South Staffordshire Plc

ANNUAL REPORT

Contents

Chair’s introduction

The past year has been especially challenging, with the COVID-19 pandemic having an unprecedented impact on every part of society and the economy. Although there has been some impact on South Staffordshire Plc’s financial performance for 2020/21, we have continued to perform well and deliver essential services for all our customers and clients. I would personally like to recognise the contributions of everyone across the Group and thank them for their commitment to delivering the right outcomes for customers, clients and the company, often in very difficult circumstances.

The past year has also been a time of change for the company at a Board level. Early in the 2020/21 financial year Adrian Page stepped down as Chief Executive after more than 24 years with the Group. I would like to thank Adrian and wish him well for the future. Following Adrian’s departure, Phil Newland was promoted to Group CEO in a planned succession after steering South Staffordshire Water to a positive outcome in the regulator Ofwat’s 2019 periodic review of price controls. There have also been changes to the nominated directors from Mitsubishi, with Keita Saito and Go Muromoto joining the Board.

There have been new appointments to the Executive team; Rob O’Malley joined the company as Group CFO in March 2020 and Andy Willicott joined as Managing Director of South Staffordshire Water in May 2021. In addition, following the establishment of the new SSI Compliance division, Neil Shailer was appointed Managing Director, having previously been Managing Director at the Group’s Omega Red business since 2015. Simon Dray now heads up the SSI Water, Waste and Infrastructure division, having previously been Managing Director of Hydrosave, AES and IWS M&E within the Group. Monica Mackintosh is continuing in her role as Managing Director of Echo Managed Services.

In the year ahead I expect the Group to continue to deliver a strong performance. South Staffordshire Water, for example, has started work to implement an ambitious five-year capital programme, including critically important investments at its two largest water treatment works. The recovery of the non-regulated businesses being impacted by the pandemic in the first quarter was particularly pleasing to see, demonstrating the importance of the essential nature of the work they carry out. There is much for the Group to be proud of, having quickly and proactively adapted to what was at times, a difficult and rapidly changing situation driven by COVID-19 pandemic. I’m proud of the way everyone pulled together to carry out their roles safely and efficiently.

As we turn our attention to the years ahead, we are looking at ways to address the environmental challenge of moving towards net zero carbon emissions. Along with the rest of the UK water sector, South Staffordshire Water is committed to achieving net zero by 2030, 20 years ahead of the UK Government’s target date of 2050. Across the Group we are also focusing our attention on using more renewable energy sources and we are exploring new and emerging technologies and power sources to ensure we play our part in delivering a net zero future.

I believe that if the past year has shown us anything, it is just how resilient our employees and services have been, and continue to be. This puts the Group in a strong position to ensure that we continue to meet the needs of our customers, clients, stakeholders and investors, now and over the long term.

Steve Johnson

Chief Executive's welcome

Welcome to this, my first annual report as Chief Executive of South Staffordshire Plc. I hope you enjoy reading this snapshot of the Group's performance over the year and learning more about the important role we play in delivering resilient and sustainable water, infrastructure and management services to our customers and clients. I would very much to echo the Chair's comments and acknowledge the flexibility and adaptability of all the Group's employees – all of whom have worked especially hard during a year that presented a range of new and untested challenges for all of us. Thank you all.

It has undoubtedly been a tough year for everyone and the impacts of the COVID-19 pandemic are still being felt across large parts of society. For South Staffordshire Water, the regulated water supply business within the Group, it has also been the first year of AMP7 – the new five-year delivery period, which runs from 2020 to 2025. In consultation with its customers, the business has set itself a number of stretching targets aimed at delivering improved service levels and greater efficiency by the end of the AMP. It has performed well against most of these targets during the year – particularly in the areas of leakage reduction, the quality of the water supplied to customers, the level of supply interruptions and the number of customers receiving some form of financial help or other support from the business.

South Staffordshire Water has also started to deliver its ambitious £600 million investment programme, including the upgrade of the Hampton Loade and Seedy Mill water treatment works in the South Staffs region. These are critically important assets for the business as they supply around 60% of customers in the region. In May 2021, just outside the reporting year, Ofwat made its draft decision to approve a green recovery proposal from the business to install an innovative ceramic membrane filtration system at the Hampton Loade treatment works, and the regulator made its final decision in July approving the proposal. This is excellent news for the business – as well as being the largest retrofit of this technology within an existing treatment works in the UK, it will also deliver benefits for customers and the environment in the form of enhanced water quality, greater operational resilience and lower carbon emissions.

The impact of COVID-19 has also been felt by the non-regulated businesses within the Group during the year. During quarter 1 of 2020/21, the businesses focused their attention on coming to terms with the reality of the first national lockdown and adapting as necessary. From quarter 2 onwards, recovery accelerated as work resumed to maintain critical infrastructure for customers and clients across the country. The Group ended the year overall in a strong trading position.

Echo Managed Services continued its expansion into the Australian water and wastewater market during the year and has started to build a dedicated team within the country. I'm pleased to report that the Aptumo billing system went live at Coliban Water, which supplies water and wastewater services across a large part of central Victoria. Echo has also secured a second Australian client in North East Water, which supplies water to 39 towns across north east Victoria. I look forward to sharing further news about the steps Echo is taking to develop its business in Australia.

There was also continued strong performance for Northern Ireland Water during the year, despite an entirely home working model, and South Staffordshire Water has chosen to upgrade its billing system to Aptumo. This will be reported in more detail next year's annual report. The one area where Echo saw a significant negative impact during the year is with its Grosvenor debt management service. This was largely due its field-based work being suspended for part of the year as a result of COVID-19 restrictions.

As the Chair mentioned in his introduction, we have re-shaped SSI Services into two divisions: SSI Compliance and SSI Water, Waste and Infrastructure. This is in recognition of the distinction between the compliance-led activities provided by IWS Water Hygiene and Omega Red, an associated company, and the infrastructure maintenance activities carried out for asset owners in the water, rail and infrastructure sectors. As a result of this re-shaping, SSI

Compliance is focusing its attention on lightning protection, earthing, height safety and water hygiene – all essential services driven by compliance and insurance requirements – while SSI Water, Waste and Infrastructure is focused on maintaining and improving the assets that enable the effective delivery of essential public services in the water, waste, transportation and adjacent sectors.

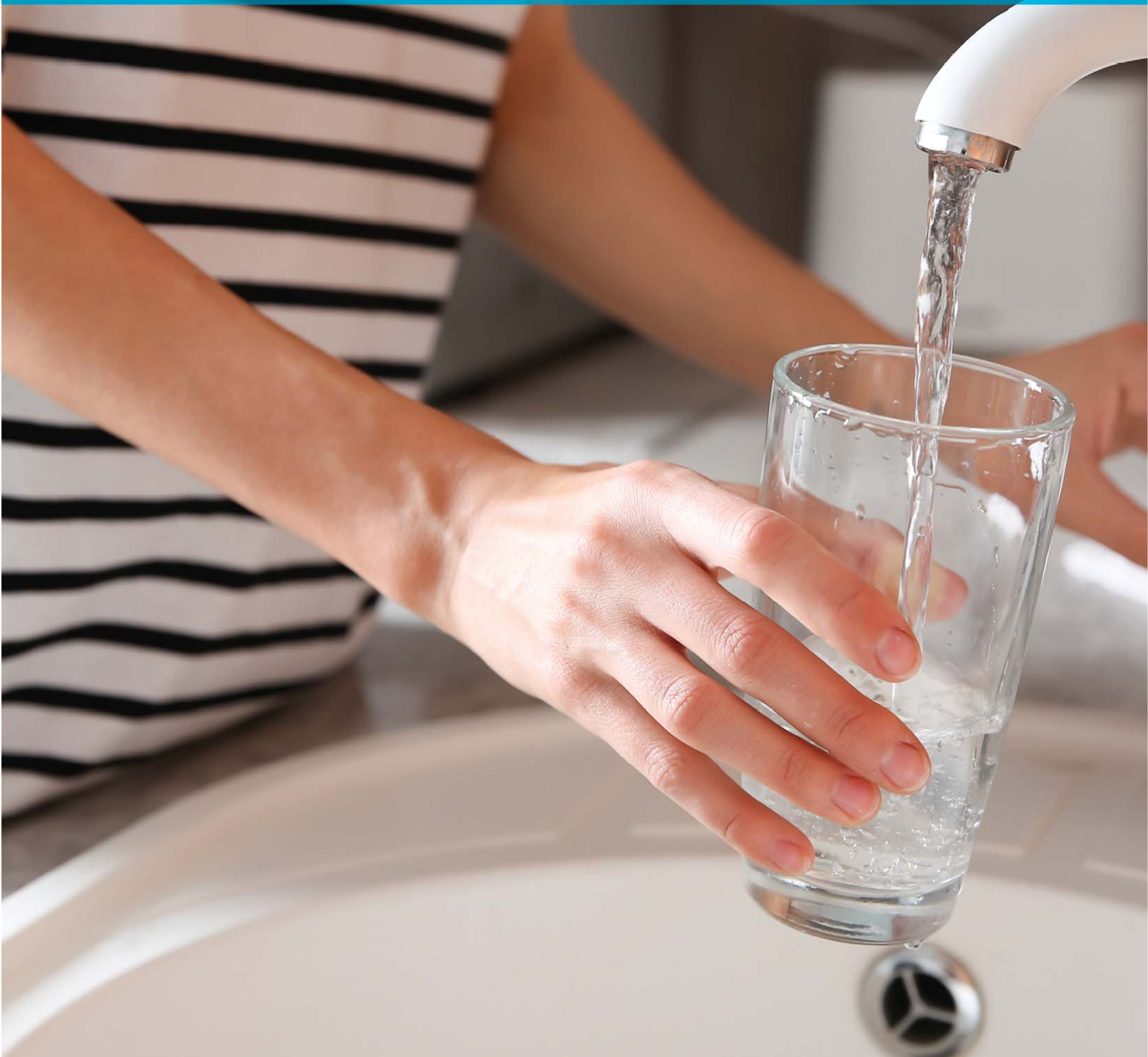
SSI Compliance reported strong performance after quarter 1 and has made good progress with developing its new height safety offering. SSI Water, Waste and Infrastructure also saw strong performance after quarter 1, but experienced some impact in the water sector because of high levels of household water demand as a result of the COVID-19 pandemic, which in turn restricted maintenance work on critical supply assets. I'm pleased to report that the IWS M&E business has overcome the challenges it experienced last year following its reorganisation; it is now in a position to deliver sustained growth and has been progressing well with its framework contract with Affinity Water. In addition, the Hydrosave and OnSite wastewater businesses have continued to perform strongly and I'm encouraged by the continued development of drainage services into the UK rail sector as well as the growing interest in our waste water network areas of specialism. It will be interesting to see how these continue to develop over the coming year.

I was delighted to welcome Richard Brookes and Anna Fell to the Group senior team during the year. Richard has taken on the role of Group Head of Health and Safety, while Anna was promoted to the new position of Group HR Director. These appointments serve to reinforce our commitment to employee wellbeing and safety.

Looking ahead, the Group is planning to strengthen its position within the water, infrastructure and managed services sectors, and continue to drive sustained growth across all divisions. South Staffordshire Water is already looking ahead to PR24 – the regulator Ofwat's next price review – and also to the development of long-term regional water resources plans as a key member of Water Resources East and Water Resources West. In addition, I'm looking forward seeing continued growth in Echo's market, with the potential for expansion into the USA, and also in the increase in service offerings from SSI Compliance. I also expect to see the Group focus more on its decarbonisation commitments – increasing its emphasis on renewable energy and the installation of the infrastructure needed to enable more electric vehicles. This is crucial if the Group is going to deliver on its commitment to the UK Government's net zero carbon emissions target.

Phil Newland

South Staffs Water



Overview

South Staffordshire Water is a regulated water company that operates under a single water supply licence across two regions (Cambridge and South Staffs). It provides clean water to more than 1.7 million people and around 43,000 businesses in Staffordshire, parts of the West Midlands, and in and around Cambridge.

The past year has been particularly challenging, with the COVID-19 pandemic impacting everyone's daily lives. Despite this, the business has continued to deliver for its customers, its communities and the environment. Its employees have been resilient and flexible – working tirelessly to make sure customers always get the clean water supplies they expect and pay for.

We are pleased to report that the business performed strongly against a number of key indicators during the year. This included beating its target for the acceptability of the water it supplies to customers and performing well against the key regulatory water quality measure. In addition, the business saw excellent performance in relation to supply interruptions and met its leakage targets for the year across the Cambridge and South Staffs regions.

The business has also demonstrated its public value through the support it has continued to provide to customers. This included introducing an Assure COVID-19 tariff for anyone whose livelihoods had been directly impacted by the pandemic and making it easier for customers to manage their water bills. And it extended the reach of the Priority Services Register (PSR) for customers in vulnerable circumstances who might need additional help and support.

