreased from the prior year to £56.5m, predominantly reflecting a lower average level of debt during the year and due to lower RPI on index linked debt and a lower Libor rate. Aligned with the regulatory accounting guidelines, capitalised interest of £0.9m has been included in the appointee regulated interest charges.

South West Water has access to overall interest rates that are amongst the lowest in the water industry. The effective interest rate, based on the average net debt and net interest charge, is 2.5% (2019/20 3.4%). Interest cover for 2020/21 is within the required levels for financial covenants and in line with expectations.

Dividends and retained earnings

The Company has an established dividend policy, which can be found on pages 147 to 148. Dividends of £43.5 million were paid to the parent

undertaking (2019/20: £249.7 million), representing the base dividend of £42.3 million for 2020/21 and £1.2 million due to the WaterShare+ scheme. Payment of the outperformance dividend based on cumulative outperformance for 2019/20 of £58.1 million has been deferred to 2021/22 and recognised as a liability.

Wholesale Expenditure (Excl Third Party services)

	Water £m	Wastewater £m
Final Determination Totex allowance (2017/18 prices)	163.8	191.2
Key drivers:		
Capital efficiencies and cost savings	(8.4)	(52.8)
Timing of capital schemes	17.0	26.0
Other efficiencies and cost savings	(1.7)	(2.0)
Actual Totex (2017/18 prices)	170.7	162.4

Retail expenditure

	Retail household £m
Final Determination Totex allowance (2017/18 prices)	26.7
Key drivers:	
Other cost efficiencies	(1.8)
Actual Totex (2017/18) prices	24.9

Financial flows – retained value (17/18 prices)

	31 March 2021 £m	Average 2020-25 £m
Total shareholder return	71.2	71.2
Net dividend	(97.0)	(97.0)
Retained value	(25.8)	(25.8)
Cumulative Retained value	28.0	N/A



Tax strategy

South West Water (including both the appointed and non-appointed business) has fully adopted the Pennon Group plc tax strategy. This means that we will:

- at all times consider the Company's corporate and social responsibilities in relation to its tax affairs
- operate appropriate tax risk governance processes to ensure that the policies are applied
- comply with our legal requirements; file all appropriate returns on time and make all tax payments by the due date
- consider all taxes as part of ongoing business decisions
- not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation
- not undertake transactions which are outside the Company's low risk tax appetite or not in line with the Pennon Group's Code of Conduct
- engage with HMRC in a proactive and transparent way and discuss our interpretation of tax laws in real-time, such interpretations following both the letter and spirit of the laws
- not have any contact with tax havens unless it is necessary for the purposes of trading with those jurisdictions.

The Company's approach to tax planning, risk management and governance is in line with the Finance Act 2016 requirements. The Company does not expect its tax strategy to change significantly year on year, however it is reviewed and updated annually.

Further details are given in the Group's "Contributing to society through a responsive approach to tax" document which is available on the Pennon Group website.

Corporation tax

The total appointee tax charge for the year was £28.0 million (2019/20: £24.6 million). The Company made a net payment of £28.4 million of UK corporation tax in the year (2019/20: £43.1 million). This is comprised of net payments of £3.8 million to HMRC and £25.0 million of group relief payments to other group companies).

The current corporation tax charge which is included within the tax charge, increased from 2019/20. This is principally as a result of reduced pension relief in the year.

The appointed current tax charge of £28.0 million is lower than the charge would have been based on the standard rate of tax applied to the profit for the year (a reconciliation is shown in the tables opposite).

The current tax charge is higher than assumed within the 2019 Final Determination with the key variances noted in the table opposite, mainly due to higher profits.

The appointee deferred tax charge of £2.8 million for the year relates to timing differences between depreciation and capital allowances of £1.5 million, timing differences in relation to short term timing differences of £0.5 million and timing differences in relation to relief for pension contributions and general costs deductible on a paid basis of £0.8 million, these also include adjustments in relation to prior years.

Taxation

	Appointee £m
Final Determination current tax allowance	16.2
Key variances:	
Impact prior years	(0.2)
Impact of change in taxation rates	1.9
Difference in profits	7.7
Depreciation and capital allowance impacts	(0.7)
Pension adjustments	1.7
Finance lease allowances	0.8
Other adjustments	0.6
Current tax charge	28.0

Current taxation

	Appointee £m
Profit before tax	161.1
Profit before tax multiplied by the standard rate of UK taxation (19%)	30.6
Capital allowances for the year	(21.8)
Depreciation	22.1
Pension adjustments	(0.5)
Finance lease allowances	(1.7)
Other adjustments (including prior year adjustments)	(0.7)
Current tax charge	28.0

In respect of the overall appointed current year current tax charge of £28.2 million, £18.8 million has been assumed for group relief (relating to the current year).

In relation to the taxable profits calculated for 2020/21, South West Water has not disclaimed capital allowances as a means of managing the overall tax charge.

The Company's total tax contribution extends significantly beyond the UK corporation tax charge, including Value Added Tax (VAT), business rates, employment taxes, Carbon Reduction Commitment (CRC), Climate Change Levy and Fuel Excise duty.

During the Chancellor's Budget on 4 March 2021, it was announced that the UK main rate of corporation tax will increase to 25% from 1 April 2023. The change was not substantively enacted at the balance sheet date (it was substantively enacted on 24 May 2021) and thus the change is not reflected in these accounts. The 2021/22 accounts will recalculate the deferred tax assets and liabilities and they will be recorded at the tax rate at which they are expected to unwind. It is anticipated the change in tax rate will increase SWW's tax charge by c.£85 million.

At the same Budget, the Chancellor also announced the introduction of a "super-deduction" on qualifying plant and machinery equivalent to 130% of expenditure relating to contracts entered into after 3 March 2021 for the period from April 2021 to March 2023. The first-year allowance on certain other types of assets, including long-life was boosted to 50% for the same period, again for contracts entered into after 3 March 2021. These enhanced allowances will therefore increase capital allowance claims for the next two years and hence reduce the current tax charge for those years. There will also be a consequently higher deferred tax liability and charge due to the additional capital allowance deductions and the increase in the rate of corporation tax to 25% from April 2023. These changes were also substantively enacted on 24 May 2021.

Finance Director's report continued

Liquidity and debt profile

The Company has a strong liquidity and funding position with £344.1 million of cash and committed facilities at 31 March 2021. This consists of cash and deposits of £164.1 million (excluding £250.8 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £180.0 million. At 31 March 2021 the Company's borrowings totalled £2,688.5 million. After the £414.9 million held in cash, this gives a net debt figure of £2,273.6 million, a decrease of £33.6 million during the year (2020: £244.6 million increase).

The company has a diversified funding mix of 63% fixed, 12% floating and 25% index-linked borrowings. The Company's debt has a maturity of up to 36 years with a weighted average maturity of 18.6 years matching the asset base. Some of the Company's debt is floating rate, with derivatives being used to fix the rate on that debt. The Company has fixed, or put swaps in place to fix the interest rate on a substantial portion of the existing debt, in line with the policy to have at least 60% of fixed funding. £579.4 million of the Company's debt is index-linked at an overall real rate of under 1.8%.

South West Water's cost of finance is among the lowest in the industry with around two thirds of the net debt is from finance leases, providing a long maturity profile to its debt. Interest payable on these leases benefits from the fixed credit margins, which were secured at the inception of each lease. A quarter of the net funding for the water business is Retail Price Index (RPI) linked, a level below Ofwat's notional level of 33% leaving headroom for RPI to Consumer Prices Index including owner occupiers' housing costs index (CPIH) transition. At 31 March 2021 the fair value of the Company's non-current borrowings (excluding leases) was £159.9 million more than its book value (2020: £199.5 million more than book value) as detailed in note 22 to the financial statements. This reflects the continued benefit of securing interest rates below the current market rate, offset by volatility in inflation markets.

Key Metrics

South West Water monitors several metrics (including those within the Regulatory Reporting table 4H) as outlined below:

Regulatory Capital Value (RCV)

RCV is the financial base used by Ofwat to allow a rate of return and set prices at each Periodic Review.

At 31 March 2021 RCV equalled £3387.5m with CPIH at the year end of 1.01%. Year-end RCV at 31 March 2020 was £3,572.5m, however the adjustments made to the RCV prior to the opening of the PR19 Price Review period means the opening RCV at 1 April 2020 was £3,340.6m.

Regulated gearing

The regulated gearing of 67.1% including IFRS 16 (Group gearing of 66.7% excludes IFRS16) has been calculated as net debt as a proportion of RCV with Ofwat's notional regulated gearing for the regulatory period 2020-25 set at 60.0%.

Post tax return on regulated equity

The post-tax return on regulated equity of 12.28% has been calculated as profit after current tax for the appointed business as a percentage of year average regulated equity of £1094.0m.

Dividend yield

The dividend yield of 9.07% is calculated as the total appointed dividend for the year of £101.6 million on the year end regulated equity of £1,120.4 million. Excluding the special dividend paid of £249.7 million, the dividend yield for 2019/20 would have been 9.47%.

Dividend cover

The dividend is covered 1.28 times and has been calculated as the profits of the appointed business for the year before dividends divided by total appointed dividend for the year. Excluding the £249.7 million special dividend, dividend cover would be 0.88 in 2019/20. The ratio is lower than the prior year due to a higher deferred tax charge due to the change in corporation tax rate in 2019/20.

Interest cover

South West Water has access to overall interest rates that are amongst the lowest in the water industry. Interest cover of 6.6 times for 2020/21 is both within the required levels for financial covenants and in line with expectations.

Adjusted interest cover

The low interest rates also result in strong adjusted interest cover of 10.2 times for 2020/21. This adjusted interest cover deducts regulatory depreciation (which is defined in the Final Determination) from the funds from operations calculated as covering interest.

Return on regulated equity

South West Water's strong operational and financial performance has contributed to a RORE of 7.8%.

Total expenditure (Totex)

Overall Totex was c.8% lower than in the Final Determination reflecting c.20% efficiency offset by c.8% advanced investments and c.4% increased expenditure in the areas of focus including pollutions and leakage. The momentum of cost efficiencies delivered to date in K7 is comparable to those in K6, with c.£70 million recognised during 2020/21.

The key enablers behind this continued outperformance are:

- Innovation supporting delivery – including artificial intelligence and machine learning, alongside new technology such as remote operated vehicles to inspect service reservoirs and delivery of advanced algae based treatment solutions to reduce chemical usage
- Outcome-driven smart design – better monitoring of networks and asset condition, proactively targeting hot spots and using flow monitoring and modelling to reduce the scale of investment required
- Delivering investment efficiently – packaging of work for effective delivery such as bringing forward delivery of bathing water capital investments to take advantage of economies of scale, as well as outperforming our ODI commitments
- Operational ways of working – refining business activities within our operations including the introduction of centralised control centres and incident management, cross business teams to drive compliance and focusing on water and energy efficiency at our sites
- Right sourcing – continuing to build on our successful relationships with strategic suppliers – increasing flexibility and out-of-hours responsiveness to minimise adverse impacts for customers
- Support & administrative services – identifying the optimal level of support to effectively deliver our commitments to customers.

Financing

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate at 2.5% (2019/20 3.4%), significantly lower than Ofwat's nominal cost of debt of 4.2%. Over half of the 90 basis point reduction from the prior year is linked to active management of our debt portfolio in the current rate environment, whilst the remainder relates to index-linked debt.

Outcome Delivery Incentives

In 2020/21, South West Water achieved c.80% of its ODIs across a broad range of challenging bespoke, common and comparative measures.

7 ODIs have achieved their 2025 target four years early – representing areas of excellence, with a further 12 outperforming their 2020/21 target, and 15 achieving their target or on track.

For those areas marginally underperforming their target, we have introduced dedicated initiatives to deliver the improvements in performance required in future years.

Overall, ODIs for the year resulted in a net penalty of £8.8 million, largely as a result of our wastewater pollutions performance, reflecting an annual equivalent RORE* underperformance of 0.7%. If pollutions and EPA were excluded, the net reward would have been £4.4 million, equivalent to +0.3% ODI RORE outperformance.

Sharing our success

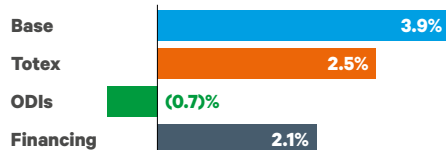
Our innovative New Deal business plan, informed by our most extensive engagement programme to date, set out our focus to change the nature of our relationship with our customers. WaterShare+, a key tenet of our plan, launched in October 2020, shared c.£20 million of outperformance from 2015-20 with customers offering a choice of a £20 credit to their bill or to receive shares in Pennon. We were delighted with the positive response to this trailblazing initiative that saw one in 16 household customers in the region opting to become Pennon Group shareholders and giving them a tangible stake in the business.

WaterShare+ also seeks to give customers a greater say in what South West Water does and how the company is run. The independent WaterShare+ Advisory Panel meets in public on a quarterly basis (although held virtually this year) with the panel reviewing South West Water's progress against targets and an opportunity for customers to have a real say in how the business operates.

This year South West Water will hold its first dedicated customer AGM on 9 September 2021, designed to be more accessible for all customers to be able to listen to and input into the company's plans.+

WATERSHARE RORE 2020/21¹

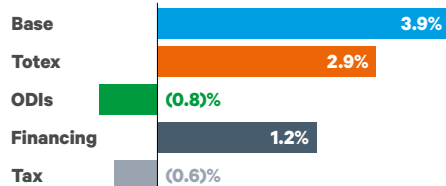
7.8%



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

OFWAT RORE 2020/21²

6.6%



² Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for Totex and financing



Chair's letter on governance



On behalf of the Board, I am pleased to introduce our governance reporting for 2020/21. This reporting considers our governance policies and our application of the principles of good corporate governance.

Strong governance is central to our successful management of the Company and it provides the framework for the effective delivery of our strategy, fulfilment of our purpose, the creation of value for all our stakeholders and the ongoing development of our sustainable business. As Chair of South West Water, one of my overriding responsibilities is to ensure the highest standards of corporate governance. The table on pages 86 to 87 will help you to navigate our reporting and evaluate our performance against Ofwat's 2019 Board leadership, transparency and governance principles. A similar table considering our performance against principles of the 2018 UK Corporate Governance Code is shown on pages 80 to 81 of the South West Water Annual Report and Financial Statements.

South West Water is a subsidiary of Pennon Group plc, however as a regulated water and wastewater business, South West Water complies with the requirements of Ofwat. It has its own independent Board of Directors and operates as if it is a publicly listed company in its own right.

The South West Water Board, which includes myself as Chair, two Executive Directors, and four Independent Non-Executive Directors, convenes on the same day as each Pennon Group Board meeting and considers South West Water strategy, performance and regulatory planning.

Role of the Board and its effectiveness

My first role as Chair is to provide leadership to the Board and to provide the right environment to enable each of the Directors and the Board as a whole to perform effectively to promote the success of the Company for the benefit of its stakeholders.

It is my view that the Board continues to be highly effective with a good understanding of the Company's opportunities as well as the threats facing the business. This view is supported by the results of this year's Board and Committee performance evaluations. Further details are provided on page 97.

 **Read more on the Board and recent Board appointments on pages 74 to 75**

Purpose and values

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

The Board was keen that our vision and purpose should reflect the wider social contract we have with our customers and the communities we serve. Our new vision, 'Bringing water to life', and our purpose, 'supporting the lives of people and the places they love for generations to come', demonstrate the unique role we play in providing a vital service for the public good. These statements, together with our well-embedded core values (trusted, responsible, collaborative and progressive), guide the Board in all of its activities and decision making.

Monitoring the Company's culture

Organisations that embody a clear sense of vision and purpose deliver good results and the most successful workplace cultures are built on trust. The Board relies on employee engagement as a way of monitoring the organisation's culture, most notably our Trust Index score. This is explained on page 49.

Stakeholder engagement

The Board understands the part South West Water can play in Bringing water to life and creating a more sustainable UK. We are committed to carrying out our business in a responsible way and remain focused on improving the provision of water and wastewater services for benefit of all our stakeholders.

Our section 172 statement describes in more detail how the Board has had regard to the interests of all our stakeholders when carrying out its duties. The statement can be found on page 126 of the Annual Report and Financial Statements.

We engage and consult with employees by means of the South West Water employee engagement forum, which, together with regular meetings with particular groups of employees, is used to ensure that employees are kept up to date with the business performance of the Company. We consult regularly with trade union appointed representatives or consultation groups. The Company also cascades information to all employees via the 'Big Chat', to provide them with important and up to date information about key events and to obtain feedback from them. We will continue to develop and evolve the opportunities for employees' views and input through staff forums, the Big Chat, and through our Speak Up channel.

The Board was disappointed to be prevented from carrying out site visits during 2020/21 due to COVID-19. The Directors did however embrace the opportunities provided by technology and undertook a virtual visit at a major wastewater treatment site where the team showcased our health and safety approaches.

We continue to engage actively with all our stakeholders including our customers, our communities, our people and our suppliers, our regulators and other stakeholders. We are acutely aware that all of our stakeholders are struggling with the challenges posed by an uncertain future and commit to maintaining appropriate and regular dialogue to ensure that the rationale for our strategy and our performance objectives reflects their expectations. Our continuous engagement allows stakeholders to provide feedback on the matters they consider to be important and any issues which they would like to be addressed. Further detail on stakeholder engagement is contained on pages 12 to 15.

Compliance with Ofwat's principles and the UK Code

South West Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details of our assessment of compliance with these principles are shown on pages 86 to 87.

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

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

My introduction to this corporate governance report and the following sections are made in compliance with the Ofwat principles, the UK Code and cover the work of our Board and its Committees, our internal control systems and procedures including risk management, our corporate governance statements relating to share capital and control, our confirmation of the Company as a going concern and Directors' responsibility statements. Finally, in accordance with reporting requirements, on page 93 the Board is able to confirm that the Annual Performance Report and Regulatory Reporting taken as a whole is fair, balanced and understandable and provides the information necessary to assess the Company's position, performance, business model and strategy.

Gill Rider

**Chair
South West Water Limited**

15 July 2021

STAKEHOLDERS



Our customers



Our employees



Our communities



Our environment



Our suppliers















































Our investors



Our regulators

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

KEY DECISION	STAKEHOLDERS AFFECTED	STRATEGIC FACTORS TAKEN INTO CONSIDERATION	OUTCOME
COVID-19 response	   	<ul style="list-style-type: none"> Health, safety and wellbeing of employees and customers Continued delivery of essential services Helping vulnerable customers Financial security for employees 	Strong Board support for measures introduced by the management team which was maintained throughout the year
Capital investments	    	<ul style="list-style-type: none"> Delivering our regulatory outputs Protecting the environment Improving public health and water quality 	Board approval of key and strategic investments
Green Recovery	     	<ul style="list-style-type: none"> Generating new jobs in the South West Improving public health and water quality Protecting the environment Addressing climate change 	Board approval of Green Recovery Initiative
Pollution Incident Reduction Plan	    	<ul style="list-style-type: none"> Financial and regulatory impact of pollution incidents Impact of pollution incidents on customers, communities and the environment Reputational matters 	Board approval of Pollution Incident Reduction Plan and monitoring progress of Plan
Net Zero strategy	    	<ul style="list-style-type: none"> Government commitment to Net Zero by 2050 UK-wide water sector and Water UK commitment to Net Zero by 2030 Positive impact on the environment Regulatory and environmental compliance 	Board approval of strategic plan and roadmap agreed
Upstream Thinking – further investment	  	<ul style="list-style-type: none"> Positive environmental impact Improving water quality and catchment predictability Regulatory compliance Return of value from further investment 	Board approval of further investment in Upstream Thinking project
WaterShare+	  	<ul style="list-style-type: none"> Delivery of outperformance value to customers Giving customers a greater say in our business Enabling customers to become shareholders in the business Delivery of commitment in PR19 business plan 	Board approval of WaterShare+ scheme
Dividend policy	  	<ul style="list-style-type: none"> Ensuring the policy is transparent and recognises our commitment to our customers Delivery of shareholder value 	Board approval of dividend policy and payment of dividend
New borrowings	  	<ul style="list-style-type: none"> Maintaining a sustainable and solid funding and liquidity position Continued delivery of high standards of service to customers 	Entry into new funding facilities
Tax Strategy	   	<ul style="list-style-type: none"> Maintaining Fair Tax Mark status Corporate and social responsibilities in relation to tax affairs Legal and regulatory compliance 	Board approval of annually published Tax Strategy
Modern Slavery Statement	  	<ul style="list-style-type: none"> Health, safety and wellbeing of our employees and the workers in our supply chain Reputational matters Legal compliance 	Board approval of Modern Slavery Statement published on website

Board of Directors

Trusted leaders



Gill Rider
Chair



CB, PhD, CCIPD

Appointed

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

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

Skills and experience

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

Other appointments

- Gill is currently a non-executive director of Intertek Group plc where she is also chair of their remuneration committee. In addition to her PLC roles, Gill is also the President of the Marine Biological Association.



Neil Cooper
Senior Independent Director
(Non-Executive)



BSc Hons, FCMA

Appointed

Neil was appointed to the Board on 1 April 2016.

Neil has been a member of the Pennon Group Board since appointment on 1 September 2014.

Skills and experience

- Neil brings to the Board extensive experience in a wide variety of corporate and financial matters.
- Previously, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc. He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.
- As chair of the Audit Committee, Neil has been influential in directing the Company's approach on a number of significant matters including internal control, governance and financial reporting.

Other appointments

- Neil is currently the chief financial officer of Currencies Direct, a foreign exchange broker and international payment provider.



Jon Butterworth
Non-Executive Director



MBE, MSc, Flod

Appointed

Jon was appointed to the Board on 28 September 2017.

Jon was also appointed to the Pennon Group Board on 8 July 2020.

Skills and experience

- Jon is the independent scrutineer of health and safety processes across the Group to help ensure that these are robust and effective. He chairs the Health and Safety Committee.
- Jon has a distinguished track record within the utility industry, having started his career over 40 years ago in British Gas as an apprentice technician.
- Jon was Managing Director of North West Gas and subsequently the National Operations Director in National Grid, before taking on the role of Global Director of Safety, Sustainability & Resilience.
- Jon's utility background provides him with an immense depth of knowledge and experience of the importance of maintaining a balance between profit and safety and he constructively challenges the Board and management to constantly raise the bar in this area.

Other appointments

- Jon is currently the Chief Executive Officer of National Grid Ventures (NGV) and a member of the National Grid plc executive committee,
- Jon is a Fellow of the Institute of Directors and is also chair of North Sea Link, NEMO Link, BritNed Netherlands, Interconnectors Holding Ltd, National Grid Metering, Ex-Chair of CORGI Board, Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museums Trust.



Iain Evans
Non-Executive Director



CBE, BSc Hons, FCA, MBA

Appointed

Iain was appointed to the Board on 31 July 2020.

Iain has been a member of the Pennon Group Board since appointment on 1 September 2018.

Skills and experience

- Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy.
- In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries.
- Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.
- As chair of the ESG Committee, Iain is leading the development of a sustainability programme that underpins the delivery of our strategy.

Other appointments

- Iain is a non-executive director of Bologna Topco Limited and continues to act as an independent corporate strategy consultant.

COMMITTEE MEMBERSHIP KEY

- | | |
|-------------------------------|--------------------------|
| ● Pennon & SSW Executive | ● Nomination Committee |
| ● Audit Committee | ● Remuneration Committee |
| ● ESG Committee | △ Chair of Committee |
| ● Health and Safety Committee | ○ Member of Committee |



Claire Ighodaro ●●●▲●●●
Non-Executive Director

CBE, BSc Hons, FCMA, DUUniv (Hon)

Appointed

Claire was appointed to the Board on 31 July 2020.

Claire has been a member of the Pennon Group Board since appointment on 1 September 2019.

Skills and experience

- Claire has held a number of senior roles and directorships of UK and international organisations and has extensive board experience, serving on audit and governance committees.
- In May 2019, she stepped down from Bank of America's Merrill Lynch International Board having served the maximum term.
- Claire is a past president of CIMA and was the first woman to lead this organisation.
- She spent most of her executive career with BT plc. She has also held non-executive directorships across a diverse portfolio including audit committee chair of Lloyd's of London, The Open University and various UK public bodies including UK Trade & Investment and the British Council.
- As chair of the Remuneration Committee Claire continues to steer the Company's approach on executive remuneration, ensuring that it is aligned with and supports the strategy.

Other appointments

- Claire is non-executive Chair of the Board and the Governance Committee for Axa XL - UK entities and non-executive director of Flood Re, where she is also Audit Committee Chair and a member of the Remuneration Committee.



Susan Davy ●●●●●●●●
Chief Executive Officer

BSc Hons, ACA

Appointed

Susan was appointed Chief Executive Officer for South West Water and Pennon Group on 31 July 2020.

Having previously served on the South West Water Board as Finance and Regulatory Director from 31 August 2007 until 31 January 2015, Susan has been a member of the Pennon Group Board since appointment initially as Chief Financial Officer on 1 February 2015.

Skills and experience

- Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy which has included the value creating acquisition of Bournemouth Water in 2015 and the successful Viridor disposal process, both of which she has led. In her 25 years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water.
- Under her guidance South West Water is the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019.
- Susan is highly respected in the City and has been instrumental in building Pennon's reputation.

Other appointments

- Susan is a Non-Executive Director and Audit Chair of Restore Plc, a member of the CBI President's Committee, deputy Chair of the CBI South West, having served as Chair from 2018-2021, a Water UK Board member, member of the Energy & Utilities Skills Partnership Council and was previously a member of the A4S (Accounting for Sustainability) CFO leadership network.



Louise Rowe ●●●●●●●●
Finance Director

BSc Hons, ACA

Appointed

Louise was appointed South West Water Finance Director on 1 February 2015.

In October 2020 she was also appointed Pennon Sustainability Director.

Skills and experience

- Louise is a chartered accountant and has been with South West Water for over 12 years holding a range of managerial roles within Finance prior to her appointment as Finance Director.
- Louise holds a number of directorships with South West Water Group companies and is a key member of several Executive subsidiary Committees including the ESG Executive Committee which she chairs.
- Prior to joining South West Water, Louise qualified with KPMG following completion of her physics degree.

Other appointments

- None

In attendance



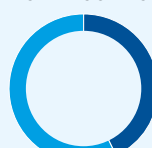
Paul Boote ●●●●●●●●
Group Finance Director

BSc, FCA

Paul is a chartered accountant with over 20 years' experience. He was appointed Pennon Group Finance Director on 8 July 2020. Paul had previously held a number of senior roles at Pennon, most recently as Pennon's Director of Treasury, Tax and Group Finance. During this time, he was responsible for the development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintains a responsible approach to tax, as well as leading on financial reporting matters. Over the past year, Paul has been instrumental in the development and successful implementation of the Group's recent strategic review. Paul chairs the Executive Finance Committee.

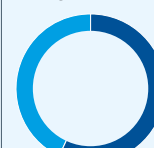
OUR BOARD

BOARD COMPOSITION



- Male: 3
- Female: 4

TENURE



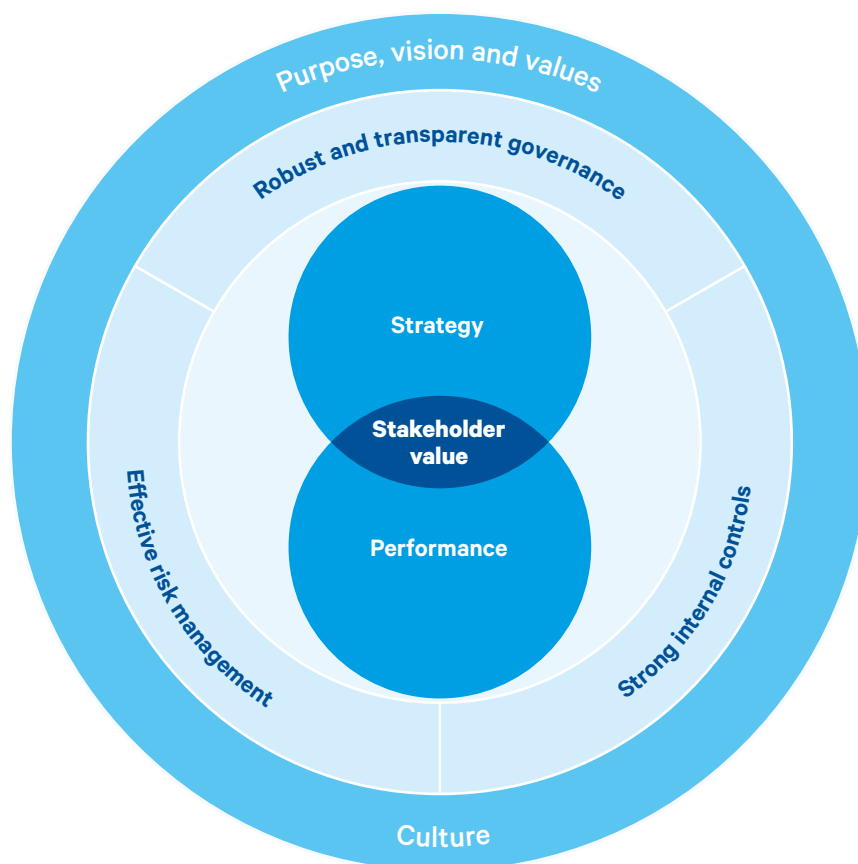
- 0-3 Years: 4
- 4-6 years: 3

The Board and its governance
see page 80 for details of the Board's areas of experience

The Board and its governance framework

The Board acts as the main governing body for the purpose of oversight for the Company's regulated business.

Our approach to governance is an integral part of our culture, guiding how we do business and create value for our stakeholders.



GOVERNANCE FRAMEWORK

Stakeholder value

We deliver sustainable value for our stakeholders by providing high-quality environmental infrastructure and customer services.

Strategy

Our strategy is to lead in the UK's water and wastewater sectors, invest for sustainable growth and drive value through efficiency.

Performance

Our financial and operational performance is driven by our strategic sustainability objectives.

Robust and transparent governance

We are committed to operating to the highest standards of corporate governance.

Effective risk management

We have a mature integrated risk management framework which is embedded into existing governance structures and ways of working.

Strong internal controls

We keep the effectiveness of our internal control environment under regular review and seek continually to improve our approach.

Purpose and values

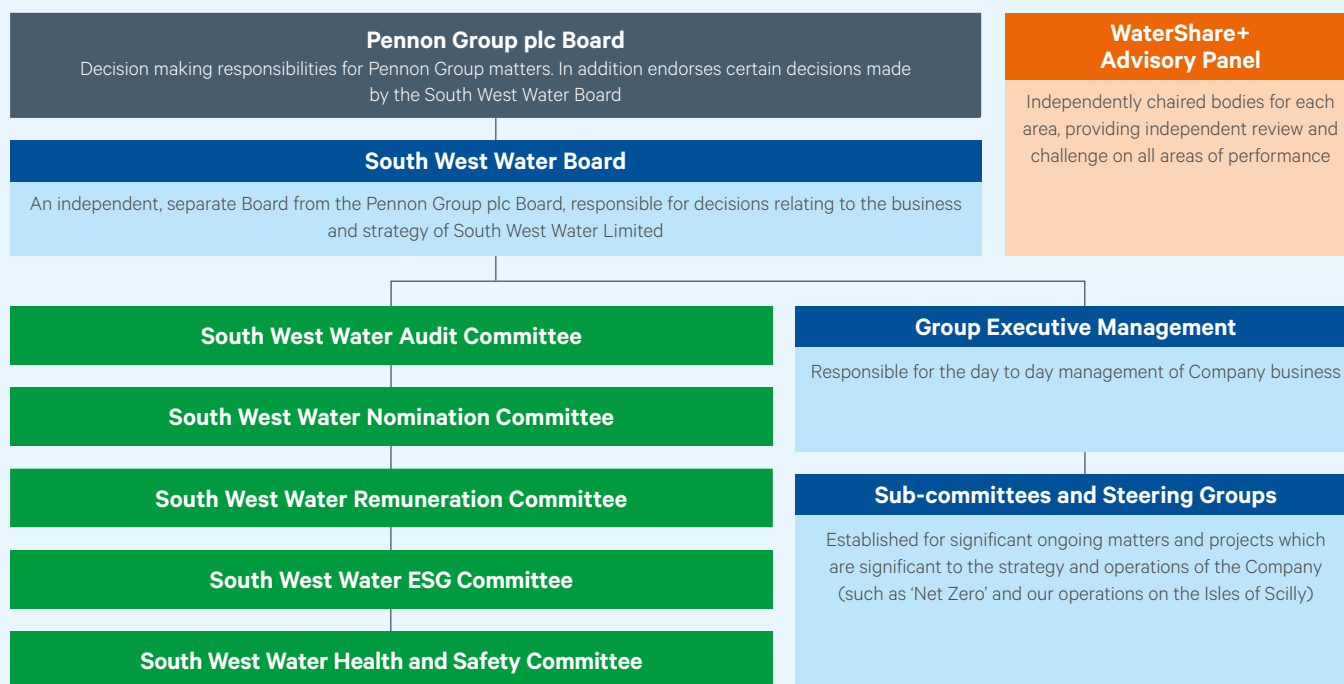
Our purpose – bringing water to life, supporting people and the places they love for generations to come – and its supporting values of trusted, collaborative, responsible and progressive, will help drive our strategic priorities over the long term.

Culture

We are developing a culture that can be lived throughout the Company with integrity and transparency, ensuring South West Water is trusted and valued by all its stakeholders.

Board structure summary

The following diagram summarises the context and structure which the South West Water Board operates aligned with the governance approach of Pennon Group plc:



Subcommittees and Steering groups

No	Title	Purpose
1	Health and Safety Executive Committee	Established to oversee South West Water's approach to health and safety (including broader staff welfare)
2	Drinking Water Quality Committee	Established to ensure the high quality of our drinking water is maintained and prompt improvements are taken when necessary
3	Pollutions Committee	Established to ensure pollutions incidents are minimised and to oversee the pollution incident reduction plan
4	Net Zero Steering group	Oversees our ongoing programme in line with our commitment to achieve net zero status by 2030
5	Outcome Delivery Incentive Committee	Oversees the Company's plans to deliver the performance commitments it has made to customers and stakeholders
6	Isles of Scilly Steering Group	Established to ensure we meet our obligations since being appointed the licensee on April 2020
7	Investment Planning Committee	Effective owner of procedures controlling and approving capital investment. Ensures principles of proper financial control
8	Procurement Strategy Group	Oversees strategies and policies to promote effective working practices for strategic contracting relationships
9	People Committee	Oversees the People Strategy considering all people matters including culture within the Company
10	ESG Executive Committee	Oversees the implementation of the ESG strategy and ongoing ESG framework
11	Audit Executive Committee	Established to review the implementation of Audit Committee outputs and the ongoing controls framework
12	Risk and Energy Committee	Reviews the principal and business risk assessments as well as the controls and mitigations in place and assurance activities, including in the area of Energy
13	PR24 Steering Group	Established to develop the Company's preparation and plans for PR24
14	Innovation Committee	Established to develop and oversee South West Water's innovations within its operations
15	Regulatory Affairs Committee	Established to oversee the Company's response to regulatory matters

The Board and its governance framework continued

All of the Non-Executive Directors are considered by the Board to be independent. None of the relationships or circumstances set out in the UK Corporate Governance Code (the UK Code) applied to the Non-Executive Directors listed on pages 74 to 75.

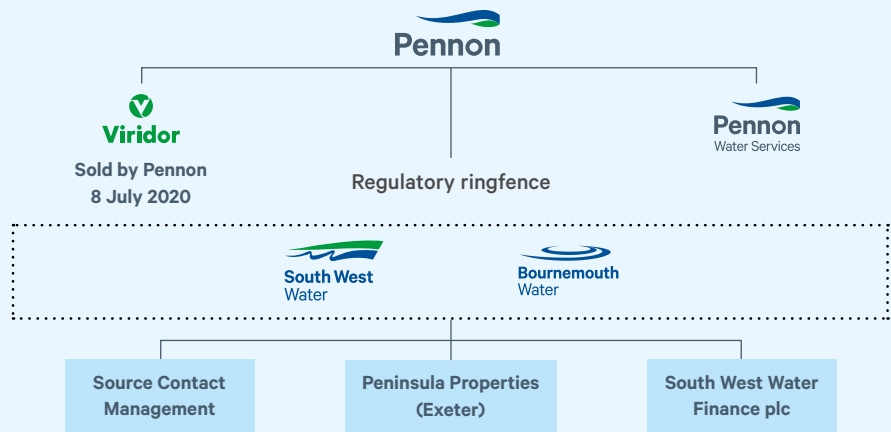
Notwithstanding their directorships of Pennon Group plc, Gill Rider, Neil Cooper, Jon Butterworth, Iain Evans and Claire Ighodaro are considered to be independent in character and judgement given that they were appointed to the South West Water Board in order to facilitate the Group's revised governance framework, rather than to represent the interests of the shareholder.

Susan Davy continued as a non-executive director of Restore plc throughout 2020/21. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of a director.

At year end, the Board had 57.1% female representation, which exceeds its 33% female representation target. Further details of gender diversity within the Company are described on page 3 and page 50.

All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 74 to 75 demonstrate collectively a broad range of business, financial and other relevant experience.

SOUTH WEST WATER'S GROUP CONTEXT



South West Water provides regulated water and wastewater services across Cornwall, Devon and parts of Dorset and Somerset, and water services in the Bournemouth Water area of operation (covering areas of Dorset, Hampshire and Wiltshire). From 1 April 2020, South West Water's licence was extended to provide water and wastewater services on the Isles of Scilly.

The Company also provides a small number of non-appointed services.

Our parent company – Pennon Group plc

Pennon Group plc is a UK FTSE listed company and owns 100% of the share capital in South West Water Limited. Further details of the governance arrangements are provided in this section of the Annual Performance Report and Pennon Group plc's Annual Report and Accounts annualreport.pennon-group.co.uk

South West Water's subsidiaries:

Source Contact Management Limited

manages South West Water's billing, collections and customer contact activities.

Peninsula Properties (Exeter) Limited

advises South West Water on property development opportunities.

South West Water Finance plc

acts as a financing company, raising borrowings for South West Water.

Other significant associated companies:

Viridor:

On 8 July 2020, Viridor, until that point a fellow subsidiary of Pennon Group plc, was sold to a third party. Viridor provides waste management services to UK residential and commercial customers including recycling, composting and energy recovery facilities.

Pennon Water Services:

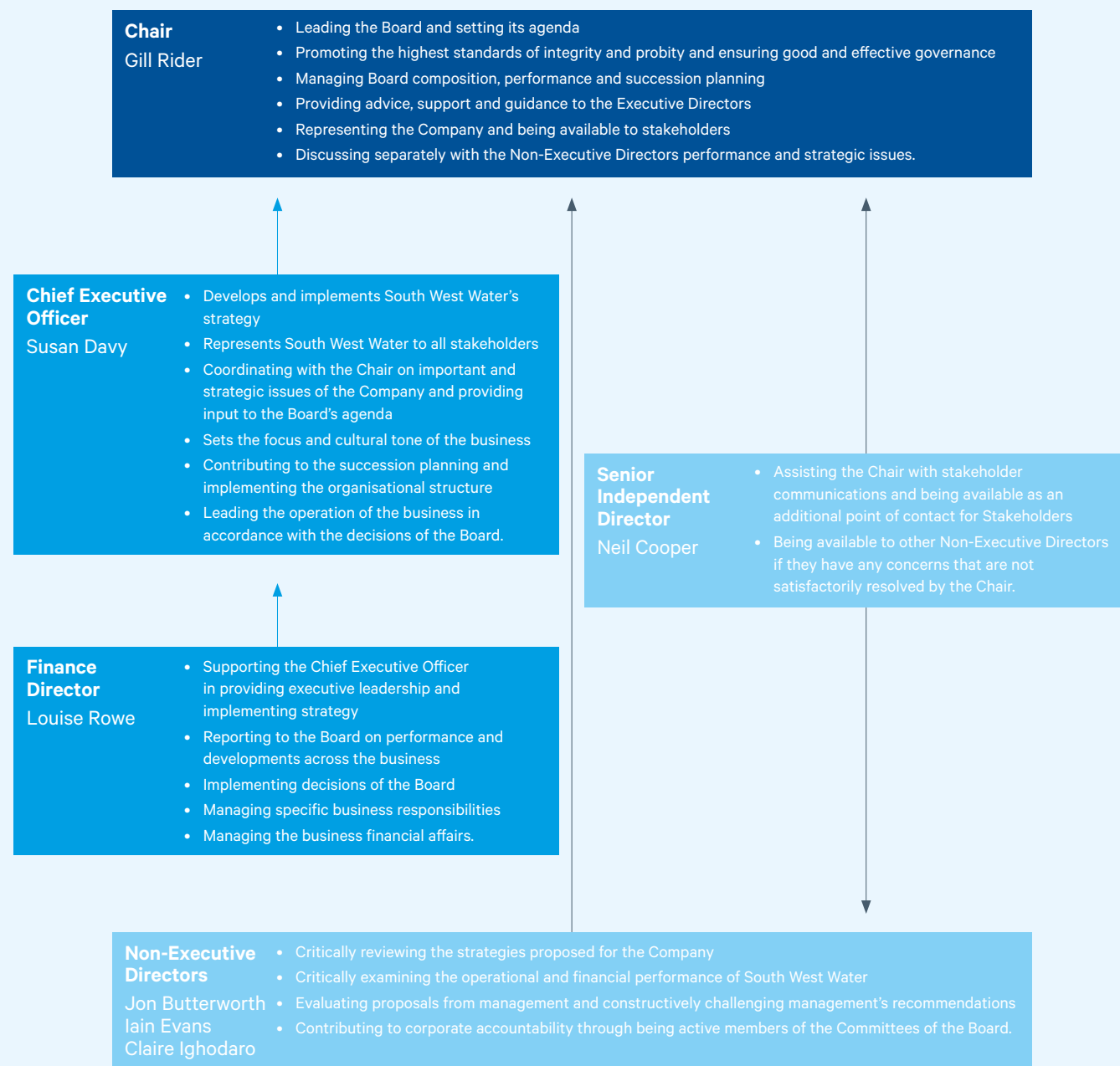
Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

Bristol Water:

On 2 June 2021, Pennon approved the acquisition of Bristol Water Holdings UK Limited, including its subsidiary Bristol Water plc, which provides water only services to c.1.2 million customers in the Bristol region. Bristol Water Holdings has a 50% holding in Bristol Wessex Billing Services Limited, which provides debt collection services and a 30% holding in water2business Limited, which is a retailer of non-household water and wastewater services.

The acquisition completed on 3 June 2021 and will be reviewed by the Competition and Markets Authority.

DIRECTORS' ROLES AND ACCOUNTABILITY



The Board and its governance framework continued

Board meetings and attendance

The Directors and their attendance at the six scheduled meetings of the Board during 2020/21 are shown below:

Position	Member	Attendance	Experience									
			Governance & regulation	Utility sector	Infrastructure	Accounting	Corporate finance & treasury	Environmental, social and governance	Customer service	Health & Safety	Political affairs	Technology
Chair	Gill Rider ⁽ⁱ⁾	6/6	✓	✓				✓	✓	✓	✓	✓
	Sir John Parker ⁽ⁱⁱ⁾	2/2	✓	✓	✓			✓	✓	✓	✓	
Non-Executive Directors	Jon Butterworth	6/6	✓	✓	✓			✓	✓	✓		✓
	Neil Cooper	6/6	✓	✓	✓	✓	✓		✓			✓
	Iain Evans ⁽ⁱⁱⁱ⁾	5/5	✓	✓	✓	✓	✓	✓	✓	✓		
	Claire Ighodaro ⁽ⁱⁱⁱ⁾	5/5	✓	✓		✓	✓	✓	✓			✓
	Lord Matthew Taylor ^(iv)	2/2	✓	✓				✓	✓	✓	✓	✓
	Martin Hagen ^(iv)	2/2	✓	✓		✓	✓					✓
Executive Directors	Susan Davy ^(iv)	6/6	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Louise Rowe	6/6	✓	✓	✓	✓	✓	✓				
	Chris Loughlin ⁽ⁱ⁾	2/2	✓	✓	✓			✓	✓		✓	✓

(i) Appointed as Chair with effect from 31 July 2020.

(ii) Stepped down from the Board on 31 July 2020.

(iii) Appointed to the Board on 31 July 2020.

(iv) Appointed as Chief Executive Officer with effect from 31 July 2020.

Directors' roles

Neil Cooper is chair of the Audit Committee and in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1 he has recent and relevant financial and accounting experience (as set out in his biography on page 74). The Board is satisfied that the Committee as a whole has competence relevant to the operations of South West Water.

There is a clear separation of responsibilities between the Chair and the Chief Executive Officer, divided between managing the Board and the business, while they of course maintain a close working relationship.

All the Directors are equally accountable for the proper stewardship of South West Water's affairs but they have specific roles including those set out in this report.

Managing South West Water

The South West Water Board continues to operate as a separate independent board – albeit with all but one of its Board members also serving on the Board of Penon Group plc – in accordance with its schedule of matters reserved (see right) to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The Penon Group Board's responsibilities include overall leadership of the Group, setting the Group's values, policies and standards, approving Penon's strategy and objectives and providing oversight of the Group's operations and its performance.

Because the two Boards are run concurrently, the Directors are well-positioned to ensure that matters reserved to each respective Board are appropriately scrutinised and undertaken in compliance with each business' regulated obligations. A rigorous conflicts of interest process also safeguards the South West Water Board's ability to set and have accountability for all aspects of the regulated business strategy and to strengthen South West Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved to the Board include:

- All acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and its Committees
- Approval of the Annual Reports and Financial Statements and the Annual Performance Report and Regulatory Reporting.

Without reserving to itself the final decision-making power, the Penon Group Board also endorses certain decisions taken by the South West Water Board, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets, and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed by the South West Water Board.

Approval of South West Water's dividend policy and the declaration of dividends to be paid by South West Water also remain reserved to the South West Water Board.

The Executive team meets in advance of each meeting of the Board in order to ensure clear ownership and management of the operations of the business prior to the formal Board and Committee meetings.

In addition to the six scheduled Board meetings, a strategy day is held in September each year, and extra ad hoc Board meetings are arranged as required.

Board support and training

Directors have access to the advice and services of the Company Secretary, and the Board has an established procedure whereby Directors, in order to fulfil their duties, may seek independent professional advice at the Company's expense. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors, the Board and the Committees.

Newly appointed Directors receive a formal, tailored induction, which includes, inter alia, an explanation of the Company and wider Group structure, regulatory and legal issues, the governance framework and policies, the approach to risk management and its principal risks (financial and non-financial, including environmental, social and governance (ESG) risks), duties and obligations (including protocols around conflicts of interest and dealing in shares of the parent company), and the current activities of the Board and its Committees. Newly appointed Directors are also invited to visit different operating facilities across the business and to meet with employees in order to better understand key processes and systems. Gill Rider received a specific induction covering her duties as Chair of South West Water, including a refresher on specific ringfenced arrangements (this was in addition to her induction as Chair of Pennon Group plc).

Claire Ighodaro and Iain Evans had previously received tailored inductions when appointed as Pennon Group plc directors and as such received refreshers when appointed as South West Water Directors.

The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training may include attendance at external courses organised by professional advisors and also internal presentations from senior management.

Board Committees' terms of reference

In accordance with policies, a range of key matters are delegated to the Board's Committees as set out on pages 84 to 85 of this governance report.

The terms of reference of each of the Board's Committees are set out on the Company's website (<https://www.southwestwater.co.uk/about-us/documents/terms-of-reference/>) and are also available from the Group Company Secretary upon request. The terms of reference, as well as the Board's schedule of matters reserved, were reviewed and updated during the year to ensure that they remained appropriate and relevant.

Operation of the Board

The Board operates by receiving written reports circulated in advance of the meetings from the Executive Directors on matters within their respective business areas. The Board also receives presentations on key areas of the business and undertakes site visits to meet employees and gain a better understanding of the operation of business initiatives. In light of the COVID-19 restrictions in place during the year, no physical site visits took place; instead the Directors participated in a virtual tour of Brokenbury Wastewater Treatment Works in Torbay in March 2021.

Under the guidance of the Chair, all matters placed before the Board are discussed openly. Presentations and advice are received frequently from senior executives and from external advisors to facilitate the decision-making of the Board. In the year under review, the Board has considered a wide range of matters in order to meet its obligations.

In arriving at decisions, the Board always considers the impact they might have on stakeholder groups when considering what is in the best interests of stakeholders as a whole.

The Chair and Non-Executive Directors take particular care to ensure that the Board considers the interests of customers in all matters discussed by the Board, reflecting a very real understanding of the particular pressures on South West Water customers. In addition to a monthly review of customer contact and complaint analysis, the Board is regularly updated on customer satisfaction surveys.

South West Water has monitored customer satisfaction with service and value for money quarterly for over 20 years, and has also facilitated focus groups to discuss local and regional investment. Findings from all methods of customer consultation are fed back to the Board and incorporated into Company plans.