The business also started work to deliver its ambitious and strategically important upgrade programme for the Hampton Loade and Seedy Mill water treatment works, which supply clean water to around 60% of customers across the South Staffs region. In July this year, Ofwat and other sector regulators approved a post-COVID green recovery proposal from the business to install an innovative ceramic membrane filtration system at Hampton Loade.

But there have been challenges for the business, a number of which relate directly to the impact of the pandemic. This includes a large and sustained increase in water use across the Cambridge and South Staffs regions as a result of people being at home more. The business also deliberately scaled back its normal debt collection practices because of the income pressures on some households caused by the pandemic. Over the coming year, the business will look at ways to improve its performance in those areas where it missed its targets.

Delivering for our customers

Customers' views of the service they receive are extremely important to South Staffordshire Water. There are two regulatory measures of customer experience – C-MeX for household customers and D-MeX for developer services customers. The business has also introduced a third measure for the current five-year planning period – R-MeX, which measures business retailers' satisfaction of South Staffordshire Water as a wholesaler operating in a retail market.

At the end of the reporting year and following a strong performance since December the business had a C-MeX score of 81.89, which placed it 10th in water sector. It has a strategy in place to improve on this and is already seeing some benefits – in the first quarter of 2021/22 it had improved its overall position to 6th in the sector.

The business did not quite meet either its D-MeX or R-MeX targets for the year, but is continuing to work with developers and business market retailers on the areas where it needs to improve. It continued to offer incentives for developers to increase water efficiency in new homes. There was more take up of this and the business performed better than its target in this area.

Delivering for our communities

As the provider of an essential public service, South Staffordshire Water understands how important it is to make sure extra help and support is always available to those customers who need it. This has been especially true during 2020/21 as a result of the COVID-19 pandemic.

When the UK Government announced the first national lockdown in March 2020, the business moved quickly and proactively, putting in place a range of financial and other support measures to help customers whose lives had been impacted by the pandemic.

This included introducing a new Assure COVID-19 tariff for customers experiencing financial hardship as a direct result of the pandemic. At the same time, the business continued to offer financial support to customers on low incomes, as well as a range of flexible payment options, payment plans and payment breaks; it also continued to encourage customers who might be eligible to sign up for the PSR.

We are very pleased to report that the business hugely increased the number of people receiving financial and other support during 2020/21, beating all its targets in this area. At the time of writing, more than 45,000 customers across both regions were receiving some form of financial and other support from South Staffordshire Water.

And while the pandemic seriously affected the business' education outreach work, it still met its target for the year – engaging with more than 9,600 young people across both regions. As there were restrictions on school visits in place for much of the year, the business had to come up with other ways to deliver its exciting education programme. This included delivering virtual assemblies and workshops, and making worksheets, workbooks and activity packs available online.

Delivering a reliable service

South Staffordshire Water's customers always expect to receive water of the highest quality and excellent service. The business has a rolling programme of investments and maintenance to ensure the long-term health of its assets. 2020/21 marks the first year of an ambitious five-year investment programme that will see the business invest around £600 million in its assets and services.

One area where the benefits of this investment are already being seen is in the quality of water supplied to customers. In 2020 the business saw a significant improvement in its performance against the key regulatory measure of water quality compliance – the Compliance Risk Index (CRI).

In addition, it beat its target for the number of contacts from customers about the taste, smell and colour of their water, while the ambitious upgrade programmes at the Hampton Loade and Seedy Mill water treatment works in the South Staffs region will help to ensure the quality and reliability of customers' water supplies over the long term.

The business also saw excellent performance on planned and unplanned interruptions to supply for most of the year. Despite some difficult operating conditions during the winter months, it exceeded its target for supply interruptions and continued to see excellent performance for main repairs. Unfortunately, lengthy periods of very cold weather in January this year resulted in the highest number of burst mains for about ten years, reflecting a national pattern. As a result, the business failed its target in this area.

Consistent with previous years, the business has continued to perform well in the area of asset health. Its investment programme is continuing to deliver asset replacements that meet the required standards and reliability expectations. During the year, nearly 76km of mains were replaced or renewed across both regions.

In addition, levels of unplanned outage were low and the business performed better than its target. The business also introduced a new target for visible leak repairs in 2020/21; this is another key priority for customers. By putting in place new systems and processes, and focusing on fixing leaks quickly, the target of 90% of visible leaks repaired within six days was met. This is an excellent achievement, given how difficult it can be to fix leaks on public highways.

Delivering for the environment

South Staffordshire Water takes its environmental stewardship responsibilities seriously and recognises the need to ensure water is available now and in the future. One way it does this is to minimise the volume of water that leaks from its network. This is another important priority for customers. The business stepped up its leakage detection activity during the year, resulting in a 3% and 5.8% reduction in the Cambridge and South Staffs regions, respectively. This performance sets the business up well for continued reductions in future years.

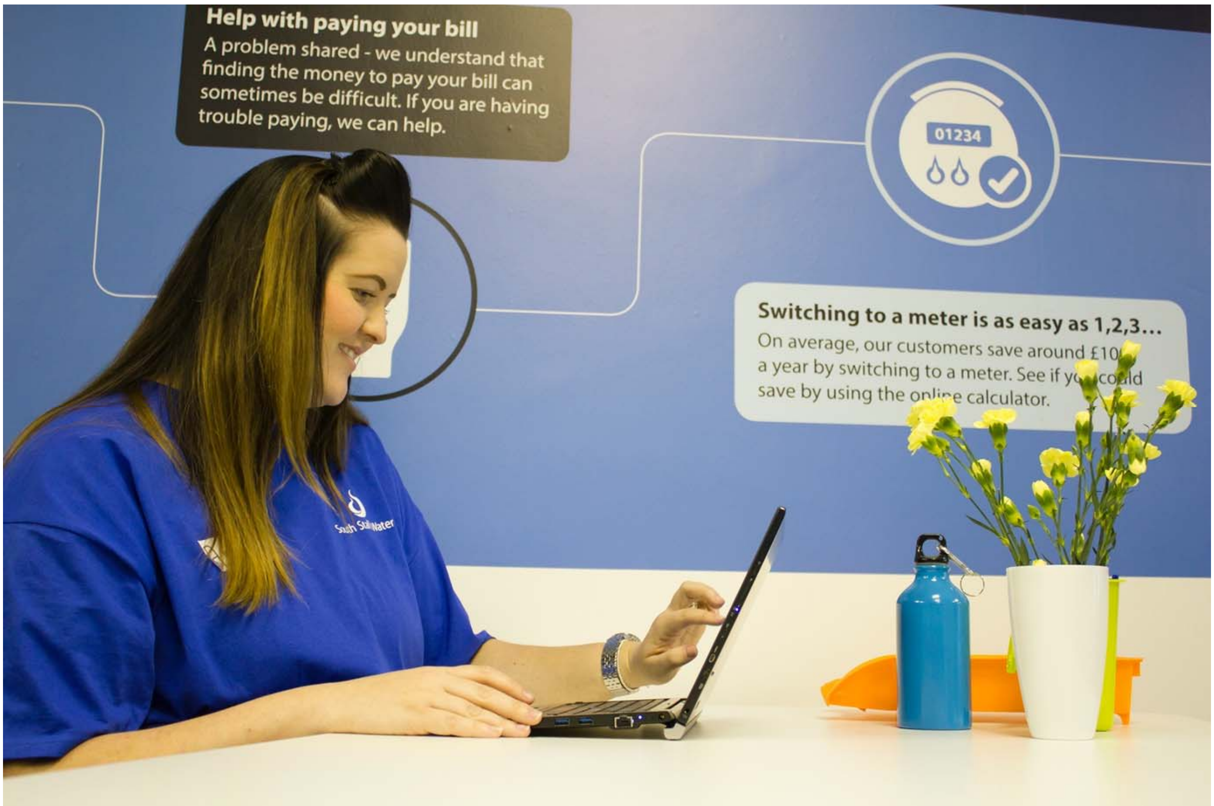
There was a significant shift in household and non-household water use during the year because of the impact of the COVID-19 pandemic. This led to a large increase in household water use, which is the basis of the business' regulatory water efficiency targets. Work carried on throughout the year to promote water saving activity and the business ran numerous campaigns during sustained periods of hot, dry weather. But this could not offset the large step change in household water use patterns and the business failed its targets in this area across both regions. This also reflected a national pattern.

The UK water sector has an ambitious target to achieve net zero carbon emissions by 2030 and South Staffordshire Water is playing its part to reduce its own carbon footprint, which mainly comes from the energy used to pump water around the network. In 2020/21 the business sourced all its grid electricity from zero carbon sources. This action has significant benefits for its progress towards meeting its carbon emissions target.

The business is conscious of the impact of its activities on the environment and does everything it can to minimise that impact. During the year it continued to carefully manage the volume of water it takes from the environment and performed better than its regulatory target. In addition, the business exceeded its biodiversity target in 2020/21 for the area of land managed, protected or enhanced. And it made excellent progress with its national environment programme commitments, meeting all but one of its agreed deadlines during the year.

Delivering for our business

South Staffordshire Water is committed to running an efficient business with people who are happy in their jobs, where customers pay their fair share and where suppliers are treated fairly. The business set itself a target to achieve Investors in People (IIP) accreditation during 2020/21, which it did in December 2020. Achieving IIP demonstrates that the business has in place the principles and practices around supporting its people and that everyone understands how to use them to make work better.



It also continued with its void property checks to ensure that everyone who should be paying a bill is doing so. This is just one of the ways the business engenders trust among its customers, suppliers and other stakeholders as it means everyone is paying their fair share. Another way it engenders trust is by treating suppliers fairly and by paying them in a timely manner. Unfortunately, the business missed its target of paying 100% of suppliers with turnover less than £6.5 million within 30 days and is looking at ways to improve on this in the coming year.

In March South Staffordshire Water delivered another of its business plan commitments with the launch of its new Maximo works management system. Designed to improve work planning, scheduling and delivery processes, the new system is driving transformation within the business, helping to make it more efficient and able to respond quickly and flexibly to changing circumstances.

Valuing our people

South Staffordshire Water takes the health and wellbeing of its people very seriously and has an ambition to a zero accident workplace. Safety performance during the year remained stable – with ten minor accidents and one reportable incident under the Health and Safety Executive’s RIDDOR. The business has learned the lessons of this incident and remains committed to a ‘safety first’ culture and to changing behaviours associated with work-related accidents.

The impact of the COVID-19 pandemic and the resulting three national lockdowns and school closures during 2020/21 has been a huge challenge for the business and its people. Many office-based people have been working remotely since March 2020, with the business making sure the appropriate IT systems were in place to enable them to do this effectively. The field-based teams have also faced difficult conditions, with many carrying out their roles during the year in full PPE.

The Executive team and senior managers have been acutely aware of the effect these challenges could have on people's mental health and wellbeing, and put in place the measures necessary to support and protect its people. This included introducing lateral flow testing and some PCR testing. At the time of writing 2,540 lateral flow tests had been carried out across the business.

A number of wellbeing initiatives were also run during the year. As well as encouraging anyone needing additional support to ask for help, the business also set up a Health and Wellbeing community on its internal engagement platform, with posts on nutrition, exercise and fitness. There was also training for mental health first aiders, whose role is to make sure people across the business get access to the help and support they need. A key feature of the year has been the introduction of 'Wellbeing Wednesdays', offering tips and hints to keep people well and motivated. The business is going to continue to prioritise the wellbeing of its people in the coming year.

The business also has an equality, diversity and inclusion policy in place, and makes every effort to provide equal opportunities for employment, training and promotion. Its commitment to inclusivity is represented in its core values, which were refreshed during the year.

Future focus

Looking ahead, South Staffordshire Water is keen to play more of a leadership role within the England and Wales water sector – both in terms of demonstrating public value and in the area of environmental stewardship.

The business is a key member of Water Resources East (WRE) in the Cambridge region and Water Resources West (WRW) in the South Staffs region, and is working in partnership with other stakeholders to develop long-term regional water resources plans. It recognises the importance of protecting and enhancing the environment for future generations and is working with others from within and outside the water sector to minimise the impact of its activities on, for example, rare chalk stream habitats in the Cambridge region.

The business is also looking ahead to the next five-year planning period from 2025 to 2030 and regulator Ofwat's PR24 regulatory settlement, while also continuing to deliver its current business plan commitments to 2025. At the same time, it is considering the long-term impacts of the COVID-19 pandemic and the steps it may need to take in the future to protect its customers and its people.

South Staffordshire Water will continue to consider all its operations in the round – building more resilience into its systems and processes across the business to ensure it can adapt and respond to changing circumstances in a flexible and efficient way.

Building back better – investing in green recovery

Following the widespread social and economic upheaval caused by the COVID-19 pandemic, the UK Government launched a number of initiatives in the second half of 2020 to encourage economic growth post-COVID. As part of this, the regulated water companies in England and Wales were encouraged to revisit their investment programmes for 2020 to 2025 or look to bring investment forward from the next five-year planning period (2025 to 2030), focusing on green recovery solutions.

In light of this, South Staffordshire Water looked again at its upgrade plans for Hampton Loade, the largest water treatment works in the South Staffs region (and one of the largest in the water sector). Built in two phases between 1966 and 1972, Hampton Loade has a capacity of 210 million litres of water a day and supplies around 700,000 people in the southern half of the South Staffs region. It is also the only water treatment works on the River Severn without a secondary treatment stage, which is no longer considered best practices within the water sector.

In February this year, the business submitted a proposal to the regulator Ofwat to install an innovative ceramic membrane filtration system at Hampton Loade, in what would be the first retrofit of its kind in an existing water treatment works in the UK. This should deliver a number of benefits for customers and the environment, including enhanced water quality, improved operational flexibility and resilience, and reduced carbon emissions of around 1,000 tonnes a year.

Ofwat made its draft decision on the proposal in May 2021, just outside the reporting year. The regulator made its final decision in July, approving the proposed funding and allowing the business to make an appropriate in period adjustment to customers' bills. Ofwat also flagged up the high quality of the engagement the business carried out to gauge customers' support for this green recovery bid.

The upgrade work at Hampton Loade is due to be completed in 2025.

SSI Services

Overview

SSI Services is the Group's specialist infrastructure contracting division. It provides a wide range of design and installation, testing, repair and maintenance services. The division's focus is to use its highly specialist skills and innovative techniques and technologies to manage the legislative and regulatory needs and risks of its clients, principally within regulated environments.

SSI Services has developed a broad public and private sector customer base, including all major water utility companies, infrastructure providers, government agencies, local authorities, major contractors, and industrial processing and facilities management companies. Historically, SSI Services has mainly worked within the UK water sector, however, to manage demand fluctuations and economic risk factors it has continued to develop its product offerings, and expand its target markets and customer base. The division has continued to increase and develop its operations within the rail, power generation, industrial and facilities management markets. SSI Services delivers these services through a number of specialist operating companies, utilising a nationwide mobile operation and workforce. It provides quality services that represent excellent value for money and continues to develop strong relationships with its expanding client base.

During the year under review, executive leadership changes were made to group the businesses into two main divisions aligned to the clients and reflecting the range of services provided, these are the Water, Waste & Infrastructure Division and a Compliance Division. The central Fleet Services operation continues to manage a vehicle fleet of some 1764 commercial vehicles and cars supporting all the group's businesses.

Our people

SSI Services has 1,760 employees, operating from 25 regional sites. Most of these employees operate remotely on site and often in challenging environments. Health and safety is therefore at the core of the division's businesses, and SSI continues to focus on developing a strong organisational culture throughout all its operations. During the year, the division delivered over three million working hours of services and incurred three RIDDOR reportable events, compared to six in 2019/20, which although a notable improvement remains in focus as we aspire to reduce this to zero on an ongoing basis.

There exists in the division an ongoing focus on improving processes and on developing appropriate training programmes, site audits and reviews to achieve a health and safety led culture. Utilising this dedicated approach to safety management SSI have improved how it identifies and learns from near miss events and accidents. This is based on the potential severity of an event to provide an enhanced scope of investigation and escalation into the senior management teams. As a result, there has been a much improved level of reporting for high potential events. Work has also been undertaken to identify the critical risks across SSI and the wider Group, with an expectation to stay focused on our highest hazards. A project is underway to replace the existing event reporting system to facilitate easier reporting for all frontline teams and to aid the analysis and identification of the contributing factors to events.

The main priority during the year has been to ensure all staff and clients were protected from the risks of COVID 19 infection and procedures were established throughout all SSI businesses to enable all staff to operate safely, and all operational sites and offices were compliant with COVID secure requirements, with staff also required to work from home where appropriate.

Covid-19 Impacting on performance

During the year, SSI Services, performance was adversely affected by the impact of the Covid-19 pandemic, with profit generation reduced by 8.6% compared with 2019/20. This was seen most notably during the first quarter where a number of business units were unable to undertake services due to lockdown restrictions. Other business units supporting the UK water and rail sectors were considered as "key workers" and were able to continue at initially reduced volumes of delivery. Through the second quarter of the year most clients had found a way to navigate the Government's safe working guidance and most businesses returned to expected levels of trading by the beginning of the second-half of the year. Having adopted to new ways of working where necessary the subsequent lock-down restrictions in early 2021 only had a marginal impact on work volumes as most clients were keen to press ahead with necessary maintenance, testing and scheduled replacement and installation work.

SSI Water, Waste & Infrastructure Division

Clean Water Services

The Clean Water business comprises: Hydrosave, Advanced Engineering Solutions (AES), Integrated Water Services Mechanical and Electrical (IWS M&E) and G Stow.

Hydrosave had a challenging year, primarily due to the impact of Covid-19 in the early months of the year and also the Thames Water leakage contract produced reduced levels of revenue due to a reduction in the client's order book requirements. Mobilisation for the new leak detection framework with Scottish Water was undertaken in preparation for this changing to a leakage reduction performance contract in 21/22. The pipe condition assessment department had a successful year undertaking an increased number of projects for Thames and Northumbrian Water, and were successful in securing the Thames Water non-destructive testing framework, in conjunction with AES utilising its patented SmartCat technology. The product development team in AES has progressed with several initiatives, including development of small diameter pipe condition technology and a remote sensor for air valve monitoring.

IWS M&E business had a further year of transition, absorbing shortfalls against actual losses for some legacy contracts for Essex and Suffolk. Whilst securing the renewal of the Northumberland Water Group Runway 2 framework for a further 5 years, the mix and volume of work prompted a decision to reduce the local operational resource in Essex and Suffolk in line with a reduction in the client's immediate requirements. During 20/21, the business also decided to close its loss making Dorchester branch as volumes of work for Wessex Water had reduced to unsustainable levels. On a positive front there are a number of projects secured from the framework with Affinity Water and high value opportunities identified for delivery in 20/21. The business is now in a stronger position to deliver future sustainable profits and growth opportunities through broadening the client base and taking a selective approach to risk and reward.

G Stow also had an improved year in 20/21 benefitting from the first year of the water utility AMP cycle, with an increase in the number of drilling projects undertaken for Anglian, Severn Trent and Thames Water. Delivery was taken of a new Fraste FR500 drilling rig which has increased the businesses drilling capacity will significantly increase the efficiency of delivery of drilling projects. G Stow remains well placed to generate increased revenue from the Water Utility sector within the new AMP cycle, and also is also securing an increased number of borehole installation opportunities in other sectors, including Health and Local Authorities.

OnSite

OnSite offers specialist wastewater and clean water services, including sewer flow monitoring and rehabilitation, CCTV surveys, sewer lining, mains renewal, and other specialist utility and infrastructure services.

OnSite produced a strong performance in 2020/21, delivering EBITDA profit growth of 4.2% compared with 2019/20, despite the impact of Covid 19 restrictions in April and early May. The Rail business had another excellent year, delivering year-on-year profit growth. Significant clients included Network Rail, Balfour Beatty Rail, Thames Water and Dyer & Butler. The Sewer Lining business experienced a good year, and exceeded its financial targets while also successfully targeting increased revenue outside the traditional water sector market, securing opportunities through Vinci and Dowhigh Ltd. There was a much improved performance from the Drainage Services department, with increased revenue generated from Severn Trent Water, Kier and the Canals and Rivers Trust from flow monitoring, CCTV and sewer jetting activities.

OnSite Specialist Maintenance also had another successful year delivering year on year profit growth of 27%. The department has developed a broad range of clients and sectors, delivering a number of specialist services, including bridge injection waterproofing, concrete repairs, chemical resistant coatings, ground stabilisation and reservoir repairs; all of which will provide a good platform for further growth in the future.

OnSite's Pipeline business also performed well ahead of its targets for the year, delivering the South Staffs Bounty contract, and undertaking a large pipeline installation for the Roxanne bottling plant in addition to mains diversion work for Midland Metro and HS2.

The Division has continued to focus on innovation with the ongoing development and operation of the HydroSEAL internal pipe leak repair solution, in addition to exploring attractive opportunities associated with decarbonisation initiatives, including the installation of Ground Source Heat Pump solutions and the provision of Electric Vehicle charging installations. Trading conditions remain challenging in a number of the division's existing markets, which are mature and becoming highly price competitive and which require innovation and the continued improvement of operational delivery efficiencies to remain competitive.

SSI Compliance Division

This division is currently two businesses led by Neil Shailer as Managing Director. In addition to IWS Water Hygiene described below it includes Omega Red Group Limited an associated company, currently held in the group structure above South Staffordshire Plc. Omega Red provides market leading ground earthing, lightning protection and height safety services.

IWS Water Hygiene

IWS Water Hygiene is a market-leading provider of legionella control services, water hygiene risk assessment, maintenance and remedial works, together with providing a comprehensive water treatment service. It services a wide range of customers, including local authorities, housing associations and facilities management companies. Delivery of services to clients was severely impacted during quarter 1 as it was not possible to attend many client sites including care homes, local authority and education sites due to Covid 19 restrictions. Conditions improved considerably during the summer months and there was a high level of demand for the flushing of water systems as many client sites opened up following a period of closure. The business operates in an increasingly competitive market, and has to evolve and adapt accordingly to ensure it meets client's requirements in a safe and efficient way. It has implemented a mobile work management platform, and is continuing to invest in the development of remote monitoring technology to further reduce manual monitoring costs.

Looking ahead

The outlook for SSI Services remains positive, and its strategy is to be recognised as the leading provider of specialist contracting services to infrastructure owners and operators. A number of SSI businesses (OnSite Rail, IWS Water Hygiene, and Hydrosave) possess good growth opportunities. IWS M&E is well positioned to deliver projects through its main frameworks with Affinity Water, Essex & Suffolk Water and South Staffs Water throughout the AMP cycle, and G Stow will benefit from increased efficiency as a result of deploying its new drilling rig. Hydrosave, AES and OnSite will continue to develop smart network technology to provide the capability to monitor client's assets performance on a real time basis to facilitate better operational efficiency.

SSI Services' aim is to further develop and maintain a diverse client base to ensure it is a resilient business and to reduce its reliance on the UK water sector, and decarbonisation requirements present attractive opportunities for the development of new products and services into new sectors. Whist there does remain continuing market pressure on prices and profit margins, we believe SSI Services is strongly placed to respond to these challenges, and has the capability to expand to deliver sustained growth.

Featherbed Lane

The project was to replace a downstream bend, install a structural slab and insert a 160m of 900mm diameter UV lining in a sewer under the railway.

The project presented a number of challenges for the Onsite team, particularly as the UV liner weighed 16 tonnes which made winching it difficult due to the depth of the sewer. Before the work could start the Onsite team had to access the D/S chamber, which was in third party land, and access was only granted a few days prior to the civils works commencing on the chambers. In addition the design for the temporary works was only finalised a few days prior to installation. During the project the team identified that the downstream bend was in poor condition and had to be replaced and the team constantly had to monitor rainfall throughout the project as the liner could only be installed during dry weather. All of these factors placed added pressure on the team, but despite these challenges the project was successfully completed safely, on time and to the client's satisfaction.

Echo

Overview

Echo is a specialist utility sector outsourcer, providing complex multichannel customer contact services, and comprehensive debt and revenue management solutions. It is also the developer and owner of RapidXtra, the UK's market leading water billing and customer information software, along with the more newly developed and innovative SaaS billing platform, Aptumo, which is built on Salesforce™ and which has a growing footprint in the UK and overseas.

In what has been an unprecedented year dominated by the outbreak of Covid-19, the Echo business rose to the challenge of adapting working practices, and modifying supporting technology, to enable its teams to safely continue high-quality service delivery to clients. Despite challenges, large-scale homeworking was quickly enabled for all office-based teams in the early stages of the pandemic, leading to a seamless transition of services and minimal impact on performance for clients and their customers.

It was a challenging year for Grosvenor Services, Echo's field-based subsidiary company, which undertakes debt collection and revenue protection services on behalf of energy companies across the UK. The national lockdown led to Grosvenor's energy clients halting all customer visit activity for the early part of the year, with the exception of emergency energy theft investigations. However, visits were resumed in the second quarter of the year and Grosvenor has continued to work closely with clients to align working practices with any adapted policies as a result of the ongoing pandemic and associated restrictions.

Another successful year for Aptumo, Echo's innovative utility billing platform, led to new contract wins in both Australia and the UK, with the business overcoming both local and international travel restrictions to achieve the first system go-live for Coliban Water in Australia, with further geographical expansion planned for the year ahead. Strong performance also continued for Northern Ireland Water, despite the team facing an almost entirely home-based working model; and whilst the impact of the pandemic on the Grosvenor business was notably felt, recovery was seen in the second half of the year.

A continued focus on supporting South Staffs Water's customer commitments led to retention of the ICS ServiceMark. Elsewhere, initiatives at Northern Ireland Water saw the introduction of new digital service channels, further enhancing the customer experience. In India, Echo's offshore operation also continued to grow, expanding both its IT Shared Services and CAD operations.