All Directors are equally accountable for the stewardship of the Company's affairs with the Non-Executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business are critically reviewed. The Non-Executive Directors also examine the operational and financial performance of the Company and fulfil a key role in corporate accountability through their membership of the governance Committees of the Board. In compliance with COVID-19 restrictions, Board and Committee meetings were held online throughout the year.

Although this approach presented challenges, it enabled the usual high standards of governance to be maintained.

During 2020/21, refresher training was provided to the Board on directors' duties and the Audit Committee received a technical briefing from the external auditor, which included an update on IFRS changes and an update on financial reporting.

The Board and its governance framework continued

Executive Management

The role of the Executive is to define and drive the business priorities that will achieve delivery of the strategy. It is responsible for ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of resources to create and maximise value whilst protecting the interests of the wider stakeholder group.

Chaired by the Chief Executive Officer, the Executive meets formally fortnightly to manage the performance of the Company and to review and refine recommendations to be presented to the Board.

Further details concerning the Executive Management and its sub-groups are provided on pages 77 and 88 to 89.

Members of the Executive

Susan Davy	Chief Executive Officer
Louise Rowe	Finance Director
Iain Vosper	Operations Director
Matthew Crabtree	Engineering and Supply Chain Director
Lisa Gahan	Regulatory Director
Jo Ecroyd	Customer Services Director
Paul Boote	Group Finance Director
Simon Pugsley	Group General Counsel and Company Secretary
Adele Barker	Group Chief People Officer
Kevin Nankivell	Digital & IT Director

Dealing with Directors' conflicts of interest

In accordance with the directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers that this has operated effectively during the year.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

A register of Directors' conflicts is maintained and reviewed at each Board meeting. Authorised conflicts disclosed on the register currently involve cross-directorships with Pennon Water Services Limited and the trustee board of Pennon Group's defined benefit scheme. No other conflicts of interest arose during the year.

Related parties

The processes outlined left in relation to conflicts of interest, together with the commissioning of frequent share register analysis, enable the Board to monitor related parties so that any related party transactions may be quickly identified and compliance with the Listing Rules ensured.

Risk management and the system of internal control

The Board is responsible for maintaining the system of internal control to safeguard shareholders' investment and the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by South West Water that has been in place throughout 2020/21 and up to the date of the approval of this Annual Performance Report.

The Group's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC's Internal Control Guidance, which brings together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 130 to 131 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Group, monitoring of such risks and ongoing and annual evaluation of the overall process. ESG risks identified and assessed by the Board cover areas such as health and safety, climate change, and tax compliance. Details of the key risks affecting the Company are set out in the strategic report on pages 133 to 139.

Key performance indicators are in place to enable the Board to measure the Company's ESG performance (pages 58, 60 to 61) and a number of these are linked to remuneration incentives (page 101).

As part of the review of the effectiveness of the system of risk management and internal control under the Pennon Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and other procedures.

The processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout South West Water and that the Company is in a position to react appropriately to new risks as they arise.

Code of Conduct and policies

The Pennon Group Code of Conduct was refreshed during the year and adopted within South West Water. It and related policies set out our commitment to promoting and maintaining the highest ethical standards. Areas covered in the Code of Conduct and policies include our impact on the environment and our communities, our workplace and our business conduct.

The Group's policy on anti-bribery and anti-corruption strictly prohibits employees from offering or accepting bribes, facilitation payments and kickbacks. The policy requires proper due diligence checks of third party suppliers or contractors doing business with the Group, including a corruption risk assessment by the relevant unit, to examine the nature of the proposed work or transaction. The policy sets the framework for our clear requirement that everyone who works with or for us must act honestly and with integrity at all times. It has been rolled out comprehensively into all parts of the Group, with training provided into business units by the dedicated Group legal compliance team. Enforcement of the policy is achieved through planned and ad hoc checks, the training mentioned, and detailed investigations into allegations or whistleblows received from employees, customers and suppliers around potential wrongdoing.

Allegations of bribery or corruption are reported to the Audit Committee together with investigation outcome and details of any action taken, and will be disclosed to our external auditors. To date there have been no fines, penalties or significant issues reported or found in relation to bribery, corruption or fraud.

In March 2021, the Board approved an updated version of the Group's Code of Conduct and associated policies following an extensive review and refresh. A comprehensive programme of training and internal communications is now underway with targeted messaging and interactive training sessions. This programme addresses the business' key compliance and principal risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing.

The Group also has policies in place, adopted by South West Water, covering the acceptance of gifts and hospitality, anti-facilitation of tax evasion and conflicts of interest, which require our people to disclose any situation which may conflict with their responsibilities as employees. Our Code of Conduct and our policies are available on our website at www.pennon-group.co.uk/about-us/policies.

Specific risk assessments undertaken by the Group internal audit function identify more vulnerable areas of the Company. In order to try and mitigate risk wherever possible, targeted authorisation and oversight processes apply to the areas identified as being more vulnerable and additional training is provided.

The Group legal compliance team likewise actively assesses high risk areas based on information gained through their close working with business functions and Group internal audit. Assessments are undertaken using a number of entry points, including using the output of reviews with the executive teams, during and following face-to-face training, and analysing whistleblowing reports. Foreign trading operations, procurement activities and business development/ commercial back-office areas continue to be specifically reviewed for compliance with anti-bribery and anti-corruption requirements. Comprehensive operating procedures are in place to address risks in those areas, with regular reviews taking place to ensure the assessment of risk remains up to date.

The policy also sets out the employment consequences for its breach and potential legal sanctions under bribery laws. Any breaches or failure to adhere to the Group's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to read, understand and comply with the policy and report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the confidential whistleblowing (Speak Up) service. There were no confirmed cases of bribery or corruption, and no confirmed business ethics incidents, during the year.

SPEAK UP

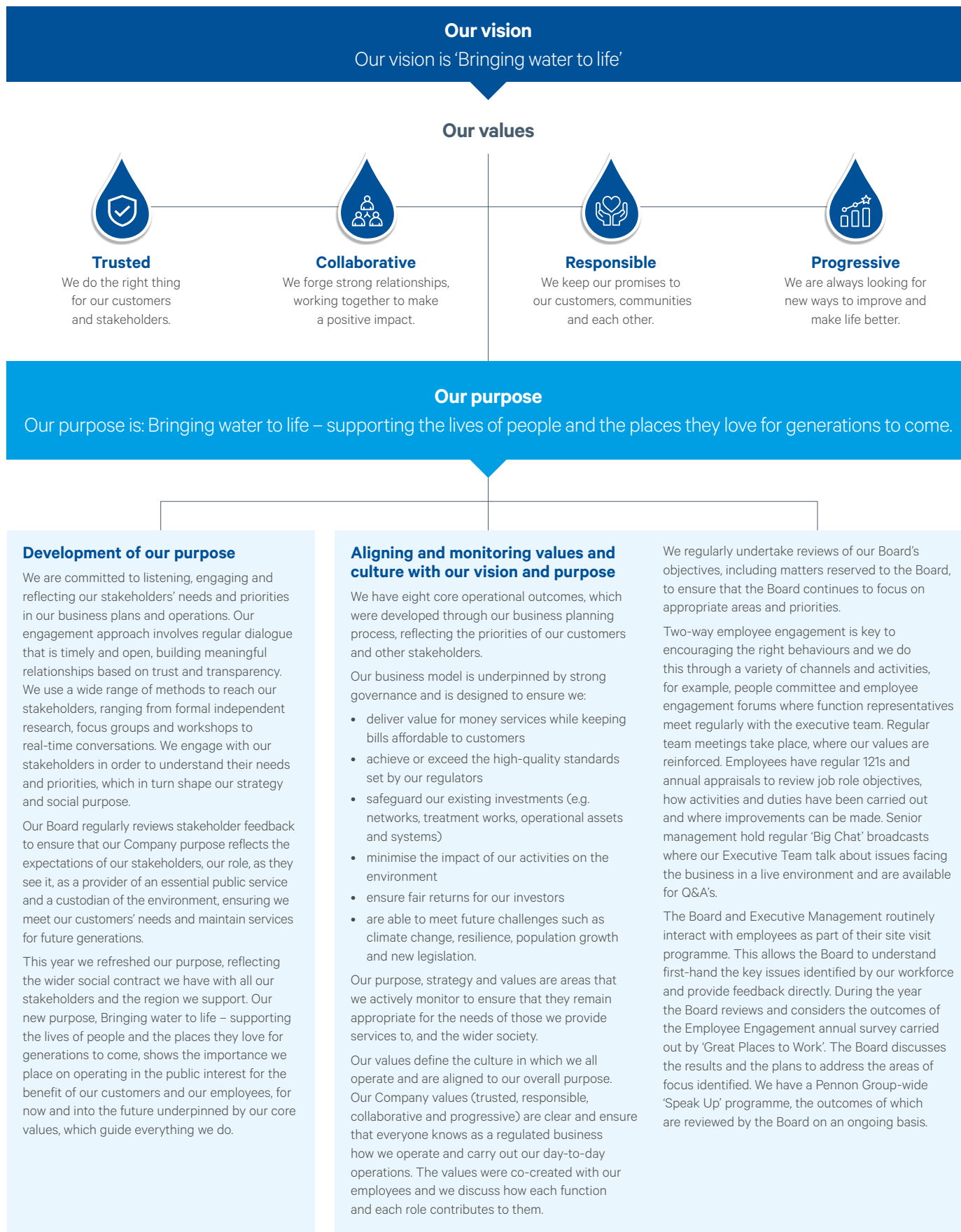
The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how this should be done and ensures that they are able to do so without fear of reprisals. The Pennon Group's whistleblowing policy specifically includes and encourages reporting of:

- Bribery or corruption
- Stealing or fraud
- Corrupt or dishonest activity
- Anything else contrary to the law.

The Speak Up service comprises telephone and web-based reporting channels operated by an independent provider Navex Global. Following receipt, the allegation will be assessed and an investigation started promptly. The investigation process will be undertaken fairly, impartially and thoroughly, and maintaining strict confidentiality at all stages of the investigation and any subsequent action taken.

The Board and its governance framework continued

Our vision, purpose, values and culture



How governance supports strategy

The Board has overseen and led a number of initiatives supporting our Board Pledges in line with the Company's strategic focus areas during the year:

Our outcomes and other performance

Protecting places



Environment

[Read more on pages 36 to 37](#)



Reliable wastewater services

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

Supporting people



Clean, safe and reliable supply of drinking water

[Read more on pages 20 to 21](#)



Available and sufficient

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



Responsive to our customers

[Read more on pages 30 to 31](#)



Benefitting the community

[Read more on pages 46 to 47](#)

See also

Our people

[Read more on pages 48 to 53](#)

Creating value



Resilience

[Read more on pages 40 to 43](#)



Fair charging and affordability for all

[Read more on pages 32 to 33](#)

See also

Financial performance

[Read more on pages 66 to 71](#)

Our Board Pledges to 2025

1 We will deliver environmental leadership

- The Board's decision-making process in respect of our Green Recovery Initiative was based on its objective to ensure that the business is environmentally and socially sustainable in the long term. The Board reviewed the Green Recovery Initiative throughout its development taking into account the engagement with all those whose interests would be affected by its plans. The Board approved the Green Recovery Initiative for submission to our regulators in January 2021, which has received draft approval for £81 million of additional environmental investment
- Implementation of the Board approved Pollution Incident Reduction Plan aimed at addressing this key area of focus to our customers and other stakeholders

2 We will provide outstanding customer service

- During the year the Board oversaw the enhancement of our service to customers in light of the COVID-19 pandemic and its impacts
- The Board provided continued monitoring of South West Water's water resource position, including reservoir levels following previous dry years

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

- The Board oversaw the Company's response to supporting our customers during the COVID-19 pandemic, including the establishment of a dedicated Coronavirus Priority Services Register
- The Board approved financing through our Sustainable Financing Framework

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

- During the year the Board reviewed and adapted the support we offer to customers in light of the economic effects of the pandemic, supporting potentially financially vulnerable customers. It also oversaw promotion of our affordability schemes and ensuring they were easy to apply for
- The Board has continued to monitor and scrutinise the Company's financial performance to ensure it remains efficient

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

- Having had an active role in the development of the WaterShare+ scheme from its inception, the Board oversaw implementation of the WaterShare+ scheme during the year.
- The Board continues to monitor the scheme through the WaterShare+ Advisory Panel and a separate customer Annual General Meeting to be held annually with the first meeting being scheduled for September 2021.

The Board and its governance framework continued

Compliance with Ofwat's principles and the UK Code – analysis by objective/provision and principle

South West Water is providing a detailed analysis of how we comply with Ofwat's Board principles of Board leadership, transparency and governance as well as the 2018 UK Corporate Governance Code (in the context of being a subsidiary of a listed company).

Details of how the Board has addressed Ofwat's principles (including links to more detailed sections of the Annual Performance Report and Regulatory Reporting) are provided below.

A summary of explanations of measures the Company has taken in areas where South West Water is unable to achieve full compliance with the 2018 UK Code due to its group context is provided on pages 80 to 81 of the Annual Report and Financial Statements. A full summary of compliance by provision of the 2018 UK Code is provided in South West Water's Annual Report and Financial Statements (pages 81 to 82 of the South West Water Annual Report and Financial Statements).

Ofwat Board leadership, transparency and governance – principles (January 2019)

From 1 April 2019, Ofwat revised 'Board leadership, transparency and governance' principles have applied to South West Water. These were published following consultation by Ofwat in January 2019. The following table details how we comply with these principles, where we have taken additional steps during the year to comply (or indicates elsewhere in this Annual Performance Report where this detail is provided).

Objective 2.1 purpose, values and culture

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

Provision i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Our purpose is laid out in the 'Our Business model and strategy' on pages 04 to 05. This is developed to align with our regulatory business plans which are themselves based around the eight outcomes which our customers and other stakeholders have identified as their top priorities.
Provision ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.	'Our Business model and strategy' on pages 04 to 05 lays out our strategy, values and culture which have been developed in line with our purpose and the linkage is outlined in that section.
Provision iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	All employees are provided with our Code of Conduct which outlines the behaviours expected in line with the values and culture which we expect. An independent 'Speak Up' whistleblowing process is made available to all staff to raise any relevant matters. These are reviewed by the Head of Legal Compliance and summaries of matters raised are then reviewed by the Board and corrective actions to any matter requiring correction are also reviewed. Further details are provided on page 83.
Provision iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	The activities of the Board are detailed on page 85 and linked to strategic focus areas on page 85. Page 106 details continued employee engagement. The Risk and Compliance Statement on pages 126 to 129 focuses on how the Company has set its aspirations and performed for all those it serves.

Objective 2.2 standalone regulated company

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

Provision i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable); and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.	The Board leads the Company both in terms of accountability and legitimacy and is responsible for the setting of and ownership of the Company's strategy together with the ability to make ongoing strategic and sustainable decisions in the interests of the Company for the long term. Pennon endorses significant decisions impacting Group strategy. These are detailed on page 90 to 99 alongside detail of the operation of the South West Water Board. We believe this approach is compatible with this provision.
Provision ii. Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	Page 77 details the operation of South West Water's Audit, Remuneration, Nomination and ESG Committees, each of which reports into the Board. Other than in areas identified in this report as reserved for the parent company, final decisions are made by South West Water's Board and Committees.
Provision iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.	The role of the Board and updates on its activity during the year are detailed on pages 120 to 125 and it is fully focused on the activities of South West Water. The approach to conflicts of interest including in respect of third parties is detailed on page 82.

Ofwat Board leadership, transparency and governance – principles (January 2019) continued

Objective 2.3 Board leadership and transparency

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions. Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:

Provision i. An explanation of group structure;	See page 78.
Provision ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	See pages 147 to 148.
Provision iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	See Risk report, pages 130 to 139.
Provision iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	These are included in the summary of Board activity on pages 80 to 81 and within the reports of the respective committees on pages 90 to 99.
Provision v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	See pages 102 to 113.

Objective 2.4 Board structure and effectiveness

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

Provision i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	See pages 77 to 99 for summaries of the Board and Committees.
Provision ii. Independent non-executive directors are the largest single group on the board.	See pages 74 to 75. The majority of the Board is comprised of independent Non-Executive Directors (five of a total of seven Directors, including the Chair).
Provision iii. The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	The Chair is independent of management, although is also the Chair of the parent company Pennon Group plc. Further details in this regard are provided on page 78. There is a clear and explicit division of responsibilities between the Board and Executive, and a summary of their roles is provided on pages 74 to 89.
Provision iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	See page 97.
Provision v. There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.	See page 96 to 97.
Provision vi. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	Two Non-Executive Director appointments have been made during the year (Claire Ighodaro and Iain Evans). They were both given inductions. The Board receives training, including in respect of the roles of Non-Executive Directors' throughout the year. Further details of their support and training are provided on page 81.
Provision vii. There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.	Summaries of Committee membership and attendance is provided in pages 90 to 99. Each of these Committees has a majority of Independent Non-Executive members.

Executive Management

Group Executive Management

Day to day management of South West Water's operations and activities is undertaken by the Executive Management, which comprises seven members and operates under the direction and authority of the Chief Executive Officer.

The team comprises a mixture of both Executive Directors and other operational leaders, each of whom brings extensive skills and expertise relevant to their area of responsibility. Collectively South West Water's Executive Management is responsible for delivering operational and financial performance in line with the Board's strategic direction.

The team includes the Chief Executive Officer and Finance Director, who are also members of South West Water's Board and whose experience is described on page 75. The four other members of the Executive Management, who have responsibility for key areas of operations of South West Water, are shown right. The Digital & IT Director and the Group Chief People Officer also attend the Executive Management meetings.



Iain Vosper
Operations Director

Iain is a Chartered Accountant who joined South West Water in 2008 following both audit and senior financial roles.

He has held a range of financial and operational managerial roles within South West Water.

He was Programme Manager for the 2014 price review and as Regulation Director led the business plan process for the 2019 price review. South West Water was the only company in the industry to achieve 'fast track' status for both its 2015-20 and 2020-25 Business Plan by the industry regulator, Ofwat.

Following the initial assessment of South West Water's PR19 Business Plan, Iain was appointed as Operations Director (Drinking Water Services) in order to ensure challenging targets are achieved and stepped changes to service levels are made in line with the Business Plan.

In autumn 2020 Iain also became Operations Director (Wastewater and Networks) to oversee challenging targets in this area including reductions in pollution incidents going forward.



Matthew Crabtree
Engineering Director

Matt was appointed as Engineering Director in October 2018. Matt has more than 30 years' experience delivering capital solutions in regulated industries including water, rail and highways. He has worked for a number of high profile companies in the UK and overseas which include Tarmac, Balfour Beatty, Kier Group and most recently Costain Group. He studied Civil Engineering at Liverpool University and served in the Royal Marines. He brings a wealth of commercial experience and engineering knowledge to South West Water.



Lisa Gahan
Regulatory Director

Lisa has more than 25 years' experience in regulated industries including water, energy, and transport. Lisa has a background in economics, having studied for a PhD in Environmental and Energy Economics at Manchester University.

Lisa was a founding partner of ICS Consulting, where for over 20 years she helped utilities with economic regulation, customer engagement, and investment and strategy planning. At ICS, Lisa worked closely with South West Water on the development of both our PR14 and PR19 business plans as well as our Green Recovery plan.

Lisa was appointed Regulatory Director in May 2021.



Jo Ecroyd
Customer Service Director

Jo joined South West Water in 2006 as Service Centre Manager and has held a variety of customer service and service improvement focused roles.

In October 2016 she was promoted to Customer Service Director, joining the Executive Management.

She has overall responsibility for retail services provided to South West Water's household customers, as well as for all operational customer service interactions with household customers.

In March 2021, Jo was appointed as a wholesaler member of the Market Performance Committee of MOSL, the market operator for England's non-household retail water market. The Committee provides oversight on market performance, monitoring performance and ensuring rectification of trading party underperformance and advises on Market Entry Assurance.

Jo is also a member of the Board of Trustees for South West Lakes Trust, a charity that is dedicated to caring for and enhancing the South West's reservoirs and lakes. The charity ensures that the land surrounding the reservoirs in our care is managed sensitively and sustainably to improve the quality of water entering the reservoirs, and that these beautiful countryside locations are enjoyed by everyone, not just today, but for future generations as well.



Simon Pugsley
General Counsel and
Company Secretary

Simon Pugsley was appointed as Group General Counsel and Company Secretary with effect from 1 February 2019, having undertaken that role on an interim basis from November 2018.

In his role as Group Company Secretary he attends and supports all Board and associated Committee meetings of both Pennon Group plc and South West Water Limited. As Group General Counsel he provides strategic legal and commercial advice to the Group and to the Board in its deliberations.

Simon is a highly experienced in-house lawyer and company secretary. He qualified as a solicitor in 1993 and joined Pennon Group from private practice in 1998.



Adele Barker
Group Chief People Officer

Adele is the Group Chief People Officer for Pennon. She is a member of the Pennon Executive and supports the Remuneration and Nomination Committees.

Adele's areas of responsibility include the Group wide Human Resources function, Health & Safety and Corporate Communications. Her remit includes the implementation of the Group's People Strategy, diversity and inclusion initiatives, talent development, people engagement, leadership and cultural change. Her background includes senior roles in FTSE organisations including Marks and Spencer, Orange and John Lewis. Prior to joining Pennon, Adele spent 11 years at British Gas.

Adele is a pension trustee on the boards of the Pennon Defined Benefit and Defined Contribution Pension Schemes. She is also a member of the board of NHS Professionals (NHSP) as a non-executive director. NHSP are the leading provider of managed flexible worker services to the NHS, with over 100,000 general and specialist nurses, doctors, midwives, administrative and other healthcare professionals.



Kevin Nankivell
Digital & IT Director

Kevin was appointed Pennon Group Head of IT in October 2016 and has subsequently been appointed to the Group Executive in July 2020.

Prior to his current role, he has performed a variety of IT-related management roles within South West Water since 1998.

Kevin leads the South West Water and wider Pennon Group approach to cyber security both in respect of ensuring compliance with emerging global threats and legislation compliance (including the Directive on security of network and information systems – NIS Directive) as well as sector specific matters.

His role reflects the importance of Information Technology to South West Water and in particular Information Security.

Audit Committee report

Ensuring sound financial management and robust controls



2020/21 Audit Committee report

I am pleased to introduce the Audit Committee's report on its activities and key areas of focus during 2020/21.

As in previous years, the principal responsibilities of the Committee continue to be focused on three key areas:








- Ensuring the quality and integrity of the Company's financial reporting; an activity that includes the assessment of the application of accounting policies given underlying standards, probing and testing of accounting judgements made in preparing financial reporting and the assessment of whether the presentation of the Company's activities is fair, balanced and understandable
- Reviewing and challenging the ongoing effectiveness of the internal control environment
- The scope and adequacy of risk management processes across the Company. This encompasses monitoring the Company's risk appetite as well as acting as a forum for carrying out more detailed reviews of higher risk areas of the operation.

These responsibilities are discharged throughout the year in accordance with a schedule of business reflecting the annual reporting cycle of the Company, which is designed to allow sufficient time for their consideration while also permitting time to be spent on related key accounting matters. The scheduling of activities has also allowed for ad-hoc work on events as they have arisen. Monitoring and reviewing the effectiveness of the external auditor and the internal audit function is a further important ongoing element of the Committee's assurance activities.

The Company's executive Risk Management Committee continues to assess risk appetite and monitor key risks and their mitigation, with the Audit Committee subsequently receiving detailed 'deep dive' presentations from senior management on areas impacting our principal risks. During the year, these covered a wide range of topics including the recruitment and retention of staff, cyber security, our response to the COVID-19 pandemic, the processes around payment of customer debt, our performance in relation to pollution and our response to climate change. More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 130 to 139.

Alongside the risk-orientated activities, we continue to review the output of the Company's financial resilience and health assessments; over a 12 month period through our assessment of the Company's going concern status and over a period of until 2030 as it relates to the Company's continuing viability. This year, the viability assessment has considered a range of financial projections arising from the complex environment including the ongoing and potential future impacts of the COVID-19 pandemic. South West Water has continued to use a longer assessment period to 2030, noting a greater visibility of future cash flows, being a regulated business. Our viability statement is reported on page 128.

AUDIT COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Audit Committee	Attendance
Committee Chair	Neil Cooper	April 2016	 5/5
Committee members	Gill Rider ⁽¹⁾	April 2016	 2/2
	Jon Butterworth	July 2020	 2/3
	Iain Evans ⁽²⁾	July 2020	 3/3
	Claire Ighodaro ⁽²⁾	July 2020	 3/3
	Lord Matthew Taylor ⁽³⁾	Stepped down July 2020	 2/2
	Martin Hagen ⁽³⁾	Stepped down July 2020	 2/2

(1) Gill Rider stood down as a member of the Audit Committee upon her appointment as Chair of the Board on 31 July 2020. She has attended all Audit Committee meetings since that date as an invitee.

(2) Appointed to the Committee with effect from 31 July 2020.

(3) Stepped down from the Committee with effect from 31 July 2020.

PRIORITIES AS COMMITTEE CHAIR

As Audit Committee Chair it is my responsibility to ensure the Committee supports the Board in fulfilling its responsibilities by monitoring the quality and integrity of financial reporting, the adequacy of its risk management and its internal controls processes.

The year has been particularly significant for South West Water in respect of the need for it to respond to the COVID-19 pandemic. This led to this area being a particular area of focus for the Committee through 2021/22 as follows:

COVID-19 pandemic

Through the year the Committee closely monitored the impact of COVID-19 on the finance and internal audit functions themselves, on the financial control environment and on Company's financial results. We considered and noted required changes to control processes as South West Water adapted to remote working while continuing to provide the essential services of the provision of safe clean drinking water and reliable wastewater services.

As part of the half-year and year-end reporting review process, we reviewed, probed and challenged the key financial reporting judgements of management as set out on page 92. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are laid out in this report.

Looking ahead to 2021/22, as we better understand the impact of the COVID-19 pandemic, the Committee will remain vigilant and continue to monitor developments and adapt its approach – where necessary – to best support the Company's stakeholders.



Neil Cooper
Audit Committee Chair

Audit Committee composition

Neil Cooper, Chair of the Committee, served for the full year. Lord Matthew Taylor and Martin Hagen stepped down from the Committee on 31 July 2020. Jon Butterworth, Claire Ighodaro and Iain Evans were appointed to the Committee on 31 July 2020. Gill Rider, who formally stepped down from the Committee on her accession to the role of Chair of the Board, continues to attend the Committee by invitation. In the last year her attendance included those meetings at which the Committee reviewed the half-year and full-year financial results of the Company.

Other regular attendees to Committee meetings during the year included: the Chief Executive Officer; Pennon Group Finance Director; the Group General Counsel and Company Secretary; South West Water Finance Director; Group Director of Risk and Assurance; Pennon Group Financial Controller; and the external auditor.

The Board is satisfied that all Non-Executive Directors have recent and relevant financial experience and competence in accounting or auditing. Details of their significant current and prior appointments are set out on pages 74 to 75.

The Chair and fellow Committee members are also members of the Remuneration Committee, which allows them to provide input into both Committees on any Company performance matters and on the management of any risk factors relevant to remuneration matters.

Significant matters considered by the Committee

A calendar of business sets in place a framework for ensuring that the Committee manages its affairs efficiently and effectively throughout the year and is able to concentrate on the key matters that affect South West Water.

The most significant matters that the Committee considered and made decisions on during the year and, where appropriate, since the year end, are set out below.

Financial reporting	<ul style="list-style-type: none"> Monitored the integrity of the financial statements of the Company and the half-year and full-year results announcements relating to the Company's financial performance, including reviewing and discussing significant financial reporting judgements contained in the statements, as outlined below Reviewed the internal assessment of going concern and longer-term viability on behalf of the Board After a detailed review in accordance with its established process, advised the Board that the presentation of the Annual Report and Accounts is fair, balanced and understandable in accordance with reporting requirements and recommended their approval for publication Internal control processes, systems and levels of compliance Review of internal audit reports on core systems and processes across the Company
External auditor	<ul style="list-style-type: none"> Considered the auditor's report on its audit of the annual results focusing on key findings Assessed external auditor effectiveness in respect of the previous year's external audit process Considered the auditor's report on control themes and observations for the year ended 31 March 2020, which did not identify any significant deficiencies <p>Note, in line with the structure of the Group, certain activities such as recommending reappointment of the statutory financial auditor and assessment of effectiveness of the statutory financial auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the Pennon Group annual report (pages 98 to 101).</p>
Risk management	<ul style="list-style-type: none"> Reviewed the Company's risk management framework and compliance with that framework during the year and after the year end up until the publication of the Company's Annual Report Reviewed the assessment of the risks by the Executive Directors and considered risk appetite Reviewed the Company risk register and considered appropriate areas of focus and prioritisation for the audit work programme for the financial year Assessment of information security across South West Water in mitigating key IT risks As part of the risk management review, considered the annual report on whistleblowing Carried out deep dives at Committee meetings on principal risk areas.
Governance	<ul style="list-style-type: none"> Considered and approved Company accounting policies used in the preparation of the financial statements Confirmed compliance with the UK Code Held regular meetings with the external auditor and the Group Director of Risk and Assurance without members of management being present.

Audit Committee report continued

Significant matters considered by the Committee continued

In respect of the monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2021 are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus.

In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use of non-underlying performance metrics disclosures; and ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus included:

AREA OF FOCUS	HOW THE MATTER WAS ADDRESSED BY THE COMMITTEE
Revenue recognition	Given the nature of the Company's revenue, the areas of judgement continue to be in respect of revenue recognition relating to income from measured water services and estimates of timing of receipt of unmeasured revenue. Whilst the Committee relied on South West Water's evolving processes for assessment of water into supply, it scrutinised its track record of accuracy looking back at actual outturns versus accruals at previous year ends. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly against both South West Water's historical collection record and the track record of other companies in the sector. The Committee was particularly mindful of the ongoing impacts of the COVID-19 pandemic on the assessment of expected credit losses (ECLs) in determining the bad debt provision. At the year end the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for ECLs was reasonable.
Going concern basis for the preparation of the financial statements and viability statement	A report from the Pennon Group Finance Director on the financial performance of the Company including forward-looking estimates of covenant compliance and funding levels under different scenarios, is provided to the Board on a periodic basis. Rolling five-year strategy projections and the resultant headroom relative to borrowings are also regularly reviewed by the Board, including scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period a report for consideration by the Committee is prepared focusing on liquidity over the 12-month period from the date of signing of either the Annual Report or half-year results. The report for 2020/21 included a scenario for the potential impact of the COVID-19 pandemic. The Committee also reviewed a report on the Company's financial viability over an appropriate period, which the Board considers to be up to 2030 in connection with the UK Corporate Governance Code and Ofwat's requirement for a viability statement to be given by the Board. Similarly, this report also considered the viability of the Company considering the potential ongoing impacts of the COVID-19 pandemic alongside the manifestation of other adverse events modelled from the Company's principal risks and Ofwat's mandated sensitivities for water companies. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on page 128.

Effectiveness of the external audit process

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, whilst recognising that there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The current external auditor, Ernst & Young LLP (EY), was appointed following a comprehensive audit tender process. Their reappointment was approved at the 2020 Annual General Meeting. Christabel Cowling is the audit partner and has been in that role since 2019.

The external auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's Annual Report and Financial Statements and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the external auditor is undertaken as part of the Committee's annual performance evaluation which also examines the relationship and communications between the Committee and the external auditor. Further details of the performance evaluation are provided on page 97. No issues were raised during that review and the Committee concluded that the auditor was effective during the year and that the relationship and communications were open and constructive.

The Committee considered that it is appropriate that the external auditor be reappointed and has made this recommendation to the Board. The Committee chair has also met privately, via telephone, with the external auditor to discuss key matters.

Auditor independence

The Committee carefully reviews on an ongoing basis the relationship with the external auditor to ensure that the auditor's independence and objectivity is fully safeguarded.

The external auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Group.

Provision of non-audit services

The Committee continues to have a robust policy for the engagement of the external auditor's firm for non-audit work. The Committee receives a regular report covering the auditor's fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor. The policy uses the average of the last three years' audit fees disclosed in the accounts and certain non-audit fees that are required to be performed by the auditors are excluded from the assessment. The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditor's firm to carry out such work, and would only grant approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be fully safeguarded. If there were another accounting firm that could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the external auditor.

The level of non-audit fees payable to the external auditor for the past year is 66% of the audit fee, across the wider Pennon Group which is within the 70% non-audit fee limit.

Internal audit

The internal audit activities of the Company are a key part of the internal control and risk management framework of the Company. There is a long-standing and effective centralised internal audit service at Pennon Group plc which makes a significant contribution to the ability of the Committee to deliver its responsibilities.

Following the establishment in 2019 of a new directorate of Risk and Assurance, encompassing Group risk reporting and internal audit, the Group's internal audit function has continued to operate effectively. The 2020/21 internal audit plan was approved in May 2020 following a thorough review to ensure that the Company was sufficiently flexible to respond to emerging risks, including the impact of COVID-19. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the external auditor, and the annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Company.

The Pennon Group Director of Risk and Assurance reported regularly through the year to the Committee on audit reviews undertaken and their findings, and there were regular discussions, correspondence and private meetings between the Pennon Group Director of Risk and Assurance and the Committee chair.

The Committee's annual internal assessment of the internal audit function was completed in March 2021 and considered conformance with the Code of Ethics, International Standards and Code of Practice published by the Institute of Internal Auditors, as well as the outputs from stakeholder satisfaction surveys and the resources, skills and experience within the team. The Committee concluded that the Group internal audit function continues to be effective. The next cyclical external review of the internal audit function will be undertaken in 2021/22.

Fair, balanced and understandable assessment

To enable the Committee to advise the Board in making its statement that it considered that the Company's Annual Report and Financial Statements is fair, balanced and understandable (FBU) on page 124, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the Annual Report and Financial Statements. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 140 to 142.

In preparing and finalising the 2021 Annual Report and Financial Statements, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Statement of compliance with CMA order

Pennon Group plc undertook a competitive audit tender process in 2014, which included the statutory audit engagement for South West Water. The Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Following the rotation of the senior statutory auditor, the Committee considers a full tender for the Pennon Group's external audit services, including the statutory audit of South West Water, subject to its annual reviews, likely no later than the year ending March 2024. This allows for any potential new audit firm to take up the role for the year ending March 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Pennon Group will benefit from an efficient and effective audit, while receiving fresh challenge from a new senior statutory auditor.

Integrated Assurance Framework

Throughout the year South West Water had in place an effective Integrated Assurance Framework which identifies and monitors all types of assurance to enable a full evaluation of the conclusions drawn by all auditors, inspectors and reviewers from both internal and external providers.

The framework utilises a risk-based approach to ensure an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements.

(i) Group independent internal audit

South West Water utilises the Pennon Group's independent internal audit function, to provide effective risk-based coverage over the internal control environment. The Audit Committee's interactions and engagement into internal audit, including input into the annual plan, are summarised above.

(ii) Annual assurance (financial and technical audit)

Alongside the statutory external auditor, South West Water also engages a technical auditor to provide assurance over key areas of regulatory performance reporting. This assurance considers our reported performance against key regulatory outputs and measures.

(iii) Quality assurance and ISO Internal Reviews

The South West Water Audit Committee also considers the resources for carrying out internal audits and reviews in key Company specific areas and endorses and acts on findings from these reviews carried out within the Company. There is a programme of internal audits coordinated by the Risk and Compliance Department as part of the Company's ISO certifications.

South West Water has the following accreditations/certifications:

- ISO 9001: 2015 (quality management)
- ISO 14001: 2015 (environmental management)
- ISO 27001: 2013 (information security)
- ISO 17025: 2005 (laboratories and sampling)
- ISO 50001: 2011 (energy management)
- BS 18477: 2010 (inclusive service provision)
- MCERTS (the Environment Agency's monitoring certification scheme)

These specific areas are also subject to periodic external reviews (such as ISO external reviews).

South West Water's 2020/21 Board Assurance Statement

Pages 120 to 125 detail assurance work which has been performed in areas which have been identified following consultation as significant areas for assurance, which includes annual reporting. This detail supports the Board Assurance Statement, which is shown on page 129.

Environmental, Social and Governance Committee report

Ensuring responsible business practice



Environmental, Social and Governance Committee report

The role of the ESG Committee is to ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee the Company's performance against its strategic sustainability objectives.

Over the past year we have re-focused our ESG strategy, establishing a capitals framework which is uniquely aligned to E, S and G aspects of existing sustainability reporting. This new approach allows clear links between the ESG targets and the impact and benefits of the six core capitals: natural, social, human, manufactured, intellectual and financial.

Alongside our re-focused ESG strategy we have updated our 2021/22 KPIs and associated targets to ensure greater alignment to our emerging capitals strategy and driving ESG assessment improvements. We have also assessed and aligned our objectives and targets against the most relevant of the United Nations Sustainable Development Goals (SDGs) and will increasingly monitor our performance using the SDGs.

The Committee's calendar of business now reflects a focus on performance in each of the capitals in turn and we look forward to reviewing progress against the Company's ambition to be the leader across the South West and the water industry. In particular, we're developing how our capitals approach will drive decision making.

A strong performance against our identified SDGs and our own sustainability objectives, ensures high standards of corporate responsibility for the benefit of all our stakeholders – our customers and communities, our people, suppliers and our regulators.

This Annual Report provides an integrated assessment to show how a responsible approach to sustainability helps us to balance the immediate and longer-term needs of society with the delivery of sustained commercial success.

Iain Evans
ESG Committee Chair

ESG COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to ESG Committee	Attendance
Committee Chair	Iain Evans	September 2018	4/4
Committee members	Gill Rider	September 2012	4/4
	Claire Ighodaro ⁽¹⁾	July 2020	3/3
	Neil Cooper ⁽¹⁾	July 2020	3/3
	Jon Butterworth	September 2019	3/4
	Lord Matthew Taylor ⁽²⁾	March 2018	1/1
	Chris Loughlin ⁽²⁾	July 2020	1/1
	Susan Davy ⁽³⁾	July 2020	3/3

(1) Appointed to the Committee with effect from 31 July 2020.

(2) Stepped down from the Board on 31 July 2020.

(3) Appointed to the Committee on 31 July 2020

Committee remit and activities

During the year, the Committee reviewed its remit and responsibilities and agreed that oversight of health, safety and wellbeing be transferred to a new Health and Safety Committee, with membership comprising all of the Non-Executive Directors and chaired by Jon Butterworth. The Health and Safety Committee provides a 'review and challenge' function to support the Board and the Executive on all matters connected to health and safety including the deployment of the health & safety strategy, resilience and process safety. It also reviews the extent and effectiveness of the Company's reporting of health & safety performance, as well as comparisons to external benchmarks.

At the same time, it was agreed that the name Environmental, Social and Governance Committee would be a better reflection of the nature and breadth of the Committee's responsibilities.

In its new guise, the ESG Committee continues to assess performance against a range of approved targets for the Company, set as part of the business planning process. Progress is reported to the Committee throughout the year.

In addition, it provides assessment and oversight of South West Water's performance against sustainability targets that are core to the successful delivery of its K7 business plan 2020-25. This is consistent with Ofwat's requirement for independent governance of the regulated business.

The Committee ensures challenging targets are set and approved. As at 31 March 2021, the Company achieved or is on track for 10 of the 12 targets, apart from the number of Category 2 pollution incidents and an increase in our lost time injury frequency rate (LTIFR). We continue to target significant improvements in these areas.

The ESG Committee continues to aim to ensure a transparent approach to conducting business in a responsible manner, within a business focused on delivering robust financial performance and sustainable value for stakeholders.

The Committee reviews and approves appropriate strategies, policies, management processes, initiatives, disclosures, targets and performance of South West Water in the areas of environment and compliance, workplace policies, responsible and ethical business practice, supply chain, customer service and engagement, community benefit, and the role and value of the Company in society.

During 2020/21, the Committee has considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- The evolution of the Company's sustainability strategy, driven by a new approach to capitals
- Prior to the establishment of the Health and Safety Committee in November 2020, the Company's health and safety performance and the effectiveness of health and safety policies and procedures, including the continued roll-out of the HomeSafe programme
- Environmental leadership, climate change and carbon management
- The Company's biodiversity programme and performance
- Service quality and customer satisfaction

- The Company's approach to community relations, community benefit and investment
- The annual update on people, skills and development
- Sustainable supply chain procurement and practices
- Progress against the sustainability targets for 2020/21 and establishing an updated set of targets for 2021/22 aligned with our ESG strategy
- Sustainability reporting and disclosures for 2020 and the associated verifier's reports and recommendations
- ESG index positions and ratings for 2020
- Approval of the Sustainable Financing Framework Impact Report 2020 and allocation of funds for 2021.

Reporting and assurance

South West Water's sustainability performance and reporting has been audited by Jacobs (a global provider of technical, professional and scientific services, including engineering, architecture, construction, operations and maintenance) as part of its audit of performance data contained within the Annual Performance Report. Jacobs utilise water industry specialists in the audit of our non-financial data.

South West Water considers that Jacobs' method of verification – which includes testing the assumptions, methods and procedures that are followed in the development of data and auditing that data to ensure accuracy and consistency – complements the best practice insight gained through South West Water's membership of Business in the Community.

Jacobs' technical auditor's report is published within this report on pages 143 to 145.

Benchmarking

The Pennon Group (including South West Water) is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate Change, Dow Jones Sustainability Index and a number of other leading external ESG assessments. FTSE4Good and similar leading indices are designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. These leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their position to capitalise on the benefits of responsible business practice.

South West Water's sustainability report

South West Water's sustainability reporting is integrated throughout the strategic report and specifically in the following sections:

- Chair's letter, page 2
- Chief Executive Officer's review, page 6
- Business model, page 4
- Key performance indicators, pages 16 to 17 and 58
- ESG strategy and performance, page 60
- Our stakeholders, page 12
- Our people, page 48
- Our operations, page 1

HEALTH AND SAFETY COMMITTEE

An introduction from Jon Butterworth

I believe the key to ensuring we keep employees safe and well in the workplace, is through empowering everyone to take responsibility for the health, safety and wellbeing of each other and for themselves. Simply put, it's about culture, leadership and accountability.

Establishing a new Board Committee focused purely on health and safety in 2020 is an important step forward in the Company's journey as part of our HomeSafe strategy towards zero harm. We aim to be a leader for health and safety by 2025, and leadership from the top is critical. The Board now has dedicated time to discuss, review performance, offer support, encourage learning and meet leaders and employees from across the business.






Importantly, the Board also reviews deep dives of High Potential Incidents with a particular focus on lessons learned and in getting to the root cause, encouraging a learning mindset. We have also reviewed external benchmarking of our performance against water peers, the results from our Engagement survey and employees' perception of health and safety and share good practice.

Nomination Committee report

Promoting diversity and ensuring ongoing leadership effectiveness and stewardship



NOMINATION COMMITTEE COMPOSITION AND MEETINGS

Position	Director	Date of appointment to Nomination Committee	Attendance
Committee Chair	Gill Rider ⁽¹⁾	April 2016	 3/3
Committee members	Neil Cooper	April 2016	 3/3
	Jon Butterworth	July 2020	 2/3
	Iain Evans	July 2020	 3/3
	Claire Ighodaro	July 2020	 3/3

(1) Appointed as Chair on 31 July 2020.

There has never been a more important time for responsible business to ensure outstanding leadership and stewardship and to promote diversity.

The Nomination Committee met three times during the year to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the meetings of the Committee. Other regular invitees to the Committee during the year included the Chief Executive Officer, the Pennon Group Chief People Officer and the General Counsel and Company Secretary. Committee members are excluded from participating in Committee discussions where their own positions are under discussion.

Matters considered by the Committee during the year included:

- Overseeing the enactment and implementation of the Board's internal succession plan ensuring an orderly handover and transition of Board and senior executive appointments
- Undertaking a review of the Committee structures and review of Non-Executive Committee membership
- Approving revised terms of reference for the Committee in light of changes to the structure and review of the Company's governance framework
- Approval of a succession plan for Board members, following changes made to the Board
- The annual review and approval of the policy on Diversity, Respect and Inclusion and the Company's progress on diversity, including the outcome of the Hampton-Alexander Review, the Group position on gender pay, and achievement of the Parker Review target for ethnic diversity on boards ahead of the 2021 target date
- Consideration and approval of the Board becoming a signatory of Change the Race Ratio to drive improvements in ethnic diversity
- The key themes emerging from a review of the Executive Leadership Review and ongoing development, including a review of the succession plan and flight risk analysis.

The key appointments approved by the Nomination Committee included:

- The appointment of Claire Ighodaro and Iain Evans to the South West Water Board
- The appointment of Susan Davy (previously Pennon's Chief Financial Officer) as Group and South West Water's Chief Executive Officer, following the decision by Chris Loughlin to step down from the Board on 31 July 2020
- The appointment of Gill Rider as Chair of the Board and Nomination Committee (previously Chair of the Remuneration Committee) following Sir John Parker's decision to step down on 31 July 2020
- The appointment of Neil Cooper as the Senior Independent Director, in place of Lord Matthew Taylor following him stepping down
- Claire Ighodaro's appointment as chair of the Remuneration Committee, in place of Gill Rider following her appointment as Chair

It is the usual practice of the Committee to appoint an external search consultancy to assist in non-executive appointments to ensure that an extensive and robust search can be made for suitable candidates. Given the strength and depth of experience of the Board, the Committee concluded that the enactment of the internal succession plan would best serve the interests of the Company.

No member of the Committee took part in the discussions around their own role. Further information on the Board biographies can be found on pages 74 to 75.

Board effectiveness review

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

Last year's evaluation was externally facilitated with the following actions implemented:

- Appointment of a lead Non-Executive Director for health and safety matters
- The importance of the Board in championing diversity
- A focus on Directors' training and development, further details of which can be found on page 81.

This year the evaluation was carried out in March 2021 via online questionnaire created internally by the Group General Counsel and Company Secretary in consultation with the Chair and respective Committee Chairs.

The questionnaire focused on the ongoing effectiveness of the Board during the year in setting the strategy, promoting the Company's culture and values, ensuring that the Company's obligations to its stakeholders were understood and met, overseeing the use of the Company's resources, managing the risks inherent in the strategy, plans and the operating environment, and ensuring that the Executive had managed all the activities of the Company well.

The outcomes of the review concluded that the Board, its Committees and individual Directors continue to demonstrate a high degree of effectiveness and that the Board had a good understanding of opportunities for growth and risks facing the business. Areas which received positive feedback included the open and co-operative nature of the relationship between the Executive and Non-Executive Directors, the enhanced focus on health and safety and ESG matters respectively, good information flows and the smooth running of remote meetings in the difficult circumstances caused by the COVID-19 pandemic.

Areas identified as meriting ongoing focus included delivering on our commitments, particularly around public value, social purpose and progressing ESG for the benefit of all stakeholders, succession planning, the Directors' training and development needs, and delivery of diversity policy objectives. All of these matters will be included in the respective forward-looking agendas.

Talent management and succession planning

During 2020/21, a review was carried out of the capability and potential of the members of the Executive, supported by leadership advisory Heidrick and Struggles.

The Committee, supported by the Group Chief People Officer, reviews both the Executive and Non-Executive leadership as part of a regular agenda. Horizon scanning externally has also become a more frequent activity, to ensure that the Board remains flexible to respond to changing priorities.

Board diversity policy

The Committee is required by the Board to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year.


The Board's diversity policy confirms that the Board is committed to:

- The search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting diversity of gender, social and ethnic backgrounds. In this context, the Board will endeavour to achieve and maintain:
 - A minimum of 33% female representation on the Board
 - A minimum of 33% female representation on the Group's senior management team.
- Satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior management to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

There has never been a more important time for responsible businesses to promote the widest level of diversity in the boardroom and beyond and the Board takes its leadership of this important topic very seriously. The Committee is pleased to report that as at 31 March 2021, 57.1% of the Board's Directors were women, as disclosed on pages 50 and 75 and that the Company continues to focus on female representation at all levels of the business.

Both our Chair and our Chief Executive Officer are members of the 30% Club, a UK campaign that supports the goal of women holding 30% of board seats and promotes initiatives to expand the female talent pipeline at all levels. We also have active membership of 'Women in Water', which promotes female talent across the industry by encouraging networking and the progression of women into more senior roles.

During the year, South West Water was an active proponent of ethnic diversity. In November 2020, Pennon Group (including South West Water) were the first water company to sign up to the Change the Race Ratio, helping society to advance ethnic diversity at all levels and from all backgrounds.



Gill Rider
Chair

Remuneration Committee report

Ensuring executive reward supports long-term sustainable success









REMUNERATION COMMITTEE COMPOSITION AND MEETINGS

In accordance with the Code, all of the Committee members are independent Non-Executive Directors. The Chief Executive Officer also attends meetings when invited except for such part of a meeting when matters concerning her own remuneration are to be discussed.

There were four meetings of the South West Water Remuneration Committee during the year. Members of the Committee and their attendance were as follows:

The Committee is advised by Deloitte, an independent remuneration consultant, to ensure remuneration is determined impartially.

Position	Director	Date of appointment to Remuneration Committee	Attendance
Committee Chair	Claire Ighodaro ⁽¹⁾	July 2020	 3/3
Committee members	Gill Rider ⁽²⁾	April 2016	 4/4
	Neil Cooper	April 2016	 4/4
	Iain Evans	July 2020	 4/4
	Jon Butterworth ⁽³⁾	July 2020	 3/3
	Martin Hagen ⁽⁴⁾	September 2010	 1/1

(1) Appointed on 31 July 2020.

(2) Gill Rider stood down as a member of the Remuneration Committee upon her appointment as Chair of the Board on 31 July 2020. She has attended all Remuneration Committee meetings since that date as an invitee. Prior to the announcement on 8 July 2020 of her appointment as Chair of the Board, Gill Rider was chair of the Remuneration Committee.

(3) Appointed to the Committee on 31 July 2020.

(4) Stood down from Committee 31 July 2020.

The Committee met four times during the year to fulfil the duties set out in its terms of reference. In particular, the Committee is responsible for:

- Ensuring remuneration is aligned with and supports the Company's strategy, reflects our values as a Company and optimises performance
- Maintaining and, in every third year, reviewing the remuneration policy to ensure it remains appropriate and fulfils its purpose of attracting and retaining high-calibre people who are able to contribute to the success of the Company
- Advising the Board on the framework of executive remuneration for the Company
- Determining the remuneration and terms of engagement of the Chair, the Executive Directors and senior executives of the Company
- Approving the design and determining targets for any performance-related pay schemes, and approving the payments made, having applied discretion and consideration of the wider circumstances
- Reviewing wider workforce remuneration, taking these into account when setting the remuneration policy for Executive Directors.

The Committee's activities during the financial year

The Committee engaged in the following activities during the year:

- Monitored external developments in remuneration
- Ensured executive remuneration was aligned to PR19 (2020-25) deliverables
- Considered the remuneration arrangements for the outgoing CEO and SWW Managing Director
- Considered the remuneration arrangements in respect of the appointment of the new Chair and Chief Executive Officer
- Completed a review of the structure of the fees for the Non-Executive Directors
- Reviewed drafts of the Directors' annual remuneration report and recommended it to the Board for approval for inclusion in the Annual Report
- Determined performance targets in respect of the Annual Incentive Bonus Plan for 2021/22
- Determined bonuses and deferred bonus awards pursuant to the Company's Annual Incentive Bonus Plan in respect of the year 2020/21
- Approved updates to the rules for the Long-Term Incentive Plan (LTIP), the Annual Incentive Bonus Plan and the all-employee Sharesave scheme to incorporate best practice
- Approved updates to the LTIP awards for the year
- Reviewed South West Water and Source Contact Management information provided in our gender pay gap report
- Approved the release of the 2017 deferred bonus share awards and reviewed the outcome of the 2017 LTIP awards
- Reviewed the Committee's terms of reference and undertook a review of the Committee's performance in the year.

The Committee's focus for 2021/22

- Ensure that targets are stretching, so they act to retain, motivate and incentivise the Executive to deliver the Company's strategic goals and PR19 regulatory commitments (including those relating to public value, social purpose and ESG), live the Company's values creating long-term value for shareholders
- Monitor on an ongoing basis the alignment of Executive pay and benefits with the strategic direction of the Company to ensure these support the long-term success of the Company and promote its values
- Review workforce remuneration and related policies, taking these into account when setting the remuneration policy for Executive Directors
- Monitoring the updated remuneration policy to ensure that it is delivering as intended and continues to meet best practice.



Claire Ighodaro
Remuneration Committee Chair

GOVERNANCE IN ACTION

Remuneration approach for wider employees

Consistent with best practice, the Remuneration Committee spends considerable time on matters relating to remuneration arrangements in the wider organisation.

Details of remuneration for the wider employee base provide important context when making decisions regarding remuneration for the Executive Directors as well as ensuring that consistent approaches are being adopted across the organisation.

To provide greater transparency of remuneration for colleagues across the Company we have introduced additional information. The Remuneration Committee is kept informed of wider workforce remuneration through the Pennon Group pay dashboard, of which South West Water is part of, which is reviewed twice a year.

Our well-established People Strategy across the Company is centred around talented people doing great things for customers and each other, and creating the best place to work. Responsible and trusted businesses today have a duty to make a positive societal contribution – whether that's through promoting social mobility, addressing racial and gender inequality, or in providing secure and meaningful employment where all employees are paid fairly for the work they do.

During 2020 a specific Reward Framework was created for the Company to complement the People Strategy with three aims:

- To communicate to stakeholders our approach to rewarding and recognising employees and their contribution
- To ensure that reward decisions support business delivery and promote long-term wealth creation, in line with our People Strategy and values
- To deliver a fair reward package to engage and motivate employees to want to perform at their best.

A critical aspect of the design work was in understanding employees' views of reward, the benefits most valued and what aspects could be improved. Listening sessions and focus groups were held during this process as well as incorporating themes from the engagement survey.

The Reward Strategy framework is centred around four key pillars which build into a Total Reward proposition, ensuring a mix for employees at every stage of their career lifecycle.

The framework was reviewed and endorsed by the People Committee and Remuneration Committee and the success of the strategy measured through the engagement survey and employees' feedback. This is regularly reviewed and shared with the Remuneration Committee.

As part of creating the strategy, a new online cloud-based Reward Hub, enabling employees to access their reward and benefit options virtually, has been implemented. The Hub also provides the functionality of Total Reward statements, paving the way for the Company to move towards an even more flexible benefits approach. The Reward Hub is an invaluable tool for directly communicating reward elements, helping employees understand and maximise their package.

WaterShare+ advisory panel

The independent WaterShare+ Advisory Panel was established to protect the interests of our customers. The Panel provides an independent review of our business plan commitments and Board Pledges. The Panel meetings are held quarterly, where possible in public, although this has been impacted by recent COVID-19 restrictions, across our area of operation. Customers will have the chance to attend and to interact with the Panel. From 2021 a Customer Annual General Meeting is being introduced.

Directors' remuneration report

Principles used to develop remuneration policy



Link to customers

Pay linked to underlying performance	<ul style="list-style-type: none"> Significant portion of executive remuneration linked to performance of the business
Performance pay – appropriately aligned with customer interests	<ul style="list-style-type: none"> Annual bonus includes customer and operational measures linked to metrics assessed by the water industry regulator, customers, communities and wider stakeholders Stretching targets – motivate management to deliver sustainable performance
Bonus and long-term incentives – substantial link to stretching performance delivery for customers	<ul style="list-style-type: none"> Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

Annual statement from the Chair of the Remuneration Committee

“The Company has delivered another year of robust performance reflected in our executive remuneration.”

Introduction to the Annual Report on Remuneration

Operationally, we have continued to maintain our focus on and commitment to supporting the environment, customers and colleagues. Our New Deal for the K7 period is seeing us deliver sector leading returns, driving efficiency through innovation and sustainability whilst delivering more of what matters for our communities, with around 80% of ODIs either on track or ahead of target. Year on year we are able to report on improving water quality, reduced customer supply interruptions and a more resilient service.

We have prioritised environmental leadership with our largest environmental programme in 15 years, and a commitment to reduce pollutions by 80% by 2025 alongside our pledge to become Net Zero by 2030.

During the year we also launched our pioneering WaterShare+ share scheme, a key feature of South West Water's 'New Deal' business plan for 2020-25, marking a new relationship between the Company and its customers. This saw 1 in 16 households become shareholders, in our parent company Pennon, with the remainder receiving their share of South West Water's £20 million of outperformance as a reduction in their bill. We have also helped circa 67,000 customers with our affordability toolkit, representing an 11% increase compared to last year.

The Company has continued to support colleagues during the pandemic without utilising any Government support. We were pleased to announce improvements in benefits arrangements for all employees, which included enhanced income protection terms. Within the Company, we have increased employment levels extending our graduate, apprentice and Kickstart placements, in addition to ongoing recruitment. We also undertook a review of Reward which applies to our wider employee base. Further details of our approach to pay are set out in the main body of the report. As part of the Pennon Group, we were proud to have been named Britain's Most Admired utility and officially a Great Place to Work as we continue to support our colleagues through COVID-19 and ensure South West Water is a diverse and inclusive place to thrive.

Executive changes

During the year the Committee considered the remuneration of the incoming Chief Executive Officer. The Committee sought to adopt a measured approach when setting the salary level. In future years, the Committee will keep arrangements for Directors under review to ensure they suitably reflect their role and experience.

Chris Loughlin stepped down from the post of South West Water Managing Director and Chief Executive Officer with effect from 31 July 2020. Details of his departure terms are provided in the Pennon Annual Report on page 122.

Incentive outcomes

The performance of the Executive Directors has been carefully considered, noting the robust performance despite the pandemic. The progress against financial and operational objectives is reflected in the outcomes against the bonus scorecard. Further details are set out on pages 107 to 108.

Overall, the annual bonus earned in respect of the year is 78.1% of salary for the Chief Executive Officer and 42.1% for the Finance Director. The Committee is satisfied that the bonus outcomes are fully supported by performance in the year. Careful consideration has been given to the wider context in confirming the level of bonus awarded of which more can be read on page 107.

Half of the bonus earned is deferred into shares which affirms Executive Directors' commitment to creating a long-term, sustainable business.

Share awards granted under the Long-Term Incentive Plan (LTIP) in 2018 will be eligible for vesting in 2021. This award was based on Pennon Group metrics: EPS growth (40%), dividend growth (40%) and return on capital employed (20%), as well as an 'underpin' evaluation, including consideration of safety, ESG factors and financial performance.

Awards are expected to vest at 89.9% of maximum, as shown on page 108. This is reflective of financial and operating performance over the performance period. Vested shares for Executive Directors will remain subject to an additional two-year holding period.

Policy review

Our current remuneration policy was approved in 2020. We are not proposing to make any changes in the coming year, with incentive levels continuing at the level set out in the remuneration policy.

For 2021/22 annual bonus targets have been refined to incorporate the emergence of ESG goals and ensure alignment with the UK water sector.

Further detail on pay arrangements is provided in the main body of the remuneration report.



Claire Ighodaro
Remuneration Committee Chair

Annual report on remuneration

Summary of Directors' remuneration policy and implementation in 2021/22

The current remuneration policy was established in 2020. A summary of the policy is set out below alongside detail on how we intend to implement the policy in 2021/22.

ELEMENT	OPERATION	IMPLEMENTATION IN 2021/22
Base salary		
Set at a competitive level to attract and retain high calibre people to meet the Company's strategic objectives in an increasingly complex business environment.	Salaries are generally reviewed annually, and any changes are normally effective from 1 April each year. In normal circumstances, salary increases will not be materially different to general employee pay increases.	The salary for the Chief Executive Officer was set on appointment in 2020 and no increases were made in 2021/22. The Finance Director received a 1% increase for 2021/22:.
		Finance Director £170,650
		Chief Executive Officer ⁽¹⁾ £237,500 <small>(1) 50% of Pennon Group recharge</small>
Benefits		
Benefits provided are consistent with the market and level of seniority to aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a Company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate.	Income protection was introduced for all employees during the year, including Executive Directors.
Pension-related benefits		
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	The maximum annual pension contribution or cash allowance is in line with the contribution available to the wider population.	The Chief Executive Officer receives benefits of 10% of salary, which is aligned with the maximum rate available to the wider workforce. The Finance Director receives benefits of 15% of salary.
Annual bonus		
Incentivises the achievement of key performance objectives aligned to the strategy of the Company.	The maximum bonus potential for the Finance Director is 75% of base salary and for Chief Executive Officer is 125% of base salary. A portion of any bonus is deferred into shares in the Company which are normally released after three years. Normally 50% is deferred. Malus and clawback provisions apply.	Maximum opportunity of 125% of salary for the Chief Executive Officer and 75% for the Finance Director. Deferral of 50% of any bonus into shares for three years. The annual bonus for 2021/22 will continue to be based on a combination of financial, operational and strategic objectives. The bonus structure for the Chief Executive Officer for 2021/22 reflects: <ul style="list-style-type: none">• 50% financial metrics• 50% customer and operational and ESG metrics

ELEMENT	OPERATION	IMPLEMENTATION IN 2021/22														
Long-Term Incentive Plan (LTIP)																
Provides alignment to the achievement of the Company's strategic objectives and the delivery of sustainable long-term value.	<p>Annual grant of conditional shares (or equivalent). Share awards vest subject to the achievement of specific performance conditions measured over no less than three years. In addition, a two-year holding period will apply in respect of any shares which vest at the end of the three-year performance period.</p> <p>An underpin applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company. Malus and clawback provisions apply.</p>	<p>Maximum award of 150% of salary for Chief Executive Officer and 80% for Finance Director.</p> <p>The target setting process for the 2021 LTIP grants for the Chief Executive Officer has been delayed in light of the ongoing Pennon strategic review. The Committee is keen to ensure that the targets for the 2021 award reflect the future Pennon Group structure and align with the strategic priorities for the three-year period ending 31 March 2024.</p> <p>Once finalised, the performance measures and targets for the 2021 LTIP awards will be published on the Pennon website.</p> <p>The 2021 LTIP award for the Finance Director will be based on:</p> <ul style="list-style-type: none">• 1/3 Return on Regulated Equity (RoRE) – measure based on outperforming the Final Determination (FD) year on year metric• 1/3 sustainable dividend measures (Pennon)• 1/3 C-MeX (median moving to upper quartile)														
Discretion																
In line with the 2018 Corporate Governance Code, the Remuneration Committee has ensured that it will maintain the ability to override the formulaic outcomes for future awards under the annual bonus and LTIP where the outcomes are not considered by the Committee to be appropriate (e.g. unreflective of underlying performance). The Committee will disclose the use of any such discretion.																
Shareholding requirements																
Create alignment between executives and shareholder and promote long-term stewardship	During the course of their tenure, Executive Directors are expected to build up a shareholding equivalent to a percentage of salary.	Shareholding guideline of 200% of salary for the Chief Executive Officer and 100% of salary for the Finance Director.														
All-employee share plans																
Align the interests of all employees with Company share performance.	<p>Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.</p> <p>The maximum is as prescribed under the relevant HMRC legislation governing the plans.</p>	No changes.														
Non-Executive Director fee policy																
Set at a market level to attract Non-Executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	<p>Non-Executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as chair of a Committee or occupying the role of Senior Independent Director.</p> <p>Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses). The Chair's benefits include the provision of a driver and vehicle, when appropriate for the efficient carrying out of her duties.</p> <p>The Non-Executive Directors' fees are set by Pennon Group plc and 50% of these fees are recharged to South West Water through Group recharges. The fee structure was amended in 2020.</p>	<p>2021/22 fee policy will remain unchanged and is set out below.</p> <table><tr><td>Chair fee</td><td>£112,500</td></tr><tr><td>Basic Non-Executive Director fee</td><td>£30,275</td></tr></table> <p>Additional fees</p> <table><tr><td>Senior Independent Director</td><td>£5,000</td></tr><tr><td>Chair of Audit Committee</td><td>£7,500</td></tr><tr><td>Chair of Remuneration Committee</td><td>£6,500</td></tr><tr><td>Chair of ESG Committee</td><td>£6,500 ⁽¹⁾</td></tr><tr><td>Chair of Health and Safety Committee</td><td>£2,500 ⁽²⁾</td></tr></table> <p>(typically 2 meetings per annum)</p>	Chair fee	£112,500	Basic Non-Executive Director fee	£30,275	Senior Independent Director	£5,000	Chair of Audit Committee	£7,500	Chair of Remuneration Committee	£6,500	Chair of ESG Committee	£6,500 ⁽¹⁾	Chair of Health and Safety Committee	£2,500 ⁽²⁾
Chair fee	£112,500															
Basic Non-Executive Director fee	£30,275															
Senior Independent Director	£5,000															
Chair of Audit Committee	£7,500															
Chair of Remuneration Committee	£6,500															
Chair of ESG Committee	£6,500 ⁽¹⁾															
Chair of Health and Safety Committee	£2,500 ⁽²⁾															

(1) The ESG Committee used to be called the Sustainability Committee.

(2) The Health and Safety Committee was introduced in 2020. The Committee typically holds a minimum of two meetings per annum.

Annual report on remuneration continued

Remuneration approach for wider employees

Consistent with best practice, the Remuneration Committee spends considerable time on matters relating to remuneration arrangements across the wider workforce. This provides important context when making decisions regarding remuneration for the Executive Directors as well as ensuring that consistent approaches are being adopted across the organisation.

To provide greater transparency of remuneration for the wider workforce we have provided expanded disclosure. The Remuneration Committee is kept informed of wider workforce remuneration through the Pennon Group Pay Dashboard, which incorporates South West Water and is reviewed twice a year. This has evolved during 2020/21 to provide oversight of how the Reward Strategy is being implemented and more insight to colleague remuneration.

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other, and creating the best place to work. Responsible and trusted businesses today have a duty to make a positive societal contribution – whether that's through promoting social mobility, addressing racial and gender inequality, or in providing secure and meaningful employment where all employees are paid fairly for the work they do.

During 2020 a specific Reward Strategy was created for the Group to complement the People Strategy. The Reward Strategy had three aims:

- To communicate to stakeholders our approach to rewarding and recognising employees and their contribution
- To ensure that reward decisions support business delivery and promote long-term wealth creation, in line with our People Strategy and values
- To deliver a fair reward package to engage and motivate employees to want to perform at their best

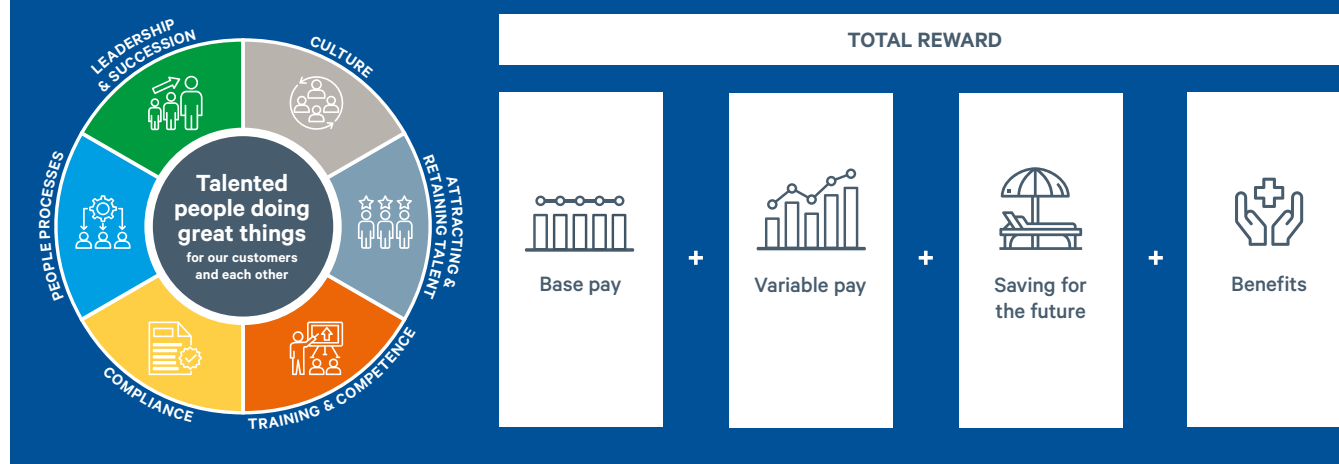
A critical aspect of the design work was in understanding employees' view of reward, the benefits most valued and what aspects could be improved. Listening sessions and focus groups were held during this process as well as incorporating themes from the engagement survey.

The Reward framework is centred around four key pillars which build into a Total Reward proposition, ensuring a mix for employees at every stage of their career lifecycle.

The framework was reviewed and endorsed by the Pennon People Committee and Remuneration Committee and the success of the strategy measured through the engagement survey and colleagues' feedback. This is regularly reviewed and shared with the Remuneration Committee.

Reward framework

Our Reward framework is centred around four key pillars building into a view of Total Reward with a series of principles as follows:



UNDERPINNED BY OUR VISION AND VALUES



We are **trusted**



We are **responsible**



We are **collaborative**



We are **progressive**

Supported by: **Reward Strategy & Governance, Job Evaluation & Benchmarking, Systems & Data**

As part of creating the strategy, a new online cloud-based Reward Hub enabling employees to access their reward and benefit options virtually, has also been implemented. The Hub also provides the functionality of total reward statements, paving the way for the Company to move towards an even more flexible benefits approach. The Reward Hub is also an invaluable tool for directly communicating reward elements, helping employees understand and maximise their package.

PILLAR	PROGRESS
 <p>Base pay</p>	<p>Importantly, the Pennon Group (including South West Water) has formalised its approach to adopting the Living Wage Foundation standards by becoming an accredited employer in April 2021.</p> <p>The Group's overarching principles for basic pay are that it should:</p> <ul style="list-style-type: none"> • Reflect the market and region in which the role operates • Be competitive to support attraction and retention • Be fair, meeting all legislative requirements • Be reviewed annually – we engage with employee forums and trades unions as appropriate. <p>The percentage change in salary for Executive Directors in 2021 was 0% for the CEO and 1% for the Finance Director compared with general increases of 1% across the Group.</p>
 <p>Variable pay</p>	<p>The Company operates a number of variable pay schemes and all employees and temporary workers are eligible to participate. Throughout the main bonus schemes, there is strong correlation in the targets, to align the whole organisation on customer, quality and service.</p> <p>All employees across the Pennon Group (including South West Water) are entitled to participate in annual bonus arrangements. The maximum bonus levels are based on seniority and level of responsibility.</p> <p>In January 2021, we made an exceptional award of £500 to all employees, to recognise the challenges of the COVID-19 pandemic and our colleagues' dedication and fortitude in maintaining essential services to customers.</p> <p>Our Company bonus arrangements for colleagues have a strong focus on customer service. We are revising these for 2021/22 providing colleagues with an increased bonus opportunity of 5% of basic salary.</p>
 <p>Saving for the future</p>	<p>Modernisation of our pension arrangements</p> <p>In 2020 the Pennon Group (including South West Water) consulted with employees on modernising the pension arrangements. The aim of this consultation was:</p> <ul style="list-style-type: none"> • To create a sustainable pension plan for all employees for the future, balancing the cost to employer and employee • To provide greater flexibility for employees to access their pension savings, following the introduction of pensions freedom • To increase the benefit levels within the Defined Contribution (DC) arrangements and reduce scheme administration charges. <p>The proposed changes included increasing the level of employer contributions, providing greater flexibility for employees to choose the most appropriate employee contribution for them, as well being able to make the most of pension freedoms.</p> <p>An extensive consultation programme was managed through Director led, face to face presentations, individual one to ones with pension advisors and dialogue with union representatives and pension trustees. Directors listened closely to the feedback and the new scheme was introduced in July 2020.</p> <p>Importantly these changes have lifted the lowest pension tier to a matching level of twice employee contribution. All tiers have had an increase, with a maximum 10% contribution from the employer.</p> <p>As part of our Saving for the future, all employees are able to participate in our HMRC approved Sharesave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership.</p>
 <p>Benefits</p>	<p>The fourth pillar of our framework covers the benefits available to employees. This year, the Company has carefully considered the value individuals place on financial wellbeing during this difficult year and have implemented the following changes as part of our aspiration to become the best place to work:</p> <ul style="list-style-type: none"> • We have extended our Employee Assistance Programme to immediate family members of our colleagues during the pandemic, providing independent, confidential support • We increased our life assurance plan so that beneficiaries would receive 6x salary • We launched an additional income protection scheme providing greater financial security during long-term sickness absence, for up to three years in addition to the first six months of contractual sick pay • We are launching our Simply Recognise online tool to allow managers and colleagues to provide positive feedback and thanks to their teams and peers.

Pennon Group pay dashboard

In accordance with the 2018 UK Corporate Governance Code, the Committee has also reviewed the level of information provided on pay matters in the wider organisation. Key activity in this regard included the Pennon Group pay dashboard:

- The Pennon Group (incorporating South West Water) has established a pay dashboard to help support the Committee in reviewing workforce remuneration and related policies and this has been developed to provide greater insight for 2021
- The dashboard provides an overview of pay arrangements across the business and provides key statistics on pay in different areas of the business and progress on our planned framework implementation
- The dashboard covers information on workforce demographics, employee engagement, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas of the business
- The Committee intends to keep the content of the dashboard under review to ensure that it continues to provide suitable information for the Committee.

Annual report on remuneration continued

Gender pay gap

South West Water's gender pay gap has seen an improvement at 4.92% and, significantly below the national average. The Company recognises the need to develop greater gender alignment in middle manager and senior positions and is seeing strong progress in this area. We are also an active supporter of the Women in Water Initiative.

Employee engagement

Across South West Water we endorse the principle of strengthening opportunities for employees to engage in two-way dialogue at all levels. The South West Water Employee Engagement Forum has become a well-established forum which meets regularly to create a two-way communication between senior managers of the Group and employees and this year has been chaired by the Pennon Group and South West Water Chief Executive Officer.

Over the course of the year, we have evolved our Big Chat to become Your Big Chat, moving from a conference call facility to video enabled allowing all employees access to the Executive and creating opportunities to ask questions and suggest topics that employees would like to hear more about. The frequency was also increased to weekly to ensure regular and timely updates are provided to employees. We continued to receive positive feedback from employees who welcome the opportunity to hear from the Directors and ask them questions on key business matters.

We have been keen to ensure we are able to measure the progress made in this area and were pleased that we achieved our highest ever participation rate of 82% in our annual engagement survey and have officially passed the threshold to become accredited as a Great Place to Work with our Trust Index® score increasing to 66%. This is significantly higher than the national average of 53%.

We have welcomed the feedback that has been provided through these routes and employees' openness in participating in these activities.

EMPLOYEE ENGAGEMENT PARTICIPATION

82%

PARTICIPATION RATE

+11%

ON OUR 2019 SURVEY

We have special and unique benefits here

+10%

ON OUR 2019 SURVEY

Overall Reward Category

Looking ahead

We plan to develop our employee incentive scheme with increased bonus opportunity retaining our strong alignment to customer service. For 2021/22 we will continue to review and refine our approach to reward, continuing our development of our online Reward Hub with the roll out of Total Reward Statements in the summer and enhancing the Simply Recognise platform functionality.

Single total figure of remuneration table (audited information)

	Louise Rowe ⁽¹⁾ (£000)		Susan Davy ⁽²⁾ (£000)		Chris Loughlin ⁽⁴⁾ (£000)	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Base salary	169	166	228	206	91	269
Benefits⁽³⁾ (including Sharesave)	18	18	15	15	5	19
Pension-related benefits⁽⁵⁾	26	25	40	59	28	81
Total fixed pay	213	209	283	280	124	369
Annual bonus (cash and deferred shares)	53	89	219	162	72	210
Long-Term Incentive Plan⁽⁶⁾	156	161	361	373	369	489
Total variable pay	209	259	580	535	441	699
Total remuneration	422	468	863	815	565	1,068

(1) In 2019/20, the Finance Director received a discretionary bonus for services to the Pennon Group during the year relating to the Strategic Review of 30% of salary. The Committee is satisfied that services provided did not reduce the effectiveness of the Director's provision of services to the Company.

(2) Susan Davy was appointed as Chief Executive Officer of Pennon Group plc and South West Water as of 31 July 2020. This reflects 50% of her remuneration, which is rechargeable to SWW through Group recharges. The full single total figure of remuneration tables are shown on page 117 of the Pennon Group plc Annual Report and Accounts 2021.

(3) Benefits comprise a car allowance, fuel allowance and medical insurance.

(4) Chris Loughlin served as Managing Director of South West Water until he stepped down on 31 July 2020. The disclosure above reflects 50% of full remuneration which is rechargeable to South West Water through group recharges. The full single total figure of remuneration tables are shown on page 119 of the Pennon Group plc Annual Report and Accounts 2021.

(5) See page 108 for further information.

(6) For 2020/21, the 2018/19 LTIP has been valued based on the average Pennon share price during the three-month period to March 2021 of 946.1p and a vesting outcome of 89.9%, as referred to on page 108 together with an estimate of the accrued dividends payable on the vesting shares. Of the vested amount, 16.49% relates to share price appreciation over the performance period.

The 2019/20 LTIP value for 2017/18 reflects the share price at the date of vesting of 1,008.5p, a vesting outcome of 86.6%. The Committee did not exercise any discretion in relation to share price changes. Both LTIP awards are subject to a two-year holding period.

Notes to the single figure table

Fixed pay – Annual bonus outcome for 2020/21

During 2020/21, Susan Davy was appointed as Chief Executive Officer with effect from 1 August 2020. On appointment Susan's salary was set at £237,500.

The Remuneration Committee recognises the market positioning against FTSE peers and intends to keep salary levels for both Executive Directors under review in future years, to ensure that they suitably reflect both development and experience in the role and the evolving size and nature of the Group's operations.

Retirement benefits for the Chief Executive Officer were set at 10% of salary on appointment to her new role. This is aligned to the rate of the wider workforce. Previously, Susan received an overall pension benefit of 25% of salary. Further detail on pension arrangements is set out in the Pennon Group Annual Report on page 120. The Finance Director continues to receive 15% of salary.

Louise Rowe

For 2020/21, the Finance Director participated in the annual bonus plan which was based on a combination of financial, operational and personal objectives.

In line with the Committee's policy, 50% of any bonus is payable in shares, the release of which is deferred for a three-year restricted period. The performance targets set and performance achieved have been set out below:

South West Water Annual Bonus Scheme measures	Target	Actual	Range	Outcome	Bonus outcome (% of max)
PBT	£158.3m	£164.6m	-2% to +5%	4%	88.2%
Net debt	£2,200.9m	£2,252.4m	-2% to +5%	-2.3%	Not achieved
New Deal (Watershare+)				Achieved	Achieved in full

South West Water service metrics	Target	Actual outcome	Target achieved	Bonus outcome (% of max)
Water metrics – applicable for full financial year (i.e. 87.5% of element)				
Bathing water quality improvements	0	4	Yes	33.3%
Wastewater pollution incidents, per 10,000km sewer	24.51	130.87	No	
Internal Sewer Flooding no./10k connections	1.68	1.34	Yes	
Environment Agency EPA	3*	2*	No	
CMeX	Median	Below median	No	
CRI (water quality score)	2.00	2.06	No	
Supply interruptions (>3hrs)	6 mins 30 seconds per property	5 mins 38 seconds per property	Yes	
Water pollutions	0	10	No	
Leakage (3 year average)	120.5 megalitres per day	126.8 megalitres per day	No	

Susan Davy is Chief Executive Officer of South West Water and Pennon Group plc. Her remuneration is based on the metrics above relating to South West Water Limited as well as additional metrics relating to the performance of other Pennon Group companies in her capacity as Chief Executive Officer of Pennon Group. Details of her performance and remuneration can be found on pages 117 to 120 of the Pennon Group Annual Report 2021.

Summary of bonus outcome

	Bonus outcome	
	Weighting	Finance Director
South West Water financial measures	20%	8.7%
South West Water service measures	70%	23.3%
New Deal	10%	10%
Total outcome	100%	42.1%

Annual report on remuneration continued

Long-term incentive outturn for 2020/21

The awards in the single figure table relate to the 2018/19 share awards granted on 2 July 2018, which are due to vest on 1 July 2021. These share awards were subject to Pennon performance targets previously set as relating to Earnings per Share, a sustainable dividend measure and Return on Capital Employed (RoCE).

In light of the changes to the Pennon Group, the Remuneration Committee considered the impact of the transaction on the performance criteria applicable to this award. The Committee recognised that the basis of assessment would need to vary to reflect the nature of the Pennon Group prior to and after the transaction. The performance period was therefore split, with the first two years based on the previous Pennon Group structure and the final year based on new Pennon Group structure.

The Remuneration Committee concluded that the sustainable dividends and Return on Capital Employed targets could be largely maintained, with consistent targets applied across the full performance period. However, the EPS targets needed to be adjusted to reflect the shift to a water only business. To simplify the assessment, the underlying EPS growth targets were converted into absolute EPS values, with the period following the sale of Viridor based on targets which reflected the new structure of the Group and the regulated nature of the business. While adjustments of this nature are naturally complex, the Remuneration Committee is satisfied that the approach adopted is consistent with the nature of the targets that were originally set.

The 2018/19 share awards were subject to the satisfaction of EPS growth, a sustainable dividend measure and RoCE performance conditions. These conditions were set at the time that the awards were granted.

Measures		Threshold (25% of maximum vests) ⁽²⁾	Maximum (100% of maximum vests)	Achievement ⁽³⁾	Vesting outcome (% of max)
EPS growth (40% of award)	Combined Group (to June 2020)	57.2p	61.6p	61.7p	100%
	Continuing Group (July 2020 to March 2021)	29.6p	30.2p	32.1p	
Sustainable dividend measure (dividend growth and dividend cover) (40% of award)	Combined Group (to June 2020)	2.6x	3.6x	3.3x	84.9%
	Continuing Group (July 2020 to March 2021)			3.7x	
RoCE (average) ⁽¹⁾ (20% of award)	Combined Group (to June 2020)	8%	10%	9.7%	79.6%
	Continuing Group (July 2020 to March 2021)			8.1%	
Total					89.9%

(1) Average of opening and closing capital employed.

(2) For below threshold performance for any of the performance conditions, 0% vests in respect of that performance condition.

(3) Straight-line vesting between points.

Vesting of the award is subject to an 'underpin' relating to overall Company performance including environmental, social and governance factors and safety performance, as well as financial performance. The Committee has determined, to the date of this report, that this underpin has been satisfied.

The awards are subject to a two-year holding period during which clawback may be applied if the Committee considers it appropriate in certain circumstances. The holding period ends on 1 July 2023.

Retirement benefits and entitlements (audited information)

Details of Directors' pension entitlements and pension related benefits during the year are as follows. Effective 1 August 2021, the maximum pension contribution made by the Company is 10% of salary:

	Value of defined benefit pension ⁽²⁾ (£000)	Company contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year (£000)	Age and date of retirement (for pension purposes)	Accrued pension at 31 March 2021 ⁽⁴⁾ (£000)
Susan Davy ⁽³⁾	29	–	50	80	65 (17 May 2034)	29
Louise Rowe ⁽¹⁾	–	13	12	25	65 (15 January 2047)	–
Chris Loughlin ⁽⁵⁾	–	–	55	55	67 (20 August 2019)	–

(1) Louise Rowe is a member of Pennon Group's defined contribution arrangement and received an overall pension benefit from the Company equivalent to 15% of her salary.

(2) The value of the defined benefit pension accrued over the period comprises the total pension input amount (which has been calculated in line with regulatory requirements) less the pension contributions paid by the Director.

(3) Susan Davy received an overall pension benefit from the Company equivalent to 25% of her salary for the period 1 April to 31 July 2020, which reduced to 10% of salary from 1 August 2020 on appointment as Chief Executive Officer of Pennon Group plc. For 2020/21 this comprised an employer's contribution of £29,884 and a cash sum of £50,352. She is a member of Pennon Group's defined benefit pension arrangements and is entitled to normal retirement pension payable from age 65 of broadly 1/80th of pensionable remuneration for each year of pensionable service completed. Accrual in this scheme will cease from 1 July 2021.

(4) Accrued pension is based on service to the year end final pensionable salary at that date.

(5) Chris Loughlin was not a member of any of the Pennon Group's pension schemes during his tenure and received a sum in lieu of pension entitlement equivalent to 30% of salary.

Non-Executive Directors' remuneration

Single figure of remuneration (audited)

	2020/21			2019/20		
	Fees (£000)	Taxable benefits (£000)	Total fees (£000)	Fees (£000)	Taxable benefits (£000)	Total fees (£000)
Gill Rider ⁽¹⁾	88	–	88	39	–	39
Sir John Parker ⁽²⁾	47	–	48	135	–	135
Neil Cooper ⁽³⁾	40	–	40	35	–	35
Iain Evans	37	–	37	–	–	70
Claire Ighodaro ⁽⁴⁾	34	–	68	Nil	–	35
Jon Butterworth ⁽⁵⁾	39	–	49	57	–	57
Martin Hagen ⁽⁵⁾	19	–	19	57	–	57
Lord Matthew Taylor ⁽⁵⁾	21	–	21	61	–	61

(1) Gill Rider was appointed as Chair on 31 July 2020.

(2) Sir John Parker stepped down as Chair on 31 July 2020.

(3) Neil Cooper became Senior Independent Director with effect from 31 July, in addition to his role as Chair of the Audit Committee.

(4) Claire Ighodaro became Remuneration Chair with effect from 31 July.

(5) Jon Butterworth was appointed as a Non-Executive Director as of 8 July 2020. Mr Butterworth was appointed to the South West Water Board in 2017.

Non-Executive Directors' fees and benefits

During the year Sir John Parker stepped down from the Board on 31 July 2020 following five years as Chair of the Pennon Group. No payments were made for loss of office. Sir John's fee prior to this departure was £140,000 (50% recharge through Pennon Group plc).

Gill Rider was appointed to Chair of the Board, having served eight years on the Pennon Board, latterly as Chair of the Remuneration Committee. Her fee was set at £113,000 (50% recharge through Pennon Group plc). When appropriate for the efficient carrying out of her duties, she is provided with a driver and vehicle. She is entitled to expenses on the same basis as the other Non-Executive Directors.

Fees for Non-Executive Directors were initially increased by 1.5% at the start of the financial year. In light of the changes in the Pennon Group, the Non-Executive Director fees were further reviewed. In recognition of the new Board structure, the Committee fees were consolidated into the base fees for Non-Executive Directors (increased from £49,850 50% to £60,550 50%). The additional fees for the Chairs of committees were also reviewed. The revised fee structure is set out in full on page 103.

There is no proposed increase to Non-Executive Director fees for 2021/22.

Directors' service contracts and letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below.

Executive Directors	Date of service contract	Notice period
Susan Davy	1 August 2020	12 months
Louise Rowe	1 February 2015	12 months
Chris Loughlin ⁽¹⁾	1 January 2016	12 months ⁽¹⁾

(1) Stepped down from Board on 31 July 2020 and received payment in lieu of notice as disclosed in the Pennon Group plc Annual Report and Accounts on page 122.

Non-Executive Directors	Date of initial letter of appointment	Expiry date of appointment
Gill Rider	22 June 2012	31 August 2024 ⁽²⁾
Sir John Parker	19 March 2015	31 March 2021 ⁽³⁾
Neil Cooper	17 July 2014	31 August 2023
Iain Evans	16 June 2018	31 August 2021
Claire Ighodaro	28 May 2019	31 August 2022
Jon Butterworth	1 August 2020	31 July 2023

(2) Gill Rider was appointed as Chair on 31 July 2021.

(3) Sir John Parker stepped down from the Board on 31 July 2021.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

Outside appointments

Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Chris Loughlin was appointed as a Non-Executive Director of Mears Group plc through the year and Susan Davy remained a Non-Executive Director of Restore plc throughout 2020/21. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

Annual report on remuneration continued

Additional contextual information

Historical Chief Executive Officer remuneration

As the Company did not have a Chief Executive Officer until 1 January 2016, the table below provides historical single figure information in the form of the average remuneration of the Executive Directors for years up to and including 2014/15. Their remuneration was considered to be the most appropriate to use as they were the most senior executives in the Company. From 2015/16 onwards, the Chief Executive Officer's remuneration for the year is shown.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21 ⁽¹⁾	
	Average Executive Director	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Chris Loughlin	Susan Davy	Chris Loughlin
Chief Executive Officer single figure of remuneration (£000)	378	461	553	493	663	1,068	863 ⁽¹⁾	565 ⁽¹⁾
Annual bonus payout (% of maximum)	89.6	78.3	65.8	85.0	90.0	78.0	78.1	79.2
LTIP vesting (% of maximum)	0.0	34.5	43.7	0.0	44.0	86.6	89.9	89.9

(1) Chris Loughlin stepped down as Chief Executive Officer on 31 July 2020 and was succeeded by Susan Davy. Consistent with the single figure, the figures for Susan Davy relate to the whole of 2020/21, including the portion of the year when she was Chief Financial Officer.

Percentage change in Directors' remuneration

Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2019/20 and 2020/21 in base salary, benefits and annual bonus of all Directors, including both Executive Directors and Non-Executive Directors, and all employees.

	Percentage change in salary/fees	Percentage change in benefits	Percentage change in benefits	Percentage change in annual bonus
Executive Directors				
Susan Davy ⁽¹⁾	10.7%	0%	-32.2%	34.8%
Louise Rowe	1.5%	0%	2.1%	-40.4%
Chris Loughlin ⁽²⁾	-66.4%	-76%	-65.4%	-65.7%
Non-Executive Directors				
Gill Rider ⁽³⁾	126%	0%		–
Sir John Parker ⁽⁴⁾	-66%	0%		–
Neil Cooper	16%	0%		–
Iain Evans	4%	0%		–
Claire Ighodaro	97%	0%		–
Jon Butterworth	–	0%		–
All employees				
South West Water	4.28%	4.38%	2.2%	-0.08%
UK employees	1.22%	5.7%	2.5%	-17.8%

(1) Susan Davy appointed as Chief Executive 31 July 2020. Change in remuneration and bonus reflect this.

(2) Chris Loughlin stepped down from the Board as Chief Executive Officer 31 July 2020. Change in remuneration, benefits and bonus reflect this.

(3) Sir John Parker stepped down from the Board as Chair 31 July 2020.

(4) Gill Rider appointed as Chair 31 July 2020 and received an increase in fees.

Relative importance of spend on pay

	2020/21 (£ million)	2019/20 (£ million)	Percentage change
Overall expenditure on pay ⁽¹⁾	69.8	60.5	15.4%
Distributions to parent company (excluding special dividend) ⁽²⁾	100.4	119.7	(16.1%)
Net interest charges	56.5	71.1	(20.5%)
Purchase of property, plant and equipment (cash flow)	161.1	172.2	(6.4%)

(1) Excludes employer's social security costs and non-underlying items.

(2) Excludes dividend payment of £12 million to parent in October 2020 as part of the WaterShare+ customer rebate scheme. Includes payment of the outperformance dividend based on cumulative outperformance for 2019/20 of £58.1 million that has been deferred to August 2021.

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The distributions to parent company, interest charges and the purchase of property, plant and equipment (cash flow) have been included as these were the most significant outgoings for the Company in the last financial year.

Chief Executive Officer pay ratio

Our CEO pay ratio stands at 69:1 for the median employee. This is not dissimilar to the ratio in 2020 – the demographics of the business have changed considerably with a much larger percentage of apprentices and career entry roles in the Company. We have also supported the Kickstart programme leading to 25 new entrants increasing our population at the lower end of our pay scales.

Year	Method	25th percentile (P25) pay ratio	Median (P50) pay ratio	75th percentile pay ratio
2020/21	A	93:1	69:1	55:1
2019/20	A	91:1	64:1	53:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2020 to 31 March 2021.

- Base salary for part-time employees and new joiners within the applicable period has been converted to full-time equivalents for the purpose of the calculations.
- Estimated values for employee P11D data have been used to establish the ordering of employees, given the timing of publication. This will be validated and amended in due course to account for any variances.

The total remuneration of 2020/21 for the employees identified at P25, P50 and P75 is £28,187, £35,897, and £44,228, respectively.

The base salary of 2020/21 for the employees identified at P25, P50 and P75 is £25,059, £20,724, and £31,306, respectively.

The remuneration arrangements for senior executives fluctuates year-on-year as a significant portion of the package is linked to performance-related incentive plans. This variation will impact the pay ratios reported in future years.

Share awards and shareholding disclosures (audited information)**Share awards granted during 2020/21**

The table below sets out details of share awards made in the year. Details of the Chief Executive Officer share awards are included in the Pennon Annual Report on page 125.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance/restricted period end date
Susan Davy	LTIP	150% of salary	684	25% of maximum	2 August 2023
Louise Rowe		80% of salary ⁽¹⁾	169	25% of maximum	13 July 2023
Susan Davy	Deferred bonus	50% of bonus awarded	162	n/a	13 July 2023
Louise Rowe			44		

(1) Exceptionally for 2020, LTIP awards of 100% of salary were awarded.

LTIP awards were calculated using the Pennon Group plc share price of £1075.49p (being the average closing price over the five dealing days preceding the date of grant, which was 14 July 2020) for the Finance Director. For the Chief Executive Officer, LTIP awards were based on £1071.9p (being the average closing price over the five dealing days preceding 3 August 2020). LTIP awards are subject to an additional two-year holding period. Deferred bonus awards were calculated using the average Pennon Group share price at which shares were purchased on the market on 10 July 2020 in order to satisfy the award, which was £1079.47p.

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2020/21, this guideline was 100% of salary for the Finance Director and 200% for the Chief Executive Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis. The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

The beneficial interests of the Executive Director in the ordinary shares (40.7p each) of Pennon Group plc as at 31 March 2021 and 31 March 2020 and interest are shown in the table below:

	Share interests (including connected parties) at 31 March 2021	Share interests (including connected parties) at 31 March 2020	Vested LTIP awards in holding period ⁽¹⁾	Deferred bonus shares	SAYE	Performance shares (subject to performance conditions)	Shareholding guideline	Shareholding guideline met?
Susan Davy	90,010	78,834	89,602	62,206	2,834	222,527	200%	Yes
Louise Rowe	15,799	13,759	20,428	18,222	2,834	49,921	100%	Yes

(1) These share awards are not subject to further performance criteria and may therefore count towards the guideline on a net-of-tax basis.

Since 31 March 2021, 28 additional ordinary shares in Pennon Group have been acquired by Louise Rowe as a result of participation in the Pennon Group's Share Incentive Plan.

The interests of the outgoing Chief Executive Officer can be seen on page 125 of the Pennon Annual Report.

Annual report on remuneration continued

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and step-children, in the ordinary shares (40.7p) of the Pennon Group, are shown in the table below:

Director	Shares held at 31 March 2021	Shares held at 31 March 2020
Sir John Parker ⁽¹⁾	27,027	27,027
Gill Rider	3,612	2,500
Neil Cooper	–	–
Iain Evans	–	–
Claire Ighodaro	–	–
Jon Butterworth	–	–

(1) Stepped down from the Board on 31 July 2020.

There have been no changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2021 and 1 June 2021. There is no formal shareholding guideline for the Non-Executive Directors; however, they are encouraged to purchase shares in the Company.

Details of share awards

The Chief Executive Officer's share awards can be seen on pages 125 to 128 in the Pennon Annual Report.

(a) Long-term incentive plan

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (40.7p each) of Pennon Group plc shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full:

Director and date of award	Vested awards held at 1 April 2020 ⁽¹⁾	Conditional awards held at 1 April 2020	Conditional awards made in year	Market price upon award in year	Vesting in year ⁽²⁾	Value of shares upon vesting (before tax) £000	Vested awards held at 31 March 2021 ⁽³⁾	Conditional awards held at 31 March 2021	Date of end of period for qualifying conditions to be fulfilled	Expected date of release ⁽⁴⁾
Susan Davy										
01/07/16	15,567	–	–	920.00p	–	115	15,557	–	30/06/19	30/06/21
25/08/17	–	73,972	–	802.70p	74,045	747	74,045	–	24/08/20	24/08/22
02/07/18	–	76,653	–	790.12p	–	–	–	76,653	01/07/21	01/07/23
04/07/19	–	82,062	–	752.72p	–	–	–	82,062	03/07/22	03/07/24
03/08/20	–	–	63,812	1071.9p	–	–	–	63,812	02/08/23	02/08/25
Louise Rowe										
01/07/16	4,467	–	–	920.00p	–	33	4,467	–	30/06/19	30/06/21
25/08/17	–	15,946	–	802.70p	15,961	161	15,961	–	24/08/20	24/08/22
02/07/18	–	16,524	–	790.12p	–	–	–	16,524	01/07/21	01/07/23
04/07/19	–	17,692	–	752.72p	–	–	–	17,692	03/07/22	03/07/24
03/08/20	–	–	15,705	1075.49p	–	–	–	15,705	02/08/23	02/08/25

(1) 32% of the award shares granted on 1 July 2016 vested on 1 July 2019 at a market price of £7412 per share.

(2) 86.6% of the award shares granted on 25 August 2017 vested on 25 August 2020 at a market price of £10.085 per share.

In respect of (1) and (2) above, the total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the three-year performance period. The balance of the award lapsed.

(3) Vested award; no longer subject to performance conditions.

(4) Awards granted from 2015 onwards are subject to a two-year holding period following vesting.