Despite the challenging and changing market conditions, Echo has continued to maintain and deliver new and existing services to its clients and to build its footprint in its core utilities markets, at home and overseas.

Software services

Echo maintained its immediate focus on supporting the UK and Australian water markets throughout the year, helping more water companies transform their customer management systems to deliver a better and more cost-effective customer experience.

In Australia, the business reinforced its commitment and presence, establishing a new Australian entity, Aptumo Australia, headquartered in Melbourne, Victoria. Two significant industry hires in the year included a new non-executive director, and a general manager who continue to grow a local team to support sales, project implementations and existing client support alongside colleagues in the UK and India, building the foundations for further expansion in the Australian market.

The notable success of go-live at Coliban Water was further strengthened by a contract win at North East Water which selected Aptumo for its new billing solution to help improve its customer service to a population of more than 110,000 people across 39 towns in North East Victoria. Aptumo will enable these clients to focus on improving the customer experience, with the system offering an array of operational efficiencies and tailored solutions. Go-live is expected in the final quarter of 2020/21.

In the UK, South Staffs Water commenced the upgrade path from RapidXtra to Aptumo, and whilst delays have been experienced with implementation projects at SES Water and SES Business Water, both projects continue to progress and are due to go-live in the latter half of 2021. Echo also continued to work closely with existing UK clients and the wider sector to understand the challenges they face during the current AMP and explore how Echo's software offering can be adapted to support organisational strategies and the needs of the industry as a whole.

Collections and revenue protection services

Echo's wholly owned field services subsidiary, Grosvenor Services, has had a challenging year due to the Covid-19 pandemic and the necessity to temporarily cease customer visits for the first quarter of the year. As the year progressed, there was a phased return to more usual levels of field work, with a leaner operating model being adopted in parallel. Strong and supportive client relationships have been maintained throughout the year. On review through the year the group decided to write down the carrying value of the previous goodwill paid on acquisition of the Grosvenor business reflecting the current uncertainty of the business's immediate prospects.

Customer contact services

Echo has delivered a strong performance against many of South Staffs Water's customer commitments, including the retention of the ICS ServiceMark. A swift transition to a full home-working model was affected successfully early in the year, and working practices were adapted to meet the changing needs and behaviours of customers. Changes in how, when, and why customers got in touch were seen throughout the year, with a switch towards the use of digital channels being very evident in the early stages of the pandemic. During the year adaptations were made to collection processes and policies in recognition of the impact the pandemic was having on customers.

In Northern Ireland, Echo delivered in line with all challenging contractual targets for its client Northern Ireland Water for the seventh successive year, as well as introducing new digital service channels for the client's customer base.

Echo also continued to grow its wholly owned offshore operation in India throughout the year, expanding the IT Shared Services operation, the CAD team, and the web development capability within the business area.

Looking to the future

Looking ahead, Echo will continue to consider how its service offering and operational processes may need to evolve in a post-Covid world to support both client needs and those of the business and its employees. Sustainable growth remains the priority within Echo's core water and energy markets across its full service and software portfolio.

In the UK water sector, the challenge to meet the commitments made for the current AMP will require both innovation and greater efficiency, as the sector strives to deliver better outcomes for customers. Customer- centricity is also a priority in the Australian water sector, with a focus on improving customer experience and becoming more digitally-enabled.

With its service and system offering, Echo is well positioned to support both existing and new clients to drive customer service transformation to achieve their stretching objectives. Echo's services and software will remain closely aligned to the retail operational needs of the water companies and regulatory drivers in the markets it serves. It will also continue to grow its India subsidiary to support the sector with operational agility with back office and administration activities.

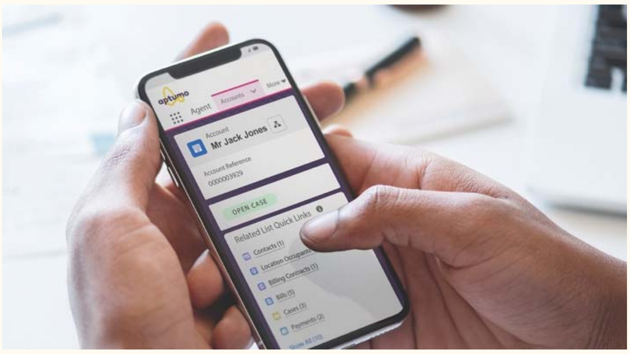
Echo's Aptumo billing software continues to provide a clear strategic pathway to retain a dominant UK market position, alongside a path for overseas growth in Australia. In the year ahead, Echo will focus on its system supporting the sector's customer service, debt collection and efficiency drivers, alongside undertaking detailed explorations to determine the next priorities for the product in terms of further geographies and the overall product footprint.

In the energy sector, debt collection activities will need to take account of the wide-ranging economic impacts on customers. These include rising levels of unemployment, financial distress, and customer vulnerabilities. In addition, offering additional support and help to customers who are struggling will be important. Grosvenor Services will work closely with clients to adapt services in line with these external impacts and evolving client needs. These debt challenges are not just limited to the energy sector, as UK unemployment rises and businesses also face a challenging time, Echo will work closely alongside its water clients around debt collection journeys and strategies.

Implementation of Aptumo at Coliban Water

Coliban Water chose Aptumo as the customer service and billing solution that would drive significant improvements in customer experience, deliver valuable process efficiencies, and offer the flexibility to evolve and improve its service provision over the longer-term.

As an investment in its future, Coliban was keen to find a solution that could grow with the business and continue to meet, and exceed, the expectations of its customers. It recognised the key qualities it was looking for in Aptumo: rich functionality, agility, resilience and reliability, capacity, scalability, and improved data security.



Being native to the Salesforce platform, Aptumo is an ‘out-of-the-box’ cloud-based system. Our implementation team worked closely with Coliban Water to develop a system architecture bespoke to its requirements. The successful deployment called for some features required for the Australian water market - concessions, rural billing, site supplies, as well as some specific to the client.

Positive results of the implementation are already being seen across key project considerations. Risks have been reduced as there is no vendor lock-in, the system is reliable and resilient, the cost of upgrades has been reduced, the system has capacity and scalability, and security is improved. Business processes have seen reduced processing times, an improved employee experience with greater engagement and satisfaction, and easier data analysis. Customer experience has significantly improved due to modernised and personalised communications.

From the very start of the project a strong working relationship developed between the Echo and Coliban teams, helping the teams to achieve a successful outcome through collaboration and sharing knowledge and experience.

South Staffordshire Plc

Environment, Social and Governance

Overview

We are committed to supporting the local communities that we serve and operate in, and continue to carefully consider and focus on the natural environment. We had a successful year in managing the health and safety of all our employees, but we know further improvements are achievable. Customers remain at the centre of all that we do.

Employees

The health, safety, wellbeing and training of all our employees is fundamental to the growth and success of the Group. We provide a positive and inclusive working environment, which ensures

our businesses remain safe and satisfying places to work.

- Health and Safety

Each of the Group's businesses take individual responsibility for the health and safety of its people. A Group level Health and Safety Strategy Forum, led by the Group Chief Executive, the Group Managing Directors and supported by the Head of Group Health and Safety, continues to oversee activities across the Group in this critical area of the business.

We believe safety at work is a basic human right, and workplace conditions directly influence our employees, as well as their families and communities. In return, our employees should expect an unequivocal level of dedication and continual improvement from us, using a continual and determined learning approach so that they can go home safe every day.

During this unprecedented year Covid-19 has been a significant focus for all the safety functions in the businesses. PPE, homeworking, social distancing, COVID-Secure requirements have required dynamic adaptation to keep people safe and businesses functional. However, despite the Covid-19 impact we have made progress in evolving our management of safety and staying engaged with our people.

The Group's accident performance improved during 20/21 compared to the previous year. All Accident Injury rate fell from 1.59 to 1.49. The majority of the events in this banding are of low potential severity, but a reduction remains a positive marker. Our most marked performance improvement were in our reportable events (RIDDOR). Rates reduced to 0.07 compared to 0.16 for 19/20.

Our more positive indicators (Hazard and Near Miss events) continue to show strong performance with over 7000 reports. These reports are illustrative of the value we place on an open, honest and proactive reporting culture that allows our people to share their knowledge, experience, skill and innovations.

A key change this year has been around how we classify, treat and focus on high potential events. The introduction of a potential severity approach has shifted our focus to a more proactive way of learning and driving improvements.

The majority of our businesses have external accreditations, including ISO 45001 for their health, safety and environmental management systems. Many Group companies also hold the ISO 9001 quality management accreditation and/or Achilles, and some hold industry specific accreditations.

Our people have access to specialist occupational health advisors, who provide proactive health surveillance and advice to help keep them fit and healthy. Employee assistance programmes are available across the Group. These provide counselling on a variety of issues, whether work related or personal. There is a marked focus on general employee wellbeing, with a specific focus on mental health. This has been especially important during the Covid-19 outbreak, as we have supported a different way of working. A Group Wellbeing team has been established to drive strategy and an aligned approach.

However, we believe that we can do even better and continue to evolve our approach to how we keep our people safe and well. The Group's strategy for 2021/2022 will reset our approach to safety to ensure we remain absolutely focused on our highest risks and seek to align our management of those risks across all our businesses.

- Training, development and engagement

In December South Staffordshire Water gained Investors in People (IIP) accreditation at the Standard level. This demonstrates that the business has the principles and practices in place around supporting its people and that employees know how to apply these principles to make work better. Gaining IIP accreditation during the year was a key commitment for the business.

To help and support its people during the COVID-19 pandemic, the business also ran a number of wellbeing initiatives for its employees during the year. This included setting up a Health and Wellbeing community on its internal engagement platform, with posts on nutrition, exercise, fitness and mindfulness.

South Staffordshire Water is a signatory of the Social Mobility Pledge. This is a global coalition of businesses and universities that encourages organisations to be a force for good by putting social mobility at that heart of their purpose – for example, by focusing on things like education outreach, opportunities for apprenticeships and work experience.

After conducting its annual employee engagement survey, the Echo senior management team presented the resultant insights and action plans via a "Town Hall" Teams Live event to everyone across the business. This enabled an interactive Q&A sessions to be held even in an environment where Covid-19 restrictions constrained the ability to meet in person. The senior management team also hosted a number of smaller informal virtual sessions to check-in on teams and to ensure the effectiveness of the wellbeing and engagement activities taking place across the business.

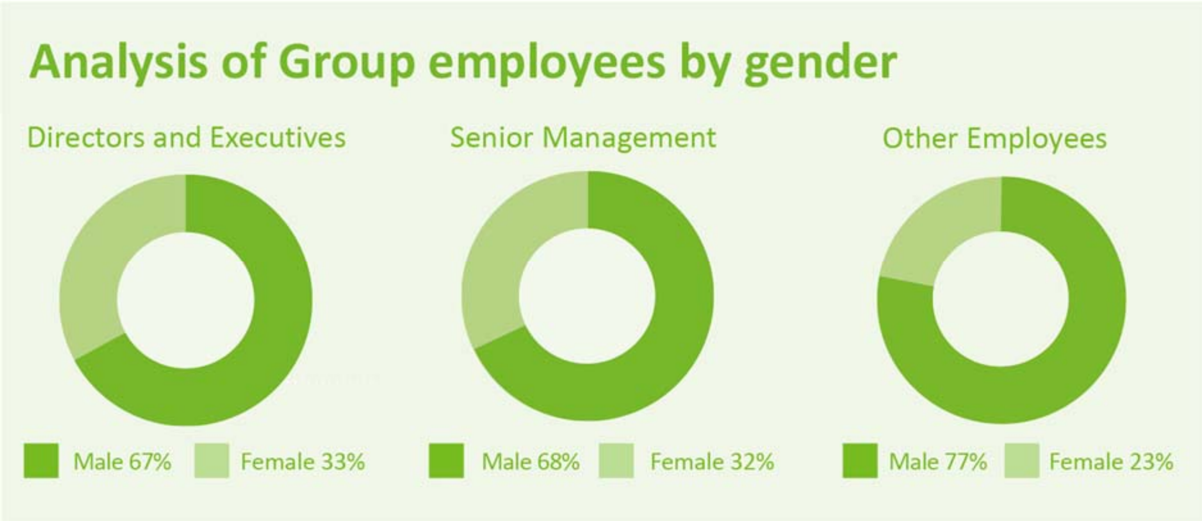
Echo's software services teams continue to embed and develop their knowledge of the Aptumo software through the Salesforce Trailhead Programme with pulse surveys assessing the effectiveness of the learning activities throughout the year. Responses from the teams are also helping shape Echo's new "Aptumo Academy" development programme that will support new starters and existing team members alike in building their skills and knowledge in the products, processes and technologies embedded across the business.

Last year's "Big Personal Development Week" held by the Echo Northern Ireland team was a huge success so the event took place again in 2021. This year, the calendar offered even more activities for colleagues to take part in, all focusing on growth and development. A series of virtual workshops, training sessions and e-learning programmes were available for the teams to get involved in, with topics ranging from CV writing to personal resilience training.

As for all businesses – continued employee engagement has been a huge priority throughout the year for SSI Services. Despite the hurdles that working from home or remotely can bring – SSI Services delivered a full programme of training courses through its Quick Learns format – taking a number of topics each month (ranging from "Chairing A Teams Meeting" to "Managing Absence") and running these through bite sized training events via Teams. This has been very well received and will continue into subsequent years. In addition, there has been a focus on delivering diversity and equality training to both management and supervisory teams – this has been done in a discussion based format which has enabled employees to fully engage with the subject. Apprenticeship programmes continue to be delivered across of business. SSI Services has also launched Shared Life - it is a philosophy about how all employees work together and look after each other at work. The concept of Shared Life came from an employee. It is the "umbrella" that SSI Services is using to develop its culture, look after the wellbeing of its employees and make sure that everybody is treated with respect.

Equality and fair treatment

The Group is committed to providing a positive working environment, free from discrimination and unfair treatment. We welcome diversity and provide equal opportunities for employment, training and promotion, having regard to employees' particular aptitudes and abilities, regardless of their gender, race, age, disability or any other protected characteristics. If an employee were to become disabled, we would make reasonable adjustments to allow them to continue to add valued contribution and performance, and support them in every way. The Group takes steps to promote gender diversity including aiming to attract more diverse applicants to vacancies, further developing flexible working



arrangements and encouraging more diversity in engineering and technical roles.

Human rights are not considered to be a material risk for the Group's businesses, because of existing regulatory requirements in the UK and the nature of our supply chain.

Environment

South Staffordshire Water continues to work closely with landowners and the Environment Agency to deliver innovative catchment management solutions to mitigate its operational impact on the natural environment and improve the quality of the raw water supplied to its treatment works. During the year, it again exceeded its target for delivering biodiversity benefits, helped by its very successful SPRING (Slug Pesticide Rethink – Ideas for Nurturing Growth) environmental programme and PEBBLE (Projects that Explore Biodiversity Benefits in the Local Environment) fund. More recently, the business has been partnering with Affinity Water on an innovative reverse auction called EnTrade, which operates online markets for nature-based solutions. During the year South Staffordshire Water worked with 18 farmers on a project to fund the planting of cover crops as a way of capturing nitrogen and stopping it from entering nearby water sources. The 2020/21 EnTrade scheme captured more than 40 tonnes of nitrates that might otherwise have leached into groundwater sources, reducing the need for more intensive water treatment.

In Northern Ireland, Echo is certified to ISO14001:2015. This covers all aspects and impacts relevant to its activities. Echo's Covid-19 response has led a number of improvements with lasting environmental impacts, such as increasing work from home, the use of video-conferencing technology for meetings which will reduce future travel, and a reduction in paper usage and stationery purchasing.

SSI Services continues to focus on the environment and sustainability. A culture where environmental considerations are considered at each stage in a process is ever growing with encouragement for all employees to take personal and collective responsibility. Businesses within SSI Services are ISO 14001 accredited. SSI also has a sustainable procurement policy which supports the procurement of environmentally friendly resources (see section headed Suppliers below).

Communities

During the year, Charitable Group contributions totalled £68,778. In light of the pandemic, and the negative effects lockdown and other restrictions have had on food donations, the Group decided to make it its mission to help fund foodbanks and emergency food parcels by setting up a Just Giving page. Almost £3,000 was raised by the Group's employees for the Trussell Trust and other local independent food banks to support their valuable work throughout the winter and the money has been double matched by South Staffordshire Plc, bringing the overall donation to a total £9,000.

Each of our businesses has continued to provide support to their local communities during the pandemic.

South Staffordshire Water focused its attention during the year on providing help and support to those customers whose livelihoods had been impacted by the COVID-19 pandemic. As mentioned in the strategic report this included introducing a new Assure COVID-19 tariff, which offered a 12-week discount for any customers facing financial hardship as a direct result of the pandemic. Alongside this, the business continued to offer financial and other support to customers on low incomes, and also encouraged those who might be eligible to sign up for the Priority Services Register.

One of the impacts of the pandemic was the temporary closure during the year of South Staffordshire Water's innovative and award-winning community hub in Wednesbury in the South Staffs region. Despite this setback the community team continued to engage with regular users of the hub, and also with the more than 400 local community organisations and charities that the business works with. The team also ran a 'dress to impress' campaign, asking for donations of things like smart work wear, winter coats and baby clothes, and then distributing them to those people in the community who had the greatest need.

We engaged with a number of local charities and community organisations through our PEBBLE biodiversity scheme. In December we awarded £40,000 to fund biodiversity enhancements across both South Staffs and Cambridge regions. In the South Staffs region a number of community allotment and gardening activities received funding, including a pond restoration project near Alrewas and a project to create and restore hedging along the Lichfield and Hatherton Canals. In the Cambridge region eight projects received awards focusing on chalk stream and protecting wild birds and species. These included creating a wildflower meadow and orchard at a community farm and replacing 6 barn owl boxes across a 160 hectare site.

We also continued to grow H2Online, our online customer community, during the year. We used a range of approaches to engage with members, including polls, surveys, video diaries and discussions. During the year we engaged members, amongst other things, about the acceptability of our investment programme and the introduction of smart metering.

Echo has continued to support a number of good causes despite the pandemic and resultant restrictions. The usual calendar of large-scale events and initiatives has given way to colleagues supporting each other on smaller, more personal causes, or donating to each other's fundraising activities. Athletic challenges have been accepted – including runs, walks and even triathlons – with national events such as Christmas Jumper Day for Save The Children UK still being supported across the business, albeit virtually.

Echo's offshore India-based employees continued to support the local orphanage, Mala Smriti. Employees provided food and medicines for the children in their care. Funds have been raised with the intention of decorating and refurbishing the orphanage once the impact of the pandemic abates.

Working within local communities has again been a priority for SSI Services and its employees. During 2020/21 – there have been a plethora of fund raising events including charity quiz nights and other sponsored events. SSI Services has also reached out to undertake practical actions within communities – supporting food banks, arranging food deliveries and supporting community events such as the the Churches Together Festive Lunch (delivering over 50 meals to people in Lichfield and surrounding areas on Christmas Day).

Customers

We are committed to improving customer satisfaction, service quality and building long-term relationships with customers, all of which are imperative to our future success.

South Staffordshire Water has continued to engage with its customers using a range of tools, including focus groups, polls and surveys. It also measures customers' views on the trust they have in the business and the value for money of the services it provides. The business has continued to look at different ways to engage with customers during the year. For example, the H2Online customer communities in the Cambridge and South Staffs regions have continued to go from strength to strength, with more people signing up and more user-generated topics for discussion.

In addition, in November the business launched a pilot of 'Get Water Fit', an interactive digital tool designed to help customer save water, energy and money by managing their water use more effectively. And it made a number of improvement to its website during the year to make it easier for customers to find the information they are looking for quickly. This included updating the content in a number of areas, such as the Priority Services Register pages, the education pages, the news and publications section, and the Developer Services pages, making them much easier to navigate.

Echo has continued to invest in its memberships with the Call Centre Management Association (CCMA) and the Institute of Customer Service (ICS). Through membership with these organisations, Echo ensures an outward-looking focus; learning through best practice benchmarking and industry networking which even in these constricted times have continued, albeit on a smaller scale and in a virtual environment. The importance of maintaining the focus across the Echo teams was evidenced by the activities that took place across the business to celebrate the ICS National Customer Service week. A calendar of themed daily activities took place with the Echo Board taking the lead in a discussion about what customer service means to them and the importance of being a trusted service partner to clients.

SSI Services continues to put the customer at the centre of its business. Through the Shared Life philosophy – there is a focus on interaction and delivery to customers and this is supported by the customer service training that is regularly delivered through the Think Customer First programme. There is a continued encouragement to understand how the customer operates and to find solutions to customer issues. Customer feedback is actively sought with reviews on projects highlighting successes and future developments. Customers are encouraged to work with the businesses within SSI Services to make sure that the "customer's customer" always receives great service.

Suppliers/partners

For South Staffordshire Water, engagement with suppliers is primarily through meetings and content on its website specifically for suppliers and potential suppliers. The business works with a range of companies across a variety of disciplines to ensure it always uses the right suppliers and skills to support the maintenance of its water supplies and the services it delivers to customers.

The business uses a variety of competitive processes to appoint suppliers, putting the appropriate checks and balances in check to ensure they can provide value for money while delivering high-quality goods and services. It works closely with the supply chain to ensure suppliers understand the importance of ethical procurement. This includes reviewing their policies and practices around things like health and safety, cyber security, insurance, and that they hold the appropriate certification to assure they are qualified to carry out the required task.

For its part, the business evaluates its competitive processes using a range of criteria, including financial viability, environmental implications, capability, and quality and customer impact. This is to ensure the business treats all its suppliers fairly, and operates with integrity in an open and transparent manner.

Echo values the strong relationships it has with its suppliers so the engagement process remains a key part of its quality management system. During the pandemic, the importance of collaborating with suppliers in delivering excellent services to clients has only been heightened. The supplier reviews that routinely take place have increased in frequency as working practices for some of Echo's supply chain has been adapted due to Covid-19.

SSI Services engages with all suppliers in the supply chain mainly through meetings and discussions to support is promoting its sustainable procurement policy, which aims to increase value for money, reduce consumption of primary resources and use materials with fewer negative impacts on the environment. SSI works with its suppliers to procure products from legal and sustainable sources. SSI also provide opportunities for suppliers who are small and medium sized enterprises and ensures that fair supply terms are applied and respected. SSI forms relationships with suppliers focusing on sourcing goods, works and services that embody SSI's environmental policy, health & safety policy and support the delivery of its sustainable development strategy.

Working with stakeholders

South Staffordshire Water is the main division within the Group that has relationships with regulators and government. During the year the business has engaged with MPs and local councillors on a range of topics, including metering, financial support for customers, the Priority Services Register and green recovery.

The Managing Director Andy Willicott has met with Anthony Browne, MP for South Cambridgeshire, on several occasions during the year to discuss the work the business is doing to protect chalk streams in the Cambridge region. These are rare habitats that are particularly susceptible to abstractions from the underlying chalk aquifer. Regular meetings have also been held with local interest groups, including the Cam Valley Forum, and also with Anglian Water and Affinity Water on future water resource options.

The business is also a key member of Water Resources East (WRE) in the Cambridge region and Water Resources West (WRW) in the South Staffs region. These groups, which include a number of different stakeholders, have been set up to develop long-term regional water resources plans, which will be published in 2023.

The business has also been engaging with residents living in the vicinity of the Hampton Loade and Seedy Mill water treatment works in the South Staffs region about the ambitious upgrade programmes at both sites. It has used a combination of quarterly newsletters and virtual meetings to keep residents informed and to listen to any concerns they may have about any potential impacts of the construction work. Copies of the newsletters have also been shared with the respective MPs and with interested local councillors.

And despite the impact of COVID-19, the community team has continued to engage with a wide range of stakeholders, including local community groups, charities and organisations. The main purpose of this engagement during the year has been to share information about the wide range of support the business made available to help customers who were experiencing financial hardship as a result of the COVID-19 pandemic.

South Staffordshire Plc

Financial Review

Overview

The Group monitors its financial performance through targeted Key Performance Indicators. In the year ended 31 March 2021, the Group fell below its key financial targets for sales and profitability due to the weaker Covid impacted trading position.

Turnover and profit

Group turnover decreased by 3.3% to £261.6m in the year (2020: £270.6m). Turnover generated by South Staffs Water increased to £129.7m (2020: £129.3m), although during the year there was a material shortfall in the appointed turnover compared to the allowances of £3.7m due to the impact of the COVID-19 pandemic. External turnover from the non-regulated service businesses reduced by £9.4m to £131.9m (2020: £141.3m), due to the impact the COVID-19 pandemic in the first half of the year restricting access to certain activities.

Group EBITDA (before infrastructure renewals) of £73.2m, reconciliation in note 2 on page 89, was £5.4m higher than the previous year (2020: £67.8m). With the reduction in profit due to the pandemic with this impact being offset by the non-recurring bad debt provision of £7.0m for South Staffs Water recognised in 2019/20 (total provision in 2019/20 of £10.4m). South Staffs Water operating profit grew in the year due to the non-recurrence of the bad debt adjustment above offsetting the impact of increased production costs across the household customer base due to the UK Governments advice to stay home during the pandemic. The performance also included higher profits for the non-regulated businesses due to the continued recovery of the IWS M&E business. Group operating profit was £28.8m (2020: £24.3m), with the expected increase largely reflecting the non-recurrence of the bad debt charge for South Staffs Water; however, this has been offset by the impacts of the COVID-19 pandemic. Operating profit for South Staffs Water (after allocation of central items) was £24.6m (2020: £22.1m) with non-regulated operating profit of £4.2m (2020: £3.0m).

There was a reduction in net finance charges in the year of £1.3m to £12.0m, largely due to lower Private Placement finance charges following the refinancing of the debt in 2020.