(b) Annual incentive bonus plan – deferred bonus shares (long-term incentive element)

The following Director has or had a contingent interest in the number of ordinary shares (40.7p each) of Pennon Group plc shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the annual incentive bonus plan (the bonus plan) at the end of the relevant restricted period:

Director and date of award	Restricted awards held at 1 April 2020	Restricted awards made in year	Market price of each share upon award in year	Released in year	Value of shares upon release (before tax) £000	Restricted awards held at 31 March 2021	Date of end of restricted period
Susan Davy							
30/08/17	20,503	–	808.691p	20,503 ⁽¹⁾	205	–	29/08/20
25/07/18	22,746	–	761.36p	–	–	22,746	24/07/21
24/07/19	24,449	–	755.5386p	–	–	24,449	23/07/22
14/07/20	–	15,011	1079.47p	–	–	15,011	13/07/23
Louise Rowe							
30/08/17	5,929	–	808.691p	5,929 ⁽¹⁾	59	–	29/08/20
25/07/18	6,803	–	761.36p	–	–	6,803	24/07/21
24/07/19	7,317	–	755.5386p	–	–	7,317	23/07/22
14/07/20	–	4,102	1079.47p	–	–	4,102	13/07/23

(1) These shares were released on 1 September 2020 at 1000.5 pence per share.

During the year the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows: Louise Rowe £8,775.

(c) Sharesave Scheme

Details of options to subscribe for ordinary shares (40.7 pence each) of the Company under the all-employee Sharesave Scheme were:

Date of award	Options held at 1 April 2020	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2021	Options held at 31 March 2021	Exercise period/ maturity date
Susan Davy								
03/07/18	2,834	–	–	635.00p	–	975.0p	2,834	01/09/21-28/02/22
Louise Rowe								
03/07/18	2,834	–	–	635.00p	–	975.0p	2,834	01/09/21-28/02/22

The Remuneration Committee and its advisors

Claire Ighodaro replaced Gill Rider as Chair of the Remuneration Committee on 8 July 2020. Gill Rider continued to serve as a member of the Committee. Neil Cooper and Iain Evans were members of the Remuneration Committee throughout the year. Jon Butterworth joined the Committee from 31 July 2020.

During the year the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Sir John Parker (Chair of the Board), Adele Barker (Penon Group Chief People Officer) and from Deloitte LLP. During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

Assurance

Introduction

This assurance section of the Annual Performance Report provides a general overview of our assurance framework and processes as well as an update upon the assurance performed in respect of the Annual Performance Report and Regulatory Reporting.

In the consultation for our Assurance Plan (performed in December 2020 – January 2021), there was support for integrating the comprehensive Summary Assurance Report, which we previously published as a standalone document, into the Annual Performance Report. This included our full Data Assurance Summary.

As such this section now includes a more thorough update on all the areas identified as significant areas for assurance in our Assurance Plan. We have also published this assurance section as a standalone document on the Company's website (www.southwestwater.co.uk/assuranceplan21-22).

In any significant area or projects where assurance is required over submitted data or information, certificates will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

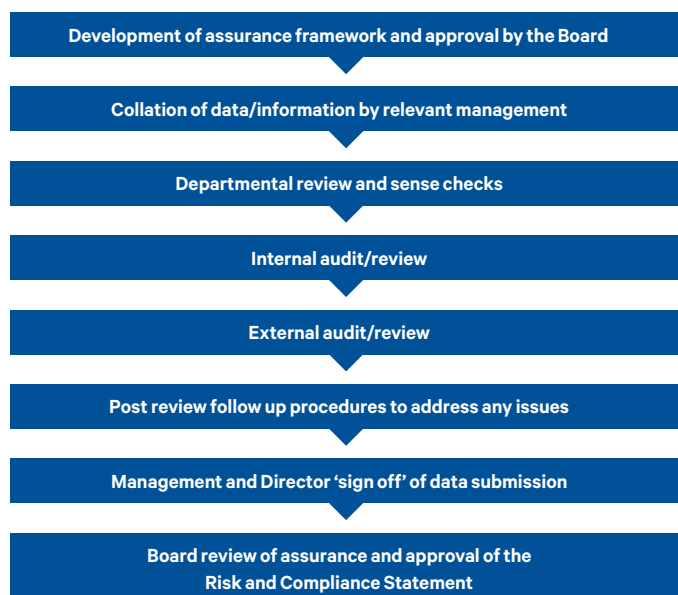
External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR19 Business Plan, tariffs/charges submissions and Annual Performance Report and Regulatory Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

In addition to strategic leadership provided by the Board, for significant projects a Steering Group is formed to give direction, monitor project delivery and issue regular updates to the Board. The Board and Audit Committee review and challenge assurance applied in each case under this framework.

For all key projects and data submissions the Board confirms in its opinion that assurance provision, governance and internal systems of control have been sufficient.

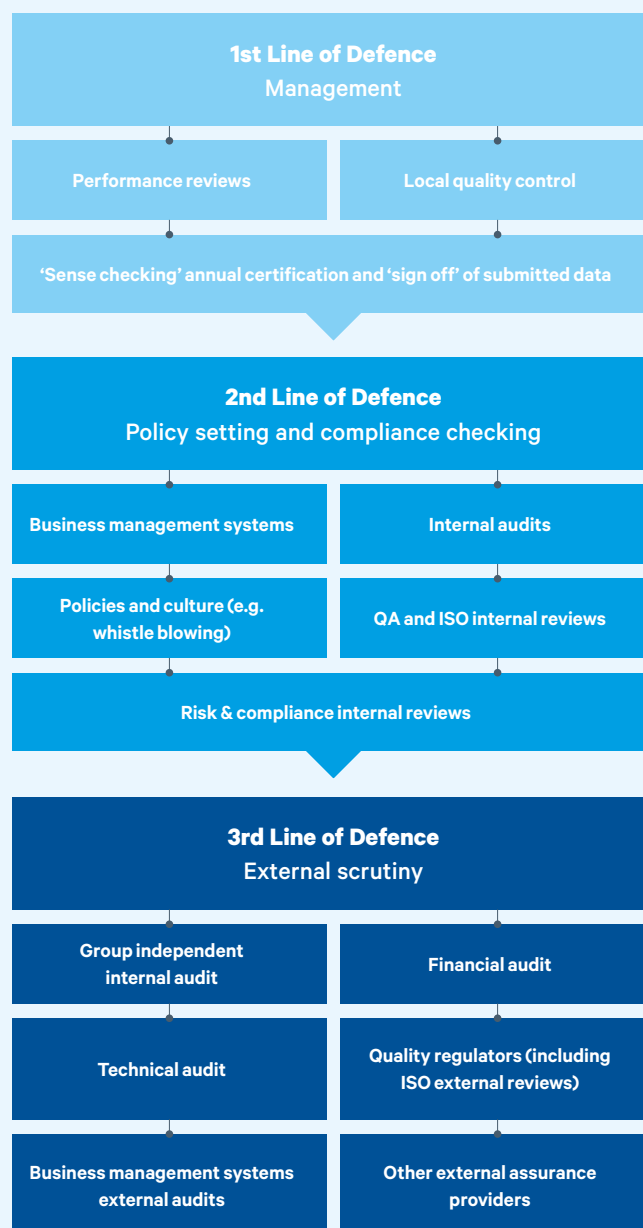
The following diagram summarises the typical assurance approach taken in any significant project involving submission of data externally:



South West Water's Integrated Assurance Framework

South West Water's risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.

South West Water's integrated Assurance Plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:



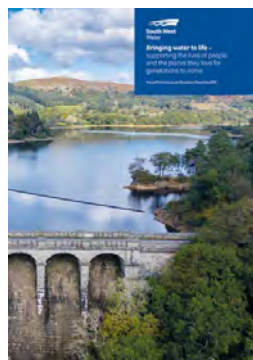
This risk-based Integrated Assurance Framework is applied to all areas of the business, including all key projects as they arise. The mix of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring robust and comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

South West Water publishes a range of documents which provide key information which customers and other stakeholders require. We publish performance information in this Annual Performance Report and Regulatory Reporting as well as in summary formats. In this section of the report we summarise the assurance we perform, however further detail on the assurance we perform can be found in related documents.



Risks, Strengths and Weaknesses Statement

This statement sets out our risks, strengths and weaknesses to the information that we publish following consultation with customers and other stakeholders.



Annual Performance Report and Regulatory Reporting

The Annual Performance Report lays out our performance against the regulatory targets we have committed to achieve. Our Regulatory Reporting lays out key financial and non financial performance for the year.



Assurance Plan

Following consultation with customers, employees and other stakeholders the final Assurance Plan updates the draft Assurance Plan to address feedback received.



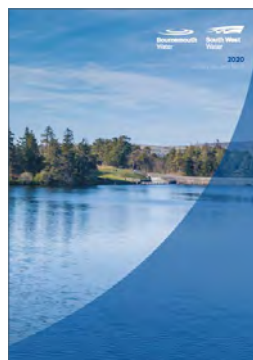
Summary Performance Report

We publish a summary performance report which provides a shorter summary of performance against each of our regulatory targets. This will be published at www.southwestwater.co.uk/report2021 by the end of July 2021.



Annual Report and Financial Statements

Our Annual Report and Financial Statements are published in line with Companies Act requirements and as well as reporting on overall performance, and provide a more detailed review of our financial performance during the year.



Assurance

In recent years we have published a standalone 'Summary Assurance Report' which has reported on the assurance we have performed in significant areas customers and other stakeholders would expect thorough and robust assurance. This has covered far more than just our published annual reporting data in line with our Assurance Plan.

This year we have included this summary within this Annual Performance Report. This summary has supported the Board's Assurance Statement.



Business Plan 2020-25

In September 2018 we published our Business Plan for 2020-25 'The New Deal', which was given fast-track status by Ofwat. For further information on South West Water's New Deal visit southwestwater.co.uk/newdeal.



Pollution Incident Reduction Plan

In September 2020 we launched our Pollution Incident Reduction Plan responding to our performance in this area and reflecting our commitment to ensure pollution incidents are significantly reduced through the remainder of the regulatory reporting period.

We provided an update of the plan in December focusing on the areas making the most difference.

To read the update, visit southwestwater.co.uk/siteassets/document-repository/business-plan-2020-2025/pirp-update.pdf



Our websites

The documents listed here are published on our websites (southwestwater.co.uk and bournemouthwater.co.uk) alongside other useful documents – such as our charges to customers for the year.



DiscoverWater.co.uk

We share our key comparable data with DiscoverWater.co.uk who provide a user-friendly summary of English and Welsh water companies' data. We voluntarily obtain specific assurance from our technical auditor Jacobs (see page 143) in view of the importance of this data.

Assurance continued

Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting

Section 1		External Assurer	Type of Assurance	Table reference	External Assurance Summary
1A	Income statement	EY	Regulatory Audit Opinion	Pages 150 to 151	Pages 140 to 142
1B	Statement of comprehensive income	EY	Regulatory Audit Opinion	Page 151	Pages 140 to 142
1C	Statement of financial position	EY	Regulatory Audit Opinion	Pages 152 to 153	Pages 140 to 142
1D	Statement of cash flows	EY	Regulatory Audit Opinion	Page 154	Pages 140 to 142
1E	Net debt analysis	EY	Regulatory Audit Opinion	Page 155	Pages 140 to 142
1F	Financial flows	EY	Regulatory Audit Opinion	Pages 156 to 157	Pages 140 to 142

Section 2		External Assurer	Type of Assurance	Table reference	External Assurance Summary
2A	Segmental income statement	EY	Regulatory Audit Opinion	Page 158	Pages 140 to 142
2B	Totex analysis – by wholesale price controls	EY	Regulatory Audit Opinion	Page 159	Pages 140 to 142
2C	Cost analysis – retail	EY	Regulatory Audit Opinion	Pages 160 to 161	Pages 140 to 142
2D	Historical cost analysis of fixed assets – by price control	EY	Regulatory Audit Opinion	Page 162	Pages 140 to 142
2E	Analysis of ‘grants and contributions’ – water resources, water network plus and wastewater network plus	EY	Regulatory Audit Opinion	Pages 163 to 164	Pages 140 to 142
2F	Residential retail	EY	Regulatory Audit Opinion	Page 164	Pages 140 to 142
2G	Non-household water – revenues by tariff type	EY	Regulatory Audit Opinion	Page 164	Pages 140 to 142
2H	Non-household wastewater – revenues by tariff type	EY	Regulatory Audit Opinion	Page 164	Pages 140 to 142
2I	Revenue analysis & wholesale control reconciliation ¹	EY	Regulatory Audit Opinion	Page 165	Pages 140 to 142
2J	Infrastructure network reinforcement costs	EY	Regulatory Audit Opinion	Page 166	Pages 140 to 142
2K	Infrastructure charges reconciliation	EY	Regulatory Audit Opinion	Page 167	Pages 140 to 142
2L	Analysis of land sales	EY	Regulatory Audit Opinion	Page 167	Pages 140 to 142
2M	Revenue reconciliation	EY	Regulatory Audit Opinion	Page 168	Pages 140 to 142
2N	Residential retail – social tariffs	EY	Regulatory Audit Opinion	Page 169	Pages 140 to 142
2O	Historic cost analysis of intangible fixed assets – by price control	EY	Regulatory Audit Opinion	Page 170	Pages 140 to 142

Section 3		External Assurer	Type of Assurance	Table reference	External Assurance Summary
3A	Outcome performance – Water common performance commitments	Jacobs ⁴	Technical audit – agreed upon procedures	Page 171	Pages 143 to 145
3B	Outcome performance – Wastewater common performance commitments	Jacobs	Technical audit – agreed upon procedures	Page 172	Pages 143 to 145
3C	C-MeX	Jacobs	Technical audit – agreed upon procedures	Page 172	Pages 143 to 145
3D	D-MeX	Jacobs	Technical audit – agreed upon procedures	Page 173	Pages 143 to 145
3E	Outcome performance – non financial performance commitments	Jacobs	Technical audit – agreed upon procedures	Page 174	Pages 143 to 145
3F	Underlying calculations for common performance commitments – water and retail	Jacobs	Technical audit – agreed upon procedures	Page 175	Pages 143 to 145
3G	Underlying calculations for common performance commitments – wastewater	Jacobs	Technical audit – agreed upon procedures	Page 176	Pages 143 to 145
3H	Summary information on outcome delivery incentive payments	Jacobs	Technical audit – agreed upon procedures	Page 177	Pages 143 to 145
3I	Summary outcomes information	Jacobs	Technical audit – agreed upon procedures	Page 178	Pages 143 to 145

Section 4		External Assurer	Type of Assurance	Table reference	External Assurance Summary
4A	Bulk supply information	Jacobs	Technical audit – agreed upon procedures	Page 179	Pages 143 to 145
4B	Analysis of debt	EY	Financial agreed upon procedures	Page 179	Pages 140 to 142
4C	Impact of price control performance to date on RCV	EY	Financial agreed upon procedures	Pages 180 to 181	Pages 140 to 142
4D	Totex analysis – wholesale water resources and water network+	EY ⁵	Financial agreed upon procedures	Page 182	Pages 140 to 142
4E	Totex analysis for – wholesale wastewater	EY ⁵	Financial agreed upon procedures	Page 183	Pages 140 to 142
4F	Major project capital expenditure by purpose – wholesale water	N/A	N/A – no relevant data	Page 184	N/A
4G	Major project capital expenditure by purpose - wholesale wastewater	N/A	N/A – no relevant data	Page 184	N/A
4H	Financial metrics	EY	Financial agreed upon procedures	Page 184	Pages 140 to 142
4I	Financial derivatives	EY	Financial agreed upon procedures	Page 185	Pages 140 to 142
4J	Base expenditure analysis – wholesale water	EY	Financial agreed upon procedures	Page 186	Pages 140 to 142
4K	Base expenditure analysis – wholesale wastewater	EY	Financial agreed upon procedures	Page 187	Pages 140 to 142
4L	Enhancement expenditure – water resources and water network+	EY	Financial agreed upon procedures	Page 187	Pages 140 to 142
4M	Enhancement expenditure – wastewater network+ and bioresources	EY	Financial agreed upon procedures	Page 187	Pages 140 to 142
4N	Developer services – water resources and water network+	EY	Financial agreed upon procedures	Page 188	Pages 140 to 142
4O	New developments expenditure – wastewater network+ and bioresources	EY	Financial agreed upon procedures	Page 188	Pages 140 to 142
4P	Expenditure on non-price control diversions	EY	Financial agreed upon procedures	Page 189	Pages 140 to 142
4Q	Developer services non-financial data	Jacobs	Technical audit – agreed upon procedures	Page 189	Pages 143 to 145
4R	Non financial information – Properties, customers and population	Jacobs	Technical audit – agreed upon procedures	Page 190	Pages 143 to 145

Section 5		External Assurer	Type of Assurance	Table reference	External Assurance Summary
5A	Water resources asset and volume data	Jacobs	Technical audit – agreed upon procedures	Page 191	Pages 143 to 145
5B	Water resources operating cost analysis	EY	Financial agreed upon procedures	Page 192	Pages 140 to 142

Section 6		External Assurer	Type of Assurance	Table reference	External Assurance Summary
6A	Raw water transport, raw water storage and water treatment	Jacobs	Technical audit – agreed upon procedures	Page 193	Pages 143 to 145
6B	Treated water distribution – assets and operations	Jacobs	Technical audit – agreed upon procedures	Page 194	Pages 143 to 145
6C	Water network+ – Mains, communication pipes and other data	Jacobs	Technical audit – agreed upon procedures	Page 195	Pages 143 to 145
6D	Demand management – metering and leakage activities	EY	Financial agreed upon procedures	Page 196	Pages 140 to 142

Assurance continued

Summary of external assurance in respect of the Annual Performance Report and Regulatory Reporting continued

Section 7		External Assurer	Type of Assurance	Table reference	External Assurance Summary
7A	Wastewater network+ – Functional expenditure	EY	Financial agreed upon procedures	Page 197	Pages 140 to 142
7B	Wastewater network+ – Large sewage treatment works	Jacobs	Technical audit – agreed upon procedures	Pages 198 to 199	Pages 143 to 145
7C	Wastewater network+ – Sewer and volume data	Jacobs	Technical audit – agreed upon procedures	Page 198	Pages 143 to 145
7D	Wastewater network+ Sewage treatment works data	Jacobs	Technical audit – agreed upon procedures	Pages 200 to 201	Pages 143 to 145
7E	Wastewater network+ Energy consumption and other data	Jacobs	Technical audit – agreed upon procedures	Page 202	Pages 143 to 145

Section 8		External Assurer	Type of Assurance	Table reference	External Assurance Summary
8A	Bioresources sludge data	Jacobs	Technical audit – agreed upon procedures	Page 203	Pages 143 to 145
8B	Bioresources operating expenditure analysis	EY	Financial agreed upon procedures	Page 204	Pages 140 to 142
8C	Bioresources energy and liquors analysis	Jacobs	Technical audit – agreed upon procedures	Page 205	Pages 143 to 145
8D	Bioresources sludge treatment and disposal data	Jacobs	Technical audit – agreed upon procedures	Page 206	Pages 143 to 145

Section 9		External Assurer	Type of Assurance	Table reference	External Assurance Summary
9A	Innovation competition	Jacobs	N/a – confirmation of nil return	Page 207	Pages 143 to 145

Other Annual Performance Report Information		External Assurer	Type of Assurance	Table reference	External Assurance Summary
A	Long-term resilience & viability statement	EY	Financial agreed upon procedures ⁶	Page 128	Pages 140 to 142
B	Technical operational performance data included within pages 16 to 46	Jacobs	Technical audit – agreed upon procedures	N/a	Pages 143 to 145
C	Annual performance information provided for the Discover Water website	Jacobs	Technical audit – agreed upon procedures	N/a	Report provided to Water UK

1 Including both the South West Water and Bournemouth Water tables.

2 The Abstraction Incentive Mechanism (AIM) table is not applicable to South West Water. The technical auditor, Jacobs, has reviewed this assessment.

3 The Shadow Reporting tables have been reported to Ofwat and not published.

4 Two of the Bournemouth Water performance commitments, relating to financial data, are covered under EY's agreed upon procedures.

5 Unit cost metrics information on pages 182 to 183 are based upon non-financial information included within the scope of Jacobs' technical audit – agreed upon procedures. The calculations based upon this non-financial information are within the scope of EY's financial agreed upon procedures.

6 In addition to statutory audit requirements.

Other items

Many of our required annual disclosures are contained within this Annual Performance Report and Regulatory Reporting, however some are contained in our other related publications:

Disclosure	Location
Statement on directors' pay	See page 147 and detailed disclosures in the Remuneration Report
Statement on disclosure of information to auditors	See page 147 – regulatory disclosures
Dividend policy	See pages 147 to 148
Accounting policy note for price control units	See page 148
Revenue recognition note	See page 148
Capitalisation policy note	See page 149
Bad debt policy note	See page 149
Tax strategy for the appointed business	See page 69
Long-term viability statement	See page 128
RoRE summary	See pages 70 to 71
Narrative disclosures on operational performance (and table 3A metrics)	See pages 16 to 46
Totex – difference between actual and allowed Totex in table 4B	See page 67
Accounting Methodology Statement	See page 147

Assurance – WaterShare+ Advisory Panel

Customers demand high standards; they expect the environment to be protected and their bills to be affordable. To help ensure that these standards are met, and to strengthen the link between the Company and its customers, the independent WaterShare+ Advisory Panel was formed last year. As Chair of the Panel, it's my role to represent the Company's customers and give them a real say about how South West Water is performing. The Panel will act as an advocate for customers, providing feedback, analysis and opinion on the Company's performance and validate its interpretation of customers' views.

The overall purpose of the WaterShare+ Advisory Panel is to protect the interests of our customers by providing independent review of all elements of the 'New Deal', including the achievement or otherwise of the Company's business plan commitments and Board Pledges. The WaterShare+ Advisory Panel also strives to increase awareness of WaterShare+, further develop the engagement with customers to increase trust and greater involvement and ensures that South West Water services work well and meet the needs of the communities it serves.

On the Panel, we are tasked with ensuring that the Company is held to account for its performance in an open and transparent manner. We examine the Company's performance against its business plan commitments and analyse what it is doing to ensure that it delivers on the promises that have been made to customers.

Through our work and public meetings, customers can question the Company's Executive directly about areas where they are concerned the Company is failing to deliver, giving customers a different level of engagement and a genuine voice. While COVID-19 restrictions have meant that we have not been able to meet in public during the year, I'm pleased to report that we adapted by holding virtual sessions which customers have had the opportunity to attend and raise the questions that are important to them. When conditions allow, we look forward to holding these sessions in person, in different locations in the Company's area of operation, and interacting with customers face-to-face.

One particular area of concern for us this year has been the Company's wastewater pollution performance. Given this area remains one of customers' top three priorities, we have consistently and robustly challenged the Company about these incidents. Whilst, we note the Executive's commitment to improve in this area, and recent performance does show a more encouraging trend, it will remain an area in which we will continue to hold the Company to account.

We also oversee the operation of the Company's WaterShare framework, which includes a mechanism whereby financial benefits are shared with customers if the Company earns rewards by outperforming its business plan. Put simply, if the Company delivers then customers also benefit.

Accordingly, accrued outperformance benefits totalling some £20 million were shared with customers last year, who were given the choice of either receiving a £20 credit on their account or applying to receive shares in Pennon Group Plc (the UK based company that owns South West Water). As a result of this engagement, more than 1 in 16 households are now shareholders as well as customers – heralding a new era in customer ownership.

Matters discussed and considered by the Panel also included, but were not limited to, Role of the Panel, Supporting Customers – affordability, Providing outstanding customer support and Delivering environmental leadership.

I am pleased to confirm that under the WaterShare framework, customer benefits totalling £36 million have already been delivered during the first year of this new regulatory period.

Lord Matthew Taylor

Chair of the WaterShare+ Advisory Panel



Meetings on the Company's website: www.southwestwater.co.uk/about-us/watershareplus/meeting/ and the Panel will publish its own annual report in September.

WaterShare+ Framework 2020-25

Customer	WaterShare	Shareholder
Cumulative to 2020/21 £m		Cumulative to 2020/21 £m
32	Net Totex savings¹	38
0	ODIs	(9)
4	Other items²	0
36	Total Value Benefit	29

(1) Gross Totex savings (inclusive of retail), net of tax for sharing and performance purposes.

(2) Other items including financing outperformance on embedded debt net of other items including the impact of new legislation.

Summary of significant assurance areas

Summary of Board activities and engagement and assurance performed in our significant areas for assurance

Our Assurance Plan lays out areas for assurance which we have considered 'Significant assurance areas', being areas requiring assurance due to their importance to our customers and/or other stakeholders. The plan is available on our website at: www.southwestwater.co.uk/assuranceplan21-22.

We have reported on areas for assurance which are broader than simply data which we provide and report, reflecting the importance of these areas to our customers, people and other stakeholders.

Subsequent to publication of the Assurance Plan, the Board has added 'Drinking Water Quality' as a significant assurance area, reflecting its importance, our marginal underperformance in the area in 2020/21 and the programme of improvements which is underway. The areas have also been re-ordered reflecting key health and safety and key operational delivery areas as the first of the significant areas for assurance.

1. Health, safety and wellbeing

Board activities and engagement	Assurance performed
<p>On a monthly basis, the Board reviews performance of the business in respect of health, safety and wellbeing. The Board receives reports summarising any health and safety incidents including summaries of any events which have resulted in a lost time¹ or a RIDDOR² incident. The Board challenges actions taken in light of any incidents. The Board also receives a monthly data summary of numbers of incidents, the LTIFR¹ and RIDDOR incidents.</p> <p>On a quarterly basis, the Audit Committee reviews the status of health and safety actions resulting from the health and safety internal audit programme (which has been aligned to ISO 45001, covering both process compliance as well as legal compliance aspects). The Board considers the report of the Audit Committee.</p> <p>With the emergence of the COVID-19 pandemic in 2020, the Board commissioned a review of COVID-safe measures and compliance at all of the Company's staffed sites in spring 2020 following the implementation of an extensive set of measures to protect our people and others from the risk of transmission of COVID-19 as we performed our essential activities. This review was performed by the 2nd line Health Safety Security Assurance (HSSA) team and led to a small number of further actions being taken to ensure consistency of application of measures across the business.</p> <p>Following the tragic explosion at another water company's wastewater treatment works in December 2020, the Board requested a specific internal assurance review of South West Water's wastewater treatment works to identify any risks in place and actions which could be taken to mitigate these risks. This assurance work was led by Pennon Group Internal Audit and was performed by experienced senior staff within the business, who were independent of the day-to-day operational management of the sites and wastewater function. Although no significant risks were identified, the Board approved a set of actions to further mitigate a limited number of lower level risks.</p> <p>Executive members of the Board, alongside Senior Managers from throughout the organisation visit South West Water's sites throughout the year to further review health and safety at our sites and ensure that there is a detailed awareness of health and safety matters at our sites at the highest level of the organisation.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Departmental certification and 'sign off' of year end health and safety data • Monthly Board reporting and review of incidents and internal audit results • Board approval of all related submissions <p>2nd line</p> <ul style="list-style-type: none"> • Health Safety Security (HSSA) Assurance team internal audits (process and legal and compliance) • Specific programme of 'COVID-safe' reviews covering all manned sites • Executive and Senior Management site safety visits <p>3rd line</p> <ul style="list-style-type: none"> • Pennon Group Internal Audit oversight • Specific assurance over explosive risks at South West Water sites • Pennon Serious Incident Review Panel • Annual technical data audits

1. A lost time injury is defined as any work-related injury that results in a person being unfit for work on any day beyond the day of the incident. Lost time injuries are expressed as a frequency rate (LTIFR) per 200,000 working hours.

2. Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. RIDDOR puts duties on employers, the self-employed and people in control of work premises (the Responsible Person) to report certain serious workplace accidents, occupational diseases and specified dangerous occurrences (near misses).

2. Drinking Water Quality

Board activities and engagement	Assurance performed
<p>In line with our Board Pledge for 2020-25 to provide outstanding customer service, we have also committed to deliver a major drinking water quality enhancement programme to deliver wide scale benefits for customers.</p> <p>As noted on page 20 South West Water's performance this year has been affected by a small number of failures at treatment works where we are delivering water quality improvements as part of our long-term drinking water quality strategy. We missed our core Compliance Risk Index (CRI) regulatory target and were marginally outside the regulatory tolerance.</p> <p>The Executive has established a dedicated Steering Group to oversee the extensive programme of improvements which we are making throughout the 2020-25 regulatory period. This Steering Group has wide cross-functional engagement which includes senior representatives from Drinking Water, Engineering and the Group Director of Risk and Assurance to provide independent review and challenge.</p> <p>The Board has reviewed investigations relating to the small number of failures at treatment works as well as the improvement plans where required.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Extensive Executive oversight • Dedicated Steering Group established to oversee improvements being undertaken <p>2nd line</p> <ul style="list-style-type: none"> • Ongoing programme of water quality sampling <p>3rd line</p> <ul style="list-style-type: none"> • Annual technical audit of water quality published data including methodology • Pennon Group Internal Audit (including attendance at Steering Group and specific drinking water quality planned audit for 2021/22)

3. Pollution strategy

Board activities and engagement	Assurance performed
<p>As described in '1. Performance Commitments', the Board receives regular updates on our performance against our commitments. During the year it became clear our performance in respect of pollutions was falling short of the standards the Board demands in an area customers and other stakeholders view as a priority for the Company.</p> <p>The Board implemented and oversaw a number of changes to the Company's strategy to ensure its commitment to improve our performance in this area occurred. These changes included:</p> <ul style="list-style-type: none"> Revisions to the Company's Pollutions Incident Reduction Plan (PIRP), including a more focused approach on higher impact areas, such as upgrades to 'hot spot' assets and sites where pollutions have occurred more than once A daily 'Pollutions Board' meeting, chaired by the CEO with a working group, investigations team and reporting team reporting into that group A restructure of the wastewater Senior Management and Management teams to refocus resource and expertise in key areas to improve performance The implementation of a programme of culture, training and employee engagement to ensure all relevant people within the Company and our partners are fully focused on reducing pollution incidents The addition of 'Pollution strategy' as a specific 'Significant Area for Assurance' in our Assurance Plan, given the significant challenges faced and the importance of this area to our customers and other stakeholders. <p>The Audit Committee requested a 'deep dive' review to be performed in respect of pollution incidents and the Board has received monthly situation update reports on performance in respect of pollution incidents and the progress in delivering the transformation required.</p> <p>Performance across the year as reported on page 37 is outside of our annual performance commitment and falls short of the Board's expectations, however the changes which have been implemented have resulted in significant improvements in month on month incident numbers in the second half of the year (as noted by our Technical Auditor in its report on page 143).</p>	<p>1st line</p> <ul style="list-style-type: none"> Enhanced governance structure 24 hour data and service centre Culture, training and employee engagement programme CEO led daily 'Pollutions Board' Pollution 'deep dive' report reviewed by the Audit Committee <p>2nd line</p> <ul style="list-style-type: none"> Root cause analysis/investigations of all pollution events Environmental ISO management system audits <p>3rd line</p> <ul style="list-style-type: none"> Group Internal Audit (including specific Pollutions Management audit) Technical auditor review of published pollutions data

4. Responding to vulnerable customers

Board activities and engagement	Assurance performed
<p>2020/21 has been especially challenging with the COVID-19 pandemic placing challenges on customers who may not have considered themselves to be vulnerable prior to the pandemic. The Board has strongly supported measures introduced by the management team and maintained throughout the year, responding to the pandemic, both in ensuring our essential service continues to be delivered to all customers, including those who may be especially vulnerable in the event of interruptions to service, and responding to ensure we can support customers who have been significantly financially impacted by the pandemic.</p> <p>In line with our Business Plan commitments, South West Water achieved certification during 2020/21 to the management systems standard BS 18477:2010 (Inclusive service provision for identifying and responding to consumer vulnerability for the supply of water and wastewater services).</p> <p>The scope of that standard sets an excellent benchmark to demonstrate the commitment in our response to vulnerable customers.</p> <p>BSI conducted a staged set of assessments to identify gaps in place, which South West Water acted upon ahead of a certification audit prior to the end of the year 2020/21. This assurance is supplemented by internal BS 18477:2010 systems audits to ensure all aspects of the standard are considered.</p> <p>Alongside seeking certification under BS 18477:2010, we have other performance commitments which act as key performance indicators of the support we provide to customers in vulnerable circumstances. These include increasing the number of customers registered for priority services and making regular contact to ensure that customers on the register are receiving the most appropriate services for their needs. Additionally, we have a commitment to increase the level of satisfaction with services received under the priority services register measured through a survey conducted by our independent market research partners.</p> <p>These performance commitments are subject to audit (see significant area for assurance 1). The Board is pleased to report that despite the challenging year all our commitments covering performance in supporting vulnerable customers (including the operation of the Priority Services Register) were achieved.</p>	<p>1st line</p> <ul style="list-style-type: none"> Directorate procedures and compliance activities Code of conduct Management supervision and review of customer service activities <p>2nd line</p> <ul style="list-style-type: none"> Directorate procedures and compliance activities Management supervision and review of customer service activities Internal ISO systems audits <p>3rd line</p> <ul style="list-style-type: none"> Jacobs technical assurance of published technical data including numbers on the PSR BSI external audit in line with BS 18477:2010

Summary of significant assurance areas continued

5. Performance commitments

Board activities and engagement	Assurance performed
<p>The Board has monitored the performance against our regulatory outcomes/performance commitments throughout the year as well as reviewing the results of the data assurance programme, which focused on these performance commitments at year end. It has reviewed the results of the external technical auditor (Jacobs – whose report can be found on pages 143 to 145). In line with the importance of our performance commitments to our customers and other stakeholders, a high degree of technical audit focus is placed in this area.</p> <p>The Board is satisfied, based upon systems and processes in place as well as assurance activities undertaken, that South West Water's performance (as reported in section 3 of the Regulatory Reporting section and as summarised in the Operational Performance section) has been accurately reported.</p> <p>Performance itself has demonstrated an overall resilient response to a challenging year, however in a limited number of significant areas, performance was not in line with committed levels and the Board is dedicated to achieving the improvements necessary to ensure committed performance levels are reached as soon as possible.</p> <p>During the year it became clear that performance in respect of pollution incidents was not sufficiently improving to achieve the target for the 2020 calendar year and as such this area was added as a specific significant area for assurance in our Assurance Plan – further details on this area are shown on page 114.</p> <p>Towards the end of the reporting year, it also became clear that performance in respect of leakage was not meeting expectations with a number of operational challenges in the second half of the year. The Board is focused on making improvements in this area and will provide more regular assured reporting on our performance, has commissioned a Group Internal Audit in this area and the Audit Committee has requested a deep dive report. Leakage performance will be included as a specific significance area for assurance in the next Assurance Plan.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Ongoing performance reviews and monthly reporting within teams and senior management, including formal Executive ODI Group • Departmental certification and 'sign off' of submitted data • Process and culture formed on quality management principals <p>2nd line</p> <ul style="list-style-type: none"> • Risk and Compliance internal audits <p>3rd line</p> <ul style="list-style-type: none"> • Pennon Group Internal Audits • Jacobs technical auditors • SGS ISO auditors, including ISO 9001:2015 (Quality), ISO 14001:2015 (Environmental) and ISO 50001: 2011 (Energy) certifications

6. Data protection and security

Board activities and engagement	Assurance performed
<p>South West Water maintains an Information System with extensive controls to mitigate the risks in respect of data protection and security. The Company has appointed a specific Data Protection Officer as well as maintaining a Data Protection/Security Governance Group.</p> <p>The corporate IT system is certified to the international standard ISO 27001 – Information Security Management, and there is a dedicated Information Security team which oversees mitigations and controls in place as part of the system. A programme on internal and external audit is performed on the system and controls.</p> <p>There is a Company wide Information Security policy and the Information Security team has provided briefings to other departments to ensure the culture supports the objectives of data protection and security. The Company conducts regular penetration testing to test the security of the system.</p> <p>In respect of the operational network, South West Water has performed extensive work in line with the Network and Information Security (NIS) directive including the completion of audits performed by an external specialist and Group Internal Audit. South West Water also engages annual external audit under the Security and Emergency Measures Directive (SEMD).</p>	<p>1st line</p> <ul style="list-style-type: none"> • Dedicated data protection officer • Data Protection / Security Governance Group • Information Security Policy <p>2nd line</p> <ul style="list-style-type: none"> • Internal audit in line with ISO 27001 • Penetration testing <p>3rd line</p> <ul style="list-style-type: none"> • Group Internal Audit (including specific Information Security audits) • External audits in line with the NIS Directive and SEMD

7. The Government £50 contribution

Board activities and engagement	Assurance performed
<p>The £50 contribution is automatically applied to all domestic customer bills within our billing system (this is pro-rated, where bills reflect a period of less than a year).</p> <p>At the commencement of the £50 contribution scheme, South West Water performed a review of all customers' account classifications (as domestic or business) to ensure that everyone entitled to receive the contribution did so and equally that the Government Contribution is only received by those customers the Government has defined as eligible.</p> <p>South West Water's domestic retail function has a specific compliance team overseeing the billing system and matters relating to Customer Service. The Pennon Group Internal Audit function also performs a cyclical annual audit of our billing systems.</p> <p>South West Water and the Department for Environment, Food and Rural Affairs (Defra) have engaged PwC to perform a quarterly audit of the scheme. This audit includes PwC reviewing a sample of payments made to ensure that they have been correctly applied and that the classification of accounts within South West Water's systems remains appropriate.</p> <p>Results of internal and external assurance have not identified any material concerns surrounding the £50 contribution scheme and PwC has completed its quarterly audits on schedule throughout the year.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Management review and oversight of process <p>2nd line</p> <ul style="list-style-type: none"> • Domestic retail Compliance team review <p>3rd line</p> <ul style="list-style-type: none"> • Pennon Group Internal Audit of South West Water's billing systems • Quarterly audit performed by PwC of the Government £50 Contribution process

8. Tariffs and charges

Board activities and engagement	Assurance performed
<p>The Company meets with representative customer groups throughout the year to ensure that the structure of South West Water's charges remains the most appropriate for customers in our areas. The calculation of the tariffs and charges within this structure, which comply with the constraints in place, is led by the Company's Finance Directorate utilising a model developed by an external specialist.</p> <p>Internally there is a process of sign off for all variable inputs into the model and for forecasts and expert judgements used.</p> <p>KPMG performed a set of procedures mutually agreed between South West Water and KPMG, reflective of risks which may result in tariffs and charges not meeting the constraints discussed above.</p> <p>KPMG focused on:</p> <ul style="list-style-type: none"> identifying whether inputs to South West Water's model agree to underlying sources replicating key calculations to ensure the model is operating correctly checking that the tariffs and charges comply with key constraints and guidelines checking that the revenues and margins from the model outputs are in line with the approved business plan. <p>External assurance was supplemented by internal procedures.</p> <p>KPMG performed the agreed-upon procedures and reported to the South West Water Board. KPMG confirmed that there were 'no issues identified that would present concerns that would represent material risk of the tariffs being non-compliant'.</p> <p>KPMG did again however note recommendations where some refinement of calculations was possible and improvements to process. None of the recommendations identified by KPMG were deemed to be a potential or likely 'compliance problem'.</p> <p>All of these recommendations are being considered and will be addressed prior to the 2021/22 tariff setting process.</p> <p>The Board signed the Statement of Assurance, which has been published on the South West Water and Bournemouth Water websites, confirming, amongst other things, that in the Board's opinion the Company's processes and internal systems of control ensure that the data and information contained in the Charges Schemes meet the Company's obligations.</p>	<p>1st line</p> <ul style="list-style-type: none"> Sign-off of submitted inputs to the tariffs and charges model Utilisation of a model developed by an external specialist <p>2nd line</p> <ul style="list-style-type: none"> Risk and Compliance led internal validation and assurance <p>3rd line</p> <ul style="list-style-type: none"> Assurance work performed by KPMG upon a set of procedures mutually agreed to be reflective of risks present

9. Annual regulatory reporting (other than performance commitments)

Board activities and engagement	Assurance performed
<p>We have included reports and summaries of external assurance work completed within the Annual Performance Report and Regulatory Reporting (pages 114 to 119).</p> <p>EY presented its audit opinion on the fair presentation of sections 1 and 2 of the Regulatory Reporting and that they have been properly prepared (see pages 140 to 142).</p> <p>A summary has been provided on pages 116 to 118 of the results of Jacobs' assurance procedures and EY's agreed-upon procedures work covering sections 3 to 9 of the Regulatory Reporting. These procedures cover every line reported in our Regulatory Reporting, and the procedures themselves reflect the risk relating to each line of the reporting.</p> <p>Neither EY nor Jacobs identified any material issues with the South West Water Annual Performance Report and Regulatory Reporting and Jacobs noted the improvements made in internal processes during the year.</p> <p>Internal verifications and sign-offs were appropriately completed with no issues arising.</p> <p>Further, Jacobs have provided two memorandums summarising their additional work in respect of the Risk and Compliance Statement as well as the data submitted for discoverwater.co.uk. These memorandums have been published on the South West Water website and do not identify any material issues.</p> <p>In line with statutory requirements, the Board also provides a published statement, formally signing off the Regulatory Reporting (see page 129).</p>	<p>1st line</p> <ul style="list-style-type: none"> Delegated Manager Review of submitted data Published Board sign-off of Regulatory Reporting <p>2nd line</p> <ul style="list-style-type: none"> Risk and Compliance verification of data included within the Regulatory Reporting <p>3rd line</p> <ul style="list-style-type: none"> EY audit of sections 1 and 2¹ EY and Jacobs assurance procedures on sections 3 to 9¹ SGS ISO auditors, including ISO 9001:2015 (Quality), ISO 14001:2015 (Environmental) and ISO 50001:2015 (Energy) certifications

1. There is a dialogue between the financial and technical auditors where technical items feed into financial reporting to confirm consistency across the technical and financial elements.

Summary of significant assurance areas continued

10. The summary performance report and summary assurance report

Board activities and engagement	Assurance performed
<p>In the past few years, to complement South West Water's Annual Performance Report, it has produced Summary Performance Reports which have provided shorter customer focused summaries of performance as well as Summary Assurance Reports which have provided an update on results of assurance in areas of significant focus for assurance.</p> <p>For 2020/21, we are again providing a standalone Summary Performance Report. The summary of assurance for significant areas of assurance has now been integrated into this section of the Annual Performance Report and explicitly supports the Board Assurance Statement, which provides a more comprehensive approval of assurance which has been undertaken on both data reported in this Annual Report as well as other assurance in respect of the Company's data and activities, which is important for customers and other stakeholders.</p> <p>During 2021/22 a revised data mapping exercise will be reported to the Audit Committee to ensure that all significant data reported to customers and other stakeholders has been considered for appropriate levels of assurance, including in emerging areas.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Compilation of Summary Performance Report using only assured data from the full Annual Performance Report and Regulatory Reporting <p>2nd line</p> <ul style="list-style-type: none"> • Verification led by the Risk and Compliance team of data and information within the report to the comprehensive report <p>3rd line</p> <ul style="list-style-type: none"> • Technical auditor review of document for unbiased nature of compilation from full reporting • EY review of accuracy and summary of their assurance work • Dialogue between EY and Jacobs to confirm respective audit scope and audited data

11. Annual report and financial statements

Board activities and engagement	Assurance performed
<p>The Annual Report and Financial Statements are subject to an extensive programme of internal and external assurance. South West Water's financial processes and procedures are rigorous, robust and subject to extensive management oversight and internal review as well as being an integral component of the independent Group Internal Audit cyclical plan. As part of this cycle, during 2020/21, internal audits were performed over the Company's revenue and billing (focusing on the Isles of Scilly) and an annual review of credit management processes as well as an audit of Senior Accounting Officer procedures (for tax compliance).</p> <p>South West Water's Executive Management review the Company's financial position and performance on a monthly basis, and the Board reviews this position and performance at each Board meeting. There is a thorough process of validation to ensure that annual and monthly financial reporting is in line with the underlying financial systems and transactions.</p> <p>Our external auditor, EY, audits the Annual Report and Financial Statements. EY's audit plan is reviewed annually by the Audit Committee, which is actively engaged with the external auditor. The Audit Committee has policies in place to ensure that the external auditor acts independently and effectively – for example the external auditor is not used for non-audit services, except where they are not material and the external auditor is best placed to provide those services (such as Regulatory Reporting).</p> <p>Although South West Water is not a listed company itself, the Company has decided to comply with the principles of the UK Corporate Governance Code so far as it is possible in the context of being a subsidiary of a listed company (Pennon Group plc). These principles set out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. They also cover governance in respect of the Audit Committee and audit services.</p> <p>EY provided an unmodified, unqualified opinion on South West Water's Annual Report and Financial Statements. All internal verifications and sign-offs have been completed and internal audit outcomes did not identify any material control weaknesses. The Board has signed off the Annual Report and Financial Statements and is satisfied that the report is 'Fair, balanced and understandable'. This statement is made following an extensive verification process undertaken in conjunction with the preparation of the document in addition to a review undertaken by the statutory external auditor, EY.</p>	<p>1st line</p> <ul style="list-style-type: none"> • Extensive management oversight <p>2nd line</p> <ul style="list-style-type: none"> • Verification programme led by the Risk and Compliance Team • Monthly review of financial performance and position by the Board <p>3rd line</p> <ul style="list-style-type: none"> • Pennon Group Internal Audit – programme includes regular risk based audits of financial systems, processes and internal controls • Statutory External Audit – performed by EY and overseen by the Audit Committee

12. Environmental, social and corporate governance (ESG) impact

Board activities and engagement	Assurance performed
<p>South West Water's ESG information has been audited by technical auditors ahead of its publication in annual reporting (whether South West Water or Pennon reporting). This audit programme has been expanded this year to include additional focus on the greenhouse gas information South West Water is committing to publish in its Annual Performance Report (even though this is ahead of the required deadline).</p> <p>Further assurance work is performed on other submissions, such as gender pay gap and CEO pay gap supported by independent 2nd line functions.</p> <p>The Board has reviewed all of the submissions and results of this assurance ahead of publication.</p>	<p>1st line</p> <ul style="list-style-type: none"> Full internal verification exercise on data and statements made in annual reporting <p>2nd line</p> <ul style="list-style-type: none"> Extensive customer engagement to establish priorities as part of business planning Risk and Compliance audit (including gender pay gap and CEO pay gap) <p>3rd line</p> <ul style="list-style-type: none"> Technical audit of ESG reporting (including voluntary greenhouse gas reporting)

13. Project assurance

Board activities and engagement	Assurance performed
<p>The Board takes an extensive interest in significant projects in which the Company participates. During 2020/21, the Company has in particular undertaken two significant projects:</p> <ul style="list-style-type: none"> Application to participate in the 'Green Recovery', to bring forward future capital projects and to apply for additional capital funding to support employment and green projects as the country builds back from the Coronavirus pandemic Implementation of our innovative WaterShare+ customer share and engagement programme. <p>Both of these projects involved significant Board focus, management time and detailed work to ensure that the interests of our customers and other stakeholders, as well as our strategic objectives, were met.</p> <p>The Board treated the 'Green Recovery' submission as an extension to our business plan and as such there was detailed project planning and governance in place as well as the engagement of external technical and financial assurance. The business cases we proposed (whether new cases or bringing forward of future capital projects) were subject to rigorous internal and external review and challenge and external assurance covered the cases as well as other supporting evidence. The Board was satisfied that the vast majority of its plans were approved in the draft decision issued by Ofwat in May 2021.</p> <p>One key element of South West Water's 'New Deal' 2020-25 business plan is WaterShare+, which allows customers to share in our success of the Company and have a greater say in the business. During the year, the Company launched the first step of the process, in offering customers their choice of how to receive their share of £20 million following our outperformance during the 2015-20 period. This was provided to customers as a direct discount on their bill or in the form of shares in our parent company Pennon Group plc. There was again an extensive project plan and governance in place to ensure that all eligible customers were made aware and received sufficient information and support in making their decision and that robust systems are then in place for customers opting to receive shares so that they can monitor and transact in line with their wishes. The Board was pleased with the customer engagement in this scheme, with one in 16 of our customers opting to become shareholders in the Group.</p> <p>The independent WaterShare+ panel has also been established during the year to protect the interests of our customers. The Panel provides an independent review of our business plan commitments and Board Pledges. The Panel meetings will be held quarterly, in public – customers have the chance to attend and to interact with the Panel during the year.</p>	<p>1st line</p> <ul style="list-style-type: none"> Rigorous project management approach Regular Board reporting <p>2nd line</p> <ul style="list-style-type: none"> Independent internal review Central regulatory review of technical data <p>3rd line</p> <ul style="list-style-type: none"> Pennon Group Internal Audit audits of areas Jacobs audit and challenge of technical data submitted Review of financial data / modelling

Risk and compliance statement

Governance

The 2020/21 South West Water Annual Performance Report and Regulatory Reporting highlights Company performance for the first year of the five-year 2020-25 regulatory period (AMP7) and provides detail on operational performance metrics throughout the period.

The Outcome Delivery Incentives (ODIs), which are South West Water's Key Performance Indicators, incorporate the metrics used by the South West Water Board and Ofwat, our economic regulator, to monitor performance. They were developed in line with customer and other stakeholder priorities following South West Water's most comprehensive engagement exercise in developing its 2020-25 business plan.

In line with Ofwat's Regulatory Reporting requirements, this risk and compliance statement details the South West Water Board's approach to governance, and compliance with its obligations to stakeholders.

The South West Water Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management.

Statutory obligations

The Company has a number of statutory obligations including those detailed within the Water Industry Act, the Companies Act, the South West Water Licence, and the Competition Act.

Since privatisation, the Company has developed and established processes and procedures for ensuring obligations are adhered to in all material aspects. Compliance with obligations and performance against targets are outlined through Regulatory Reporting. This year's performance is again summarised in the Company's Annual Performance Report and Regulatory Reporting.

The South West Water Board has received reports from the business detailing the applicable statutory licence and regulatory obligations (for which Ofwat is the relevant enforcement authority) and the means by which compliance in all material aspects with those obligations is assured within South West Water for 2020/21.

Customer expectations

The Company has developed approaches and appropriate processes for engaging with customers to ascertain priorities and expectations.

The Company continually gathers customer feedback and engages with customers in order to understand their expectations.

South West Water has considered how communications adhere to Ofwat's information principles with the aim of ensuring information is accurate, transparent, clear, accessible and timely.

Our Codes of Practice meet licence conditions G and H, providing information to customers describing the nature of the services to domestic customers, giving guidance to domestic customers who have difficulty paying their bills and advising customers of their options and rights about the help available when they have a leaking supply pipe.

Our approach for producing and reviewing customer information is consistent with Ofwat's information principles. Customer research and feedback is acquired through our quarterly tracking survey and on specific topic areas to support the quality of our communications.

Company performance

The South West Water Board monitors and controls the performance of the Company against the targets and expectations within the Final Determination and statutory obligations by:

- Setting targets and reviewing performance against key levels of performance indicators and financial measures on a monthly basis at Board and Executive Management level
- Implementing Investment Planning & Control procedures to ensure that the principles of proper financial control are applied throughout the inception, evaluation, implementation and handover of capital investment
- Encouraging a culture of openness, where issues can be openly discussed, continuing to support a 'Whistleblowing' policy (see details of our 'Speak Up' programme on page 83).

Performance against targets is measured and reported using key performance indicators which are aligned with those highlighted in this Annual Performance Report.

There are appropriate systems and processes in place to identify, manage and review any potential material exceptions to the delivery of outputs or changes in circumstances to that assumed within our 2019 Final Determination. These include those which might lead to an adjustment to price limits through the revenue price caps or performance measures.

South West Water has not identified any circumstances that have resulted in a material variance to the Final Determination expectations. Where areas of focus have been identified, plans overseen by the Board to ensure outcomes are achieved as soon as possible.

Board transparency and governance

The South West Water Board is dedicated to developing and improving the governance structures and activities in accordance with best practice and Ofwat's Board Transparency and Governance requirements.

For 2020/21 South West Water had a fully functioning and standalone Board and Committees. The business of the Board with associated Audit, ESG, Remuneration and Nomination Committees covers a full range of corporate issues including strategy, performance, delivery, compliance and governance.

The members of the Board are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations and to represent customers' interests.

The Company has complied with the UK Corporate Governance Code 2018 subject to a number of exceptions which relate to certain responsibilities being reserved by the Board and Committees of Penmon Group plc (the parent company), which itself fully complies with the UK Corporate Governance Code. The exceptions are explained in the South West Water Annual Report page 42.

During 2020/21 and in accordance with the governance framework, and as approved by Ofwat, the South West Water Board convened before each Penmon Group Board meeting to consider South West Water strategy, performance and regulatory planning.

The governance framework is set out in the governance section on pages 76 to 87. The regulatory ring-fence around the South West Water business is protected through efficient and transparent decision making.

The Board has a 'matters reserved' schedule setting out its responsibilities. Each Committee has detailed terms of reference setting out its responsibilities and accountabilities. Further details of the responsibilities of each of the Committees are set out in the report of each Committee on pages 90 to 98 of this report and are complemented by details in the Annual Report and Financial Statements. These, together with the risk management and internal controls frameworks, form an effective and robust governance structure.

The South West Water Board includes the Chair, the Chief Executive Officer, the Senior Non-Executive Director, three further Non-Executive Directors and the South West Water Finance Director, convened before each Penmon Board meeting, and considers South West Water strategy, performance and regulatory planning.

Paul Boote, the Penmon Group Finance Director, also attends the South West Water Board.

This structure reflects significant changes implemented on 31 July 2020.

Sir John Parker, the Chair of South West Water and Chris Loughlin, the Managing Director of South West Water stepped down from their roles on 31 July 2020. In addition, Lord Matthew Taylor and Martin Hagen who both served on the Board for South West Water for 10 years also stepped down.

The Board's internal succession plan was enacted with the appointment of Susan Davy to Chief Executive Officer and Gill Rider to the role of Chair. Penmon and South West Water Boards now have consistent Chair and Non-Executive Director memberships in line with the revised focus of the Group.

Risk management

The Company has robust systems and processes in place to identify, manage, mitigate and review its risks.

The system for profiling and monitoring key risks is embedded in our normal business practices. We regularly review how we have sustained specific risk control measures, to decide if the probability and consequence of certain risks has changed, and if necessary to recommend further actions or investment to ensure the effectiveness of our corporate governance.

For the purposes of assessing and managing risk within South West Water, the individual departments review risks to the business associated with their accountabilities and responsibilities within the Company strategy. An overall risk register is updated on an ongoing basis as a result of any changes in the nature and extent of risks.

Through the year the refreshed Risk Committee (attended by members of the Executive Management and senior management) formally review and update the risk register on a quarterly basis, with a particular emphasis on assessing and challenging, where necessary, the controls and mitigating factors recorded on the risk register. Risks are also formally reviewed as part of the quarterly forecasting and annual business planning processes. The Risk Committee considers deep dive reports of particular risk areas in advance of the Audit Committee reviewing these areas. It also considers a refreshed suite of Key Risk Indicators to ensure that risks reported internally and externally are fully benchmarked in line with the most appropriate quantitative data where appropriate.

Executive Directors and senior managers are required to complete an annual 'Certificate of Effective Internal

Control' prior to the finalisation of the financial statements and before publishing any annual performance data. The Audit Committee considers the resources for carrying out internal audits in key Company specific areas – this activity is carried out by the Independent Pennon Internal Audit team.

The South West Water Audit Committee endorses and acts on audit findings from these audits carried out within the Company. There is also a programme of internal audits coordinated by the Risk and Compliance team as part of the Company's ISO and British certifications. South West Water currently holds the following accreditations/certifications:

- ISO 9001:2015 (quality management)
- ISO 14001:2015 (environmental management)
- ISO 50001:2011 (energy management)
- ISO 27001:2013 (information security)
- ISO 17025:2005 (laboratories and sampling)
- BS 18477:2010 (inclusive service provision).
- MCERTS (flow monitoring)

South West Water Board statement

The South West Water Board confirms that in its opinion sufficient processes and systems of internal control were in place to meet the Company's obligations for the 12 month period to 31 March 2021 for ensuring that the Company complied in all material respects with its legal and regulatory obligations as a water and sewerage undertaker.

It also confirms that in its opinion the Annual Performance Report covers the issues it considers to be material to the Company, gives a fair, balanced and understandable view of the Company's performance and compliance with the relevant obligations.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat. This additionally requires the Directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
- confirm that, in their opinion, the Company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the Company
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker
- report to Ofwat changes in the Company's activities which may be material in relation to the Company's ability to finance its regulated activities, undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements. In the case of each of the persons who are Directors at the time when the report is approved under Section 418 of the Companies Act 2006 the following applies:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Section 172

We have complied with the requirements of S172 and our full statement can be found on page 120 of the South West Water Annual Report.

Licence of Appointment – statement to Condition P: Regulatory ring-fence

This certificate is provided in line with our requirement to do so under our licence of operation. The Board of Directors of South West Water Limited has resolved that a Certificate be issued to the Water Services Regulation Authority confirming that in the opinion of the Board it will have available to it sufficient:

- financial resources and facilities to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted
- management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the 12-month period following the date on which the certificate is submitted
- rights and resources other than financial resources.

The Board also confirms that all contracts entered into between South West Water (SWW) and any associated companies include the necessary provisions and requirements in respect of the standard of service to be supplied to SWW, to ensure that SWW is able to carry out the Regulated Activities.

Statement to Condition P 26

It is also the opinion of the Board that South West Water would be able to maintain an Issuer Credit Rating which is an Investment Grade Rating. In making this declaration, the Board has received external independent assurance over this assessment and has taken into account the following main factors:

- financial resources currently available to the business
- non-financial rights and resources available to the business and management
- key financial metrics including: adjusted interest cover; net debt/RCV; FFO/net debt; and RCV/net debt
- ownership and availability of assets where assets are held outright in perpetuity
- the capital programme over the current and future regulatory period as a proportion of the regulated asset base contracts which the Company has entered into

- the Company's risk profile
- financial policies, including dividend policy
- stability and predictability of the regulatory environment.

South West Water's approach to producing a quality certificate is to perform an internal assessment which is externally assured and an independent credit assessment with a recognised credit rating agency.

The Company has performed a synthetic rating analysis utilising all relevant financial ratios aligned to specific credit rating guidelines and benchmarked against investment grade criteria. This looks back to the most recent financial year and future years to the end of 2030, in line with South West Water's approach to assessing viability.

The forecast is based on the PR19 Final Determination for 2020-25 including SWW's view on potential outperformance and SWW's internal strategic plan through to 2030.

The assessment is then stress tested by analysing the potential impact of principal risks, the combined Ofwat scenario including any potential further impact arising from the COVID-19 pandemic. The source data and calculations are subject to additional external assurance.

The Board believes that this is an appropriate approach to complying with Condition P due to the dual approach in making internal and external assessments, by considering a long-term time frame aligned with viability assessment, including stringent stress testing and due to the external assurance obtained.

The assessments conclude that South West Water would be able to achieve an investment grade at least 3 levels above investment grade. Supporting leverage and coverage metrics and their calculations for 2020/21 are shown on page 213.

Licence of Appointment – statement relating to licence conditions and Market Codes in respect of the non-household market

At 31 March 2021 the Company had in place an Access Code compliant with paragraphs 3 to 6 of Condition S of the Licence and South West Water has complied with this Code.

South West Water has also ensured that every transaction between itself and a related licensed water supplier is at arm's length and does not preferentially make available to the related licensed water supplier any of its other assets.

South West Water has complied with other aspects of Condition R and Market Codes in respect of the non-household retail market.

In making this assessment, the Directors have taken into account:

- South West Water's Compliance Code (available on southwestwater.co.uk)
- Internal processes for monitoring compliance against South West Water's Code
- Internal and external assurance provided as part of the Company's preparations for the opening of the non-household retail market (prior to its opening on 1 April 2017).

Risk and compliance statement continued

Long-term resilience and viability statement

Period of assessment

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the ongoing COVID-19 pandemic, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 42 to 58 of the Risk report. South West Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams.

Assessment of viability

The assessment has been made with reference to the Company's current position and prospects, including the ongoing COVID-19 pandemic, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 42 to 58 of the Risk report. South West Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams.

The Company's strategic business plan, including consideration of the ongoing COVID-19 pandemic, principal risks and Ofwat viability scenarios are the foundation of the scenario testing. This assessment has considered the potential impact of arising risks on the business model, future performance, solvency and liquidity over the period in question.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability. Over the course of the year the Audit Committee has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability:

MATTERS CONSIDERED BY THE AUDIT COMMITTEE

Retention and development of skills

Working practices response to COVID-19

Cyber security

Non-payment of customer debt

Brexit readiness across the Group

Pollutions management

Climate change adaptation

In performing this stress testing the following factors have been considered:

- Principal risks have been ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact
- Ofwat viability scenarios have been modelled and monetised (see below).

The Ofwat viability scenarios are as follows:

- Totex underperformance (15% of Totex)
- ODI penalty (3% of RoRE) in one year
- inflation sensitivities (+/-3%)
- increase in the level of bad debt (20%)
- new debt financed at 2% above forward projections
- financial penalty – equivalent to 3% of turnover
- any relevant inter-company financing scenarios.

These scenarios were considered in isolation and in the following combination:

- 10% Totex underperformance in each of the years to the end of 2030
- ODI penalty of 1.5% in each of the years to 2030
- One-off financial penalty of 1% of revenue.

Through this testing, it has been determined that none of the individual principal risks or Ofwat viability scenarios would in isolation, or in aggregate, compromise the Company's viability.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company's principal risks incurring each year with maximum effect and no probability weightings attached.

The Board considered the likelihood of this scenario on the Company's viability over the period to 2030 and noted the potential mitigating actions which could include a reduction in capital and operational spend and dividends, concluding the Company could remain viable.

In making its assessment of the Company's viability, the Directors have taken account of the Company's robust capital solvency position, the Company's latest assessment of the COVID-19 pandemic, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on page 90, the Directors reviewed and discussed the process undertaken by management and also reviewed the results of the stress testing performed.

As part of the Board's considerations additional scenarios concerning viability were reviewed. This additional assessment considered South West Water's regulatory financial ring-fence and applied the Ofwat scenarios. These scenarios in isolation and the combination noted above did not compromise the viability of South West Water over the assessment period to 2030.

Strategic plan

South West Water maintains a ten-year strategic plan, which is updated every six months and reviewed by the Board. This is maintained alongside updated long-term interest rates and inflation forecasts. During the year a full update of the capital plan was also prepared and the Company has assessed that this is financeable and that there are no significant doubts over this period concerning the Company's viability.

Macroeconomic cycles are also considered by the Group Risk Forum and Company Risk and Assurance Forum in respect of the Company's risk assessments.

Other considerations

South West Water does not have any intercompany financing arrangements outside of those directly with its wholly owned subsidiary South West Water Finance Plc. There are no Group financing arrangements except for £200 million facility available from Pennon which can be drawn on a short-term basis. Therefore we have not included any intercompany financing scenarios.

Summary of long-term resilience and viability

From the assessments undertaken above, whilst the scenarios which have a significant one-off impact may challenge the financial ratios in one individual year, these are deemed to be remote in terms of likelihood and therefore do not challenge the overall viability or long-term financial resilience of South West Water.

A number of the scenarios do not take account of mitigations which the Company would implement if such scenarios arose (for example continued Totex underperformance would not be accepted and additional efficiency plans would be targeted to mitigate cost risks). This further strengthens the expectations of financial resilience over the period.

The Board has not identified any other significant plausible scenarios relating to the long-term viability of other companies within the Group (including of the parent company), which would preclude its assessment of the long-term viability of the ring-fenced South West Water Appointee business.

In addition, in extreme circumstances South West Water would be able to defer dividend payments to support its long-term viability if required. The Directors have therefore concluded these scenarios in isolation and the combination noted above did not compromise the viability of South West Water over the five-year assessment period.

Mitigations which would be applied if the remote combined scenario occurred include continued Totex underperformance not being accepted and additional efficiency plans which would be targeted to mitigate cost risks.

Forward-looking statements

This strategic report, consisting of pages 3 to 41 of the Annual Report and financial statements, contains forward-looking statements regarding the financial position; results of operations; cash flows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters. These forward-looking statements including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to South West Water, wherever they occur in this strategic report, are necessarily based on assumptions reflecting the views of South West Water as appropriate.

They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this section on principal risks and uncertainties.

Board statement on accuracy and completeness of data and information

The Board is satisfied that the data and information which South West Water has provided to Ofwat in the reporting year 2020/21 (including annual reporting data provided following the year end in respect of 2020/21) is accurate and complete.

The Board is also satisfied that other data which the Company has published in our role as a water and sewerage undertaker is accurate and complete.

This statement is underpinned by the operation of our Integrated Assurance Framework (see page 114) and our response to how the Board is able to make this statement in line with each of the areas of our Assurance Plan identified as 'significant areas for assurance'.

For each of these areas the Board has reviewed how it has:

- engaged and challenged the assurance approaches which have been taken;
- taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed;
- satisfied itself that approaches have appropriately identified and addressed any risks to the provision of accurate and complete data in particular areas; and
- utilised individual Directors and committees in carrying out its activities in this area.

The statement is not limited to these significant areas for assurance, however these are the areas which the Board deems most significant to provide clear and detailed descriptions of the specific procedures performed in line with our Integrated Assurance Framework.

The Board is committed to reviewing its plan for assurance at least annually, however where circumstances change during a year the Board also acts to provide a greater degree of focus and assurance as it deems necessary. As a result, and as performance has not improved as quickly as anticipated in line with the business plan in the areas of pollution and leakage, the Board has added these areas as specific significant areas for assurance (see pages 120 and 125) going forward and additional scrutiny and oversight of recovery plans will be provided.

In both of these areas the significant areas for assurance focus on ensuring delivery of improvement plans and the Board is satisfied the data reported for historical performance is accurate and complete.

Significant action has already been undertaken in the area of pollution incidents and this is summarised on page 37.

We have confirmed that sufficient assurance activity has been performed, including assurance commissioned from independent external assurance providers, to allow the Board to make this statement.

The Board also note the report of the WaterShare+ advisory panel in respect of their role providing an independent review of our business plan commitments and Board Pledges (see page 10).

Further, this Annual Performance Report and Regulatory Reporting has been reviewed by the Board which has considered both the assurance performed over the data we are reporting as well as the consistency of the narrative throughout the report with the data, our performance, how the Company operates and any descriptions of assurance undertaken.

Delivering for everybody who depends on South West Water's services

South West Water's targets are ambitious and include both:

- our performance commitments in respect of the outcomes laid out in our 2020-25 Business Plan, which were set following extensive customer and other stakeholder engagement to reflect the priorities of our stakeholders
- a limited number of additional KPIs which have been included to provide performance information in respect of South West Water's performance in other areas deemed important to stakeholders (such as our 'Engagement Index' and performance in respect of our Lost Time Injury Frequency Rate (LTIFR) which are important to our people).



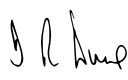

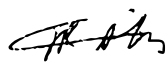
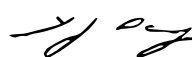


The targets are reviewed and monitored on a monthly basis with the Executive Management level 'Outcome Delivery Incentive (ODI) Committee' preparing performance updates and plans to ensure targets are delivered. This group reports to the Executive and the Board.

Our performance is challenged by the WaterShare+ Panel as described on pages 125. We have also discussed our performance for 2020/21 with customers to obtain their views.

This report includes performance against all of the performance commitments as well as our additional KPIs. All performance data has been externally assured (as summarised on page 116 to 118). It also demonstrates the linkage between our purpose and values, our business outcomes, our business model and the risks to achieving these.

The majority of South West Water's outcomes have annual committed performance levels which are designed to achieve year-on-year improvements in performance.

Executive Director remuneration is linked to Company performance via the performance related bonus arrangements. This linkage is summarised on page 100 and comprehensive disclosures of Director remuneration are provided, including the specific performance targets used in the bonus calculations on page 102.

Name & position	Signed
Gill Rider Chair	
Neil Cooper Senior Independent Non-Executive Director	
Iain Evans Independent Non- Executive Director	
Claire Ighodaro CBE Independent Non- Executive Director	
Jon Butterworth MBE Independent Non- Executive Director	
Susan Davy Chief Executive	
Louise Rowe Finance Director	
Paul Boote Pennon Group Finance Director – in attendance	

Managing our risks

Risk report and viability statement

The Board and Executive are committed to the effective management of risks and opportunities to ensure the long-term success of South West Water.

OUR RISK MANAGEMENT FRAMEWORK



South West Water, as part of the Pennon Group, operates mature and robust risk management and internal control frameworks which are aligned to our strategy and embedded into our processes, culture and ways of working at all levels of the business. These frameworks form a key part of our governance structure ensuring that there is robust review, challenge and assurance over the management of both our current and emerging risks and opportunities.

Governance of the risk management and internal control frameworks

The risk management framework encompasses both a 'top down' and 'bottom up' approach. This allows risks and opportunities to be cascaded and escalated effectively, enables a common understanding of the risks and opportunities and their potential impact on the Company's strategic priorities and provides a multi-layered approach to the review and challenge of risk.

A consistent methodology is applied in the identification, assessment and management of the Company's risks, which considers both the likelihood of the risk occurring over a long-term period and formally from a Company perspective, a five-year period as well as the potential impact assessed across a range of categories including financial, safety, environmental and customer service. Principal and business level risks are captured within risk registers and are subject to regular review and challenge, including by the Risk Committee, Executive and Board.

The Company manages its risk exposure, in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control and assurance framework which is aligned to the 'three lines' model. The Executive and the Board obtain assurance over the effectiveness of the internal control environment through a variety of internal and external assurance providers, including an independent Group Internal Audit function.

The key responsibilities and activities which encompass the Company's risk management framework include:

Board

Key risk management responsibilities

- Sets the Company's strategic objectives
- Establishes the Company's risk appetite
- Determines the Company's principal risks
- Ensures an effective internal control framework

Key assurance activities

- Quarterly review of the Company's principal risks against the determined risk appetite
- Quarterly review of the Company's emerging risk log

Audit Committee

Key risk management responsibilities

- Reviews the effectiveness of the risk management framework
- Reviews the adequacy of the internal control framework

Key assurance activities

- Performs quarterly deep dive reviews on principal risks
- Reviews the Group Internal Audit Plan in respect of South West Water
- Receives reports on the outcomes of key assurance activities

Oversight

Group Internal Audit

Key risk management responsibilities

- Provides independent, risk-based assurance on the effectiveness of the internal control framework
- Coordination of independent assurance activities

Key assurance activities

- Regular reporting to Audit Committee and Executive on the effectiveness of internal controls and the outcomes of key assurance activities

Third line

Executive

Key risk management responsibilities

- Day-to-day management of principal and operational risks
- Establishes the relevant risk management processes and procedures
- Maintains the internal controls framework

Key assurance activities

- Thorough appraisal of principal and emerging risk profile quarterly
- Monitor performance against ODIs, other KPIs and financial performance
- Establish and review policies, procedures and delegated authorities

Second line

Risk Committee

Key risk management responsibilities

- Provides review and challenge over principal risks and mitigation strategies
- Alignment of the top down and bottom up risk management process
- Performs horizon scanning on emerging risks and opportunities

Key assurance activities

- Quarterly review of principal risks and key functional risks
- Undertakes deep dive reviews of specific risks

Second line

South West Water directorate functions

Key risk management responsibilities

- Identifies and assesses risks
- Implements and executes appropriate risk mitigation strategies, aligned with the agreed risk appetite
- Monitors compliance with internal control framework

Key assurance activities

- Review of principal risks by senior leadership teams
- Compliance functions perform second line assurance across regulatory, legal, health & safety, and other key business processes
- Self-certification of compliance with internal control framework

First line

In addition, the Company also received assurances from a variety of external assessments, including by our regulators, which complements and further enhances the overall assurance framework.

Environmental, social and governance risk management

The nature of the Company's operations means that environmental, social and governance (ESG) considerations are inherent in how the Company operates as a responsible business and are a key focus for the Company. The identification, assessment and management of ESG risks and opportunities, including the potential impact of climate change on our business, is integrated into the Company's overall risk management framework and methodology, with the outcomes reflected within the assessment of relevant principal and business level risks. The delivery of the Company's ESG actions and commitments is monitored through our ESG framework.

 **ESG framework** pages 56 to 61

South West Water technical (non-financial) data

In addition to the risk management framework detailed above, recognising the importance of the regulatory ODI framework, South West Water engages an independent, third-party auditor, Jacobs, to audit the accuracy of the technical (non-financial) data reported in its annual performance report, including its performance commitments and environmental data. DNV also perform further assurance work over sustainability measures.

 **ESG KPIs** page 58

Continuous improvements to risk management and internal control

A comprehensive review of the Company's risk management processes has been undertaken. Risk management processes have been streamlined, risk reporting has been enhanced and a reconstituted Risk Committee has been established, which includes representation from across key functional areas including operations, health and safety, finance and legal.

Additionally, the following activities have been completed during the year as part of the commitment to continuously improve the Company's risk management framework:

- The Company's risk management policy has been reviewed and updated
- Health and safety governance has been further strengthened with dedicated health and safety committees established during the year
- Key risk indicators and associated metrics have been updated and aligned with strategic priorities, supporting the monitoring of the Company's principal risks against its risk appetite

Horizon scanning

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Group's strategic priorities but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process performed by individual subsidiaries and functions. Emerging risks are also reviewed by the Risk Committee, Executive and Board as part of their regular assessment of the Company's risk profile. Once there is sufficient clarity and certainty over the emerging risk, it is assessed applying the Company's methodology and appropriate mitigating actions are established. Notable emerging risks and opportunities are detailed within the table below:

RISK/ OPPORTUNITY	COMMENT	RISK CATEGORY IMPACT	TIME HORIZON
COVID-19 long-term economic implications	Uncertainty remains over the pace and scale of the long-term implications of COVID-19 on the global and UK economy, which could impact our business.	<ul style="list-style-type: none"> • Legal, Regulatory and Finance 	Medium-term
Micro-pollutants, plastics and micro-plastics	The continued focus on the impact of micro-pollutants and micro-plastics could present both risks and opportunities arising from changes to water treatment processes.	<ul style="list-style-type: none"> • Operating Performance • Business Systems & Capital Investment 	Medium-term
Biodiversity	Threats to the region's biodiversity, as a result of climate change, may require changes to how we interact with species and habitats in the areas that we operate in.	<ul style="list-style-type: none"> • Operating Performance 	Long-term
Changes to the demographics within the South West	Increases in population migration to the South West due to the longer-term impact of COVID-19 and climate change could place further demand on our resources and assets.	<ul style="list-style-type: none"> • Operating Performance 	Long-term

- An updated telematics system is being rolled out across the Company's fleet, providing improved vehicle and driver monitoring, oversight and reporting
- A programme of second line health and safety assurance was delivered covering additional safety measures implemented at the Company's operational sites and offices in response to COVID-19
- The Company has further enhanced the resilience of its 24/7 Service Support Centre which provides support to our operational sites and customer contact resolution
- South West Water has continued to progress the replacement programme of operational technology providing further resilience to cyber related risks.

Ofwat's principles – Board leadership, transparency and governance

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on South West Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause South West Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of South West Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give South West Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc Annual Report (pages 115 to 126).

Managing our risks continued

Risk appetite

The UK Corporate Governance Code requires companies to determine the risk appetite considered appropriate in achieving the Company's strategic priorities. Striking an appropriate balance between risk and reward is key to the success of the Company's strategy.

The Board has established its risk appetite for each risk category and also for each principal risk. This allows the business to pursue value-enhancing opportunities, whilst maintaining an overall level of risk exposure that the Board considers to be appropriate. The Board's evaluation of the effectiveness of the comprehensiveness of the Company's internal controls in mitigating its principal risks to an acceptable level is considered with due consideration of the relevant risk appetite.

The risk appetite for each risk category is detailed below:

RISK CATEGORY	RISK APPETITE STATEMENT
Law, regulation and finance	<p>The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes (but is not limited to) health and safety, where the Board places the highest level of importance on the welfare of our employees, the public and those who work with, or on behalf of, South West Water. The Company also operates a prudent approach to our financing strategy to ensure our long-term financing commitments are met.</p> <p>The Board acknowledges, however, that South West Water operates in a complex environment influenced by Government policy and regulatory reform. Consequently, there is a greater acceptance of risk in these areas and the Company seeks to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.</p>
Market and economic conditions	<p>The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The Company seeks to take well-judged and informed decisions to mitigate these risks where possible, but accepts that a level of residual risk may remain beyond the Board's control.</p>
Operating performance	<p>The Board has a low appetite for significant operational failure of our water and wastewater assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets.</p> <p>There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected by our regulators, existing customer base and wider stakeholders.</p>
Business systems and capital investment	<p>The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan. Broader investment decisions are taken on an informed basis with risks weighted against the expected level of return on a case-by-case basis.</p> <p>South West Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Company's operations.</p>

OUTCOMES



Clean, safe and reliable supplies



Available and sufficient



Reliable wastewater services



Responsive to our customers' needs and priorities



Fair charging for all



Environmentally sustainable actions and initiatives



Providing reliable services even in extreme conditions



Supporting our people and local communities

RISK LEVEL



Increasing



High



Stable



Medium

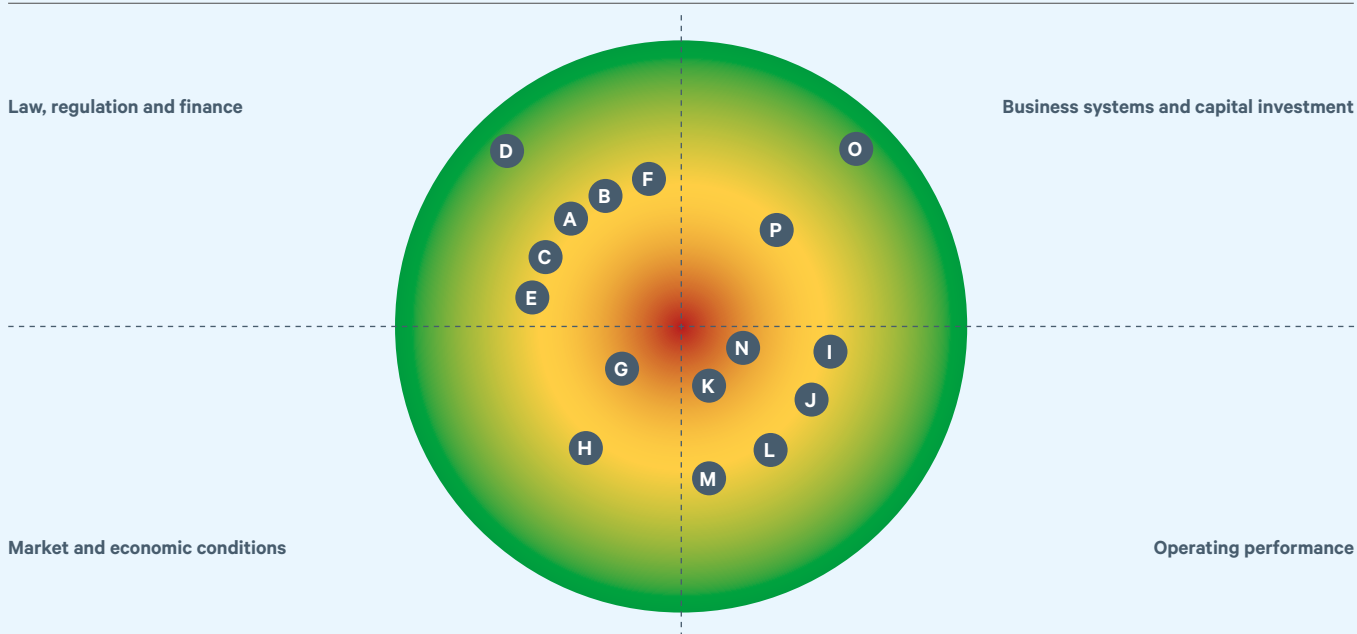
























































Decreasing



Low

Overview of South West Water's principal risk profiles



CATEGORY	REF	STRATEGIC PRIORITIES – OUTCOMES	RISK DESCRIPTION	NET RISK
Law, regulation and finance	A	 	Changes in Government policy	
	B	 	Regulatory reform	
	C	 	Non-compliance with laws and regulations	
	D		Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	
	E		Non-compliance or occurrence of an avoidable health and safety incident	
	F		Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase	
Market and economic conditions	G		Non-recovery of customer debt	
	H		Macroeconomic risks impacting on inflation, interest rates and power prices	
Operating performance	I	    	The Company's operations and assets are impacted as a result of climate change and extreme weather events	
	J	 	Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	
	K	 	Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions	
	L	   	Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	
	M		Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	
	N	       	Non-delivery of regulatory outcomes and performance commitments	
Business systems and capital investment	O		Inefficient or ineffective delivery of capital projects	
	P	   	Inadequate technological security results in a breach of the Group's assets, systems and data	

Managing our risks continued

Principal risks and uncertainties

South West Water's business model exposes it to a variety of external and internal risks influenced by the possible impact of macro political, economic and environmental factors.

While the ability of the Company to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Company performs a range of scenario planning and analysis exercises to understand the risk exposure of one or a number of these events occurring. South West Water's principal risks have been comprehensively reviewed and a number of changes compared to previous risk reports:

- **Tax compliance and contribution** This is no longer considered a principal risk following an assessment of the risk profile, no enquiries outstanding with HMRC, and successively being rated as low risk in recent years.

- **Business interruption or significant operational failures / incidents:** This risk has been separated into two elements to clearly articulate the risks associated with our drinking water and wastewater activities, which has both financial and reputational implications (risk J and risk K).
- **Failure to maintain excellent service or effectively engage with our customers and wider stakeholders:** This new principal risk (risk L) has a broad customer and stakeholder focus across our water, wastewater and retail services.

Britain's trade agreement with the European Union

On 31 December 2020 the UK's transition period from leaving the EU ended and was replaced with a new trade agreement. There has been no significant impact or disruption to the operations and activities of the Company either prior to or following the commencement of this trade agreement.





Impact of COVID-19

As a provider of critical services, the Company has continued to operate resiliently throughout the period of COVID-19 to date, demonstrating the strength of the risk management framework. Whilst the UK Government has provided a roadmap for the lifting of current restrictions, this is dependent on a number of factors and there is the potential that specific measures could remain or be reintroduced in the medium term. The Company's principal risks have been assessed giving due consideration to the estimated continued impact of COVID-19 and the mitigating actions that will remain in place.

Confirmation of assessment

The Directors confirm that during 2020/21 they have carried out a robust assessment of current and emerging risks facing the Company. The assessment of the Company's principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 128.

Law, regulation and finance

PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
A: Changes in Government policy	Outcomes  Changes in Government policy may fundamentally impact our ability to deliver the Company's strategic priorities.	The current UK Government remains supportive of the existing regulatory model and the Company continues to engage with MPs and political stakeholders, both directly and through Water UK, demonstrating the value from our operational performance and continued investment in our network infrastructure. The Company is committed to supporting the South West economy through South West Water's Green Recovery Initiative which focuses on projects that matter most to customers and those that improve public health, protect the environment and address climate change. Broader emerging changes in Government Policy, including restrictions and ongoing economic support in response to COVID-19, are regularly monitored in order to assess the potential impact on the Company.		We recognise that Government policy evolves. The Company seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.
B: Regulatory reform	Outcomes  Reform of the regulatory framework may result in changes to our priorities and the service we provide to our customers. It may have a significant impact on our performance which can impact value.	Certainty over the regulatory framework for the 2020-25 regulatory period has been provided through South West Water's Final Determination. Ofwat have published initial discussion papers to inform the priorities for the PR24 price review. South West Water has responded to these papers and has proactively commenced planning for the next price review. Specific temporary regulatory changes, in response to COVID-19, remain in place; particularly in respect of the water retail market, including wholesaler support. The Company fully engages with regulators on these changes to minimise the potential impact on the Company's activities.		We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the potential risks by targeting changes which are NPV neutral over the longer term to protect customer affordability and shareholder value.

OUTCOMES



Clean, safe and reliable supplies



Available and sufficient



Reliable wastewater services



Responsive to our customers' needs and priorities



Fair charging for all



Environmentally sustainable actions and initiatives



Providing reliable services even in extreme conditions



Supporting our people and local communities

RISK LEVEL



Increasing



High



Stable



Medium









Decreasing





Low

Law, regulation and finance continued





PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
C: Non-compliance with laws and regulations	Outcomes  South West Water is required to comply with a range of regulated and non-regulated laws. Non-compliance with one or a number of these may result in financial penalties, negative impact on our ability to operate effectively and reputational damage.	<p>The Company operates within robust and mature regulatory frameworks, ensuring compliance with the requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are subject to review by South West Water.</p> <p>The legal and regulatory landscape has become more complex increasing the potential risk within this area. This includes additional legal requirements proposed within the Environmental Bill, as well as additional requirements on water companies to reduce the use of storm overflows.</p> <p>Regular horizon scanning is undertaken to identify potential changes and, where introduced, internal processes, systems and controls are revised, as necessary, to ensure compliance.</p> <p>The Company maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies including the Group's Code of Conduct, Anti-Bribery and Corruption, Anti-Facilitation of Tax Evasion and Anti-Modern Slavery and Human Rights, which have been reviewed and endorsed by the Pennon Board during the year.</p> <p>South West Water operates a Speak Up whistleblowing process, allowing concerns to be raised confidentially and appropriately investigated. This process has been refreshed and relaunched during the year.</p>		South West Water has the highest standards of compliance and has no appetite for legal or regulatory breaches.
D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	Outcomes  Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	<p>South West Water and the entire Pennon Group have well established treasury, funding and cash flow arrangements in place underpinned by a clear Treasury Management policy which has been endorsed by the Board.</p> <p>The impact of political, economic and regulatory risks on the Company's financing commitments and cash flow is regularly reviewed by the Executive and Board.</p> <p>South West Water is fully funded for the 2020-2025 regulatory period. During 2020/21, new and renewed funding included £90 million of funding through our Sustainable Funding Framework.</p>		We operate a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.
E: Non-compliance or occurrence of an avoidable health and safety incident	Outcomes  A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company's reputation.	<p>The effective management of health and safety risks continues to be a priority for the Board and Executive.</p> <p>The Company's health and safety governance arrangements have been further enhanced during 2020/21 with dedicated Board and Executive Health and Safety committees established. Additionally, a new Director of Health and Safety has been appointed with significant water industry experience.</p> <p>HomeSafe training has continued to be delivered to front line and support staff and a new Wellbeing strategy has been launched.</p> <p>Enhanced COVID-19 safety measures remain in place to enable the Company's activities to be delivered safely, stringently following the most recent Government guidelines. This includes remote working where appropriate, the provision of COVID-19 testing for those unable to work remotely, social distancing and enhanced hygiene at all of the Company's sites and appropriate personal protective equipment (PPE).</p> <p>The Lost Time Injury Frequency Rate (LTIFR) during the year was 1.59. The HomeSafe programme and re-focused health and safety efforts within the operational business should deliver an improving trend to get us back on track for our long-term target of 0.5 by 2025.</p>		We have no appetite for health and safety related incidents and we maintain the highest standards of compliance for our staff, contractors and other third parties.

Managing our risks continued

Law, regulation and finance continued

PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase	Outcomes  The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.	The Company utilises an experienced in-house Pensions team who also engage with professional advisors to manage the pension scheme's investment strategy. A recovery plan remains in place to return the scheme to a fully funded position on a technical basis by March 2022. During the year £nil million of contributions have been made. Following consultation, the scheme will be closed to future accrual for existing members from 30 June 2021.		The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.

Market and economic conditions

PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
G: Non-recovery of customer debt	Outcomes  Reduced customer debt collection would adversely impact on the Company's revenue.	South West Water has continued to review and adapt its debt collection strategies in response to changes in COVID-19 restrictions and the consequential impact on customers. These measures have enabled South West Water to maintain collection rates and debt exposure at levels broadly comparable with the prior year. South West Water has sought to identify those customers most in need and support them in the most appropriate ways; such as automatically extending social tariffs and payment plans. The potential impact on customers arising from the gradual withdrawal of Government economic support measures means a level of risk to collection rates will remain in the medium term.		While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect customers results in a residual risk of uncollectable debt remaining.
H: Macro-economic risks impacting on inflation, interest rates and power prices	Outcomes  Lower inflation or deflation could adversely impact on the Company's revenue and significant changes in interest rates and power prices could increase the Company's cost base.	Regulatory revenue controls links the Group's revenue to CPIH. Additionally, the mix of fixed, floating and indexed linked and fixed rate as well as robust procurement processes assist in mitigating the risk of inflation. The Company has a diverse portfolio of debt with a manageable debt maturity profile, enabling changes in interest rates to be managed effectively during each regulatory period. South West Water has hedged the majority of its wholesale power costs through to March 2022 and has a new energy contract in place for future hedging opportunities, to mitigate the risk of volatility in the energy markets. Energy usage is minimised and where possible onsite renewable energy schemes are implemented reducing reliance on purchasing energy from the grid. This remains an important element of the Company's strategy to achieve Net Zero by 2030.		We seek to take well-judged and informed decisions whilst ensuring plans are in place to mitigate the potential impact of macro-economic risks.

OUTCOMES



Clean, safe and reliable supplies



Available and sufficient



Reliable wastewater services



Responsive to our customers' needs and priorities



Fair charging for all



Environmentally sustainable actions and initiatives



Providing reliable services even in extreme conditions



Supporting our people and local communities

RISK LEVEL



Increasing



High



Stable



Medium



Decreasing



Low

Operating performance






PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
I: The Company's operations and assets are impacted as a result of climate change and extreme weather events	Outcomes  Failure of our operations to cope with short-term extreme weather or long-term implications of climate change may result in an inability to meet customer needs, environmental impacts, increased costs and reputational damage.	A low appetite remains amongst regulators and stakeholders for reduced performance arising from extreme weather and climate change related incidents. Climate change impacts are mitigated through proactive and reactive mitigation strategies. Extensive water resource scenario planning and modelling is undertaken, as outlined in South West Water's 25-year Water Resources Strategy. There has also been significant capital investment to maintain the performance of our assets and pipe network. This has included enhancing the resilience of assets located on or near flood plains or at risk of rising sea levels and coastal erosion. South West Water, as part of the Pennon Group, is also targeting Net Zero Carbon by 2030 and strategies to achieve this are being progressed. An updated Group Climate Change Adaptation Plan will be published later in 2021.		We seek to mitigate the impact of climate change and extreme weather events through long-term planning, forecasting and investment.
J: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water	Outcomes  An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company's reputation.	The potential impact of increased tourism within the region, as a consequence of COVID-19, on water treatment assets increases the potential risk in this area. Additional resilience has been created through the Mayflower Water Treatment Works which replaced Crownhill in November 2020. Further water treatment capital investment is planned during the regulatory period. Asset health is managed through a well established programme of planned and preventative maintenance works and effective stores management. These actions have assisted in delivering further improvements during the year across a number of areas within our drinking water operations. In the event of a significant incident South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed.		South West Water operates a low tolerance for significant operational failure of its water treatment assets and seeks to mitigate these risks where possible.
K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions	Outcomes  An inability to remove or treat wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Company's reputation.	Wastewater assets are managed through a well established programme of capital investment and planned and preventative maintenance. There have been significant improvements in South West Water's pollutions performance since the launch of the targeted pollutions reduction plan in summer 2020. Key enhancements delivered as part of this plan include governance, training, asset health and technology and there remains continued focus on ensuring this positive trend continues in 2021/22. In the event of a significant incident South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed.		We operate a low tolerance for significant operational failure of our wastewater processes and assets and maintain the highest level of environmental standards.

Managing our risks continued







Operating performance continued

PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
L: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders	Outcomes  Failure to maintain an adequate level of service and engagement could lead to financial penalties and reputational damage for South West Water.	South West Water continues to invest in training and expanded channels to interact with and support customers. South West Water holds the Institute of Customer Service's ServiceMark accreditation and during 2020/21 also achieved BS 18477:2010 certification; a dedicated standard for identifying and responding to customer vulnerability. Following the launch of the WaterShare+ scheme an independent WaterShare+ advisory panel has been established as a key mechanism for engaging and demonstrating to customers how South West Water is delivering its business plan and Board Pledges. The Company also proactively engages with other key stakeholders including regulators, environmental stakeholders and community groups.		We continually seek to engage with and increase customer and wider stakeholder satisfaction levels.
M: Insufficient skills and resources to meet the current and future business needs and deliver the Company's strategic priorities	Outcomes  Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward.	Throughout 2020/21, the Company did not furlough any staff or utilise Government COVID-19 support. The Company's HR strategy enables the Company to attract, retain and develop our employees. South West Water has set targets to recruit 500 new apprentices and 100 graduates over the next 5 years; plus 50 kickstart opportunities during 2021. There are currently 106 apprentices and 24 kickstarters across the Company, with the first intake of 20 graduates being recruited. There are also various engagement forums across South West Water which provides opportunities for employees to regularly engage and discuss business priorities with senior management and the Executive. The impact of the Company's Employee Benefits and Reward strategy, a focus on talent management and prioritisation of our diversity and inclusion agenda is reflected within the results of the Company's most recent Great Place to Work Best Workplace survey. We achieved our highest ever participation rate at 81% while 71% of respondents believe South West Water is a great place to work; resulting in the Company being accredited as a Great Place to Work.		While turnover of employees does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.
N: Non-delivery of regulatory outcomes and performance commitments	Outcomes  South West Water's regulatory outcomes and performance commitments cover key strategic focus areas. Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Group.	Performance against ODIs is subject to regular scrutiny and review by both the Executive and the Board, further supplemented by a comprehensive programme of assurance. Fast track status awarded to South West Water by Ofwat enabled early roll out of key projects and initiatives. This has resulted in c.80% of Outcome Delivery Incentives (ODIs) being on or ahead of target. This includes internal and external sewer flooding and South West Water is achieving its supply interruption target two years ahead of plan. The net penalty position for 2020/21 is largely based on pollutions performance. As outlined in risk K above, the targeted pollutions reduction plan has delivered significant improvements since July 2020 and focus remains on ensuring this positive trend continues into 2021/22.		We are committed to achieving all of our performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectation action plans are implemented and targeted intervention to ensure performance returns to committed levels.





OUTCOMES

							
Clean, safe and reliable supplies	Available and sufficient	Reliable wastewater services	Responsive to our customers' needs and priorities	Fair charging for all	Environmentally sustainable actions and initiatives	Providing reliable services even in extreme conditions	Supporting our people and local communities

RISK LEVEL

		
Increasing	Stable	Decreasing
		
High	Medium	Low

Business systems and capital investment

PRINCIPAL RISK	STRATEGIC IMPACT	MITIGATION	NET RISK	APPETITE
O: Inefficient or ineffective delivery of capital projects	Outcomes  Inability to successfully deliver on our capital programme may result in increased costs and delays, detrimentally impacting our ability to provide top class customer service and achieve our growth agenda.	Capital projects are subject to an established and robust business case process, which includes challenge and risk modelling of key assumptions. Projects are delivered utilising skilled project management resource, complemented by Executive level oversight. Projects to be delivered during the current regulatory period are progressing and a number of additional capital projects have been identified as part of South West Water's Green Recovery Initiative submission. There remains a risk that the continued impact of COVID-19 places further strain on the financial health of key contractors and supply chain partners. Regular engagement and communication is maintained with the Company's supply chain, regular monitoring of the financial health of our key partners is undertaken and early intervention is taken where necessary.		The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.
P: Inadequate technological security results in a breach of the Group's assets, systems and data	Outcomes  Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to South West Water.	During the period of COVID-19 external cyber threats have continued to increase in both volume and sophistication. While there has been an increase in remote working, which has introduced additional capacity challenges, IT systems have remained resilient and have maintained a strong preventative and detective information security framework, aligned to guidance issued by the National Cyber Security Centre. South West Water also continues to hold the ISO 27001 accreditation. South West Water has also completed a number of actions during the year as part of the roadmap to meet the requirements of the Network and Information Systems (NIS) directive, with activities aligned to priorities identified by the Drinking Water Inspectorate. Disaster recovery plans are in place for corporate and operational technology and are subject to regular review.		We seek to minimise technology and security risk to the lowest possible level without detrimentally impacting on South West Water's operations.

Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force published its recommendations in June 2017 to:

- **Provide a framework for climate related risks and opportunities** within mainstream annual financial filings
- **Encourage proper Board and Audit Committee oversight** around the assessment and response to climate-related financial risk and opportunity, and effective disclosure to investors
- **Focus on the financial implications** of climate change on business
- **Ask organisations to describe the potential impact** that climate change will have on the future prospects of the business by performing a scenario analysis (to include a 2°C or lower scenario).

As noted above, the recommendations are most directly applicable to annual financial filings and as a listed group, Pennon Group plc, of which South West Water forms the largest operational component. As a listed group, Pennon Group plc will be required to adopt the recommendations by 2022. It is supportive of these developments and committed to reporting compliance to the recommendations by 2022.

The TCFD recommendations focus on four key components: Governance, Strategy, Risk Management and Metrics and Targets. The Pennon Group plc Annual Report (pages 74 to 78) provides an update to the Group's developments in these areas.

Independent Auditor's report

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

Opinion

We have audited the sections of/tables within South West Water Limited's Annual Performance Report for the year ended 31 March 2021 ("the Regulatory Accounting Statements") which comprise:

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

We have not audited the Outcome performance tables 3A to 3 and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6D, 7A to 7E, 8A to 8D and 9A.