Overall, Group profit before tax was £16.8m (2020: £11.0m).

Reconciliation of operating profit to reported EBITDA (before infrastructure renewals)

	2021 £'000	2020 £'000
Operating profit	28,802	24,293
Depreciation	32,655	31,528
Infrastructure renewals	10,114	9,715
Amortisation of goodwill	2,863	4,066
Impairment of goodwill	1,309	799
Amortisation of intangible assets	732	310
Amortisation of capital contributions	(3,228)	(2,907)
EBITDA (before infrastructure renewals)	73,247	67,804

Tax

The tax charge for the year decreased to £3.6m (2020: £8.2m) with the decrease being mainly due to the impact of the deferred tax rate change recognised in 2020 (charge £5.0m). A reduction on the future UK corporation tax rate from 18% to 17% was substantively enacted in the Finance Act 2016 and will take effect in April 2020. However, in the Spring budget 2020, the Government announced that from 01 April 2020 the corporation tax rate would remain at 19%. This new law was substantively enacted on 17 March 2020; therefore, its effect has been included in these financial statements. Current tax and deferred tax have been recognised at 19%.

On 3 March 2021 the Chancellor announced an increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. As the rate change was not substantively enacted at the balance sheet date, all deferred tax at 31 March 2021 is recognised at the prevailing rate of 19%.

The main driver for the tax charge being higher than the statutory rate of 19% (2019: 19%), of pre- tax profits was due to the Group goodwill amortisation charges not being deductible for corporation tax purposes.

The Group's approach to tax is explained on page 39.

Cash flow and dividends

The Group continues to place significant emphasis on its cash flow. Group cash flow from operating activities was £60.4m (2020: £80.3m), with the reduction relating to the settlement of intercompany balances with parent undertakings. Capital investment (net of contributions, disposals and capital creditor movements) increased to £38.4m (2020: £37.5m) due mainly as expected to increased capital investment by South Staffs Water, however, the expenditure was lower than the budget expectations. Overall, free cash flow (cash flow from operations less interest, tax and capital expenditure) of £15.6m (2020: £17.8m). Total dividends paid and proposed in the year were £20.7m (2020: £12.6m).

Financing, net debt and liquidity

Group net debt reported for covenant purposes at 31 March 2021 amounted to £409.5m with the increase from 31 March 2020 (£400.8m) being largely due the increase in the value of index-linked debt in South Staffs Water due to indexation for the year of £6.1m. Group net debt for statutory accounting reporting purposes under FRS102 at 31 March 2021 amounted to £431.4m (2020: £419.8m) with the value fully reconciled to the value used for covenant purposes in the notes to the consolidated cash flow statement on page 83 along with a detailed analysis of the Group's net debt.

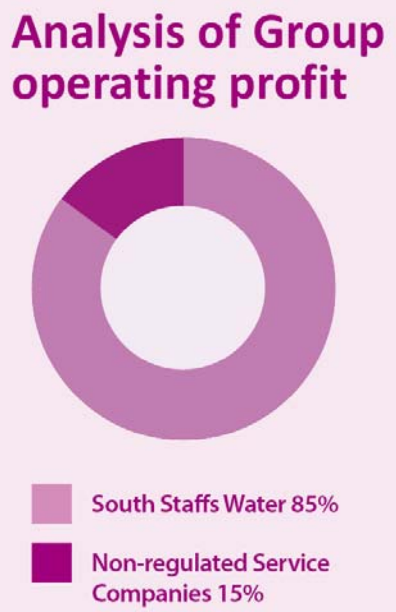
In South Staffs Water, net debt for covenant reporting purposes was £246.6m (2020: £246.1m) being 61.2% (2020: 62.1%) of its regulatory capital value (RCV) of £403.2m (2020: £387.4m).

The Group and South Staffs Water have maintained, and continue to forecast to maintain, significant headroom in respect of all borrowing covenants, which include both interest cover and leverage covenants. Standard & Poor's continues to rate South Staffs Water as BBB+, well within investment grade.

At 31 March 2021, the Group had undrawn bank borrowing facilities of £31.5m (2020: £Nil), in addition to its cash balances of £15.0m (2020: £37.0m), providing significant liquidity headroom of £46.5m (2020: £37.0m) and with financing already secured to refinance borrowings that are due to mature in the next 12 months. South Staffordshire Water PLC have agreed commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital. We intend to draw down the funds in two tranches, with the first £20m drawn in September 2021 and the second tranche of £40m expected in June 2022.

Risk management

The Directors acknowledge that risks exist in all businesses with the Group's approach to risk reflecting its status as a Group comprising a regulated business, with a long-term water supply licence, and also other divisions operating in regulated markets.



As part of its normal activities, the Board of Directors, assisted by the Senior Management team, regularly carry out robust assessments of the principal risks facing the Group, including those risks that have the potential to threaten individual business models, future operational or financial performance, solvency and liquidity. There is regular monitoring of the Group's risk management and material internal control systems to review their continuing relevance to the Group's businesses and their effectiveness, ensuring that appropriate risk management activities are in place or are planned to mitigate the risks identified. It is accepted that risks can emerge and change quickly; therefore, risk identification and mitigation activities will need to be able to respond to this and that, at any given point in time, enhancements to mitigating actions may be required.

Risks are assessed both on a gross basis (likelihood and consequence before mitigating controls) and a net basis (likelihood and consequence after mitigating controls) so that the Directors and the Senior Management team can properly assess the overall significance of the risk and the estimated effectiveness of mitigating actions, as well as if further actions are required.

The Directors accept that not all risks can be mitigated entirely, but aim to ensure that risk management activities reduce the overall estimated impact of risks, on a net basis, to a level that is considered to be acceptable and that do not impact on the long-term viability of the Group and its businesses. The Directors believe that the most significant risk areas currently faced by the Group along with the related mitigating actions are summarised below with no significant changes in the ratings assigned to each risk from the previous year.

Details of the Group's principal financial risks are provided in note 28 to the accounts.

Principal Group risks

The following section lists the Group's principal risks, and details what each risk means for the Group, and the actions being taken to manage and mitigate the impacts.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
Resilient supply of good quality water#	We are legally required to meet regulatory standards for water quality and to ensure our customers always receive a reliable water supply. Failing to provide a secure supply of clean, safe drinking water or meet long-term demand requirements may impact public health, result in regulatory enforcement action, and damage our customers' trust and confidence in us.	We have carried out significant work to mitigate the water quality and safety risks. This includes installing ultraviolet (UV) treatment at our Hampton Loade and Seedy Mill water treatment works, and having an ambitious, long-term capital investment and asset maintenance programme. In addition, we have a number of controls in place to reduce the probability of having insufficient water resources. This includes our long-term water resources management plans (WRMP) for both our South Staffs and Cambridge regions, and having drought plans consistent with our WRMPs and business plan for 2020 to 2025. We are also collaborating with other water companies and key stakeholders on regional water resources plans through Water Resources East (WRE) and Water Resources West (WRW).
Water resources#	There is a risk that the demand for water may exceed the volume we have available for supply – for example, during a severe drought. The impact of running out of water is high because of the potential impact on public health, and the long-term financial and reputational damage that could arise as a result. Incidences of prolonged hot, dry weather – such as that experienced in summer 2018 – can pose challenges to our supply/demand balance over the longer term; underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk. There is a low residual that our selected options – for example, large-scale leakage reduction, per capita consumption (PCC) and more household metering will not deliver the water savings expected.	We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include our WRMPs and drought plans collaborative regional engagement through WRE and WRW, tracking our leakage and PCC metrics, and our ongoing asset maintenance programme to minimise the risks of short-term supply interruptions. To mitigate this risk, we are continuing to work with the Environment Agency to produce our WRMPs, regional water resources plans and on the delivery of our environmental programme (WINEP). We have also updated our drought plans, which we submitted to the Secretary of State at Defra on 30 March 2021, and we have focused particularly on our Cambridge region through our work with WRE to identify medium- and long-term solutions for additional water resources – for example, the Fenlands reservoir opportunity.
Health and safety*	Our risks associated with health and safety include things that affect the wellbeing of our people, our contractors and members of the public, including injuries and fatalities. They also include non-compliance prosecutions, and the reputational damage that could result from failing to meet our own health and safety standards.	As well as continuing to make health and safety interventions during the year, we also focused on practices and guidance related to the COVID-19 pandemic. This includes having most of our office-based people working from home, and putting key worker rostering in place to maintain the planning and assigning of our operational activities. We also have risk assessments in place for our field-based people.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
	These risks could result in incidents leading to a loss of life and could impact on families and our people. They could also result in damaging press coverage, Board involvement, stress and the risk of imprisonment for members of the Executive team. A Health and Safety Executive (HSE) enquiry could impact on resources and morale.	We aspire to be a zero injury workplace. In a continuing drive to reduce this risk further, among other things we have: • introduced a new 2-2-2 reporting system in South Staffs Water; • focused our attention on high-priority safety risks, such as lone working, and prompt hazard identification and reporting; • carrying out senior management and director workplace audits; • carrying out health and safety training and education; and • placed more emphasis on health and safety management systems, audits and processes;
Failure to meet regulatory performance commitments#	There is a risk that we could underperform against the commitments agreed by Ofwat in our PR19 final determination. Out of 30 performance commitments, 19 have financial incentives attached. Performance targets have been deliberately set at stretching levels by Ofwat – their purpose is to drive service levels forward. This policy has led to challenging step change targets to achieve in the areas of leakage, bursts, supply interruptions and the Compliance Risk Index (CRI) water quality measure. Some performance commitments are exposed to significant volatility from factors outside of direct management control. There are revenue, reputational and regulatory impacts associated with this risk.	We have implemented a number of actions to help us achieve our performance commitment targets, including improving our reporting/assurance processes, and having greater exposure of our performance at Executive and Board level on a regular basis. We are also mitigating the risk of a net under-performance penalty by making sure we maximise the reward opportunity for other measures. The action plans we have in place for each measure take this into account. Some performance commitments continue to be susceptible to the current COVID-19 situation. This will require a representation to Ofwat on these impacts, which are substantially outside of management control. We are involved in some cross-sector collaborative work to help build this case.
Asset reliability and resilience#	We have a number of assets that a critical to the supply of clean drinking water to customers. The reliability and resilience of our assets are fundamental in ensuring we are able to abstract, treat, store and distribute sufficient volumes of clean water to maintain supplies to all our customers and deliver against our agreed performance commitment targets. We make funding decisions that enable us to maintain our assets as reactive failures can impact our customer measure of service and	We recognise the need to improve our assets. Our long-term plans are set in the wider context of managing and maintaining our assets and supply capabilities. Our business plan has modelled an identification of needs and solutions to support optimum investment strategies to mitigate this risk. This includes making significant investment in Hampton Loade and Seedy Mill, carrying out proactive maintenance programmes, and reducing network failure through targeted mains rehabilitation.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
	experience (C-MeX) performance and attract negative media or regulatory attention.	During 2020/21 we started work to align our asset management function with proactive interventions based on continuous performance monitoring. We also implemented mechanisms to encourage efficient reporting, which the Executive team reviews each month.
Achieving our AMP7 leakage reduction target#	The risk is that we do not achieve specific regulatory measures across our South Staffs and Cambridge regions. Under-performance in this area will incur a reputational and financial impact. We have a commitment within our WRMPs to reduce leakage and mitigate the environmental impact of our abstraction. Ofwat, the Environment Agency and CCW, among others, scrutinise our performance in this area very closely.	We have put a strategy in place to achieve our leakage targets across both regions, including: • continuous monitoring of our performance; • sufficient resourcing of leak detection and repair activity; • prioritising prompt leak repairs; • replacing ageing assets; and • investing in a proactive live operating network. The COVID-19 pandemic has impacted our work to reduce leaks on customers' supply pipes. But our overall detection performance has improved and leaks are being repaired quickly. At the time of writing both our South Staffs and Cambridge regions are currently performing ahead of or in line with our leakage targets.
Impact of our activities on the environment*	The risk is that our activities could cause harm to the environment. This risk relates to the negative consequences associated with harming the environment, as well as the risk of non-compliance with legal or regulatory environmental obligations. This could include pollution incidents or failure to comply with permits and licences. This risk also covers the reputational impact – both real and perceived – of our operations on habitats such as chalk streams and rivers. As well as MCERTS environmental certification conditions, which are now included on some discharge permits in our South Staffs region, the Environmental Performance Assessment came into force for water only companies in January 2021. This covers our activities in relation to permit and abstraction licence compliance, pollution events and the delivery of WINEP.	We summarise all our environmental obligations in our WISER regulatory submission made to the Environment Agency in August 2018. Specific risk mitigations in this area include fast mobilisation of on-the-ground teams when incidents occur and our WINEP delivery work. In addition, our catchment management team is well-established and making good progress in both regions, while our PEBBLE biodiversity fund delivers both environmental and community benefits. Other mitigations include: • the Abstraction Incentive Mechanism (AIM), which helps us to maintain sustainable abstraction practices; • cross-team working to ensure MCERTS compliance; • monitoring our abstraction licences and discharge permits to ensure compliance; and. • identifying alternative abstraction sources in our Cambridge region to reduce the impact on chalk streams in the area.

<table>
<tr><th>What is the risk?</th><th>What does this risk mean for us?</th><th>How are we mitigating this risk?</th></tr>
<tr><td>Non-compliance with regulatory obligations#</td><td>The risk is that we fail to comply with our statutory or regulatory obligations as a licensed water undertaker.
Examples of breaches include:
• our annual data returns not complying with Ofwat's guidelines, leading to the data having to be re-published;
• failing to operate a level playing field for retailers, developers and new markets, in breach of competition rules; and
• not complying with our licence conditions, leading to regulatory enforcement action and fines of up to 10% of turnover.</td><td>Each year, we consider our obligations as a licensed water undertaker, and that we understand and comply with them. We do this in a number of ways, including assessing the impact of any licence or legislative changes made during the year and making sure we adopt any new obligations.
In addition, we review and publish any documents as required under our licence, making use of appropriate internal and external assurance as required. We also require Board sign off of all significant obligations – such as our customer charges and annual performance report.</td></tr>
<tr><td>UK exit from the European Union*</td><td>There is a significant risk of loss of critical supply or disruption to the delivery of things like:
• chemicals, which we require to treat the water we abstract to the regulated standards;
• critical component spares, which could impact on the operation of critical equipment, such as pumps for water distribution;
• stock consumable items, such as pipes and fittings, which could impact planned maintenance and repair work; and
• fuels, which could have a wide range of impacts on our operations.
These risks may affect our ability to produce and supply clean drinking water for our customers.</td><td>We have worked with Defra, Water UK, local resilience forums and associated sub-groups to mitigate risks based on Defra's worst case scenario. We also set up a Steering Group to lead actions internally. In addition, we reviewed our business continuity plans, increased the number of people on our incident team and carried out additional training. We use all our internal communications channels to engage with our people and keep them informed.
While the risk of a disorderly EU exit has reduced significantly, we are continuing to monitor the situation, as there is still the chance of disruption to supply while new processes are implemented at the borders. We are also continuing to monitor supplier deliveries and report through working groups to ensure early identification of any issues arising from this situation.</td></tr>
<tr><td>Technology, systems and security*</td><td>There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure, which could result in reputational damage or regulatory fines. These risks fall into the following categories.
• Disaster recovery capabilities, which includes the risk of the Green Lane data centre going offline, impacting our ability to access our email, financial and network data sharing systems.</td><td>We are mitigating these risks in a number of ways, including:
• having an Information Security Steering Group (ISSG) and compliance framework for security of Network and Information Systems (NIS) Regulations in place;
• having ISO 27001 certification for our Group IT operations;
• using our Group Cloud strategy to reduce legacy impacts;
• having managed services for monitoring and security operations centre (SOC) provision in place;
• implementing new firewalls as part of our ongoing IT transformation. Every single rule we have in place today is being validated, and our</td></tr>
</table>

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
	• Legacy system support and management, with a specific focus on the lack of access to either internal or external capabilities to support legacy systems. • Data integrity (including loss or corruption), which includes the risk of inadequate controls resulting in the loss of data or information, or an external data breach.	firewall and key parts of the network are monitored 24/7 by an external vendor; • implementing a new SCADA system across both our South Staffs and Cambridge regions; • having a privacy team and Data Protection Officer in place, and implementing a sustainability plan; • segregating our IT and OT infrastructure. All our PCs are encrypted and have active anti-virus software; all emails are scanned for malicious content or attachments; and • providing training and communication to all employees.
Finance*	The key risks for us are around: • having insufficient financial resources to finance the business; • reduced access to capital markets; • the potential for lower credit ratings; • higher funding costs; • the levels of fixed cost embedded debt; and • changes in risk scoring by rating agencies, which could lead to some or all of the above.	To mitigate this risk, we have: • engaged with external advisors on options for reducing our cost of embedded debt; • refinanced expiring £30m of bank facilities and increased and extended a £20m facility to £35m for four-years; • employed hedging strategies; • carried out regular cash flow reporting and management; • carried out regular monitoring of markets; and • started work to develop a long-term financing strategy.
Customer service#	There is a risk around the demand for a service provision that is multi-channel and accessible 24/7 as customer expectations continue to increase. As the implementation of our digital channels is a recent change for us, we have experienced a high level of phone contact, which also increases our cost to serve. In addition, the C-MeX measure of customer service and experience monitors both customer service and customer engagement. Our performance in this area has been declining – in-year penalties could be incurred unless performance improves.	Insight gained from our customer engagement activity has helped to shape our customer experience strategy. In addition, we have set up a monthly Customer Experience Steering Group and have put improvement plans in place. We also monitor our performance and customer satisfaction on a daily basis. Other actions to mitigate this risk include: • making improvements to MyAccount and our mobile app; • putting in place a clearly defined digital change plan; and • looking at how we provide suitable customer support packages and how this may affect our debt performance.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
Customer affordability#	There is a revenue risk as a result of levels of customer bad debt and the associated costs of collection delivery. There is also a risk that the economic climate created by the COVID-19 pandemic continues to worsen throughout 2020/21 and into the next financial year. This may lead to more customers experiencing financial difficulties and worsening debt recovery performance.	We hold monthly Debt Steering Group meetings, which monitors performance and agrees strategy. In addition, we have launched a debt transformation project, using a debt best practice framework to deliver changes focusing on debt prevention, data use and sharing, and standard and advanced collection activity. We have also set up weekly review meetings to monitor activity and debt performance, and enable us to make informed decisions quickly. Other actions to mitigate this risk include: • putting in place and promoting customer support tariffs; • trialling customer debt payment matching schemes; • introducing litigation methods to the advanced recovery process; and • increasing/changing activity within the standard recovery process.
Failure or increased cost of capital projects/ exposure to contract failures#	There is a risk around the business experiencing additional costs and delays that impact the condition or performance of our assets. This in turn could impact on customer service, water quality, efficiency or environmental performance.	We have brought into closer alignment our asset management and investment delivery functions. This gives us more clarity around priorities and ensures that enabling works (scope, pricing and justification) are completed before projects start. In addition, we have put additional resources and cost controls in place to facilitate the increased levels of activity associated with our Hampton Loade and Seedy Mill upgrade programmes. We have also set up an Investment Programme Steering Group to monitor current performance against our forecast investment programme.

* Affects all of the Group's operations.
\# Affects South Staffs Water's operations only.

Group Approach to Tax

The following statement complies with the requirements of the Finance Act 2016 for large groups to make their tax strategies available to the public.

The Group takes seriously its legal and social responsibilities for meeting its tax obligations. The Group currently has no material operations outside the United Kingdom, and therefore the following has specific reference to UK taxation, although the same principles are applied in other jurisdictions where applicable.

The Group is committed to complying with tax laws in a responsible manner, balancing its obligations to the Government and the public with its duty to manage its affairs efficiently in order to deliver cost effective services to its customers while generating an economic return to its investors. The Group makes timely and accurate tax returns that reflect its fiscal obligations to the Government.

In particular, the Group:

- does not engage in aggressive tax planning;
- does not engage in artificial tax arrangements;
- seeks to maintain a transparent and collaborative relationship with HM Revenue & Customs, principally through the Group's HM Revenue & Customs' dedicated Customer Compliance Manager; and
- seeks independent professional tax advice on material matters where the application of tax law is complex or uncertain.

The Group will make use of applicable tax incentives provided by the UK Government within the framework outlined above. These may include, for example, preferential rates of capital allowances or enhanced tax relief for research and development costs and certain designated capital assets that add efficiency to the Group's operations. Such incentives have been put in place by the UK Government to encourage appropriate business investment.

It should be noted that, for the Group's regulated water supply business, South Staffs Water, such incentives will generally have the effect of reducing its customers' water bills under the funding model adopted by the economic water sector regulator, Ofwat.

In addition to corporation tax, the Group contributes significantly to the UK Exchequer by means of a number of other taxes and levies, including but not limited to:

- employment taxes, National Insurance and the Apprenticeship Levy;
- carbon taxes and other energy related taxes and levies;
- fuel duty and other vehicle related taxes;
- business rates;
- stamp duty on property and share transactions; and
- regulatory charges and licences such as water abstraction charges.

The Group's approach to risk management applies to tax as it does to other business areas. This includes identifying, assessing and managing tax risk across the entire Group, with significant issues escalated to the Group Chief Financial Officer, Group Chief Executive and/or the Board for consideration. The Group Internal Audit function will review significant risk areas where considered appropriate.

The Group has identified economic uncertainty as a risk area. This includes risk in relation to the possibility of unexpected tax law and policy changes by the Government. The Group carefully monitors published tax legislation, guidance and policy documents to ensure it can assess the compliance requirements and the economic implications for the Group. The Group will, where considered appropriate engage with HM Revenue & Customs where its tax position is likely to be materially affected by such policy changes.

Going concern

The Group has prepared a detailed business plan which states its long-term strategic objectives and operational plans and the key business issues that the Group faces both now and those anticipated in the future and how the Group proposes to address these issues.

As part of this business planning process, the Group has assessed its future prospects and, as part of this assessment, has prepared operational forecasts including expectations of its performance in important operational matters. The Group has also prepared consolidated financial forecasts for the four-year period to 31 March 2025, which reflect the stated strategic objectives and operational plans, and include but are not limited to trading forecasts with turnover, operating and capital maintenance costs along with cash flow projections Including operating cash flows, the planned Investment programme, tax and finance related cash flows. The level of net debt is also projected through the period and is compared to the level of gearing as permitted in the Group's borrowing covenants as is its interest cover. The Directors have considered the operational and financial forecasts when assessing the going concern assumption and consider the assumption that the Group will still be a going concern for at least the next 12 months to be appropriate.

In order to assess the financial resilience of the Group to possible changing circumstances, sensitivity analysis has been applied to these financial forecasts to assess the Impact on profitability, cash flows, liquidity, borrowing capacity and compliance with borrowing covenants of severe but plausible adverse changes to important assumptions made within these base projections, including those that are outside of the control of the Group. They include an increase in the required level of capital investment and operating costs (including those arising from principal risk events occurring· see principal risks above) and the level of inflation and interest rates. The Directors have selected these assumptions as they believe it is these that could most significantly impact on the going concern of the Group and that could most materially deviate from the Group's base assumptions over the longer term.

Based on the business plan and associated sensitivity analysis detailed above the Board of Directors has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the going concern assessment. In considering the results of the sensitivities performed, we have also considered additional actions that could be taken to ensure we maintain liquidity and a strong financial position. These include reducing dividend payments based on free cash flows available and a reduction in discretionary capital spend.

To support the long term financing needs of South Staffordshire Water PLC commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa' has been agreed in principle. Finalisation of the legal agreement is expected in Q2 of the 2021/22 financial year. We intend to draw down the funds in two tranches, with the first £20m planned for September 2021 and the second tranche of £40m in June 2022.

The strategic report on pages 3 to 40 is approved on behalf of the Board of Directors.

P C Newland
Group Chief Executive
30 September 2021

Section 172 (1) Statement

Group statement

Directors, in line with their duties under section 172(1) of the Companies Act 2006, act in a way they consider would be most likely to promote the Group's success for the benefit of its employees, customers and other stakeholders, and in doing so have regard to (among other things) the

- likely consequences of any decisions in the long term;
- interests of the Group's employees;
- need to foster the Group's business relationships with suppliers, customers and others;
- impact of the Group's operations on the community and the environment;
- desirability of the Group for maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

As a result of the open and transparent dialogue with its different stakeholder groups, the Groups has developed a clear understanding of its needs and monitors the impact their input has had on its strategic decision-making. The Directors have considered the potential impact of their decisions on relevant stakeholders, while also having regard to the factors listed above and the likely consequences of their decisions in the long term.

Examples of how the Group has taken account of the section 172(1) factors can be found in the strategic report, and include the following.

Key stakeholder group	How we have engaged with these stakeholders
Customers	Across the Group customers have been given regular updates using a number of communication channels, including social media, local radio, regular meetings and website content. **South Staffs Water** • Continued to engage with household and non-household customers using a range of different channels, including focus groups, polls and surveys. See pages 7 and 26 for further information. • Launched the "Get Water Fit", interactive digital tool to help customers save water and updated the content of its website. See page 27 for further information. • Engaged with customers about its Assure Tariff and extended the reach of the Priority Services Register. See pages 7 and 8 for further information. **Echo** • Continued membership of trade associations. • Celebration of ICS National Customer Service Week. • See page 27 for further information. **SSI Services** • Adopted a "Shared Life" philosophy putting its customers at the centre of its business. See page 27 for further information. • Customers are actively encouraged to give feedback and engage with the business. See page 27 for further information.