In our opinion, Company's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.12, RAG 4.09 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2), set out on page 147 to 149.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, 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. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 140 to 142 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from 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:

- We have obtained management's going concern assessment, including the cash forecast, liquidity requirements and forecast covenant calculations for the going concern period which covers the period from approval of the 2021 financial statements through to 31 July 2022, and have tested this for arithmetical accuracy. Management has modelled a downside scenario in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity of the company.
- We have considered the forecasts used for the going concern assessment period for reasonableness, in the context of our knowledge of the business gained during the audit, and, where applicable, corroborated the data with audit information from other areas. We have evaluated the appropriateness of the key assumptions in management's forecasts including revenue growth, by comparing these to year to date performance and through consideration of historical forecasting accuracy.
- The company has an agreed business plan with Ofwat for the five year price period from 1 April 2020 to 31 March 2025, setting out the basis of allowed tariff changes. We have compared the key assumptions in the company forecasts to the agreed business plan for consistency.
- We have evaluated management's stress test modelling including management's downside scenario, to understand the impact on the company's liquidity and covenant ratios.
- We have compared facilities assumed in the forecasts to supporting documentation.
- We have compared the risks identified in management's assessment to the company risk register and evaluated the quantification by management. We have considered whether there are other alternative risks based on our knowledge of the business.
- We tested the extent of changes in assumptions required to give rise to a reduction in liquidity or breach in covenants.

We have read the company's going concern disclosures included in the annual report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

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

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

Other information

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

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

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 127, the directors are responsible for the preparation of the Annual Performance Report in accordance with the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2).

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are:
 - Companies Act 2006
 - Financial Reporting Council (FRC) and the UK Corporate Governance Code
 - Tax legislation (governed by HM Revenue & Customs)
 - Health and Safety legislation
 - Environment Agency environmental permits
 - Ofwat regulations
- We understood how South West Water Limited is complying with those frameworks by reading internal policies and codes of conduct and assessing the entity level control environment, including the level of oversight of those charged with governance. We made enquiries of the company's legal counsel, regulatory team and internal audit of known instances of non-compliance or suspected non-compliance with laws and regulations. We corroborated our enquiries through review of correspondence with regulatory bodies. We designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraph above. As well as enquiry and attendance at meetings, our procedures involved a review of the reporting to the above committees and a review of board meetings and other committee minutes to identify any non-compliance with laws and regulations. Our procedures also involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management, including the Chief Executive Officer, Chief Financial Officer, Head of Internal Audit and Audit Committee Chair. We planned our audit to identify risks of management override, tested higher risk journal entries and performed audit procedures to address the potential for management bias, particularly over areas involving significant estimation and judgement. Further discussion of our approach to address the identified risks of management override are set out in the key audit matters section of our report.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management and legal counsel, reviewing key policies, inspecting legal registers and correspondence with regulators and reading key management meeting minutes. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the company's voluntary compliance with the UK Corporate Governance Code.
- We communicated regularly with the component teams and attended key meetings with the component teams, management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- The company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's report continued

Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2021 on which we reported on 30 June 2021, 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.

Caroline Mulley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Newcastle

15 July 2021

Technical auditor's report

Introduction

South West Water (SWW) has compiled its Annual Performance Report for the period 1 April 2020 to 31 March 2021 which is the first year of the 2020-25 (AMP7) regulatory period. SWW has 44 Performance Commitments (PCs) for the AMP7 period defined in Ofwat's PR19 Final Determination dated December 2019. The set of PCs cover all supply regions of the Company as the South West Water region (Devon & Cornwall), the Bournemouth region (water supply only) and the Isles of Scilly (with a limited number not applying to the Isles of Scilly during AMP7).

SWW has monitored and measured its performance throughout the year which has been monitored monthly by Senior Management and the Directors via the Directors' Report. In addition, the independent WaterShare+ advisory panel has also monitored performance against the PCs.

SWW requested Jacobs to audit and assure the technical elements of the 2020/21 APR to include the Company's performance against the PCs which are derived from data contained in Ofwat's APR21 data tables. The purpose of the audits was to review the methodologies for compiling the information, trace information to sources, provide an opinion on the accuracy, reliability and completeness of the data, and ultimately to provide independent assurance to the Audit Committee and Board of SWW that the reported performance is an accurate account of SWW's performance.

The year-end audits were completed in line with the agreed programme. We provided a progress statement for the Audit Committee which we attended on 19 May 2021. Due to the ongoing Covid-19 pandemic, all audits took place remotely via Microsoft Teams.






SWW's staff in the Finance, Regulatory and Risk & Compliance departments and the wider teams have been extremely flexible at working remotely with collaboration throughout the process.

Audit opinion

Our audit of SWW's performance against the AMP7 Performance Commitments, the APR data tables, supporting information and data sources enables us to conclude the information to be published has been compiled using information which is accurate, reliable and complete, to the extent that our sample audits allows. Recording of corporate and operational data, subsequent reporting into the APR and sign off by Senior Managers and Directors have maintained high standards which provides confidence in the information.

Some audits identified a small number of items that required correction or updates, which have subsequently been addressed. In some areas we made recommendations to refine future reporting which SWW may wish to consider.





We consider the reported performance provides a fair and reasonable account of SWW's progress as measured through the PCs in 2020/21, year 1 of the AMP7 period.

Item	RAG		Audit statement
PC information & Annual Performance Report 2021			We conclude that the performance information reported at 31 March 2021 is accurate, reliable and complete. We consider the reported metrics correctly represent SWW's outturn against its 2020/21 targets as set out in Ofwat's 2019 Final Determination. We confirmed that information is soundly based, using audited APR data as the source information for the majority of PCs. Where information is not sourced from APR data, we confirmed robust systems are in place to capture the required information.
Achievement of AMP7 year 1 PCs		 34	SWW has 44 Performance Commitments with annual targets during AMP7. SWW is on track with or outperformed 34 of the year 1 PC targets ¹ , including one which was within regulatory tolerances (deadband). Where targets have not been met, these have reasonable explanations and SWW has improvement plans in place.
South West Water's performance			Our audits have confirmed good practice and performance in the following areas: <ul style="list-style-type: none">• Supply interruptions• Internal sewer flooding• Progress with the Bournemouth capital schemes• Delivery of WINEP² schemes• Resilience in the round – wastewater• Priority Services Register
Future challenges of the performance commitments			Although SWW has missed its target to reduce leakage, the underlying data and processes are robust. Covid-19 has contributed to an adverse impact on achieving the Per Capita Consumption (PCC) target. These will be a challenge to recover. The target for pollutions has not been met, however there are indications that the recovery plan is progressing well. Pollutions performance is also the main driver in SWW failing to achieve its Environmental Performance Assessment commitment for 2020/21.

(1) In two cases, SWW has no performance commitment for 2020/21, but is on track to achieve its commitments in later years

(2) Water Industry National Environment Programme

Our key audit findings follow, assessed against the RAG criteria below (as used in our detailed audit reports).

-  No concerns and compliant with requirements
-  Minor concerns
-  Material concerns
-  Non-material observation or suggested opportunity for improvement

Technical auditor's report continued

Key findings

We have assessed the information within our scope against the audit tests and can confirm that we are satisfied that the PC information provides a fair and reasonable account of SWW's progress against the PC targets for year 1 of AMP7. Whilst we have identified a number of minor exceptions, none of these are considered material, and with continued focus the majority of the commitments are achievable.

Our audits confirmed:


●	Levels of compliance with SWW's internal requirements and definitions of performance commitments in the 2019 FD have remained high across all functions. We have seen an improvement in the documentation with a consistent format for methodologies and commentary ('M&C' documents).
●	Progress with the PCs is reported monthly through the Directors' Report which is reviewed by the Executive Management and ODI Committee which demonstrates thorough governance. Leakage is now reported internally weekly.
●	The Covid-19 pandemic has posed a number of operational challenges to SWW, notably an increase in demand exacerbated with a period of extreme hot weather in the summer. The Company performed well in response to these, and other challenges.
●	The target to reduce leakage by 3% has not been achieved. We confirmed that the underlying data and processes are robust and the level of leakage reported is accurate. A minor adjustment was made post audit following further analysis of unmeasured PCC. The date is subject to additional review and assurance, however we don't consider the adjustment is likely to be material to the overall position.
●	Per Capita Consumption (PCC) has been impacted by a number of factors, including Covid and the associated additional demand reflecting the high number of second homes in the region. Whilst there is evidence to support this, we recommended that SWW explained the impacts in the narrative, illustrating what PCC may have been without these effects. SWW has included additional narrative on page 22.
●	SWW has underperformed against its targets for water and wastewater pollution events. Despite this, significant changes have been made within the Company which highlights the good work and improvements in culture that have, and will, continue to drive change.
●	SWW has met the PC target for mains repairs despite the significant cold weather event in January and a second cold snap in late February/early March. These events caused a large increase in the number of burst mains, however does not appear to be indicative of underlying asset deterioration. We note that other companies also experienced similar trends during the winter.
●	Performance against the Compliance Risk Index (CRI), whilst improved from performance in 2019/20, SWW has not met the target for the year, however the processes and data that formulate the score are robust. The new definition for Taste, Smell and Colour contacts which now includes discoloured water plus all taste and odour contacts has achieved the target.
●	The year's performance against Affordability is better than the previous year at 89.6% of customers that have an affordable bill. This outperforms the PC.
●	Property and population data were assured early in the audit programme because these are used as denominators for other information. The approach to deriving this information is unchanged. SWW has adjusted the number of void properties from April-June 2020 (when the temporary vacant flag for Covid-19 was used, as permitted by Ofwat) by interpolating the before and after monthly figures. This is a reasonable adjustment to make and does not impact the final reported numbers.
●	The new definitions for sewer collapse exclusions could be systematised with standardised codes making reporting less susceptible to human error, although the workaround was audited and found to be acceptable. We recommend a deep dive into the category of 'Other' blockages. Blockages coded as 'Other' are a smaller percentage of the total, and hence have not had the attention that, e.g., fat, oil, grease, paper and rag have had. Whilst the largest cohorts showed a reduction from the previous year and the five-year average, 'Other' blockages have increased and a deep dive into these to ensure there is not a systematic issue is recommended.
●	Following a clarification from Ofwat to all companies regarding its guidance for 'total household complaints' in the C-MeX table, we confirmed that SWW has included 'all complaints'. This captures complaints from all sources – in writing, e-mail, social media, web chat and by telephone.
●	The Security of Supply Index (SoSI) is part of the Environmental Performance Assessment performance commitment. There are a number of material assumptions made which affect the SoSI metrics with the most significant being the impact of Covid on demand. SWW has used the findings of an independent report analysing the impact of Covid nationally. It is clear from the report that the SWW has seen demands increase by more than the national average. However, SWW has taken a conservative approach at this stage and used the national average to decrease the Distribution Input (flow entering the distribution network) ¹ . There is a consistently approach for dry weather uplift where the 2019 uplift is used for 2020 despite 2019 being a wetter year (and hence creating a larger uplift). These conservative approaches mean that the reported results tend towards the worst-case scenario.
●	There are now appropriate processes in place to challenge customer contacts about odour. There are weekly and monthly reviews, and in future, every contact will be assessed to validate the contact and apply any exemptions. For 2020/21, these exemptions have been applied retrospectively, and we recommend that these are subject to further internal review.

Key findings continued

●	Performance with sewer flooding has improved compared to last year. There is now a comprehensive set of checks and controls for categorising flooding incidents. The team manually reviews every internal incident and runs a series of checks to identify potentially missed incidents (for example, jobs raised as flooding but without a category).
●	There are significantly more external flooding incidents and so it is not possible for the team to undertake the same level of checks as for internals. However, we recommend introducing checks on a sample of data, particularly to look for potentially missed incidents. The team now has additional resources and so it should be possible to start these types of checks on the externals over the coming year.
●	We discussed achieving the PC 'Resilience in the round (wastewater)', because the definition for the PC is open to interpretation. Following a deep dive into the 2019 Business Plan proposals and comparison against the PC definition, we are satisfied that SWW has completed the 104 schemes as described in the Business Plan. SWW has therefore achieved this PC in advance in year 1 of AMP7.
●	Improvements have been made in the recording of sludge treatment in response to a recommendation we made last year regarding SWW's database estimates of concentration of SUIAR-regulated heavy metals (Sludge use in Agriculture). Internal checks have been applied and a third-party review has been undertaken, both of which have confirmed the adequacy of the database calculations.
●	'Recharge to Bioresources by network plus for costs of handling and treating bioresources liquors' is a new 'shadow' reporting line for 2020/21, the definition for which was only published in April. The process is complex and whereas the methodology is generally sound and mostly compliant with the guidance, we identified deviations from the RAG definition for the finance factor and have recommended actions to address these. SWW has plans in place to improve reporting in the current year. We have classified this as 'non-material' and will review the improved reporting at a future audit.
●	We reviewed progress with the Bournemouth capital schemes (Alderney and Knapp Mill). We confirmed that the schemes are being driven forward with progress actively monitored and reported. Noting Ofwat's PC definition refers to the "expected date to put wholesome water into supply" as the deliverable, we recommend that "putting wholesome water into supply" is defined/agreed at this early stage of the projects.
●	SWW has performed well with its activities to increase the number of customers on the Priority Services register. The number of customers on SWW's Support Tariffs is 30,565, exceeding the 2020/21 performance commitment (which is a target of 27,000 customers).
●	We confirmed information has been combined for the South West region and Bournemouth region (where appropriate). We also confirmed information for the Isles of Scilly has been integrated into the reported information (where appropriate, or as defined in the 2019 FD), with limited exceptions that would have a trivial impact upon the data.
●	<p>South West Water's Board have classified its performance in each of the 44 performance commitments, in line with definitions on page 16 as:</p> <ul style="list-style-type: none"> • areas of excellence • outperformance • on track • marginal underperformance • areas of focus <p>The classifications appear in line with the definitions and the performance data which we have audited.</p>
●	South West Water has included comparative 2019/20 data in the operational performance section of the Annual Performance Report (pages 20 to 41) for information. In many cases this data is audited data, however there are some 2019/20 comparatives, which were not performance commitments in the 2015-20 regulatory period that may not have been subject to the same level of audit.

All audits took place remotely using MS Teams. Jacobs had full access to SWW staff, senior management and Directors, corporate systems, information and other supporting documentation. We are grateful for SWW's co-operation and flexibility to accommodate the audit and assurance activities.

Audits of financial information are completed by the Company's financial auditors.



G D Hindley
Technical Assurance Director
Jacobs UK Ltd

Additional financial assurance

Financial information

EY, who are knowledgeable of the Company through their role as statutory auditors and providing an audit opinion on specific areas of Regulatory Reporting, were engaged by South West Water to perform certain additional assurance over the areas of Regulatory Reporting which are not covered by the audit opinion, including cost assessment tables.

The assurance provided consisted of an overview of the Annual Performance Report and agreed upon procedures ('AUPs') which included walkthroughs of key methodologies, to review and challenge the appropriateness against Ofwat's guidance and consistency of commentaries with the underlying data and supporting calculations.

The scope of their work was determined and agreed by management. EY have discussed and reported their findings to the Board and management.

The assurance work covered the following areas:

- Review and consideration of SWW allocation of costs both between the appointed and non-appointed business as well as the appropriateness of allocations to business areas – confirming the cost drivers and methods used
- Disclosures of trading activities with associated companies
- Financial cost assessment information and additional reporting required by Ofwat – including the Financial Flows.

Agreed upon procedures:

- Financial Tables (or parts of Tables) agreed to be within scope:
 - agreement of data included in the Tables to underlying records
 - agreement of the calculations in the submission Tables provided by Ofwat to the calculations used by management
 - confirming cumulative values or calculations within the tables to supporting documentation.
- Additional Ofwat submissions:
 - Agreement of certain data underlying records
 - Review of calculations and methodology for areas of judgement and assessed the compliance with Ofwat's guidance.

Review and challenge:

- During the preparation of certain Tables (or parts of Tables) agreed by the Company to be within the scope of the procedures, any assumptions and judgements that management deem to be key in the preparation of those Tables have been identified and reported
- In respect of these Tables EY have:
 - reviewed the Company methodology and confirmed the compliance with Ofwat's Regulatory Accounting Guidelines or further guidance from Ofwat
 - understood management's rationale behind each key judgement/assumption and offered challenge in light of any apparent alternative approaches available
 - considered the appropriateness and consistency of Company commentary on the tables.

The findings from this work have been reported to management and the Board.

Regulatory disclosures

BASIS OF PREPARATION

These regulatory accounts are prepared in accordance with regulatory accounting guidelines issued by the Water Services Regulation Authority (Ofwat), specifically:

- RAG 1.09 – Principles and guidelines for regulatory reporting under the 'new UK GAAP' regime
- RAG 2.08 – Guideline for classification of costs across the price controls
- RAG 3.12 – Guideline for the format and disclosures for the annual performance report
- RAG 4.09 – Guideline for the table definitions in the annual performance report
- RAG 5.07 – Guideline for transfer pricing in the water and sewerage sectors.

They have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union except for the dis-application of certain parts of IFRS 18 in respect of the probability of collection of billed revenue and IAS 23 in relation to the capitalisation of interest incurred during the construction phase of items of property, plant and equipment.

The detailed accounting policies applied by South West Water are set out on pages 134 to 140 of our Annual Report and Financial Statements. The accounting policies and disclosures set out in this section include those specifically required within RAG 3.12.

Going concern basis of preparation

The going concern basis has been adopted in preparing the financial statements as stated by the Directors on page 117. At 31 March 2021, the Company had access to undrawn committed funds and cash and cash deposits totalling £414.9 million (164.1 million excluding restricted cash). Having considered the Company's strong funding position and prudent financial projections, which take into account a range of possible impacts, as described in this report, including the COVID-19 pandemic, the Directors have a reasonable expectation that the Company has adequate resource to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and that there are no material uncertainties to disclose. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors' emoluments

Payments related to performance against agreed standards

As required by the Water Act 2014 and Regulatory Accounting Guidance from the Water Services Regulation Authority (Ofwat), additional information is given regarding this aspect of remuneration.

Full and detailed disclosures of Directors' remuneration are included on pages 100 to 113 of the Remuneration report including details of the performance-related bonus arrangements and the amounts paid to Directors under those arrangements.

In line with our Business Plan the WaterShare+ advisory panel has renewed the application of the performance targets for the year.

Dividend policy

South West Water has established a dividend policy which involves the following components:

- A sustainable level of base dividend growth, determined by a number of factors including the shareholders' investment and the cost of capital
- A further level of growth funded by efficiency out-performance
- Comparison with the assumptions made by Ofwat in setting prices for the regulatory period.

Dividend payments are designed to ensure that key financial ratios are not prejudiced, whilst also taking into account the balance sheet.

2020-25 dividend policy

We believe that our dividend policy should be transparent, recognise our commitments to customers and ensure South West Water remains financeable – anchored in the base allowances approved by the regulator to give customers assurance they are fair and balanced. Our dividend policy sets out how we ensure everyone shares in our success with customers benefiting from lower bills and shareholders earning a fair return for investment.

We are providing a comprehensive approach to gearing, dividends and benefit sharing which builds on a track record of paying a reasonable and sustainable dividend, maintaining gearing in line with Ofwat's notional view and voluntarily sharing considerable benefits with customers.

Ahead of the new regulatory period (K7 – 2020-25), we reviewed our policy and have ensured it remains aligned with Ofwat's principles published in 'Putting the sector back into balance'.

Our innovative and unique WaterShare mechanism in place since 2015 has been enhanced with the new Independent WaterShare+ panel meeting regularly in public and the Customer AGM, which will commence in autumn 2021. WaterShare+ will again ensure customers share in our success – and South West Water has committed to voluntarily sharing 100% of embedded debt outperformance from market movements with customers to 2025. In 2015-20 this resulted in some c.£23 million of benefits.

Our dividend policy continues to be based on:

- **Base dividends** – derived from the price determination and are made with reference to Ofwat's assessment for a notional balance sheet
- **Outperformance dividends** – linked to business performance and outcomes delivered ahead of business plan commitments (Totex, ODIs and financing)
- **Gearing dividends** – payments designed to ensure that key financial ratios are optimised and gearing remains aligned with Ofwat's notional level – and does not exceed 70% gearing.

This approach aligns with Ofwat's assessment of Financial Flows which was implemented during K6 to improve transparency over the financial performance of individual companies and ensure consistency in the approach of reporting how dividends are distributed

or retained. In 2020/21 our actual dividend payments have been below cumulative retained value and we have retained an element of returns within the Company to improve financial resilience.

Base dividends

Our approach to paying a base dividend is that it should broadly reflect the assumptions made by Ofwat for the notional capital structure and cited as a reasonable level for base equity returns – this would reflect a base level of dividend that is in line with Ofwat's assessment of the return on equity at the notional yield of 3.0%.

Base dividends are calculated and paid during the year – with any variation reconciled and offset / paid in subsequent years.

The PR19 regulatory approach incentivises companies to outperform regulatory targets. Dividends should promote continued outperformance – it is in all stakeholder interests that we continue to outperform so we reduce bills through efficiencies and improved service levels.

Outperformance

Outperformance arises through:

- **Totex outperformance** – efficient delivery resulting in Totex savings and lower costs shared with customers, lowering future bills
- **ODI outperformance** – net ODI rewards, where operational delivery is ahead of the commitments for customers approved within the Business Plan
- **Financing outperformance** – where efficient financing results in lower effective interest rates compared to notional levels.

Linking our dividend directly to actual outperformance delivered ensures that payments are not made in the event that South West Water delivers poor performance or is materially failing statutory or customer obligations.

Where outperformance dividend payments are payable, any sharing for customers (through our innovative WaterShare mechanism) will be recognised as a reduction to the dividend value before any outperformance payment to shareholders is made – this ensures that customer benefits take priority over sharing with shareholders.

Outperformance dividends are paid in arrears to ensure only actual and not forecast outperformance is paid.

Capital structure dividends:

Capital structure dividend payments are designed to ensure that key financial ratios are not prejudiced and to allow South West Water to manage its gearing profile to align with Ofwat's assessment of a notional company structure. Any such payments will consider the financial viability and long-term resilience of the appointed business as well as consider any other significant obligations (such as pension scheme deficit levels) before payment.

Consideration will also be given to the level of dividend allowed within the cumulative financial flows assessment and profit after tax to ensure that excessive dividend distributions are not allowed within this policy.

(1) Updated to 2018/19 from previously stated 2019/20 baseline to align to Water UK baseline

Regulatory disclosures continued

Reporting of dividends

Our dividend payments will continue to be transparently reported – our Annual Performance Report will explain how our dividend is consistent with our policy.

We will ensure that the consideration given to delivery of our commitments is clearly reported each year.

This will specifically consider and report on:

- Our performance across our obligations and highlight how returns are linked to the regulatory funds flow reporting
- Delivery of ODIs and other commitments for customers
- Clearly disclose the assessment of the sharing with customers through our WaterShare mechanism – which is ‘recognised’ and reduces any outperformance dividends
- Financial viability and long-term resilience and how this has impacted dividend payments.

In line with our current practice we will continue to discuss our dividend policy with the independent WaterShare+ Panel and seek endorsement from them for any changes proposed – reporting the outcome of any engagement.

In addition, customers are now able to feedback on our delivery during the public quarterly meetings and in autumn we will launch our Customer Annual General Meeting.

Accounting policy note for price control segments

In accordance with Regulatory Accounting Guideline 4.09 – ‘Guideline for the definitions table definitions in the Annual Performance Report’, a segmental income statement (table 2A) and other segmental analysis (tables 2B to 2O) are presented within the Regulatory Reporting as well as certain detailed analysis in sections 3 to 8. This segmental analysis separates certain financial and non-financial information between the following regulatory price controls:

- Water resources
- Water Network+
- Wastewater Network+
- Bioresources
- Retail Household
- Retail Non-household (not applicable to South West Water, following exit from the non-household retail market in 2017)

Whilst these business units are not treated as organisationally separate businesses or separate companies by South West Water there are certain activities which are solely carried out by specific areas of the business due to more efficient and effective structures being in place to support the management and accountability of the business.

Certain departments (especially operational departments) may provide services for one regulatory price control segment, however many other departments perform services across two or more regulatory price control segments. Certain financial and non-financial information is therefore separated based upon a methodology which includes some assumptions and judgements utilising all available information.

As the price controls are not organisationally separated in South West Water they do not have their own separate management and support functions and they do not trade with one another. To represent them as distinct controls requires the allocation of costs and assets to them.

Wherever possible, direct costs and assets have been directly attributed to business units. Where this is not possible, appropriate cost allocations have been applied linked to the key metric which best reflects the nature of the activity and costs.

The allocation between activities is reviewed annually to ensure the basis of allocation is still appropriate.

Where no direct allocation is possible management judgement is applied to allocate costs separately. The resulting costs reported for these business units do not necessarily represent what the costs would be if they were operated as separate business units.

Services

The allocation of operating costs within South West Water to specific service areas within the appointed business is based on activity analysis and principles which result in both direct and support costs being apportioned where not directly attributed. Activity levels between individual services are ascertained by reference to time allocations by individual employees along with other allocation bases in accordance with the underlying nature of resource utilisation.

A full ‘accounting separation’ methodology statement can be found at www.southwestwater.co.uk. The methodology statement explains in detail the basis of allocations for costs and assets.

Revenue recognition

Revenue represents the income receivable in the ordinary course of business in the year exclusive of value added tax. Charges billed to customers for water and sewerage services are recognised in the period in which they are earned. An accrual is estimated for measured consumption that has not yet been billed.

Wholesale non-household revenue is recognised in line with the Central Market Operating System (CMOS).

For domestic customers, the measured income accrual is an estimation of the amount of mains water and wastewater charges unbilled at the year end. The accrual for unbilled charges is estimated using a defined methodology reflecting historical consumption, estimated demand trends and current tariffs. The measured income accrual is recognised within revenue. The methodology for calculating the measured income accrual is consistent with that applied in 2019/20. A retrospective review of the 2019/20 measured income accrual and the amounts actually billed during 2020/21 which would be expected to align to the accrual was performed and there was no material difference.

A property which is believed to be occupied (due to meter activity or other occupancy indicator), but where the occupier’s details are not known, is billed in the name of ‘the occupier’ as efforts are made to obtain the occupier’s details. The Company actively seeks to identify the name of ‘the occupier’ through multiple measures including visits to the property and land registry searches. If the occupier cannot be confirmed within 90 days of invoice, the bill is cancelled and the property classified as void. Where an invoice has been raised or payment made but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year’s revenue but will instead be recognised within creditors.

Charges on income arising from court, solicitor and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within turnover. A summary of the differences between revenue recognised in the statutory financial statements and Regulatory Reporting is included on page 134.

Within the statutory accounts, and in line with IFRS 15, revenue is only recognised if it is deemed probable that the economic benefits associated with the transaction will flow to South West Water (i.e. it is probable it will be collected given all available information such as customer payment history). Within the Regulatory Accounts, in a deviation from IFRS 15 in line with Ofwat RAG 1.08, revenue is recognised for all properties where a service is being received even where it would not be deemed probable it would be collected. This difference in accounting treatment has resulted in 4.8 million of revenue recognised within the Regulatory Reporting which is not recognised as revenue within the Financial Statements.

Following this accounting treatment an additional 4.8 million is recognised as an expected credit loss charge within operating expenses compared to the statutory financial statements, which results in no difference in operating profit or profit before tax.

Capitalisation policy note

The cost of property, plant and equipment capitalised includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Costs which meet the criteria for a capital asset and total in excess of £1,000 are capitalised.

Plant, property and equipment includes:

i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS and subsequent additions at cost, less accumulated depreciation. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day to day servicing of infrastructure components is recognised in the income statement as it arises. Infrastructure assets are depreciated evenly over their useful economic lives and are principally:

Dams and impounding reservoirs 200 years

Water mains 40 – 120 years

Sewers 40 – 120 years

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

ii) Other assets (including property, underground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives to their residual value and are principally:

Freehold buildings 30 – 60 years

Operational properties 40 – 80 years

Fixed plant 20 – 40 years

Vehicles, mobile plant and computers 4 – 10 years

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

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Assets transferred from customers are recognised at fair value.

The assets' residual values and useful lives are reviewed annually.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognised within the income statement.

In line with IAS 23, within the Statutory Accounts and Financial Statements, borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. However within the Regulatory Reporting, in a deviation from IAS 23 and in line with Ofwat RAG 3.12, borrowing costs are not capitalised.

Expected credit loss note

The Company has a material level of exposure to collection of trade receivables. Provisions in respect of these balances are calculated based on assumptions of historical credit loss experience, adjusted for forward-looking factors which by their nature are subject to uncertainty. Analysis of actual recovery compared with provisioning levels have not, to date, resulted in material variances.

Under its regular review procedures, at the balance sheet date, the Company applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. South West Water has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

In light of the broad economic challenges caused by the COVID-19 pandemic, part of the assessment of ECLs has been focused on the potential impact from the pandemic. Considerations in this assessment have included the type of customers and past experience of behaviours in challenging economic times. The precise quantum of the impact of the pandemic on the Company's customers is subject to significant estimate at the current time.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2021 the Company's current trade receivables were £216.2 million (2020: £208.4 million), against which £88.4million (2020: £91.6 million) had been provided for ECLs (note 18 of the Annual Report and Accounts). The provision for ECLs includes a specific provision of £2.6 million (2019/20: £2.8 million) in relation to the impact of COVID-19.

There has been no change to the write-off policy or bad debt provisioning policy. Year on year movements in the trade debtor balance are discussed in the 'Financial Performance' section.

Regulatory financial reporting

TABLE 1A – Income statement
For the year ended 31 March 2021

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Revenue	543.843	15.304	10.075	5.229	549.072
Operating costs	(345.510)	(3.683)	(10.214)	6.531	(338.979)
Other operating income	–	0.187	–	0.187	0.187
Operating profit	198.333	11.808	(0.139)	11.947	210.280
Other income	–	9.040	0.736	8.304	8.304
Interest income	0.702	–	0.013	(0.013)	0.689
Interest expense	(57.202)	(0.532)	–	(0.532)	(57.734)
Other interest expense	–	(0.393)	–	(0.393)	(0.393)
Profit before tax and fair value movements	141.833	19.923	0.610	19.313	161.146
Fair value gains/(losses) on financial instruments	–	–	–	–	–
Profit before tax	141.833	19.923	0.610	19.313	161.146
UK Corporation tax	(24.315)	(3.890)	(0.241)	(3.649)	(27.964)
Deferred tax	(2.736)	0.099	0.123	(0.024)	(2.760)
Profit for the year	114.782	16.132	0.492	15.640	130.422
Dividends	(101.587)	–	–	–	(101.587)
Tax analysis					
Current year	24.539	3.890	0.241	3.649	28.188
Adjustments in respect of prior years	(0.224)	–	–	–	(0.224)
UK Corporation tax	24.315	3.890	0.241	3.649	27.964

Non-appointed
£m

Analysis of non-appointed revenue

Imported sludge	–
Tankered waste	0.929
Other non-appointed revenue	9.146
Revenue	10.075

The Company does not have any financial instruments accounted for at fair value through the income statement. Statutory revenue includes an amount of £20.4m relating to the Watershare+ rebate which is outside of scope of price control and regulated activities, and has therefore been adjusted for through the 'Differences between statutory and RAG definitions'.

Statutory operating costs includes an amount of £3.524m relating to a pension curtailment charge, which has been treated as non-underlying in the statutory accounts. Interest expense includes £1.2m of interest charge relating to assets recognised as a result of the implementation of IFRS 16.

Non-appointed

Activities outside of the appointed business include property searches, commission from plumbing and drainage insurance, meter reading services to non-household retailers and wastewater providers, moorings and fisheries, rental income from non-appointed properties and energy generation from non-appointed assets.

Non-appointed operational costs include the element of depreciation charged to the non-appointed business for the use of assets primarily used in the wholesale business (such as IT assets) and reflects investments in solar and wind turbine installations as well as hydro generation schemes.

TABLE 1A – Income statement continued

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Interest expense £m	Current tax £m	Deferred tax £m	Profit for the year £m
Revenue not recognised under IFRS as deemed uncollectable	4.800	(4.800)	–	–	–	–	–	–
WaterShare+	20.444	–	–	–	–	(3.890)	–	16.554
Net income/operating cost allocations ¹	(0.900)	0.900	–	–	–	–	–	–
Classification of new connections & infrastructure income	(8.304)	–	–	8.304	–	–	–	–
Classification of rental income	(0.736)	–	–	0.736	–	–	–	–
Profit on disposal of fixed assets	–	(0.187)	0.187	–	–	–	–	–
Capitalised interest, depreciation and tax impacts	–	0.404	–	–	(0.532)	–	0.099	(0.029)
Pension interest allocation (other interest expense)	–	–	–	–	(0.393)	–	–	(0.393)
Net adjustments	15.304	(3.683)	0.187	9.040	(0.925)	(3.890)	0.099	16.132

¹ Adjustments relate to power generation recognised as a reduction in operating costs for statutory purposes but as non-appointed income for Regulatory Reporting. In addition, overhead costs recharged to a subsidiary for retail activities are netted off against the contract value in Regulatory Reporting to fairly reflect the cost of delivering the appointed businesses' retail activities.

TABLE 1B – Statement of comprehensive income

	Adjustments				Total appointed activities £m
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	
Profit for the year	114.782	16.132	0.492	15.640	130.422
Actuarial gains/(losses) on post employment plans	11.251	–	0.755	(0.755)	10.496
Other comprehensive income	7.246	–	–	–	7.246
Total comprehensive income for the year	133.279	16.132	1.247	14.885	148.164

Actuarial gains/losses are net of tax and allocated based on the deficit associated with the pension scheme member. This is applied to the activities associated with their employment history weighted by the time spent in each role, consistent with the approach to allocating pension contributions.

Other comprehensive income relates to cash flow hedges held in the appointed business.

Regulatory financial reporting continued

TABLE 1C – Statement of financial position
Reflects Balance Sheet as at 31 March 2021

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	3138.821	(16.797)	4.801	(21.598)	3117.223
Intangible assets	51.327	–	–	–	51.327
Investments – loans to Group companies	–	–	–	–	–
Investments – other	3.300	–	–	–	3.300
Financial instruments	1.524	–	–	–	1.524
Retirement benefit assets	14.310	–	0.536	(0.536)	13.774
Total non-current assets	3209.282	(16.797)	5.337	(22.134)	3187.148
Current assets					
Inventories	5.394	–	–	–	5.394
Trade & other receivables	164.290	–	1.574	(1.574)	162.716
Financial instruments	0.200	–	–	–	0.200
Cash & cash equivalents	414.947	–	1.646	(1.646)	413.301
Total current assets	584.831	–	3.220	(3.220)	581.611
Current liabilities					
Trade & other payables	(159.234)	31.189	0.853	30.336	(128.898)
Capex creditor	–	(29.174)	–	(29.174)	(29.174)
Borrowings	(91.471)	–	–	–	(91.471)
Financial instruments	(6.067)	–	–	–	(6.067)
Current tax liabilities	3.920	(0.094)	(0.066)	(0.028)	3.892
Provisions	(0.319)	(2.015)	–	(2.015)	(2.334)
Total liabilities	(253.171)	(0.094)	0.787	(0.881)	(254.052)
Net current assets/(liabilities)	331.660	(0.094)	4.007	(4.101)	327.559
Non-current liabilities					
Trade & other payables	–	–	–	–	–
Borrowings	(2,596.986)	–	–	–	(2596.986)
Financial instruments	(17.426)	–	–	–	(17.426)
Retirement benefit obligations	–	–	–	–	–
Provisions	–	–	–	–	–
Deferred income – G&Cs	–	–	–	–	–
Deferred income – adopted assets	(128.248)	–	–	–	(128.248)
Preference share capital	–	–	–	–	–
Deferred tax	(271.221)	3.191	(0.496)	3.687	(267.534)
Total non-current liabilities	(3013.881)	3.191	(0.496)	3.687	(3010.194)
Net assets	527.061	(13.700)	8.848	(22.548)	504.513
Equity					
Called up share capital	250.923	–	–	–	250.923
Retained earnings & other reserves	276.138	(13.700)	8.848	(22.548)	253.590
Total equity	527.061	(13.700)	8.848	(22.548)	504.513

Notes for the statement of financial position are shown on the following page.

TABLE 1C – Statement of financial position continued

The statement of financial position reflects the balance sheet as at 31 March 2021.

Both statutory financial statements and Regulatory Reporting are based on International Financial Reporting Standards (IFRS) with the following adjustments to reflect the Regulatory Reporting Guidelines (RAGs).

	Fixed assets £m	Trade & other payables £m	Capex creditors £m	Current/ non-current provisions £m	Trade & other payables – Non-current £m	Borrowings £m	Current tax £m	Deferred tax £m	Net assets £m
Reallocation of capital creditors	–	(29.174)	29.174	–	–	–	–	–	–
Cumulative capitalised interest, depreciation and tax impact ¹	(16.797)	–	–	–	–	–	(0.094)	3.191	(13.700)
Reallocation of deferred income	–	–	–	–	–	–	–	–	–
Deferred income reallocated to provisions	–	(2.015)	–	2.015	–	–	–	–	–
Net adjustments	(16.797)	(31.189)	(29.174)	2.015	–	–	(0.094)	3.191	(13.700)

¹ Cumulative capitalised interest of £18.284m and depreciation of £1,487m.

Impact of IFRS 16

The balance sheet includes £31.9m of property, plant and equipment and £0.4m of liabilities recognised as a result of the implementation of IFRS 16.

Non-appointed

Non-appointed fixed assets reflect investments in solar and wind installations (prior to 2015) as well as hydro-generation schemes, fisheries and riverside assets and the fair value of non-appointed leased assets. In addition, investment to support tankered waste activities has been included within non-appointed assets.

Trade and other receivables reflect debt associated with non-appointed activities and trade payables are allocated based on operating costs.

Current tax liabilities represent the tax due on profits with deferred tax reflecting the capital allowances on fixed assets and the pension surplus.

Retirement benefit obligations are allocated based on the surplus associated with the pension scheme member and applying this to the activities within their employment history.

As all of the Company's borrowings have been raised to fund appointee activities, none of these have been apportioned to the non-appointed business.

Regulatory financial reporting continued

TABLE 1D – Statement of cash flows

				Adjustments	
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Operating activities					
Operating profit	198.333	11.808	(0.139)	11.947	210.280
Other income	–	9.040	0.736	8.304	8.304
Depreciation	118.351	(0.404)	(0.435)	0.031	118.382
Amortisation – G&Cs	–	–	–	–	–
Changes in working capital	(6.294)	3.032	–	3.032	(3.262)
Pension contributions	–	(3.032)	(0.203)	(2.829)	(2.829)
Movement in provisions	4.419	–	–	–	4.419
Profit on sale of fixed assets	(0.187)	–	–	–	(0.187)
Cash generated from operations	314.622	20.444	(0.041)	20.485	335.107
Net interest paid	(46.130)	(0.925)	0.000	(0.925)	(47.055)
Tax paid	(24.679)	(3.796)	(0.124)	(3.672)	(28.351)
Net cash generated from operating activities	243.813	15.723	(0.165)	15.888	259.701
Investing activities					
Capital expenditure	(161.125)	0.925	–	0.925	(160.200)
Grants & contributions	3.304	–	–	–	3.304
Disposal of fixed assets	0.277	–	–	–	0.277
Other	–	–	–	–	–
Net cash used in investing activities	(157.544)	0.925	–	0.925	(156.619)
Net cash generated before financing activities	86.269	16.648	(0.165)	16.813	103.082
Cash flows from financing activities					
Equity dividends paid	(43.487)	–	–	–	(43.487)
Net loans received	63.156	–	–	–	63.156
Cash inflow from equity financing	–	–	–	–	–
Net cash generated from financing activities	19.669	–	–	–	19.669
Increase/(decrease) in net cash	105.938	16.648	(0.165)	16.813	122.751

Commentary for the adjustments within the statement of cash flows to reconcile from the statutory financial statements to Regulatory Reporting has been noted within the income statement.

TABLE 1E – Net debt analysis (appointed activities)

	Fixed rate £m	Floating rate £m	Index linked		Total £m
			RPI £m	CPI/CPIH £m	
Interest rate risk profile					
Borrowings (excluding preference shares)	1,417.451	691.271	529.551	50.184	2,688.457
Preference share capital					–
Total borrowings					2,688.457
Cash					(15.474)
Short-term deposits					(397.827)
Net debt					2,275.156
Gearing					
Gearing					67.162%
Adjusted gearing					66.607%
Interest					
Full year equivalent nominal interest cost	30.023	5.609	18.012	1.178	54.822
Full year equivalent cash interest payment	30.023	5.609	10.828	0.220	46.680
Indicative interest rates					
Indicative weighted average nominal interest rate	2.118%	0.811%	3.401%	2.347%	2.039%
Indicative weighted average cash interest rate	2.118%	0.811%	2.045%	0.439%	1.736%
Time to maturity					
Weighted average years to maturity	14.844	24.754	27.814	9.000	19.838

South West Water does not have any preference share capital.

The table above reflects the position of the appointed business and excludes the £1646m of non-appointed cash. RCV at 31 March 2021 was £3,387.5k resulting in a gearing ratio of 67.12% for the appointed business. SWW Group net debt as at 31 March 2021 was £2,198.628.

Adjusted gearing reflects net debt and RCV including the impact of the IFRS16 and is based on the total cash position (rather than the cash position of the appointed business only).

Fixed and floating debt costs and interest rates are equivalent to the cash interest payments. Only index-linked debt has a differential between the interest charges and cash interest payments, where RPI or CPI is accreted into the loan balance.

	Total
Table 1E total borrowings	2,688.457
Fixed rate forward dated debt	15.000
Unamortised debt issuance costs	18.132
Floating rate forward dated debt	50.000
Rounding	0.070
Table 4B total borrowings	2,771.659

Regulatory financial reporting continued

TABLE 1F – Financial flows for the 12 months ended 31 March 2021

	12 months ended 31 March 2021					
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
Return on regulatory equity						
Return on regulatory equity	3.90	3.136	3.903	50.368	40.468	40.468
Regulatory equity	1,290.50	1,290.50	1,036.84			
Financing						
Gearing		0.767	0.431		9.900	4.472
Gearing benefits sharing		–	–		–	–
Variance in corporation tax		(0.600)	(0.747)		(7.748)	(7.748)
Group relief		–	–		–	–
Cost of debt		1.721	2.329		22.210	24.145
Hedging instruments		(0.577)	(0.718)		(7.446)	(7.446)
Return on regulatory equity including Financing adjustments	3.903	4.447	5.198	50.368	57.384	53.891
Operational performance						
Totex out / (under) performance		2.744	3.415		35.412	35.412
ODI out / (under) performance		(0.768)	(0.956)		(9.913)	(9.913)
C-Mex out / (under) performance		–	–		–	–
D-Mex out / (under) performance		–	–		–	–
Retail out / (under) performance		0.140	0.175		1.813	1.813
Other exceptional items		–	–		–	–
Operational performance total		2.116	2.634		27.312	27.312
RoRE	3.903	6.563	7.832	50.368	84.696	81.203
Actual performance adjustment 2015-20	(0.43)	(0.43)	(0.53)	(5.489)	(5.489)	(5.489)
Total earnings	3.478	6.138	7.303	44.879	79.207	75.714
RCV growth from inflation	1.047	1.047	1.047	13.511	13.511	10.856
Voluntary sharing arrangements		–	–		–	–
Total shareholder return	4.525	7.185	8.350	58.391	92.719	86.570
Dividends						
Gross dividend	4.00	7.519	9.359	51.620	97.033	97.033
Interest received on intercompany loans	–	–	–	–	–	–
Retained value	0.53	(0.334)	(1.009)	6.771	(4.314)	(10.463)

The actual tax charge has been significantly higher than allowed in the Final Determination. This is due to a number of factors. South West Water, as part of the Pennon Group, has been awarded the Fair Tax Mark which is the UK's accreditation scheme for businesses paying their fair share of tax and reporting on practices transparently.

South West Water pays pound for pound for any Group relief that is utilised, therefore there is no impact on the Company.

South West Water's cost of debt has been lower than the final determination due primarily to lower interest rates and RPI than had been anticipated at the start of the regulatory period as well as robust management of borrowing requirements.

We have no exceptional items to disclose for the period from 2015-20. The sale of our non-household debt was carried out at book value generating no profit or loss.

Effective interest used in the calculation of financing outperformance includes interest charged by South West Water's subsidiary South West Water Finance plc.

TABLE 1F – Financial flows for the AMP to date (2017-18 financial year average CPIH) continued

	Average 2020-25					
	Notional returns and notional regulatory equity %	Actual returns and notional regulatory equity %	Actual returns and actual regulatory equity %	Notional returns and notional regulatory equity £m	Actual returns and notional regulatory equity £m	Actual returns and actual regulatory equity £m
Return on regulatory equity						
Return on regulatory equity	3.90	3.136	3.903	50.368	40.468	40.468
Regulatory equity	1,290.50	1,290.50	1,036.84			
Financing						
Gearing		0.767	0.431		9.900	4.472
Gearing benefits sharing		–	–		–	–
Variance in corporation tax		(0.600)	(0.747)		(7.748)	(7.748)
Group relief		–	–		–	–
Cost of debt		1.721	2.329		22.210	24.145
Hedging instruments		(0.577)	(0.718)		(7.446)	(7.446)
Return on regulatory equity including Financing adjustments	3.903	4.447	5.198	50.368	57.384	53.891
Operational performance						
Totex out / (under) performance		2.744	3.415		35.412	35.412
ODI out / (under) performance		(0.768)	(0.956)		(9.913)	(9.913)
C-Mex out / (under) performance		–	–		–	–
D-Mex out / (under) performance		–	–		–	–
Retail out / (under) performance		0.140	0.175		1.813	1.813
Other exceptional items		–	–		–	–
Operational performance total		2.116	2.634		27.312	27.312
RoRE	3.903	6.563	7.832	50.368	84.696	81.203
Actual performance adjustment 2015-20	(0.43)	(0.43)	(0.53)	(5.489)	(5.489)	(5.489)
Total earnings	3.478	6.138	7.303	44.879	79.207	75.714
RCV growth from inflation	1.047	1.047	1.047	13.511	13.511	10.856
Voluntary sharing arrangements		–	–		–	–
Total shareholder return	4.525	7.185	8.350	58.391	92.719	86.570
Dividends						
Gross dividend	4.00	7.519	9.359	51.620	97.033	97.033
Interest received on intercompany loans	–	–	–	–	–	–
Retained value	0.53	(0.334)	(1.009)	6.771	(4.314)	(10.463)

Dividends are based on South West Water's Watershare RORE methodology and excludes voluntary sharing with customers.

The 2020/21 gross dividend payments is based on South West Water's dividend policy which reflects payments in respect of RORE outperformance in 2019/20.

The cumulative retained value to March 2021 including that retained in 2015-20 remains positive and is summarised below. This is shown in relation to actual returns and notional regulatory equity.

South West Water's dividend policy is included on pages 147 to 148.

	£m
2015-20	36.1
2020/21	(8.1)
March 2021 cumulative retained value	28.0

Price review and other segmental reporting

TABLE 2A – Segmental income statement

	Retail Household £m	Retail Non-household £m	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Biosources £m	Total £m
Revenue – price control	29.736	0.010	21.116	221.066	246.439	28.880	547.247
Revenue – non price control	–	–	–	1.364	0.462	–	1.826
Operating expenditure – excluding PU recharge impact	(26.053)	–					(26.053)
PU opex recharge	–	–					–
Operating expenditure – including PU recharge impact	(26.053)	–	(11.775)	(90.775)	(80.825)	(13.374)	(222.802)
Depreciation – tangible fixed assets	(1.392)	–	(3.915)	(45.440)	(61.666)	(4.978)	(117.391)
Amortisation – intangible fixed assets	–	–	(0.003)	(0.015)	(0.017)	(0.005)	(0.040)
PU recharge impact	–	–	–	–	–	–	–
Depreciation & amortisation – including PU recharge impact	(1.392)	–	(3.918)	(45.455)	(61.683)	(4.983)	(117.431)
Other operating income	–	–	0.168	(0.031)	0.050	–	0.187
Operating profit	2.291	0.010	5.591	86.169	104.443	10.523	209.027
Surface water drainage rebates							6.366
Surface water drainage rebates							

Revenue – price control

This includes all wholesale water and wastewater charges, trade effluent income and household retail charges.

Revenue – non price control

This has been based on the RAG 4.08 revenue appendix and includes mains and sewer diversions, standpipe hire and other rechargeable works.

Retail Non-household revenue reflects income from business customers on the Isles of Scilly.

Operating expenditure

Operating costs allocations (including depreciation) are calculated using the methodology outlined on page 149.

Other operating income

Profit on the sale of fixed assets (other operating income) has been allocated based on the underlying asset category which generated the sale, with management and general assets being split pro-rata.

Recharges

Recharges to other business segments reflect charges for the use of assets, and are equal to the depreciation charged in respect of management and general assets principally used by the wholesale business units where part of the cost is recharged to the retail business unit. This excludes charges to non-appointed activities reflected in operating costs in table 1A.

Surface water rebates

Surface water rebates reflects 78,000 customers where there is no connection to the South West Water wastewater network for surface water (i.e. rainwater which falls on an impermeable area of a property such as its roof, drive, hardstanding area or car park).

TABLE 2B – Totex analysis – wholesale

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	Total £m
Base operating expenditure					
Power	2.781	18.510	20.407	1.503	43.201
Income treated as negative expenditure	(0.557)	(0.050)	(0.001)	(0.234)	(0.842)
Abstraction charges/discharge consents	4.810	0.313	3.977	–	9.100
Bulk supply/Bulk discharge	–	–	–	–	–
Renewals expensed in year (Infrastructure)	–	6.630	8.360	–	14.990
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–
Other operating expenditure	2.690	43.802	42.713	11.398	100.603
Local authority and Cumulo rates	2.051	19.376	4.887	0.707	27.021
Total base operating expenditure	11.775	88.581	80.343	13.374	194.073
Other operating expenditure					
Enhancement operating expenditure	–	–	–	–	–
Developer services operating expenditure	–	1.312	0.197	–	1.509
Total operating expenditure excluding third party services	11.775	89.893	80.540	13.374	195.582
Third party services	–	0.882	0.285	–	1.167
Total operating expenditure	11.775	90.775	80.825	13.374	196.749
Grants and contributions					
Grants and contributions – operating expenditure	–	4.827	4.460	–	9.287
Capital expenditure					
Base capital expenditure	3.784	56.307	45.613	4.664	110.368
Enhancement capital expenditure	3.613	10.926	30.016	–	44.555
Developer services capital expenditure	–	9.950	2.218	–	12.168
Total gross capital expenditure (excluding third party)	7.397	77.183	77.847	4.664	167.091
Third party services	–	–	–	–	–
Total gross capital expenditure	7.397	77.183	77.847	4.664	167.091
Grants and contributions					
Grants and contributions – capital expenditure	–	3.037	1.840	–	4.877
Net Totex	19.172	160.094	152.372	18.038	349.676
Capital expenditure					
Pension deficit recovery payments	–	–	–	–	–
Other cash items	–	–	–	–	–
Totex including cash items	19.172	160.094	152.372	18.038	349.676

Operating expenditure

- South West Water does not have any bulk supply or discharge costs
- Renewals expensed in the year (infrastructure) represents expenditure on significant repair and maintenance projects which was initially reported through the capital project reporting system. This expenditure is treated as an expense for the purposes of IFRS reporting and is reported as other operating expenditure
- Third party services largely reflect costs associated with mains diversions.

Capital expenditure

Capital expenditure reflects expenditure which is recognised within fixed assets as either new assets or maintenance spend associated with enhancing the long-term capability and life of existing assets. It excludes assets adopted at fair value but includes the gross value, before the deduction of grants and contributions, of assets wholly or partly financed by third parties including developers.

The increase in expenditure of £8.151m (2020/21: £167.091m, 2019/20: £158.940m) was driven by increased base and enhancement expenditure partially offset by a reduction in developer services activity. This reflects additional expenditure driven by a continued focus on the pollutions reduction plan and leakage activity.

Grants and contributions allocations are based on the relevant connection charges, infrastructure charges, and contributions in respect of requisitioned mains and are consistent with those reported in table 2E. Infrastructure network reinforcement expenditure is analysed in more detail in table 2J.

Price review and other segmental reporting continued

TABLE 2C – Operating cost analysis – retail

	Household – total £m	Non-household – total £m	Total £m
Operating expenditure			
Customer services	10.081	–	10.081
Debt management	2.216	–	2.216
Doubtful debts	7.582	–	7.582
Meter reading	0.494	–	0.494
Services to developers	–	–	–
Other operating expenditure	4.253	–	4.253
Local authority and Cumulo rates	–	–	–
Total operating expenditure excluding third party services	24.626	–	24.626
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	0.035	–	0.035
Depreciation on tangible fixed assets acquired after 1 April 2015	1.358	–	1.358
Amortisation on intangible fixed assets existing at 31 March 2015	0.025	–	0.025
Amortisation on intangible fixed assets acquired after 1 April 2015	0.009	–	0.009
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	–	–	–
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	–	–	–
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	–	–	–
Income from wholesale assets acquired after 1 April 2015 principally used by retail	–	–	–
Net recharges costs	–	–	–
Total retail costs excluding third party and pension deficit repair costs	26.053	–	26.053
Third party services operating expenditure	0.003	–	0.003
Pension deficit repair costs	–	–	–
Total retail costs including third party and pension deficit repair costs	26.056	–	26.056
Debt written off			
Debt written off	10.027	–	10.027
Capital expenditure			
Capital expenditure	0.656	–	0.656
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale			
Demand-side water efficiency – gross expenditure	0.001	–	0.001
Demand-side water efficiency – expenditure funded by wholesale	–	–	–
Demand-side water efficiency – net retail expenditure	0.001	–	0.001
Customer-side leak repairs – gross expenditure	–	–	–
Customer-side leak repairs – expenditure funded by wholesale	–	–	–
Customer-side leak repairs – net retail expenditure	–	–	–

TABLE 2C – Operating cost analysis – retail continued**Operating costs**

South West Water's retail activities are largely undertaken by a wholly owned subsidiary Source Contact Management Limited.

Cost allocations are based on the policy outlined in the accounting separation methodology on page 7 available from the website www.southwestwater.co.uk.

Further commentary on the performance of the retail business is included on page 68.

Depreciation

Depreciation reflects the direct depreciation charged for assets used wholly or principally within the retail price controls. This includes:

- Customer billing and account software
- Meter reading mobile software
- Debt initiatives.

Debt written off

Debt written off is allocated based on the specific customers, excluding the costs associated with court and debt recovery activity. South West Water's policy for debt write-off is included within the regulatory disclosures on page 145.

Capital expenditure

Capital expenditure recognised directly in the retail business includes:

- Customer service improvement initiatives
- Information technology support and costs
- Directly attributable transport costs.

Non-household market

South West Water exited the non-household retail market on 1 April 2017. Following this date there are no associated retail costs in the non-household price control.

Price review and other segmental reporting continued

TABLE 2D – Historic cost analysis of tangible fixed assets

	Retail Household £m	Retail Non-household £m	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Bioresources £m	Total £m
Cost							
At 1 April 2020	25.971	–	135.931	2,000.573	2,533.514	148.686	4,844.675
Disposals	–	–	(0.035)	(0.497)	(0.183)	(0.031)	(0.746)
Additions	0.656	–	7.397	74.146	76.006	4.664	162.869
Adjustments	–	–	–	–	–	–	–
Assets adopted at nil cost	–	–	–	1.301	6.157	–	7.458
At 31 March 2021	26.627	–	143.293	2,075.523	2,615.494	153.319	5,014.256
Depreciation							
At 1 April 2020	(23.230)	–	(43.099)	(624.013)	(997.262)	(89.624)	(1,777.228)
Disposals	–	–	0.031	0.437	0.161	0.027	0.656
Adjustments	–	–	(0.107)	(1.408)	(1.903)	(0.181)	(3.599)
Charge for the year	(1.392)	–	(3.915)	(45.440)	(61.666)	(4.978)	(117.391)
At 31 March 2021	(24.622)	–	(47.090)	(670.424)	(1,060.670)	(94.756)	(1,897.562)
Net book amount at 31 March 2021	2.005	–	96.203	1,405.099	1,554.824	58.563	3,116.694
Net book amount at 1 April 2020	2.741	–	92.832	1,376.560	1,536.252	59.062	3,067.447
Depreciation charge for year							
Principal services	(1.392)	–	(3.915)	(45.440)	(61.666)	(4.978)	(117.391)
Third party services	–	–	–	–	–	–	–
Total	(1.392)	–	(3.915)	(45.440)	(61.666)	(4.978)	(117.391)

Fixed assets have been allocated based upon their principal use. For assets which are used across the business units (i.e. management and general), they have been assumed to have principal use within wholesale and then allocated between water and wastewater.

The net book value includes £117.958m in respect of assets in the course of construction.

Of the total depreciation charge for the Company of £121.9m, the sum of £2.1m has been charged to capital projects, £2.0m has been offset by deferred income and £117.4m against profits, with 0.4m of depreciation on assets used by the non-appointed business charged through operating costs.

Additions in the year include assets acquired as a result of new connections; in accordance with IFRIC 18 these assets are recognised at fair value which is their cost excluding administration costs.

The total fair value of assets adopted at nil cost in the year was £1.3m in water and £6.2m in wastewater. In total, cumulative adopted assets have a value of £140.6m before deducting depreciation.

IFRS 16 ROU (right of use assets) were adopted as at 1 April 2019 to offset the lease liabilities which were added to the balance sheet. The total value of these were £0.3m which was allocated to water £0.15m and wastewater £0.15m.

TABLE 2E – Analysis of ‘grants and contributions’ – water resources, water network+ and wastewater network+

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
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	–	–	–	–
Value of adopted assets	–	–		–
Grants and contributions – water network+				
Connection charges	3,293	–	–	3,293
Infrastructure charge receipts	0.776	–	–	0.776
Requisitioned mains	–	–	3,475	3,475
Diversions – s185	(0.004)	–	–	(0.004)
Other contributions (price control)	–	–	–	–
Price control grants and contributions before deduction of income offset	4,065	–	3,475	7,540
Income offset	–	–	1,234	1,234
Price control grants and contributions after deduction of income offset	4,065	–	2,241	6,306
Diversions – NRSWA	0.522	–	–	0.522
Diversions – other non-price control	–	–	–	–
Other contributions (non-price control)	0.240	–	0.796	1,036
Total	4,827	–	3,037	7,864
Value of adopted assets	–	1,301		1,301
Grants and contributions – wastewater network+				
Receipts for on-site work	–	–	0.822	0.822
Infrastructure charge receipts	4,277	–	–	4,277
Diversions – s185	(0.222)	–	–	(0.222)
Other contributions (price control)	0.106	–	0.661	0.767
Price control grants and contributions before deduction of income offset	4,161	–	1,483	5,644
Income offset	–	–	0.130	0.130
Price control grants and contributions after deduction of income offset	4,161	–	1,353	5,514
Diversions – NRSWA	0.285	–	–	0.285
Diversions – other non-price control	–	–	–	–
Other Contributions (non-price control)	0.014	–	0.487	0.501
Total	4,460	–	1,840	6,300
Value of adopted assets	–	6,157		6,157

Price review and other segmental reporting continued

TABLE 2E – Analysis of ‘grants and contributions’ – water resources, water network+ and wastewater network+ continued

Contributions are principally received from developers in respect of both new connections, which are recognised in the income statement, and requisitioned mains/sewers which are netted from the capital expenditure for the related assets.

Other water contributions (price control) for the year relate to network modelling activities involved with pre-development enquiries. Contributions (non-price control) relate to other chargeable works, such as planning application costs, buildover applications and changes for remedial work. Other wastewater contributions (price control) for the year similarly relate to network modelling activities for pre-development enquiries and related charges for inspection of sewer connections.

Fully netted off capex other contributions (non-price control) relate to sewer inspection and supervision fees (2.5% of construction costs of sewers for adoption) and includes a contribution from Defra towards the costs of a specific Upstream Thinking project.

	Water resources £M	Water network+ £m	Wastewater network+ £m	Total £m
Movements in capitalised grants and contributions				
Brought forward	–	–	–	–
Capitalised in year	–	–	–	–
Amortisation (in income statement)	–	–	–	–
Carried forward	–	–	–	–

Disposals of protected land, including those already subject to regulation through condition K of the licence, have been allocated based on principal site location in line with previously reported figures.

TABLE 2F – Residential retail

	Revenue £m	Number of customers 000s	Average residential revenues £
Residential revenue			
Wholesale charges	419.627		
Retail revenue	29.736		
Total residential revenue	449.363		
Retail revenue			
Revenue Recovered (“RR”)	29.736		
Revenue sacrifice	–		
Actual revenue (net)	29.736		
Customer information			
Actual customers (“AC”)		0.986	
Reforecast customers		0.986	
Adjustment			
Allowed revenue (“R”)	30.293		
Net adjustment	0.557		
Other residential information			
Average residential retail revenue per customer			30.158

TABLE 2G – Non-household water – revenues by tariff type and TABLE 2H – Non-household wastewater – revenues by tariff type

Tables 2G and 2H are applicable to Welsh companies only.

TABLE 2I – Revenue analysis

	Household £m	Non-household £m	Total £m	Water resources £m	Water network+ £m	Total £m
Wholesale charge – water						
Unmeasured	39.191	1.186	40.377	3.201	37.176	40.377
Measured	146.756	50.089	196.845	17.915	183.89	201.805
Third party revenue	–	4.960	4.960	–	–	–
Total wholesale water revenue	185.947	56.235	242.182	21.116	221.066	242.182
	Household £m	Non-household £m	Total £m	Wastewater network+ £m	Bioresources £m	Total £m
Wholesale charge – wastewater						
Unmeasured – foul charges	35.422	1.472	36.894	35.007	1.887	36.894
Unmeasured – surface water charges	6.729	0.319	7.048	6.688	0.360	7.048
Unmeasured – highway drainage charges	4.973	0.222	5.195	4.929	0.266	5.195
Measured – foul charges	130.937	30.498	161.435	142.465	18.768	161.233
Measured – surface water charges	33.567	4.851	38.418	34.022	4.508	38.530
Measured – highway drainage charges	22.052	4.276	26.328	23.328	3.091	26.419
Third party revenue	–	–	–	–	–	–
Total wholesale wastewater revenue	233.680	41.638	275.318	246.439	28.880	275.319
Wholesale total	419.627	97.873	517.500	267.555	249.946	517.501
Retail revenue						
Unmeasured	6.461	0.005	6.466			
Measured	23.275	0.005	23.280			
Other third party revenue	–	–	–			
Retail total	29.736	0.010	29.746			
Third party revenue – non-price control						
Bulk supplies – water			0.037			
Bulk supplies – wastewater			0.052			
Other third party revenue			1.737			
Principal services – non-price control						
Other appointed revenue			–			
Total appointed revenue			549.072			

Third party revenue within the price control reflects income on development planning and third party revenue outside the controls includes mains and sewer diversions, standpipe hire and other rechargeable works. Bulk supplies relate to treated water supplies to the neighbouring water company.

Price review and other segmental reporting continued

TABLE 2J – Infrastructure network reinforcement costs

	Network reinforcement capex £m	On site / site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.078	–
Pumping and storage facilities	–	–
Other	–	–
Total	0.078	–
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	0.019	–
Surface water only systems	–	–
Pumping and storage facilities	–	–
Other	–	–
Total	0.019	–

Infrastructure network reinforcement expenditure all relates to capacity enhancement, including new assets, relating to the treated water distribution and sewage collection business units. The values include expenditure on relevant non-infrastructure assets though there was no relevant expenditure on non-infrastructure assets this year. The items reported this year are water mains and sewers. There was no relevant expenditure on storage facilities such as clean water service reservoirs, water towers, or wastewater storage (attenuation) tanks. There was also no relevant expenditure on pressure management, district metering, valves, or pumping stations.

Within wastewater, the main items of expenditure relate to sewer flooding and the Downstream Thinking projects which deal with similar capacity issues affecting the performance of the sewer network including the ability to handle increased and peak flows and to accommodate demand arising from future development.

There was no relevant expenditure relating to assets constructed on sites owned by developers.

TABLE 2K – Infrastructure charges reconciliation
For the 12 months ended 31 March 2021

	Water £m	Wastewater £m	Total £m
Impact of infrastructure charge discounts			
Infrastructure charges	0.776	4.277	5.053
Discounts applied to infrastructure charges	–	–	–
Gross infrastructure charges	0.776	4.277	5.053
Comparison of revenue and costs			
Variance brought forward	5.095	0.546	5.641
Revenue	0.776	4.277	5.053
Costs	(0.078)	(0.019)	(0.097)
Variance carried forward	5.793	4.804	10.597

This is a new table introduced following the introduction of the new developer services charging regime on 1 April 2018. The new charging regime requires an approximate matching of total relevant developer services income (infrastructure charge receipts as reported in table 2E), since 1 April 2018, with infrastructure network reinforcement expenditure, taking account of both actual income and expenditure and income and expenditure forecast for the following five years.

Infrastructure network reinforcement expenditure is reported in the preceding table, table 2J, and covers capacity enhancements to treated water distribution and sewage collection assets, including some non-infrastructure assets such as service reservoirs and pumping stations.

The over recovery as at 31 March 2020 is attributable to high levels of private housebuilding combined with the timing of investment plans which will see increases in expenditure over the next regulatory period 2020-25.

TABLE 2L – Analysis of land sales
For the 12 months ended 31 March 2021

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
Proceeds from disposals of protected land	–	–	–	–

During the year the net benefit of land sale was £0.

Price review and other segmental reporting continued

TABLE 2M – Revenue reconciliation – wholesale
For the 12 months ended 31 March 2021

	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	Total £m
Revenue recognised					
Wholesale revenue governed by price control	21.116	221.066	246.439	28.880	517.501
Grants & contributions (price control)	–	6.306	5.514	–	11.820
Total revenue governed by wholesale price control	21.116	227.372	251.953	28.880	529.321
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	20.323	215.617	232.824	24.722	493.486
Allowed grants & contributions before adjustments (or modified by CMA)	–	7.415	7.415	–	14.830
Revenue adjustment	–	–	–	–	–
Other adjustments	–	–	–	–	–
Revenue cap	20.323	223.032	240.239	24.722	508.316
Calculation of the revenue imbalance					
Revenue cap	20.323	223.032	240.239	24.722	508.316
Revenue recovered	21.116	227.372	251.953	28.880	529.321
Revenue imbalance	(0.793)	(4.340)	(11.714)	(4.158)	(21.005)

TABLE 2N – Residential retail – social tariffs

	Revenue £m	Number of customers 000s	Average amount per customer £
Number of residential customers on social tariffs			
Residential water only social tariffs		0.930	
Residential wastewater only social tariffs		0.035	
Residential dual service social tariffs		12.907	
Number of residential customers not on social tariffs			
Residential water only no social tariffs		265.921	
Residential wastewater only no social tariffs		4.948	
Residential dual service no social tariffs		701.362	
Social tariff discount			
Average discount per water only social tariffs customer			30.108
Average discount per wastewater only social tariffs customer			85.714
Average discount per dual service social tariffs customer			121.717
Social tariff cross-subsidy – residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	0.028		
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.003		
Total customer funded cross-subsidies for dual service social tariffs customers	1.571		
Average customer funded cross-subsidy per water only social tariffs customer			0.105
Average customer funded cross-subsidy per wastewater only social tariffs customer			0.602
Average customer funded cross-subsidy per dual service social tariffs customer			2.199
Social tariff cross-subsidy – company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	–		
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	–		
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	–		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			–
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			–
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			–
Social tariff support – willingness to pay			
Level of support for social tariff customers reflected in business plan			9.370
Maximum contribution to social tariffs supported by customer engagement			9.370

Price review and other segmental reporting continued

TABLE 20 – Historic cost analysis of intangible fixed assets

	Water Resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	Retail residential £m	Retail business £m	Total £m
Cost							
At 1 April 2020	2.545	49.209	0.137	0.036	1.252	0.139	53.318
Disposals	–	–	–	–	–	–	–
Additions	–	–	–	–	–	–	–
Adjustments	–	–	–	–	–	–	–
Assets adopted at nil cost	–	–	–	–	–	–	–
At 31 March 2021	2.545	49.209	0.137	0.036	1.252	0.139	53.318
Amortisation							
At 1 April 2020	(0.018)	(0.391)	(0.120)	(0.031)	(1.252)	(0.139)	(1.951)
Disposals	–	–	–	–	–	–	–
Adjustments	–	–	–	–	–	–	–
Charge for year	(0.003)	(0.015)	(0.017)	(0.005)	–	–	(0.040)
At 31 March 2021	(0.021)	(0.406)	(0.137)	(0.036)	(1.252)	(0.139)	(1.991)
Net book amount at 31 March 2021	2.524	48.803	–	–	–	–	51.327
Net book amount at 1 April 2020	2.527	48.818	0.017	0.005	–	–	51.367
Amortisation for year							
Principal services	(0.003)	(0.015)	(0.017)	(0.005)	–	–	(0.040)
Third party services	–	–	–	–	–	–	–
Total	(0.003)	(0.015)	(0.017)	(0.005)	–	–	(0.040)

Performance summary

TABLE 3A – Outcome performance – Water common performance commitments

		Performance level – actual			Outperformance or underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment	
	Unit	Previous reporting year	Current reporting year	PCL met?	£m	£m	See page
Financial							
Water quality compliance (CRI)	nr	3.64	2.06	No	(0.022)		20
Water supply interruptions	hh:mm:ss	00:09:10	00:05:38	Yes	0.079		21
Leakage	%		-2.1	No	(3.875)		22
Per capita consumption	%		0.8	No	–		22
Mains repairs	nr	119.2	150.4	Yes	0.011		21
Unplanned outage	%	0.72	1.01	Yes	–		21
TOTAL					(3.807)		
Bespoke PCs – Water and Retail (Financial)							
Taste, smell and colour contacts	nr	1.91	1.65	Yes	0.011		20
Water restrictions placed on customers	nr	–	–	Yes	–		23
Resilience in the round – water	nr	1,085	197	Yes	0.684		40
Operational contacts resolved first time – water	%	96.2	96.0	Yes	0.025		30
Number of pollution incidents cat 1-3 (water only)	nr	6	10	No	(0.620)		37
Biodiversity – Enhancement	Ha	73,150	85,100	Yes	–		36
Abstraction incentive mechanism	nr	NA	NA	–	–		46
Efficient delivery of the new Knapp Mill WTW	text	NA	NA	–	–		20
Efficient delivery of the new Alderney WTW	text	NA	NA	Yes	–		20
Resilient water and wastewater services on the Isles of Scilly	text	Appointed	Appointed	Yes	–		41
TOTAL					0.100		

Total AMP6 forecast for 2020-25 outperformance or underperformance payments reflects the cumulative rewards and penalties achieved to date in the regulatory period. A summary of penalties and rewards reflected in the period and those recognised at the end of the period is shown below. Forecasts for the remaining years have not been included, however South West Water remains on track to deliver 2025 targets and is focused on delivering improvements for customers and the environment.

Commentary relating to performance in respect of each performance commitment can be found in the operational performance section of the Annual Performance Report (pages 18 to 46), in particular on the pages noted in the right hand column of the table above.

Summary of penalties and rewards to be reflected in the period and to be recognised at the end of the period

	In Period (-/+)	End of Period (-/+)	Total
3A	(3.706)	–	(3.706)
Per capita consumption	–	(0.139)	(0.139)
Unplanned Outage	–	–	–
Biodiversity – Enhancement	–	4.050	4.050
3B	(11.194)	–	(11.194)
Bathing Water	–	1.104	1.104
3C	(0.534)	–	(0.534)
3D	–	–	–
TOTAL	(15.434)	5.015	(10.419)
WW Pollution impact – V3 versus V7			1.544
TOTAL (Inc WW Pollution impact – V3 versus V7)			(8.875)

Performance summary continued

TABLE 3B – Outcome performance – Wastewater common performance commitments

		Performance level – actual		PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m	See page
	Unit	Previous reporting year	Current reporting year				
Common PCs – Wastewater (Financial)							
Internal sewer flooding	number of internal sewer flooding incidents per 10,000 sewer connection	2.12	1.34	Yes	1.197		26
Pollution incidents	Pollution incidents per 10,000 km of sewer length	106.44	144.30	No	(13.776)		37
Sewer collapses	number of sewer collapses per 1,000 km of all sewers	12.79	9.76	Yes	0.292		26
Treatment works compliance	%	98.71	99.04	No	0.000		27
TOTAL					(12.287)		
Bespoke PCs – Wastewater (Financial)							
External sewer flooding incidents	nr	1,923	1,499	Yes	0.996		26
Sewer blockages	nr	6,662	6,484	Yes	1.056		26
Odour contacts from wastewater treatment works	nr	242	219	Yes	0.055		27
Descriptive compliance	%	99.4	98.8	No	(0.056)		27
Compliance with sludge standard	%	99.62	98.39	No	(0.124)		27
Resilience in the round – wastewater	nr	NA	104	Yes	0.165		40
Operational contacts resolved first time – wastewater	%	93.6	95.1	Yes	0.001		30
EPA	nr	2	2	No	(1.000)		37
Bathing water quality	nr	(8)	(4)	Yes	–		46
TOTAL					1.093		

Total AMP7 forecast for 2020-25 outperformance or underperformance payments reflects the cumulative rewards and penalties achieved to date in the regulatory period. A summary of penalties and rewards reflected in the period and those recognised at the end of the period is shown on page 171. Forecasts for the remaining years have not been included, however South West Water remains on track to deliver 2025 targets and is focused on delivering improvements for customers and the environment.

Commentary relating to performance in respect of each performance commitment can be found in the operational performance section of the Annual Performance Report (pages 18 to 46), in particular on the pages noted in the right hand column of the table above.

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

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	nr	80.92
Annual customer satisfaction score for the customer experience survey	nr	80.99
Annual C-MeX score	nr	80.96
Annual net promoter score	nr	30.00
Total household complaints	nr	1,649
Total connected household properties	nr	997,474
Total household complaints per 10,000 connections	nr	16,532
Confirmation of communication channels offered	TRUE or FALSE	TRUE

See page 30 for further commentary in respect of our C-MeX performance and pages 30 to 33 for further details of our performance in respect of customer service in the round.

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

Item	Unit	Value
Qualitative component annual results	nr	72.78
Quantitative component annual results	nr	98.99
D-MeX score	nr	85.88
Developer services revenue (water)	£m	7.540
Developer services revenue (wastewater)	£m	5.644

See page 30 for further commentary in respect of our D-MeX performance

Calculating the D-MeX quantitative component

Water UK performance metric	Unit	First reporting period (1 April to 30 September)	Second reporting period (1 October to 31 March)	Quantitative score (annual)
W11 Pre-development enquiry - reports issued	%	100.00	97.92	
W31 s45 quotations	%	96.52	99.01	
W4.1 s45 service pipe connections	%	96.86	97.09	
W6.1 Mains design <500 plots - quotations	%	98.15	100.00	
W7.1 Mains design >500 plots - quotations	%	100.00	–	
W8.1 Mains construction	%	100.00	99.49	
W17.1 Mains diversions (without constraints) - quotations	%	100.00	100.00	
W17.2 Mains diversions (with constraints) - quotations	%	–	100.00	
W18.1 Mains diversions - construction/commissioning	%	90.00	100.00	
W20.1 Self-lay Point of Connection reports <500 plots etc - reports issued	%	–	100.00	
W21.1 Self-lay Point of Connection reports >500 plots etc - reports issued	%	–	–	
W23.1 Self-lay design and terms request <500 plots etc - quotations	%	100.00	100.00	
W24.1 Self-lay design and terms request >500 plots etc - quotations	%	–	–	
W26.1	%	–	–	
W27.1 Self-lay permanent water supply - provided	%	–	–	
W30.1 Self lay references and costing details - issued	%	100.00	100.00	
S1.1 Pre-development enquiry - reports issued	%	100.00	98.95	
S3.1 Sewer requisition design - offers issued	%	100.00	100.00	
S4.1 Sewer requisition - constructed and commissioned	%	–	100.00	
S7.1 Adoption legal agreement - draft agreements issued	%	100.00	–	
WN1.1 % of confirmations issued to the applicant within target period	%	–	100.00	
WN2.2 % Bulk supply offer letters issued to applicant within target period	%	–	100.00	
WN4.1 % of main laying schemes constructed/commissioned within target	%	–	–	
WN4.2 % of testing supplies provided within target period	%	–	–	
WN4.3 % of permanent supplies made available within the target period	%	–	–	
SN2.2 % Bulk discharge offer letters issued to the applicant within target	%	–	100.00	
SN4.1 % of main laying schemes constructed/commissioned within target	%	–	–	
SAM 3/1 Update draft agreement	%	–	96.00	
SAM 4/1 Inspections and construction period	%	–	100.00	
D-MeX quantitative score (for the relevant reporting period)	%	98.58	99.39	
D-MeX quantitative score (annual)	nr			00.99

Performance summary continued

TABLE 3E – Outcome performance – Non financial performance commitments

		Performance level – actual			
	Unit	Previous reporting year £m	Current reporting year £m	PCL met?	See page
Common					
Risk of severe restrictions in a drought	%	0.0	0.0	Yes	40
Priority services for customers in vulnerable circumstances – PSR reach	%	2.6	4.6	Yes	31
Priority services for customers in vulnerable circumstances – Attempted contacts	%	NA	51.2	Yes	31
Priority services for customers in vulnerable circumstances – Actual contacts	%	NA	39.1	Yes	31
Risk of sewer flooding in a storm	%	14.74	14.61	Yes	41
Bespoke PCs					
Total wastewater treatment works (WWTW) compliance	%	99.1	98.9	No	27
Customer satisfaction with value for money	%	60	70	Yes	30
British Standard for inclusive service provision	score	NA	Achieved	Yes	31
Overall satisfaction of services received on the PSR	%	82	89	Yes	31
Biodiversity – Compliance	nr	NA	0	Yes	36
Biodiversity – Prevent Deterioration	nr	NA	46	Yes	36
Installation of AMR meters	nr	144,217	165,685	Yes	33
Number of customers on one of our support tariffs	nr	25,584	30,565	Yes	32
Voids for residential retail	%	0.75	0.84	Yes	33
Percentage of customers who find their water bill affordable	%	87.4	89.4	Yes	32

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

	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – Calculated (i.e. standardised)			
Performance commitments set in standardised units – Water								
Mains repairs – Reactive		Mains repairs per 1000 km	Mains length in km	18,432.71	1,860	100.91		
Mains repairs – Proactive		Mains repairs per 1000 km	Mains length in km	18,432.71	912	49.48		
Mains repairs		Mains repairs per 1000 km	Mains length in km	18,432.71	2,772	150.38		
Per capita consumption (PCC)	lpd	Population		2,418.20	335	138.64		
	Unit	Performance level – actual (2017-18)	Performance level – actual (2018-19)	Performance level – actual (2019-20)	Baseline	Performance level – actual (2020-21)	Performance level 3 year average	Calculated performance level to compare against PCLs
Performance commitments measured against a calculated baseline								
Leakage	MI/d	128.3	120.8	123.5	124.2	136.0	126.8	(2.1)
Per capita consumption (PCC)	lpd	141.9	152.1	144.0	146.0	138.6	144.9	0.8
		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								
Water supply interruptions		Average number of minutes lost per property per year	Number of properties	1,074.37	6,059,419	19,755	00:05:38	
					Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %	
Unplanned or planned outage								
Unplanned outage					923.64	9.33	1.01	
	Total Residential properties	PSR household	PSR reach	Total number of households on the PSR over a 2 yr period	Number of attempted contacts	Attempted contacts %	Number of actual contacts	Actual contacts %
Priority services for customers in vulnerable circumstances								
Priority services for customers in vulnerable circumstances	989.00	45,093	4.6%	18,611	9,528	51.2%	7,273	39.1%

Performance summary continued

TABLE 3G – Underlying calculations for common performance commitments – wastewater

		Unit	Standardising data indicator	Standardising data numerical value	Performance level – actual current reporting year	Calculated performance level
Performance commitments set in standardised units						
Internal sewer flooding – customer proactively reported	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	784.85	99	1.26
Internal sewer flooding – company reactively identified (ie neighbouring properties)	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	784.85	6	0.08
Internal sewer flooding	As per outcome performance commitment appendix	number of internal sewer flooding incidents per 10,000 sewer connection	Number of sewer connections	784.85	105	1.34
Pollution incidents	As per outcome performance commitment appendix	Pollution incidents per 10,000 km of sewer length	Sewer length in km	15,593	225	144.30
Sewer collapses	As per outcome performance commitment appendix	number of sewer collapses per 1,000 km of all sewers	Sewer length in km	19,048	186	9.76

TABLE 3H – Summary information on outcome delivery incentive payments

Initial calculation of
performance payments
(excluding CMEX and DMEX)
£m (2017-18 prices)

Initial calculation of in period revenue adjustment by price control

Water resources	(0.15)
Water network+	(3.71)
Wastewater network+	(10.92)
Bioresources (sludge)	(0.12)
Residential retail	–
Business retail	–

Initial calculation of end of period revenue adjustment by price control

Water resources	–
Water network+	–
Wastewater network+	–
Bioresources (sludge)	–
Residential retail	–
Business retail	–

Initial calculation of end of period RCV adjustment by price control

Water resources	1.82
Water network+	2.09
Wastewater network+	1.10
Bioresources (sludge)	–
Residential retail	–
Business retail	–

TABLE 3I – Supplementary outcomes information

								Current company level peak week production capacity (PWPC) MI/d	Reduction in company level PWPC MI/d	Outage proportion of PWPC %	
Unplanned or planned outage											
Planned outage								923.64	62.68	6.79	
				Deployable output	Outage allowance	Dry year demand	Target headroom	Total population supplied	Customers at risk		
Risk of severe restrictions in drought											
Risk of severe restrictions in drought				765.66	9.69	653.60	49.38	2,242.00	550.90		
								Vulnerability risk grade			
	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Low	Medium	High	
								Percentage of total population served			
Risk of sewer flooding in a storm											
Risk of sewer flooding in a storm		1,615,859	312,178	19.32%	199,293	12.33%	1,104,388	68.35%	85.39%	5.49%	9.12%
									Number of spot repairs or relining undertaken on sewer and not included in reported sewer collapses.		
Sewer collapses											
Sewer collapses											

15

Additional regulatory information – service level

TABLE 4A – Water bulk supply information

	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports			
Stubhampton / Crichel	3.274	–	0.004
Whiteparish / Standlynch	–	–	–
Canford Bottom / Corfe Hills (BW to WW)	306.223	–	–
Charmouth / Lyme Regis	6.671	–	0.013
Wellington	10.757	–	0.021
Waste Discharge	9.660	–	0.023
Total bulk supply exports	336.585	–	0.061
	Volume Ml	Operating costs £m	
Bulk supply imports			
Canford Bottom / Corfe Hills (WW to BW)	331.470	–	
Smeatharpe	–	–	
Total bulk supply imports	331.470	–	

The Canford Bottom / Corfe Hills exports and imports above relate to a long-standing reciprocal resilience agreement with Wessex Water in our Bournemouth Water area. This agreement is based upon equal imports and exports over the longer term (i.e. net zero import/export).

Operating costs in respect of the bulk supply exports and imports are limited in the year to limited trivial maintenance costs in respect of metering equipment.

4B – Analysis of Debt

In accordance with RAG 3.12, point 2.7, table 4B is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

Additional regulatory information – service level continued

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

	12 months ended 31 March 2021			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed Totex (net of business rates, abstraction licence fees and grants and contributions)	9.551	130.952	173.966	18.404
Actual Totex (net of business rates, abstraction licence fees and grants and contributions)	12.089	136.674	146.382	17.125
Transition expenditure	–	–	–	–
Disallowable costs	0.029	0.204	0.811	0.144
Total actual Totex (net of business rates, abstraction licence fees and grants and contributions)	12.060	136.470	145.571	16.981
Variance	2.509	5.518	(28.395)	(1.423)
Variance due to timing of expenditure	3.3	13.9	25.8	–
Variance due to efficiency	(0.791)	(8.382)	(54.195)	(1.423)
Customer cost sharing rate	50.00%	50.00%	50.00%	–
Customer share of Totex over/underspend	(0.396)	(4.191)	(27.098)	–
Company share of Totex over/underspend	(0.396)	(4.191)	(27.098)	(1.423)
Totex – business rates and abstraction licence fees				
Final determination allowed Totex – business rates and abstraction licence fees	6.57	20.445	5.552	0.75
Actual Totex – business rates and abstraction licence fees	7.012	21.113	4.887	0.707
Variance – business rates and abstraction licence fees	0.442	0.668	(0.665)	(0.043)
Customer cost sharing rate – business rates and abstraction licence fees	75.00%	75.00%	75.00%	–
Customer share of Totex over/underspend – business rates and abstraction licence fees	0.331	0.501	(0.499)	–
Company share of Totex over/underspend – business rates and abstraction licence fees	0.111	0.167	(0.166)	(0.043)
Totex not subject to cost sharing				
Final determination allowed Totex – not subject to cost sharing	0.076	0.844	1.579	–
Actual Totex – not subject to cost sharing	–	(1.036)	(0.501)	–
Variance – 100% company allocation	(0.076)	(1.880)	(2.080)	–
Total company share of Totex over/under spend	(0.361)	(5.904)	(29.344)	(1.466)
RCV				
Total Customer share of Totex over/under spend	(0.064)	(3.690)	(27.596)	–
PAYG rate	78.36%	64.99%	48.84%	76.15%
RCV element of Totex over/underspend	(0.014)	(1.292)	(14.119)	–
Adjustment for ODI outperformance payment or underperformance payment				
RCV determined at FD at 31 March				
Projected 'shadow' RCV				

Note the Adjustment for ODI out/(under) performance payment line includes an adjustment in respect of IFRS16: Leases in order that shadow RCV correctly includes this adjustment, in line with the letter published 18 May 2020 by David Black. A summary of the split of the ODI and IFRS16 adjustments are shown below.

	Water resources	Water network plus	Wastewater network plus	Bioresources
ODI out/(under) performance	1.918	2.198	1.162	0.000
IFRS16 adjustment	0.000	13.136	14.266	0.000
Total shown on line 25	1.918	15.334	15.428	0

Price control period to date			
Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
9.551	130.952	173.966	18.404
12.089	136.674	146.382	17.125
–	–	–	–
0.029	0.204	0.811	0.144
12.060	136.470	145.571	16.981
2.509	5.518	(28.395)	(1.423)
3.3	13.9	25.8	–
(0.791)	(8.382)	(54.195)	(1.423)
50.00%	50.00%	50.00%	–
(0.396)	(4.191)	(27.098)	–
(0.396)	(4.191)	(27.098)	(1.423)
6.57	20.445	5.552	0.75
7.012	21.113	4.887	0.707
0.442	0.668	(0.665)	(0.043)
75.00%	75.00%	75.00%	–
0.331	0.501	(0.499)	–
0.111	0.167	(0.166)	(0.043)
0.076	0.844	1.579	–
–	(1.036)	(0.501)	–
(0.076)	(1.880)	(2.080)	–
(0.361)	(5.904)	(29.344)	(1.466)
(0.064)	(3.690)	(27.596)	–
78.36%	64.99%	48.84%	76.15%
(0.014)	(1.292)	(14.119)	–
1.918	2.198	1.162	–
140.219	1,429.680	1,736.226	81.417
142.123	1,430.586	1,723.269	81.417

Additional regulatory information – service level continued

TABLE 4D – Totex analysis – water resources and water network+

	Network+					
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure						
Base operating expenditure	11.775	3.641	–	39.022	45.918	100.356
Enhancement operating expenditure	–	–	–	–	–	–
Developer services operating expenditure	–	–	–	–	1.312	1.312
Total operating expenditure excluding third party services	11.775	3.641	–	39.022	47.230	101.668
Third party services	–	–	–	–	0.882	0.882
Total operating expenditure	11.775	3.641	–	39.022	48.112	102.550
Grants and contributions						
Grants and contributions – operating expenditure	–	–	–	–	4.827	4.827
Capital expenditure						
Base capital expenditure	3.784	4.901	–	16.254	35.152	60.091
Enhancement capital expenditure	3.613	–	–	7.073	3.853	14.539
Developer services capital expenditure	–	–	–	–	9.950	9.950
Total gross capital expenditure (excluding third party)	7.397	4.901	–	23.327	48.955	84.580
Third party services	–	–	–	–	–	–
Total gross capital expenditure	7.397	4.901	–	23.327	48.955	84.580
Grants and contributions						
Grants and contributions – capital expenditure	–	–	–	–	3.037	3.037
Net Totex	19.172	8.542	–	62.349	89.203	179.266
Cash expenditure						
Pension deficit recovery payments	–	–	–	–	–	–
Other cash items	–	–	–	–	–	–
Totex including cash items	19.172	8.542	–	62.349	89.203	179.266

	Network+					
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Atypical expenditure						
Pension Curtailment Charge	0.071	0.520	–	0.044	0.663	1.298
Total atypical expenditure	0.071	0.520	–	0.044	0.663	1.298

Operations:

Total base operating expenditure for the water network+ and water resources increased by £11.490m in 2020/21 (£100.356m 20/21, £88.866m 19/20). The increase in expenditure is driven by commodity cost increases (power and chemicals) as well as increased power consumption due to both the dry weather and the COVID 19 “Stay at home” policy in 2020/21, with the latter resulting in an influx of UK visitors to the southwest last summer. Increases in employee costs also contributed, with increased costs associated with the closure of the defined pension scheme.

Capital

Total gross capital expenditure has reduced by £0.784m (£84.580m 20/21, £85.364m 19/20). The decrease in expenditure is driven by the completion of Mayflower water treatment works, partially offset by additional investments in our leakage programme.

TABLE 4E – Totex analysis – wastewater network+ and bioresources

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	Total £m
Operating expenditure									
Base operating expenditure	23.099	6.194	1.187	47.923	1.940	2.915	7.584	2.875	93.717
Enhancement operating expenditure	–	–	–	–	–	–	–	–	–
Developer services operating expenditure	0.197	–	–	–	–	–	–	–	0.197
Total operating expenditure excluding third party services	23.296	6.194	1.187	47.923	1.940	2.915	7.584	2.875	93.914
Third party services	0.201	0.084	–	–	–	–	–	–	0.285
Total operating expenditure	23.497	6.278	1.187	47.923	1.940	2.915	7.584	2.875	94.199
Grants and contributions									
Grants and contributions – operating expenditure	3.380	0.906	0.174	–	–	–	–	–	4.460
Capital expenditure									
Base capital expenditure	16.917	4.536	0.869	22.385	0.906	–	4.664	–	50.277
Enhancement capital expenditure	14.835	3.978	0.762	10.035	0.406	–	–	–	30.016
Developer services capital expenditure	1.681	0.451	0.086	–	–	–	–	–	2.218
Total gross capital expenditure (excluding third party)	33.433	8.965	1.717	32.420	1.312	–	4.664	–	82.511
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	33.433	8.965	1.717	32.420	1.312	–	4.664	–	82.511
Grants and contributions									
Grants and contributions – capital expenditure	1.394	0.374	0.072	–	–	–	–	–	1.840
Net Totex	52.156	13.963	2.658	80.343	3.252	2.915	12.248	2.875	170.410
Cash expenditure									
Pension deficit recovery payments	–	–	–	–	–	–	–	–	–
Other cash items	–	–	–	–	–	–	–	–	–
Totex including cash items	52.156	13.963	2.658	80.343	3.252	2.915	12.248	2.875	170.410

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	Total £m
Atypical expenditure									
Pension Curtailment Charge	0.232	0.064	0.013	0.872	0.008	0.064	0.124	0.018	1.395
Total atypical expenditure	0.232	0.064	0.013	0.872	0.008	0.064	0.124	0.018	1.395

Operations:

Total base operating expenditure for the wastewater service increased by £5.265m in 2020/21 (£93.717m 20/21, £88.452m). This was driven by commodity cost increases (power and chemicals), as well as cost associated with the impact of the COVID 19 pandemic. The government's "Stay at home" directive lead to influx of UK visitors to the southwest last summer as a result of the travel ban. Additionally, costs of £2.121m were incurred in 2021 as a result of the closure of the defined benefit pension scheme.

Capital

Total gross capital expenditure has increased by £8.394m (£82.510m 20/21, £73.576m 19/20). The increase in expenditure is driven by investments in wastewater network+ including our Pollution Incident Reduction Plan and the advancement of bathing water enhancements.

Additional regulatory information – service level continued

TABLE 4F – Major project expenditure for wholesale water by purpose

South West Water does not have any Water projects that satisfy the Ofwat definition of a major project in the context of table 4F.

TABLE 4G – Major project expenditure for wholesale wastewater by purpose

South West Water does not have any Wastewater projects that satisfy the Ofwat definition of a major project in the context table 4G.

TABLE 4H – Financial metrics as at 31 March 2021

	Current year £m	AMP to date
Financial indicators		
Net debt	2,275.156	
Regulatory equity	112.386	
Regulatory gearing	0.672	
Post tax return on regulatory equity	12.26%	
RORE (return on regulatory equity)	0.0656	0.0656
Dividend yield	0.0913	
Retail profit margin – Household	0.077	
Retail profit margin – Non household	1.000	
Credit rating – Fitch	N/A	
Credit rating – Moody's	N/A	
Credit rating – Standard and Poor's	N/A	
Return on RCV	5.64%	
Dividend cover	1.284	
Funds from operations (FFO)	262.963	
Interest cover (cash)	6.57	
Adjusted interest cover (cash)	2.95	
FFO/Net debt	0.116	
Effective tax rate	0.175	
RCF	219.476	
RCF/Net debt	0.096	
Revenue and earnings		
Revenue (actual)	547.247	
EBITDA (actual)	324.445	
Borrowings		
Proportion of borrowings which are fixed rate	0.527	
Proportion of borrowings which are floating rate	0.257	
Proportion of borrowings which are index linked	0.216	
Proportion of borrowings due within 1 year or less	0.034	
Proportion of borrowings due in more than 1 year but no more than 2 years	0.0256	
Proportion of borrowings due in more than 2 years but no more than 5 years	0.1347	
Proportion of borrowings due in more than 5 years but no more than 20 years	0.5103	
Proportion of borrowings due in more than 20 years	0.2954	

South West Water does not have a credit rating as this is not a licence requirement.

Net debt excludes the impact of IFRS16 and reconciles to Table 1E net debt of £2,275.156 by excluding the IFRS16 adjustment of £35.434, omitted from the Final Determination in error.

TABLE 4I – Financial derivatives

	Nominal value by maturity (net) at 31 March			Total value at 31 March		Interest rate (weighted average for 12 months to 31 March 2021)		
	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	Total accretion at 31 March £m	Payable %	Receivable %
Derivative type								
Interest rate swap (sterling)								
Floating to fixed rate	(11.733)	(10.706)	0.670	(21.769)	(21.769)	–	1.291	0.208
Total	(11.733)	(10.706)	0.670	(21.769)	(21.769)	–		
Total financial derivatives	(11.733)	(10.706)	0.670	(21.769)	(21.769)	–		

South West Water has interest rate swaps which are used to swap fixed and floating rate debt. No swaps are made on index-linked debt or using index-linked swaps.

South West Water also has limited forward currency contracts used to fix the cost of certain purchases in respect of capital projects.

The table above has been compiled on the basis of swap value and maturity, rather than the underlying debt instrument.

Additional regulatory information – service level continued

TABLE 4J – Base expenditure analysis – water resources and water network+

	Water network+					
	Water resources £m	Raw water distribution £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure						
Power	2.781	1.795	–	13.473	3.242	21.291
Income treated as negative expenditure	(0.557)	(0.022)	–	(0.028)	–	(0.607)
Bulk supply	–	–	–	–	–	–
Renewals expensed in year (infrastructure)	–	–	–	–	6.630	6.630
Renewals expensed in year (non-infrastructure)	–	–	–	–	0.000	–
Other operating expenditure	2.690	1.047	–	22.819	19.936	46.492
Local authority and Cumulo rates	2.051	0.600	–	2.679	16.097	21.427
Service charges						
Canal & River Trust abstraction charges/ discharge consents	–	–	–	–	–	–
Environment Agency / NRW abstraction charges/ discharge consents	–	–	–	–	–	–
Other abstraction charges/ discharge consent	4.810	0.221	–	0.079	0.013	5.123
Other operating expenditure						
Costs associated with Traffic Management Act	–	–	–	–	–	–
Costs associated with lane rental schemes	–	–	–	–	–	–
Statutory water softening	–	–	–	–	–	–
Total base operating expenditure	11.775	3.641	0.000	39.022	45.918	100.356
Capital expenditure						
Maintaining the long term capability of the assets – infra	0.257	4.901	–	0.865	11,541	17.564
Maintaining the long term capability of the assets – non-infra	3.527	–	–	15.389	23.611	42.527
Total base capital expenditure	3.784	4.901	–	16.254	35.152	60.091
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act	–	–	–	–	–	–

TABLE 4K – Base expenditure analysis – wastewater network+ and bioresources

	Expenditure in report year								
	Wastewater network+					Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge Transport £m	Sludge Treatment £m	Sludge Disposal £m	Total £m
Operating expenditure									
Power	5.282	1.390	0.278	11.782	1.675	–	1.504	(0.001)	21.910
Income treated as negative expenditure	–	–	–	(0.001)	–	–	(0.234)	–	(0.235)
Bulk supply	–	–	–	–	–	–	–	–	–
Renewals expensed in year (infrastructure)	6.354	1.672	0.334	–	–	–	–	–	8.360
Renewals expensed in year (non-infrastructure)	–	–	–	–	–	–	–	–	–
Other operating expenditure	10.410	2.852	0.570	28.616	0.265	2.915	5.612	2.871	54.111
Local authority and Cumulo rates	0.093	0.025	0.005	4.764	–	–	0.702	0.005	5.594
Service Charges									
Canal & River Trust discharge consents	–	–	–	–	–	–	–	–	–
Environment Agency / NRW discharge consents	0.960	0.255	–	2.762	–	–	–	–	3.977
Other discharge charges / permits	–	–	–	–	–	–	–	–	–
Other expenditure									
Costs associated with Traffic Management Act	–	–	–	–	–	–	–	–	–
Costs associated with lane rental schemes	–	–	–	–	–	–	–	–	–
Costs associated with Industrial Emissions Directive	–	–	–	–	–	–	–	–	–
Total base operating expenditure	23.099	6.194	1.187	47.923	1.940	2.915	7.584	2.875	93.717
Capital expenditure									
Maintaining the long term capability of the assets – infra	9.166	2.458	0.471	0.025	0.001	–	–	–	12.121
Maintaining the long term capability of the assets – non-infra	7.751	2.078	0.398	22.360	0.905	–	4.664	–	38.156
Total base capital expenditure	16.917	4.536	0.869	22.385	0.906	–	4.664	–	50.277
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act	–	–	–	–	–	–	–	–	–

4L – Enhancement expenditure for the 12 months ended 31st March 2021 - water resources and water network+

In accordance with RAG 3.12, point 2.7, table 4L is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

4M – Enhancement expenditure for the 12 months ended 31st March 2021 - wastewater network+ and bioresources

In accordance with RAG 3.12, point 2.7, table 4M is not required to be included as part of the APR due to its size, but it is included within the APR tables on our website.

Additional regulatory information – service level continued

TABLE 4N – Developer services expenditure – water resources and water network+

		Expenditure in report year					
		Water network+					
		Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
New connections	Capex					4.795	4.795
New connections	Opex					0.351	0.351
Requisition mains	Capex					5.077	5.077
Requisition mains	Opex					–	–
Infrastructure network reinforcement	Capex					0.078	0.078
Infrastructure network reinforcement	Opex					–	–
s185 diversions	Capex						–
s185 diversions	Opex					0.961	0.961
Total developer services expenditure – capex	Capex					9.950	9.950
Total developer services expenditure – opex	Opex					1.312	1.312
Total developer services expenditure	Totex					11.262	11.262

TABLE 4O – Developer services expenditure – wastewater network+ and bioresources

		Expenditure in report year								
		Wastewater network+					Bioresources			Total £m
		Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Sludge liquor treatment £m	Sludge Transport £m	Sludge Treatment £m	Sludge Disposal £m	
New connections and requisition sewers	Capex	1.667	0.447	0.085						2.199
New connections and requisition sewers	Opex	0.022	–	–						0.022
Infrastructure network reinforcement	Capex	0.014	0.004	0.001						0.019
Infrastructure network reinforcement	Opex	–	–	–						–
s185 diversions	Capex	–	–	–						–
s185 diversions	Opex	0.116	–	–						0.116
Other price controlled activities	Capex	–	–	–						–
Other price controlled activities	Opex	0.059	–	–						0.059
Total developer services expenditure	Capex	1.681	0.451	0.086						2.218
Total developer services expenditure	Opex	0.197	–	–						0.197
Total developer services expenditure	Totex	1.878	0.451	0.086						2.415

TABLE 4P – Expenditure on non-price control diversions

	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	Total £m
Non-price control diversions					
Diversions – NRSWA	–	0.522	0.285	–	0.807
Diversions – other non-price control	–	–	–	–	–
Total expenditure on non-price control diversions	–	0.522	0.285	–	0.807

TABLE 4Q – Developer services – Non financial information

	Water nr	Wastewater nr	Total nr
Connections volume data			
New connections (residential – excluding NAVs)	7,136	5,659	12,795
New connections (business – excluding NAVs)	492	100	592
Total new connections served by incumbent	7,628	5,759	13,387
New connections – SLPs			503
Properties volume data			
New properties (residential – excluding NAVs)	7,136	5,659	12,795
New properties (business – excluding NAVs)	492	100	592
Total new properties served by incumbent	7,628	5,759	13,387
New residential properties served by NAVs	–	17	17
New business properties served by NAVs	–	–	–
Total new properties served by NAVs	–	17	17
Total new properties	7,628	5,776	13,404
New properties – SLP connections	503		
New water mains data			
Length of new mains (km) – requisitions	33,099		
Length of new mains (km) – SLPs	5,325		

Additional regulatory information – service level continued

TABLE 4R – Connected properties, customers and population

	Units	Unmeasured	Measured	Total	Voids
Customer numbers – average during the year					
Residential water only customers	000s	82.905	183.946	266.851	1.825
Residential wastewater only customers	000s	2.206	2.777	4.983	0.089
Residential water and wastewater customers	000s	97.519	616.750	714.269	5.874
Total residential customers	000s	182.630	803.473	986.103	7.788
Business water only customers	000s	1.525	33.744	35.269	3.763
Business wastewater only customers	000s	0.652	0.265	0.917	0.111
Business water & wastewater customers	000s	1.486	38.418	39.904	3.138
Total business customers	000s	3.663	72.427	76.090	7.012
Total customers	000s	186.293	875.900	1,062.193	14.800

Property numbers – average during the year	Units	Water			Wastewater		
		Unmeasured	Measured	Total	Unmeasured	Measured	Total
Residential properties billed	000s	180.424	800.696	981.120	99.726	619.527	719.253
Residential void properties	000s			7.699			5.963
Total connected residential properties	000s			988.819			725.216
Business properties billed	000s	3.011	72.162	75.173	2.137	38.683	40.820
Business void properties	000s			6.902			3.25
Total connected business properties	000s			82.075			44.070
Total connected properties	000s			1,070.894			769.286

Property and meter numbers – at end of year (31 March)	Units	Water							Wastewater	
		Unmeasured				Measured			Total	Total
		No meter	Basic meter	Smart meter	Total	No meter	Basic meter	Smart meter		
Total new residential properties connected in year	000s	–	–	–	–	–	–	7.136	7.136	7.136
Total new business properties connected in year	000s	–	–	–	–	–	–	0.492	0.492	0.492
Residential properties billed at year end	000s	176.665	–	–	176.665	–	644.487	162.947	807.434	984.099
Residential void properties at year end	000s				5.426				2.872	8.298
Total connected residential properties at year end	000s				182.091				810.306	992.397
Business properties billed at year end	000s	3.001	–	–	3.001	–	66.952	5.041	71.993	74.994
Business void properties at year end	000s				0.883				6.092	6.975
Total connected business properties at year end	000s				3.884				78.085	81.969
Total connected properties at year end	000s				185.975				888.391	1,074.366

Population data	Units	Water	Wastewater
Resident population	000s	2,241.998	1,636.525
Business population	000s		139.393

There are no unmeasured new connections in 2020/21. In line with South West Water's policy during the year, all new connections have an AMR meter installed and as such all new meters are smart meters.

Additional regulatory information – water resources

TABLE 5A – Water resources asset and volumes data

	Units	Input
Water resources		
Water from impounding reservoirs	MI/d	129.31
Water from pumped storage reservoirs	MI/d	3.13
Water from river abstractions	MI/d	494.37
Water from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	MI/d	56.62
Water from artificial recharge (AR) water supply schemes	MI/d	–
Water from aquifer storage and recovery (ASR) water supply schemes	MI/d	–
Water from saline abstractions	MI/d	0.57
Water from water reuse schemes	MI/d	–
Number of impounding reservoirs ¹	nr	14
Number of pumped storage reservoirs ¹	nr	–
Number of river abstractions	nr	17
Number of groundwater works excluding managed aquifer recharge (MAR) water supply schemes	nr	50
Number of artificial recharge (AR) water supply schemes	nr	–
Number of aquifer storage and recovery (ASR) water supply schemes	nr	–
Number of saline abstraction schemes	nr	6
Number of reuse schemes	nr	–
Total number of sources	nr	87
Total number of water reservoirs ¹	nr	14
Total volumetric capacity of water reservoirs	MI	115,388
Total number of intake and source pumping stations	nr	65
Total installed power capacity of intake and source pumping stations	kW	8,001
Total length of raw water abstraction mains and other conveyors	km	73.35
Average pumping head – raw water abstraction	m.hd	5.16
Energy consumption – raw water abstraction	MWh	44,129.147
Total number of raw water abstraction imports	nr	–
Water imported from 3 rd parties' raw water abstraction systems	MI/d	–
Total number of raw water abstraction exports	nr	–
Water exported to 3 rd parties' from raw water abstraction systems	MI/d	–
Water resources capacity (measured using water resources yield)	MI/d	751.46

¹) In addition to South West Water's impounding reservoirs, the total number of water reservoirs also includes a number of reservoirs where water is mixed with river water prior to treatment. These are excluded under the Regulatory Accounting Guidelines under a change in definition for this regulatory period, but are included within the 'total number of water reservoirs'. Two reservoirs previously included within the total number of water reservoirs are now shown as 'balancing reservoirs' in table 6A.

Additional regulatory information – water resources continued

TABLE 5B – Water resources operating cost analysis

	Impounding reservoir £m	Pumped storage £m	River abstractions £m	Groundwater, excluding MAR water supply £m	Artificial Recharge (AR) water supply schemes £m	Aquifer Storage and Recovery (ASR) water supply schemes £m	Other £m	Total £m
Power	0.512	0.022	1.999	0.248	–	–	–	2.781
Income treated as negative expenditure	(0.103)	(0.004)	(0.401)	(0.049)	–	–	–	(0.557)
Abstraction charges/ discharge consents	0.885	0.038	3.459	0.428	–	–	–	4.810
Bulk supply	–	–	–	–	–	–	–	–
Other operating expenditure								
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	0.243	0.011	0.948	0.117	–	–	–	1.319
Other operating expenditure excluding renewals – indirect	0.252	0.011	0.986	0.122	–	–	–	1.371
Local authority and Cumulo rates	0.377	0.016	1.475	0.183	–	–	–	2.051
Total operating expenditure (excluding 3rd party)	2.166	0.094	8.466	1.049	–	–	–	11.775

This table provides a detailed breakdown of water resources related operating expenditure shown within table 4D. Costs are allocated to activity types using proportion of distribution in volumes.

Additional regulatory information – water network plus

TABLE 6A – Raw water transport, raw water storage and water treatment data

	Units	Input
Raw water transport and storage		
Total number of balancing reservoirs	nr	2
Total volumetric capacity of balancing reservoirs	MI	1,011
Total number of raw water transport stations	nr	23
Total installed power capacity of raw water transport pumping stations	kW	15,126
Total length of raw water transport mains and other conveyors	km	239.18
Average pumping head – raw water transport	m.hd	34.74
Energy consumption – raw water transport	mWh	37,786.344
Total number of raw water transport imports	nr	–
Water imported from 3 rd parties' raw water transport systems	MI/d	–
Total number of raw water transport exports	nr	–
Water exported to 3 rd parties' raw water transport systems	MI/d	–
Total length of raw and pre-treated (non-potable) water transport mains for supplying customers	km	–

	Surface water		Ground water	
	Water treated MI/d	Number of works	Water treated MI/d	Number of works
Water treatment – treatment type analysis				
All simple disinfection works	–	–	17.21	3
W1 works	–	–	–	–
W2 works	–	–	1.25	1
W3 works	197.61	12	–	–
W4 works	–	–	21.33	5
W5 works	386.94	13	12.2	8
W6 works	0.51	1	–	–

	% of total DI	Number of works
Water treatment – works size		
WTWs in size band 1	0.2	9
WTWs in size band 2	1.0	4
WTWs in size band 3	0.5	2
WTWs in size band 4	14.4	12
WTWs in size band 5	16.8	6
WTWs in size band 6	19.7	4
WTWs in size band 7	47.4	6
WTWs in size band 8	–	–

	Units	Input
Water treatment – other information		
Total water treated at more than one type of works	MI/d	–
Number of treatment works requiring remedial action because of raw water deterioration	nr	2
Zonal population receiving water treated with orthophosphate	000's	1,404.595
Average pumping head – water treatment	m.hd	8.71
Energy consumption – water treatment	mWh	104,704.927
Total number of water treatment imports	nr	–
Water imported from 3 rd parties' water treatment works	MI/d	–
Total number of water treatment exports	nr	–
Water exported to 3 rd parties' water treatment works	MI/d	–

Additional regulatory information – water network plus continued

TABLE 6B – Treated water distribution – assets and operations

	Units	Input
Assets and operations		
Total installed power capacity of potable water pumping stations	kW	30,357
Total volumetric capacity of service reservoirs	MI	1,148.5
Total volumetric capacity of water towers	MI	8.5
Distribution input	MI/d	637.25
Water delivered (non-potable)	MI/d	–
Water delivered (potable)	MI/d	519.40
Water delivered (billed measured residential)	MI/d	244.20
Water delivered (billed measured business)	MI/d	136.93
Total annual leakage	MI/d	135.99
Distribution losses	MI/d	111.43
Water taken unbilled	MI/d	21.70
Proportion of distribution input derived from impounding reservoirs	Propn 0 to 1	0.189
Proportion of distribution input derived from pumped storage reservoirs	Propn 0 to 1	0.005
Proportion of distribution input derived from river abstractions	Propn 0 to 1	0.722
Proportion of distribution input derived from groundwater works, excluding managed aquifer recharge (MAR) water supply schemes	Propn 0 to 1	0.083
Proportion of distribution input derived from artificial recharge (AR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from aquifer storage and recovery (ASR) water supply schemes	Propn 0 to 1	–
Proportion of distribution input derived from saline abstractions	Propn 0 to 1	0.001
Proportion of distribution input derived from water reuse schemes	Propn 0 to 1	–
Total number of potable water pumping stations that pump into and within the treated water distribution system	nr	252
Number of potable water pumping stations delivering treated groundwater into the treated water distribution system	nr	8
Number of potable water pumping stations delivering surface water into the treated water distribution system	nr	18
Number of potable water pumping stations that re-pump water already within the treated water distribution system	nr	226
Number of potable water pumping stations that pump water imported from a 3 rd party supply into the treated water distribution system	nr	–
Total number of service reservoirs	nr	328
Number of water towers	nr	12
Energy consumption – treated water distribution	MWh	25,614.160
Average pumping head – treated water distribution	m.hd	92.62
Total number of treated water distribution imports	nr	1
Water imported from 3 rd parties' treated water distribution systems	MI/d	0.91
Total number of treated water distribution exports	nr	4
Water exported to 3 rd parties' treated water distribution systems	MI/d	0.90

This table provides details of assets and operations for the 2020/21 year. Data in this table including distribution input, water delivered, distribution losses and leakage relates solely to 2020/21. Our leakage performance commitment is shown in table 3A on page 171 with associated commentary on page 175 is based on a three year average position and position relative to the three year baseline position at the start of the regulatory reporting period.

TABLE 6C – Water network+ – Mains, communication pipes and other data

	Units	Input
Treated water distribution – mains analysis		
Total length of potable mains as at 31 March	km	18,432.7
Total length of potable mains relined	km	–
Total length of potable mains renewed	km	15.1
Total length of new potable mains	km	39.0
Total length of potable water mains (< ≤320mm)	km	17,365.6
Total length of potable water mains >320mm and ≤450mm	km	561.8
Total length of potable water mains >450mm and ≤610mm	km	385.5
Total length of potable water mains > 610mm	km	119.9
Communication pipes		
Number of lead communication pipes	nr	80,445
Number of galvanised iron communication pipes	nr	121,910
Number of other communication pipes	nr	801,441
Treated water distribution – mains age profile		
Total length of potable mains laid or structurally refurbished pre-1880	km	37.8
Total length of potable mains laid or structurally refurbished between 1881 and 1900	km	208
Total length of potable mains laid or structurally refurbished between 1901 and 1920	km	432.3
Total length of potable mains laid or structurally refurbished between 1921 and 1940	km	1,582.6
Total length of potable mains laid or structurally refurbished between 1941 and 1960	km	4,013.8
Total length of potable mains laid or structurally refurbished between 1961 and 1980	km	5,360.8
Total length of potable mains laid or structurally refurbished between 1981 and 2000	km	4,277.0
Total length of potable mains laid or structurally refurbished post 2001	nr	2,520.2
Other		
Company area	km ²	11,482
Number of lead communication pipes replaced for water quality	nr	57
Supply-side improvements delivering benefits in 2020-25	MI/d	–
Demand-side improvements delivering benefits in 2020-25 (excluding leakage and metering)	MI/d	1.78
Leakage improvements delivering benefits in 2020-25	MI/d	–
Internal interconnectors delivering benefits in 2020-25	MI/d	–
Event Risk Index	nr	180

Additional regulatory information – water network plus continued

TABLE 6D – Demand management – Metering and leakage activities

	Units	Basic meter	Smart meter	
Metering activities – Totex expenditure				
New optant meter installation	£m	–	3.135	
New selective meter installation	£m	–	–	
New business meter installation	£m	–	–	
Residential meters renewed	£m	–	–	
Business meters renewed	£m	–	–	
Metering activities – Explanatory variables				
New optant meters installed	000s	–	4.268	
New selective meters installed	000s	–	–	
New business meters installed	000s	–	0.245	
Residential meters renewed	000s	–	1.777	
Business meters renewed	000s	–	0.41	
New residential meters installation – supply-demand balance benefit	MI/d	–	0.27	
New business meters installation – supply-demand balance benefit	MI/d	–	0.04	
Residential meters renewed – supply-demand balance benefit	MI/d	–	–	
Business meters renewed – supply-demand balance benefit	MI/d	–	–	
Residential properties – meter penetration	%	65.14	16.47	
Leakage activities – Totex expenditure				
	Units	Maintaining leakage	Reducing leakage	Total
Total leakage activity	£m	14.9	7.3	22.2
Per capita consumption (excluding supply pipe leakage)				
Per capita consumption (measured customers)	l/h/d	128.75	–	
Per capita consumption (unmeasured customers)	l/h/d	243.96	–	

This table provides details of metering and leakage activities for the 2020/21 year. Data in this table including per capita consumption relates solely to 2020/21. Our per capita consumption performance commitment is shown in table 3A on page 171 with associated commentary on page 175 is based on a three year average position and position relative to the three year baseline position at the start of the regulatory reporting period.

In line with Final Determination funding all leakage expenditure has been classified as maintenance within the Totex tables, some of the investments, however, have reduced leakage values as highlighted in the table above.

Additional regulatory information – wastewater network plus

TABLE 7A – Wastewater network+ – Functional expenditure

	£'000
Costs of STWs in size bands 1 to 5	
Direct costs of STWs in size band 1	3077.163
Direct costs of STWs in size band 2	2569.482
Direct costs of STWs in size band 3	5631.034
Direct costs of STWs in size band 4	7479.575
Direct costs of STWs in size band 5	5450.127
General & support costs of STWs in size bands 1 to 5	4084.312
Functional expenditure of STWs in size bands 1 to 5	28291.693
Costs of STWs in size band 6	
Service charges for STWs in size band 6	387.930
Estimated terminal pumping costs size band 6 works	1,058.966
Other direct costs of STWs in size band 6	12,930.108
Direct costs of STWs in size band 6	14,377.004
General & support costs of STWs in size band 6	2,425.712
Functional expenditure of STWs in size band 6	16,802.716
Total Functional expenditure for Sewage treatment	45,094.409

Additional regulatory information – wastewater network plus continued

TABLE 7B – Wastewater network+ – Large sewage treatment works

	Units	Barnstaple (Ashford)	Newton Abbot (Buckland)	Torbay (Brokenbury Quarry)	Camborne	Bideford (Cornborough)
Sewage treatment works – Explanatory variables						
Classification of treatment works	text	TA2	SAS	TA2	SAS	TA2
Population equivalent of total load received	000	46.95	82.79	155.83	60.27	45.09
Suspended solids consent	mg/l	45	60	60	250	60
BOD ₅ consent	mg/l	25	25	25	25	25
Ammonia consent	mg/l	20	–	–	–	–
Phosphorus consent	mg/l	–	–	–	–	–
UV consent	mW/s/cm ²	27	–	24	–	16
Load received by STW	kgBOD ₅ /d	2,817	4,967	9,350	3,616	2,705
Flow passed to full treatment	m ³ /d	17,501	26,228	50,334	20,809	17,147
Sewage treatment works – Functional expenditure						
Service charges	£000	18.501	18.874	31.753	31.753	17.335
Estimated terminal pumping expenditure	£000	–	–	517.074	87.385	0.000
Other direct expenditure	£000	620.968	918.859	(21.72)	845.955	689.11
Total direct expenditure	£000	639.469	937.733	527.107	965.093	706.445
General and support expenditure	£000	107.892	158.216	88.934	162.832	119.193
Functional expenditure	£000	747.361	1095.949	616.041	1127.925	825.638

(1) TA2 - Tertiary A2, SAS - Secondary Activated Sludge, SB - Secondary Biological, TB2 - Tertiary B2

TABLE 7C – Wastewater network+ – Sewer and volume data

	Units	Input
Connectable properties served by s101A schemes completed in the report year	nr	–
Number of s101A schemes completed in the report year	nr	–
Total pumping station capacity	kW	39,060
Number of network pumping stations	nr	1,222
Total number of sewer blockages	nr	6,484
Total number of gravity sewer collapses	nr	136
Total number of sewer rising main bursts	nr	50
Number of combined sewer overflows	nr	1,190
Number of emergency overflows	nr	233
Number of settled storm overflows	nr	160
Sewer age profile (constructed post 2001)	km	1,224
Volume of trade effluent	MI/yr	2,221.61
Volume of wastewater receiving treatment at sewage treatment works	MI/yr	232,039.15
Length of gravity sewers rehabilitated	km	13
Length of rising mains replaced or structurally refurbished	km	1
Length of foul (only) public sewers	km	2,115
Length of surface water (only) public sewers	km	2,518
Length of combined public sewers	km	5,797
Length of rising mains	km	621
Length of other wastewater network pipework	km	141
Total length of “legacy” public sewers as at 31 March	km	11,192
Length of formerly private sewers and lateral drains (s105A sewers)	km	7,857

Exeter (Countess Wear)	Plymouth (Camels Head)	Exmouth (Maer Lane)	Plymouth (Central)	Falmouth	Hayle	Plymouth (Ernesettle)	Plympton (Marsh Mills)	Truro (Newham)	Plymouth (Radford)	Newquay	St Austell
TA2	TA2	TA2	TA2	TA2	SB	TB2	TA2	TA2	SAS	TA2	TB2
162.89	51.86	50.49	109.16	42.70	63.63	60.63	60.11	30.57	26.47	38.13	27.50
25	30	60	60	15	150	60	20	30	30	60	60
15	20	25	25	20	25	25	10	20	20	25	25
10	–	–	–	–	–	35	5	20	10	–	–
–	–	–	–	–	–	–	–	–	–	–	–
30	30	43	54	42	–	33	–	37	–	24	–
9,773	3,112	3,029	6,550	2,562	3,818	3,638	3,607	1,834	1,588	2,288	1,650
44,884	16,418	13,262	39,061	11,588	31,385	23,691	18,679	11,407	5,913	11,020	12,466
34.085	19.667	18.501	32.377	18.501	33.665	20.04	18.501	18.501	19.667	17.335	18.874
–	79.154	–	375.353	–	–	–	–	–	–	–	–
643.435	869.295	904.54	327.844	987.706	700.767	792.486	925.473	893.019	1075.077	953.82	803.474
677.52	968.116	923.041	735.574	1006.207	734.432	812.526	943.974	911.52	1094.744	971.155	822.348
114.312	163.342	155.737	124.107	169.769	123.915	137.091	159.269	153.793	184.707	163.855	138.748
791.832	1131.458	1078.778	859.681	1175.976	858.347	949.617	1103.243	1065.313	1279.451	1135.01	961.096

Additional regulatory information – wastewater network plus continued

TABLE 7D – Wastewater network+ – Sewage treatment works data

	Units	Treatment categories							Total
		Secondary				Tertiary			
		Primary	Activated sludge	Biological	A1	A2	B1	B2	
Load received at sewage treatment works									
Load received by STWs in size band 1	kg BOD ₅ /day	147	299	993	70	14	411	27	1,960
Load received by STWs in size band 2	kg BOD ₅ /day	–	286	812	164	96	426	164	1,947
Load received by STWs in size band 3	kg BOD ₅ /day	161	1,025	1,832	1,009	1,363	1,081	843	7,315
Load received by STWs in size band 4	kg BOD ₅ /day	–	2,668	1,652	1,160	5,430	1,492	3,75	16,161
Load received by STWs in size band 5	kg BOD ₅ /day	–	889	–	–	7,707	800	5,604	15,000
Load received by STWs above size band 5	kg BOD ₅ /day	–	10,172	3,818	–	47,627	–	5,288	66,904
Total load received	kg BOD ₅ /day	308	15,338	9,107	2,403	62,237	4,210	15,684	109,287
Load received from trade effluent customers at treatment works	kg BOD ₅ /day								2,694
Number of sewage treatment works									
STWs in size band 1	nr	86	41	188	8	1	51	3	378
STWs in size band 2	nr	–	13	34	7	3	18	7	82
STWs in size band 3	nr	2	15	32	14	11	17	12	103
STWs in size band 4	nr	–	9	8	5	16	7	11	56
STWs in size band 5	nr	–	1	–	–	9	1	6	17
STWs above size band 5	nr	–	3	1	–	11	–	2	17
Total number of works	nr	88	82	263	34	51	94	41	653

1 South West Water has four Fine Screening Plants (Preliminary Treatment Works) which have this year been included within the primary treatment column.

	Units	2020/21
Population equivalent		
Current population equivalent served by STWs	000s	1,691.855
Current population equivalent served by filter bed or activated sludge STWs with tightened/new P consents	000s	–
Current population equivalent served by STWs with tightened/new N consents	000s	–
Current population equivalent served by STWs with tightened/new sanitary parameter consents	000s	–
Current population equivalent served by STWs with tightened/new UV consents	000s	–
Population equivalent treatment capacity enhancement	000s	–
Current population equivalent served by STW with tightened/new consents for chemical	000s	–
Cumulative shortfall in FFT addressed by WINEP / NEP schemes to increase STW capacity	000s	–
Additional storm tank capacity provided at STWs	000s	–
Additional volume of network storage at CSOs etc to reduce spill frequency	000s	–

Treatment works consents

Phosphorus					BOD ₅					Ammonia									
<=0.5mg/l	>0.5 to <=1mg/l	>1mg/l	No permit	Total	<=7mg/l	>7 to <=10mg/l	>10 to <=20mg/l	>20mg/l	No permit	Total	<=1mg/l	>1 to <=3mg/l	>3 to <=10mg/l	>10mg/l	No permit	Total			
-	-	-	1,960	1,960	-	8	127	279	1,546	1,960	-	-	157	124	1,679	1,960			
-	-	24	1,923	1,947	17	86	575	1,061	208	1,947	-	49	772	375	751	1,947			
-	232	262	6,821	7,315	316	572	2,509	3,619	299	7,315	107	586	1976	1,206	3,440	7,315			
-	1,970	151	14,040	16,161	-	741	5,291	10,129	-	16,161	-	297	5,080	3,553	7,231	16,161			
-	4,111	4,208	6,681	15,000	-	1,550	8,975	4,475	-	15,000	-	1,399	8,398	1,379	3,824	15,000			
-	-	-	66,904	66,904	-	3,607	18,869	44,428	-	66,904	-	-	14,968	8,289	43,647	66,904			
-	6,313	4,645	98,329	109,287	332	6,564	36,346	63,991	2,053	109,287	107	2,331	31,351	14,926	60,572	109,287			
-	-	-	378	378	-	1	12	25	340	378	-	-	13	14	351	378			
-	-	1	81	82	1	3	24	44	10	82	-	2	32	16	32	82			
-	3	3	97	103	4	6	39	51	3	103	1	7	34	15	46	103			
-	5	1	50	56	-	2	19	35	-	56	-	2	17	14	23	56			
-	5	4	8	17	-	2	10	5	-	17	-	1	11	1	4	17			
-	-	-	17	17	-	1	5	11	-	17	-	-	3	3	11	17			
-	13	9	631	653	5	15	109	171	353	653	1	12	110	63	467	653			

Additional regulatory information – wastewater network plus continued

TABLE 7E – Wastewater network+ – Energy consumption and other data

	Units	Input
Other		
Total sewerage catchment area	km ²	852
Designated coastal bathing waters	nr	150
Number of intermittent discharge sites with event duration monitoring	nr	108
Number of monitors for flow monitoring at STWs	nr	–
Number of odour related complaints	nr	1228
Energy consumption		
Energy consumption – sewage collection	MWh	54,407.675
Energy consumption – sewage treatment	MWh	103,943.07
Energy consumption – wastewater network+	MWh	158,350.745

Additional regulatory information – bioresources

TABLE 8A – Bioresources sludge data

	Units	Totals
Total sewage sludge produced, treated by incumbents	ttds/ year	42
Total sewage sludge produced, treated by 3 rd party sludge service provider	ttds/ year	0.8
Total sewage sludge produced	ttds/ year	42.8
Total sewage sludge produced from non-appointed liquid waste treatment	ttds/ year	0.7
Percentage of sludge produced and treated at a site of STW and STC co-location	%	68.79
Total sewage sludge disposed by incumbents	ttds/ year	42.7
Total sewage sludge disposed by 3 rd party sludge service provider	ttds/ year	1.9
Total sewage sludge disposed	ttds/ year	44.6
Total measure of intersiting 'work' done by pipeline	ttds*km/year	1
Total measure of intersiting 'work' done by tanker	ttds*km/year	440
Total measure of intersiting 'work' done by truck	ttds*km/year	115
Total measure of intersiting 'work' done (all forms of transportation)	ttds*km/year	556
Total measure of intersiting 'work' done by tanker (by volume transported)	m ³ *km/yr	17,544,361
Total measure of 'work' done in sludge disposal operations by pipeline	ttds*km/year	–
Total measure of 'work' done in sludge disposal operations by tanker	ttds*km/year	–
Total measure of 'work' done in sludge disposal operations by truck	ttds*km/year	1,808
Total measure of 'work' done in sludge disposal operations (all forms of transportation)	ttds*km/year	1,808
Total measure of 'work' done by tanker in sludge disposal operations (by volume transported)	m ³ *km/yr	–
Chemical P sludge as % of sludge produced at STWs	%	14.09

Additional regulatory information – bioresources continued

TABLE 8B – Bioresources operating expenditure analysis

Sludge transport method	Pipeline £m	Tanker £m	Truck £m	Total £m
Power	–	–	–	–
Income treated as negative expenditure	–	–	–	–
Discharge consents	–	–	–	–
Bulk discharge	–	–	–	–
Other operating expenditure				
Renewals expensed in year (Infrastructure)	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–
Other operating expenditure excluding renewals – direct	–	2,358	–	2,358
Other operating expenditure excluding renewals – indirect	–	0,557	–	0,557
Total functional expenditure	–	2,915	–	2,915
Local authority and Cumulo rates	–	–	–	–
Total operating expenditure (excluding 3rd party)	–	2,915	–	2,915

Sludge treatment type	Untreated Sludge £m	Raw Sludge liming £m	Conventional AD £m	Incineration of raw sludge £m	Incineration of digested Sludge £m	Photo- conditioning/ composting £m	Advanced Anaerobic Digestion £m	Other £m	Total £m
Power	–	1,079	0,382	–	–	–	0,042	0,002	1,505
Income treated as negative expenditure	–	(0,168)	(0,059)	–	–	–	(0,007)	–	(0,234)
Discharge consents	–	–	–	–	–	–	–	–	–
Bulk discharge	–	–	–	–	–	–	–	–	–
Other operating expenditure									
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	–	2,818	0,998	–	–	–	0,110	0,004	3,930
Other operating expenditure excluding renewals – indirect	–	1,205	0,427	–	–	–	0,047	0,002	1,681
Total functional expenditure	–	4,934	1,748	–	–	–	0,192	0,008	6,882
Local authority and Cumulo rates	–	0,503	0,178	–	–	–	0,020	0,001	0,702
Total operating expenditure (excluding 3rd party)	–	5,437	1,926	–	–	–	0,212	0,009	7,584

Sludge disposal route	Landfill, raw £m	Landfill, partly treated £m	Land restoration/ reclamation £m	Sludge recycled to farmland £m	Other £m	Total £m
Power	–	–	–	(0,001)	–	(0,001)
Income treated as negative expenditure	–	–	–	–	–	–
Discharge consents	–	–	–	–	–	–
Bulk discharge	–	–	–	–	–	–
Other operating expenditure						
Renewals expensed in year (Infrastructure)	–	–	–	–	–	–
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	–	–
Other operating expenditure excluding renewals – direct	–	–	0,023	2,255	0,002	2,280
Other operating expenditure excluding renewals – indirect	–	–	0,006	0,585	0,000	0,591
Total functional expenditure	–	–	0,029	2,839	0,002	2,870
Local authority and Cumulo rates	–	–	–	0,005	–	0,005
Total operating expenditure (excluding 3rd party)	–	–	0,029	2,844	0,002	2,875

TABLE 8C – Bioresources energy and liquors analysis

	Electricity MWh	Heat MWh	Biomethane MWh	Total MWh	Electricity £m	Heat £m	Biomethane £m	Total £m
Energy								
Energy consumption – bioresources								17,07.793
Energy generated by and used in bioresources control	2,182	5,935	–	8,117	0.298	–	–	0.298
Energy generated by bioresources and used in network plus control	2,764	–	–	2,764	0.378	–	–	0.378
Energy generated by bioresources and exported to the grid or third party	1,607	–	–	1,607	–	–	–	–
Energy generated by bioresources that is unused	–	3,957	–	3,957				
Energy bought from grid or third party and used in bioresources control	11,188	–	–	11,188	1,218	–	–	1,218
							Unit	Value
Income from renewable energy subsidies								
Income claimed from Renewable Energy Certificates (ROCs)							£m	0.229
Income claimed from Renewable Heat Incentives (RHIs)							£m	–
Total income claimed from renewable energy subsidies							£m	0.229
% of total number of renewable energy subsidies due to expire in the next 2 financial years							%	100
This year's value of renewable energy subsidies due to expire in the next 2 financial years							£m	0.229
Note: Companies to input specific subsidy which is being referenced in lines 8C:8 – 8C:10.								
							Units	Value
Bioresources liquors treated by network+								
BOD load of liquor or partially treated liquor returned from bioresources to network plus							kg/d	5,116
Ammonia load of liquor or partially treated liquor returned from bioresources to network plus							kg Amm-N/d	447
Recharge to Bioresources by network plus for costs of handling and treating bioresources liquors							£m	16.349

Additional regulatory information – bioresources continued

TABLE 8D – Bioresources sludge treatment and disposal data for the 12 months ended 31st March 2021

	Units	By incumbent	By 3 rd party sludge service providers
Sludge treatment process			
% Sludge – untreated	%	–	–
% Sludge treatment process – raw sludge liming	%	72.6	0.5
% Sludge treatment process – conventional AD	%	23.8	–
% Sludge treatment process – advanced AD	%	–	–
% Sludge treatment process – incineration of raw sludge	%	–	1.4
% Sludge treatment process – other (specify)	%	1.7	–
% Sludge treatment process – Total	%	98.1	1.9
(Un-incinerated) sludge disposal and recycling route			
% Sludge disposal route – landfill, raw	%	–	–
% Sludge disposal route – landfill, partly treated	%	–	–
% Sludge disposal route – land restoration/ reclamation	%	–	–
% Sludge disposal route – sludge recycled to farmland	%	95.7	2.9
% Sludge disposal route – other (specify)	%	–	1.4
% Sludge disposal route – Total	%	95.7	4.3

Additional regulatory information – innovation competition

TABLE 9A – Innovation competition

	Current year
Allowed	
Allowed innovation competition fund price control revenue	1.846
Revenue collected for the purposes of the innovation competition	
Price control revenue collected from customers	1.846
Non-price control revenue (e.g. royalties)	–
Revenue collected from customers and transferred into the innovation competition fund	–

Cost allocation and transfer pricing

Transactions with associated companies and the non-appointed business

Under RAG 5.07, water and sewerage appointees have a duty to trade at arm's length and to ensure that there is no cross subsidy with respect to transactions between the appointed business and associated companies.

Following the introduction of binding revenue price controls, appointees are also required to ensure there is no cross-subsidy between price control units.

RAG 3.11 requires disclosures of all transactions (individually and not on an aggregated basis) to be made where any single transaction exceeds 0.5% of the turnover of South West Water's appointed business. South West Water has applied a slightly lower threshold of £2.5m and thus additional disclosures to reflect the transactions with associate companies have been made.

In addition to transactions which exceed this amount, South West Water has also voluntarily disclosed below a summary of all transactions with its associated companies and any transactions with companies, whereby certain directors of the Company have interests.

South West Water's associated companies

South West Water is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company. A summary Group structure showing principal trading subsidiaries is shown on page 78. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 16, page 163).

Viridor

Following the completion of the sale of Viridor by Pennon Group plc on 8 July 2020 (see page 78), the disclosures in this section only show information relating to the period from 1 April 2020 until 8 July 2020 when Viridor was an associated company of South West Water.

Bristol water

Bristol Water Holdings UK Limited was acquired by Pennon Group plc on 3 June 2021. As this date is after 31 March 2021, neither it nor any of its subsidiaries, joint ventures or associates were considered associates of South West Water during 2020/21.

Group shared services

A limited number of functions have historically been provided across the Pennon Group as shared services (such as Independent Group Internal Audit, Treasury and Tax Services). During 2018/19, certain additional services have been consolidated as shared service functions to enhance both the quality and efficiency of the service.

Transfer of assets to or from the appointee

There were no transfers of assets or liabilities by or to the company in 2020/21.

The non-household retail market

South West Water exited the provision of retail services to non-household customers on 1 April 2017 when the non-household retail market opened, but remains the wholesale supplier of water and wastewater services to end users in Cornwall, Devon and small parts of Dorset and Somerset as well as providing wholesale water services in parts of Dorset, Hampshire and Wiltshire.

Non-household consumers now pay retailers for their supply and they in turn pay wholesalers based upon the retail charging schedules. Pennon Water Services, a fellow Group company, are a non-household water and wastewater retailer and therefore South West Water are now paid by Pennon Water Services for some of its non-household wholesale services. South West Water also provides meter reading services to Pennon Water Services on commercial terms consistent with those offered to other companies.

Source Contact Management



Services provided by South West Water and recharged to Source Contact Management

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Group/Management recharges	Information Services recharges	11,249	Recharge based upon employee numbers	392
	Property	11,249	Recharge of property cost based on floor space	348
	Insurance	11,249	Recharge based upon employee numbers	240
	Other	11,249	Recharge of cost incurred	345

Services received by South West Water recharged from Source Contact Management

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Retail activities	Call centre, billing and collection services, debt recovery and customer service	11,249	Recharge of cost incurred	11,249

Peninsula Properties

Services provided by South West Water and recharged to Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Administrative expenses	Administration services	0.099	Recharge of cost incurred	99

Services received by South West Water recharged from Peninsula Properties

Service provided	Service detail	Turnover of subsidiary (£m)	Terms of supply	Value of service provided (£k)
Administrative expenses	Administration services	0.099	Market testing – benchmarking	188

Cost allocation and transfer pricing continued

Transactions with associated companies and the non-appointed business continued

Viridor



Services provided by South West Water and charged to Viridor

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Tankered waste	Collection & disposal of tankered waste	192.725	Market testing –charged at published rates in the South West Water Non-Household Wholesale Charges Scheme	3

Services received by South West Water and charged from Viridor

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Waste collection	Collection & disposal of waste	192.725	Market testing	827

Pennon Group plc



Services provided by South West Water and recharged to Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Information Services	Information Services recharges	7.486	Recharge based upon employee numbers	2,932
Property	Floor space	7.486	Recharge of property costs based on floor space	342
Other – Communications, HR, Payroll, Facilities	Other internal services provided	7.486	Recharge of salary cost incurred	562

Services received by South West Water and recharged from Pennon Group

Service provided	Service detail	Turnover of parent (£m)	Terms of supply	Value of service provided (£k)
Corporate overheads	Board and Group expenses	7.486	Recharge of cost incurred	1,768
	Investor Relations	7.486	Recharge of cost incurred	700
	Legal & Company Secretary	7.486	Recharge of cost incurred	1,958
	Group expenses	7.486	Recharge of cost incurred	1,859
Group Finance	Tax, pension and accounting and internal audit services	7.486	Recharge of employee costs	1,233

Transactions with associated companies and the non-appointed business continued

Pennon Water Services



Services provided by South West Water and recharged to Pennon Water Services

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Meter readings	Meter reading for non-household retail customers	162.808	Market testing	315.185
Wholesale charges	Supply of water to wholesale business	162.808	Market testing –charged at published rates in Non-Household Wholesale Charges Scheme and charged via the Market Operator	81.607
Information Services	Information Services recharges	162.808	Recharge based upon employee numbers	32
Property	Floor space	162.808	Recharge of property costs based upon floor space	164
Other recharges	Other recharges including contractor, power and vehicle costs	162.808	Recharge based on actual costs	233

Services received by South West Water and charged by Pennon Water Services

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Guaranteed Standards of Service reclaim (customer compensation)	Charges for customer compensation	162.808	Charges in line with published GSS levels	39.958

In addition to the above, the South West Water non-appointed business is also recharged certain costs by Pennon Water Services in respect of management and operation of limited parts of South West Water's non-appointed activity.

Peninsula Insurance

Services received by South West Water and charged by Peninsula Insurance

Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Insurance cover	Organisation of insurance cover	1.797	Recharge of insurance premium	540

Cost allocation and transfer pricing continued

Transactions with associated companies and the non-appointed business continued

Peninsula Leasing

Services received by South West Water and charged by Peninsula leasing



Service provided	Service detail	Turnover of associated company (£m)	Terms of supply	Value of service provided (£k)
Vehicle leasing	Vehicle leasing	Nil	Recharge of lease costs (including capital repayment)	Nil

Borrowings with associated companies

Associated company and type of borrowing	principle amount (£k)	repayment date	interest rate (%)
South West Water Finance plc index linked bonds 2040	134,913	2040	6.83 (fixed until July 2040)
South West Water Finance plc index linked bonds 2057	295,047	2057	RPI + 1.99
South West Water Finance plc fixed rate loan	67,800	2039	2.35 fixed

Appendix A

Assessment of Licence Condition P 26

Overview

Condition P requires companies to hold an issuer credit rating which is an investment grade.

However, SWW is not required to comply with this (as it is not required to hold a credit rating) but must confirm that in the opinion of the Board, SWW would be able to maintain an issuer Credit Rating that is investment grade.

Below outline the leverage and coverage calculation used in making the assessment described on page 127.

Leverage and coverage

This reflects four key financial metrics and the weighting applied for each. The metrics for SWW compared to the investment grade levels are shown in the table below for 2020/21.

Financial metric	Investment grade (Baa)	SWW 2020/21	Assessment against investment grade
Adjusted interest coverage ratio	1.5x – 2.5x	2.4x	Exceeds
ExNet debt / RCV	55-70%	67.16%	Exceeds
FFO / Net debt	10-15%	11.66%	Exceeds
RCF / Net debt	6-10%	7.19%	Exceeds

Financial Metric Calculations

Information for the metric calculations based on latest financial information for 2020/21

	2020/21 £m
Adjusted interest cover	
FFO	265.2
Interest paid	47.1
Capital charges	(199.9)
Total	112.4
Net interest paid	47.1
Adjusted interest cover ratio	2.4

	March 2021 £m
Net debt / RCV	
Net debt	2,275.2
RCV	3,387.5
Net debt / RCV ratio	67.2%

	2020/21 £m
FFO / Net debt	
FFO	265.2
Net debt	2,275.2
FFO / Net debt	11.7%

	2020/21 £m
RCF / Net debt	
FFO	265.2
Less dividends*	(101.6)
RCF	163.6
Net debt	2,275.2
RCF / Net debt ratio	7.2%

* Includes dividend payable in 2021/22 of £58.1m

Glossary

Term	Definition
Annual Performance Report (APR)	Report produced by the Company for regulatory reporting purposes, known previously as the Regulatory Accounts.
Annual Report and Financial Statements	Report produced by the Company for statutory accounting reporting purposes.
Appointed business	The appointed business comprises the regulated activities of the Company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.
Arm's-length trading	Arm's-length trading is where the Company treats the associate companies on the same basis as external third parties.
Asset Management Plan (AMP)/ Business Plan	A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP5 covers April 2010 to March 2015 and AMP6 covers April 2015 to March 2020.
Associate company	Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.
CEMARS (Certified Emissions Measurement and Reduction Scheme)	The CEMARS methodology for producing an organisational carbon footprint is aligned with the internationally recognised Greenhouse Gas Protocol for corporate accounting and reporting.
C-MeX (Customer Measure of Experience)	C-MeX is the industry wide measure of customer satisfaction based upon surveys both of customers who have recently contacted their water company and a random sample of members of the public. Following being reported in a trial 'shadow' format last year, this is the first year this measure has been used and it replaces the Service Incentive Mechanism (SIM).
CMOS (Central Market Operating System)	CMOS is the core IT system which underpins MOSL's role in the water retail market. CMOS manages all the electronic transactions involved in switching customers and provides usage and settlement data that is used in the billing process.
Consumer Price Index including owner occupied housing costs (CPIH)	Compiled and published monthly by the Office of National Statistics. This is a measure of consumer inflation including a measure of the owner occupied housing costs (costs that are associated with owning, maintaining and living in one's home) and council tax.
Developer Services Measure of Experience (D-MeX)	D-MeX measures the quality of services to developers and other third parties. It has two components. The qualitative component is based on interviews with developer services customers that have transacted with a water company in the previous month. The quantitative component is based on the water company's performance against a key set of Water UK metrics which measure the service provided by water companies to their developer services customers.
Environment, Social and Corporate Governance reporting (ESG)	ESG reporting refers to the disclosure of data covering the company's operations in three areas: environmental, social and corporate governance
Final Determination (FD)	This is the conclusion of discussions on the scale and content of the Asset Management Plan for the forthcoming five-year period. It is accompanied by a determination of the framework allowable charges for the forthcoming five-year period.
Licence	The Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.
Menus	Menu regulation is an innovative system in which companies are presented with a choice of regulatory contracts. Companies are rewarded or penalised based on how well their business plan matches expenditure during the subsequent price control.
MOSL (Market Operating Services Limited)	MOSL is the not-for-profit company which operates the business water market which opened on 1 April 2017.
Non-appointed business	The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).
Ofwat	The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.
Outcome Delivery Incentives (ODIs)	The rewards earned and penalties incurred by companies according to how well they perform against the Performance Commitment Levels.
Performance Commitment Level (PCL)/Performance Commitments (PCs)	In consultation with Ofwat and our customers, we have set measurable targets for each ODI that represent the delivery of our outcomes.
Periodic Review	The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the 'K' factor – see above).
Price Control Units	At the 2014 price review, Ofwat introduced separate price controls for wholesale water, wholesale wastewater, retail household and retail non-household.
Regulatory Accounting Guidelines (RAGs)	The accounting guidelines for the APR issued, and amended from time to time, by Ofwat.
Regulatory Capital Value (RCV)	The capital base used in setting price limits and the value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology.

Term	Definition
Retail Price Index (RPI)	The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.
Retail services	The elements of the business responsible for direct contact with customers e.g. the contact centre, billing and reading meters. From April 2017, following the opening of the non-household market, business customers are able to choose their retail supplier. The appointed business exited all non-household market activities.
Section 24 Sewers	In England there is a category distinction between sewers built before or after 1937. Sewers dating from after 1937, and that only serve your own home albeit that the drain line crosses somebody else's land, are "private" or "lateral drains". On the other hand if your house was constructed before 1 October 1937 and your drains are shared, serving two or more homes, then that drain line is a "public" sewer (a "section 24 sewer").
Third-party contributions since 1989/90	Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.
Totex	Total expenditure comprising operational expenditure (opex) and capital expenditure (capex).
Transferred private sewers	On 1 October 2011 all privately owned sewers and lateral drains which drained to existing public sewers as at 1 July 2011 became the responsibility of the sewerage undertaker. This covers foul, surface water or combined sewers, and any drains serving individual properties, which are outside the curtilage of the property they serve, connect to the public sewerage system and were previously the responsibility of homeowners.
UKWIR (UK Water Industry Research)	The body which facilitates, manages and delivers a strategic programme of research projects for its members, the water companies of the UK and Ireland, to address the key challenges they face.
Water and Sewerage Company (WaSC)	A company responsible for the provision of both water and sewerage services.
Wastewater services	Our wastewater services cover the collection, treatment and the return to the environment of sewage produced by households and businesses. In some areas surface water and sewage mix together before being treated at our sewage works.
Wastewater Treatment Works (WWTW)	We use this term, rather than sewage treatment works, to describe the facilities which return used water to a condition where it can safely be discharged to environmental waters.
Water only company (WOC)	A company responsible for the provision of water services only.
Wholesale services	The elements of the business responsible for the abstraction, treatment and distribution of water and the collection, treatment and disposal of sewage and sludge.
Working capital	The aggregate of stocks, trade debtors and trade creditors.
WRFIM	Wholesale Revenue Forecasting Incentive Mechanism.

Notes



South West Water Limited

Peninsula House
Rydon Lane
Exeter
Devon
England EX2 7HR

www.southwestwater.co.uk

Registered in England
No: 02366665