<table>
<tr><th>Key stakeholder group</th><th>How we have engaged with these stakeholders</th></tr>
<tr><td>Community</td><td>The COVID-19 pandemic seriously curtailed some of the Group’s community engagement during the year but despite the impact of the pandemic the Group’s divisions continued to find ways to engage and support local communities. Across the Group, employees helped fund foodbanks and emergency food parcels by setting up a “Just Giving” page (see page 25).

South Staffs Water
Took a difficult decision to close its community hub in Wednesbury, but continued to share information with community groups and adapted its education outreach programme. See page 26 for further information.
Engaged with local charities and community organisations, awarding £40,000 to fund biodiversity enhancements across the South Staffs and Cambridge regions. See page 26 for further information.
Continued to grow H2Online, its online customer community. See page 26 for further information.
Echo
Engaged in a number of fundraising activities.
Its offshore India operation continued to support the local orphanage, Mala Simriti.
See page 26 for further information.
SSI Services
Organised charity quiz nights and sponsored events.
Provided support for foodbanks and arranged food deliveries.
Supported community events.
See page 26 for further information about the above events.</td></tr>
<tr><td>Employees</td><td>The Group continued to engage its people regularly during the year, which was all the more important, given that most of our office-based staff were working remotely. The businesses use a full range of tools to engage people and keep them informed including emails, monthly newsletters, team meetings, wellbeing surveys and business updates.

South Staffs Water
The business gained Investors in People accreditation at the Standard level. See page 24 for further information.
A number of wellbeing initiatives were run throughout the year. See page 11 and 24 for further information.
The business is a signatory to the “Social Mobility Pledge”. See page 24 for further information.
Echo
Insights and action plans from its annual employee engagement survey were presented to employees.
Continued with its Salesforce Training Program and development of the “Aptumo Academy”.
Northern Ireland team continued its “Big Personal Development Week”
See page 24 for further information.</td></tr>
</table>

Key stakeholder group	How we have engaged with these stakeholders
Employees (continued)	**SSI Services** • Diversity and equality training has been delivered. See page 24 for further information. • Bite size training events were introduced. See page 24 for further information. • Apprenticeship programs have continued to be delivered.
Regulators/ government	Other than South Staffs Water the remainder of the Group does not have any significant relationships with regulators or government. The Group complies will all legislation and regulations affecting its activities. For South Staffs Water engagement is primarily through regulatory submissions, meetings and memberships of relevant groups and organisations, including: • Water UK's Regulatory and Strategy Committee, which is attended by Strategy and Regulation Directors and discusses future regulation policy; • Ofwat's regulatory working groups (such as the costs assessment working group) to help shape future decisions; and • Various Environment Agency technical advisory groups. In addition, as a key member of Water Resource East (WRE) in our Cambridge region and Water Resources West (WRE) in our South Staffs region, the business engaged with other water companies and key stakeholders on the development of long term regional water resource plans allowed for in the Environment Agency's national framework for water resources. These regional plans are due to be published in 2023.
Shareholders	Engagement with shareholders takes place through monthly management and board meetings. Regular dialogue also takes place with shareholders through a variety of other mechanisms such as briefings, calls and informal meetings. The Group Chief Executive and Group Chief Finance Officer also have regular dialogue with shareholders on key issues, which affect the business as and when those issues arise. Shareholders are engaged in discussions on the matters referred to below. • financial performance (pages 30 to 40); • risk review (pages 32 to 38); and • long term viability and financial resilience (pages 39 to 40).
Suppliers / partners	Each division has its own relationships with suppliers and partners who support their individual businesses. See: **South Staffs Water** • Engagement primarily through meetings and content on our website specifically for suppliers and potential suppliers, including access to our bid assessment framework. • A range of competitive processes are used to appoint suppliers and supplier checks are undertaken as part of those processes. • Further information on how the business manages its supply chain can be found on pages 27.

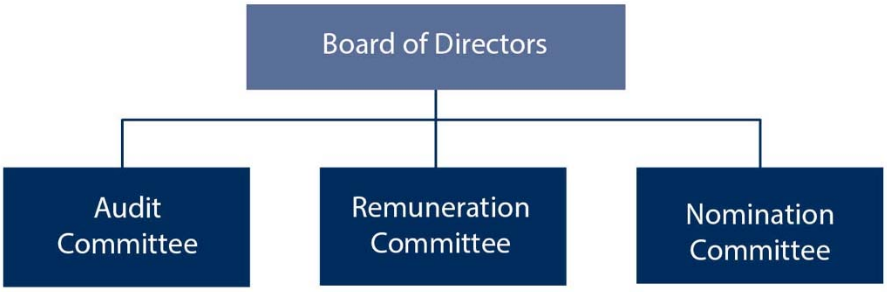
Key stakeholder group	How we have engaged with these stakeholders
Suppliers / partners (continued)	**Echo** • Supplier engagement forms part of Echo's quality management system. • Supplier reviews have increased as the business and suppliers adapt to COVID-19 pandemic. • Further information on how the business manages its supply chain can be found on page 27. **SSI Services** • SSI engages with suppliers primarily through meetings and has in place a sustainable procurement policy. • Further information on how the business manages its supply chain can be found on page 27.

This statement was approved at a meeting of Directors held on xx September 2021 and duly signed on its behalf.

P C Newland
Group Chief Executive
30 September 2021

Board of Directors

The Board comprises:



- the Chair;
- the Group Chief Executive;
- the Group Chief Finance Officer;
- the Business Development Director; and
- three Non-executive Directors.

The details of the Directors appointed as at the date of this report are as follows:

Steve Johnson – Independent Non- Executive Chairman

Appointed as Independent Non-Executive Chairman in July 2018. Steve is an Asset Manager Director at Infracapital, a leading European infrastructure investor. Steve has 35 years' experience in the energy and utility sectors and was CEO of Electricity North West for eight years. Steve's dedication to the industry was recognised in June 2016 through the award of an MBE for services to energy networks. Prior to this, he was Managing Director of Morrison Utility Services, which followed 17 years at United Utilities. Steve has also held positions as Non-executive Director of South West Water and Chairman of Energy Networks Association from 2011 to 2014.

Peter Antolik – Non-Executive Director & Arjun Infrastructure Partners Representative

Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018. He is a Partner of Arjun Infrastructure Partners and his background covers regulated companies, transport regulation, and the management of infrastructure funds and investments.

Peter joined Arjun Infrastructure Partners from the Office of Rail and Road, and was previously Strategy and Regulation Director at Thames Water.

Keita Saito – Non-Executive Director and Mitsubishi Corporation Representative

Keita was appointed as a Non-executive Director and Mitsubishi Corporation Representative in April 2020. He is the Head of Water Business Team at Mitsubishi Corporation and his background covers business development, project management, M&A and investment management in the renewable energy and water sectors across Europe, Asia Pacific and the Middle East. Keita has been with Mitsubishi Corporation for 18 years.

External appointments: Director of Cleanairtech Sudamérica S.A., a desalination and water transmission company in Chile.

Keith Harris – Non-executive Director and Arjun Infrastructure Partners Representative. Chair of the Audit & Risk Committee

Appointed as an Independent Non-executive Director and Arjun Infrastructure Partners Representative on 20 October 2020. Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, including a period of time at ENRON/AZURIX, where he was global Head of Regulation. At Wessex Water he held various senior executive and Board positions, including CFO and deputy CEO, and brings strong financial and regulatory experience to the Board.

External appointments: Independent Non-executive Director of Ervia, the parent company of Irish Water; Gas Networks Ireland and Aurora Telecom Industry Partner with Arjun Infrastructure Partners; Associate with OXERA.

Phil Newland – Group Chief Executive

Appointed Group Chief Executive of South Staffordshire Plc in April 2020. Previously Managing Director of South Staffordshire Water PLC from April 2014. From 2006, Phil worked within the South Staffordshire Plc Group as Managing Director of Echo Managed Services Ltd, supplying technology and retail services to the water sector. He was previously a management consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

External appointments: Director, Pennon Water Services Ltd.

Rob O’Malley – Group Chief Finance Officer

Appointed Chief Finance Officer of South Staffordshire Plc in March 2020, Rob was appointed to the Board on 29 April 2020. Rob had previously held senior finance roles in energy networks and utilities. He is responsible for the Group’s Financial reporting and broader financial arrangements together with leading the central support services operation, which includes Group Finance and IT services. Prior to joining, Rob was formerly Group Treasurer at Cadent Gas and Head of Corporate Finance at Electricity North West. Earlier in his career he was with United Utilities and NatWest.

Go Muromoto – Business Development Director and Mitsubishi Corporation Representative

Go was appointed as a Non-Executive Director and Mitsubishi Corporation Representative in June 2020. Go has been seconded from Mitsubishi Corporation to South Staffordshire Plc since Mitsubishi's participation in the Group in 2016 and currently serves as Director of Business Development in charge of growth initiatives and innovation.

Executive Team

The details of the Executive team appointed as at the date of this report are as follows:

Phil Newland – Group Chief Executive

Phil Newland was appointed Group Chief Executive on 29 April 2020, He had previously been Managing Director of South Staffs Water since 2014 and, prior to this, Managing Director of Echo Managed Services since 2006. Prior to joining Echo, Phil was a Management Consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

Rob O'Malley – Group Chief Finance Officer

Appointed Chief Finance Officer of South Staffordshire Plc in March 2020, Rob was appointed to the Board on 29 April 2020. Rob had previously held senior finance roles in energy networks and utilities. He is responsible for the Group's central support services operation, which includes Group Finance and IT services. Prior to joining, Rob was formerly Group Treasurer at Cadent Gas and Head of Corporate Finance at Electricity North West. Earlier in his career he was with United Utilities and NatWest.

Monica Mackintosh – Managing Director of Echo

Appointed Managing Director of Echo Managed Services in December 2018. Monica has been a member of Echo's Board for eight years and during this time has successfully headed up both the software and customer service areas of the business.

Andrew Willicott – Managing Director of South Staffs Water

Appointed Managing Director of South Staffs Water in May 2020, having joined from a position of Transformation Director at Bristol Water. Prior to this, Andrew has held positions as Chief Operating Officer for Sydney Water and Executive Director with Pennon Group. Andrew was also formerly Chairman of the Corporate IT Association and Deputy Chair of the South West Institute of Directors.

Simon Dray. SSI Services – Managing Director – Water, Waste & Infrastructure

Appointed Managing Director of several of the Water and Gas businesses in SSI Services in 2019, Simon joined the Group in 2007 as Managing Director for Hydrosave and has been part of the SSI Services team during a significant growth period. Simon has worked in the water industry for over 30 years, and previously worked for Anglian Water and Parkman Consulting Engineers.

Neil Shailer – SSI Services – Managing Director – Compliance Business

Appointed Managing Director for SSI Services' Compliance Business and as Managing Director of IWS Water Hygiene in April 2020, having previously been Managing Director for Omega Red Group since 2015. Prior to joining the Group, Neil held the positions of UK Operations Director for Bilfinger Industrial Services and Managing Director for AIM listed Alkane Energy, having spent his early career at Siemens.

Anna Fell – Group HR Director

Appointed as SSPlc's first Group HR Director in June 2021 having previously been the Director of People & Development for Echo Managed Services since April 2014. Prior to joining the Group Anna held senior HR roles at Nestle and Unipart. Through her career Anna has worked within rail, manufacturing and logistics bringing a wealth of experience to the Group.

Directors' Report

The Directors are pleased to present their annual report, together with the audited Group financial statements, for the year ended 31 March 2021.

Directors

The Directors who held office during the year and subsequently, together with the number of Board meetings attended by each director holding office during the year are set out in the table below.

	Director type	Appointed	Date resigned	Meetings attended [1]
Steve Johnson	Independent Non-Executive Chairman	3 July 2018		10/10
Adrian Page	Group Chief Executive	4 December 2003	29 April 2020	0/0
Satoru Tamiya	Non-Executive Director & Mitsubishi Corporation Representative	28 April 2016	1 April 2020	0/0
Peter Antolik	Non-Executive Director & Arjun Investment Partners Representative	3 July 2018		10/10
Michihiko Ogawa	Non-Executive Director & Mitsubishi Corporation Representative	3 July 2018	26 June 2020	1/1
Keita Saito	Non-Executive Director & Mitsubishi Corporation Representative	1 April 2020		10/10
Phil Newland	Group Chief Executive	29 April 2020		10/10
Rob O'Malley	Group Chief Finance Officer	29 April 2020		10/10
Go Muromoto	Non-Executive Director & Mitsubishi Corporation Representative	26 June 2020		9/9
Keith Harris	Non-Executive Director & Arjun Investment Partners Representative	30 October 2020		5/5

1. In addition to the eight scheduled Board meetings, two additional meetings were called.

No Director had any material interest in any contract of significance with the Company or Group during the year under review. The Company maintains directors' and officers' liability insurance in respect of legal action that might be brought against its Directors and officers. To the extent permitted by law, the Company indemnifies each of its Directors and other officers against certain liabilities that may be incurred as a result of their positions within the Group.

Retirement and re-election of directors

In accordance with the Companies Act 2006 and the Articles of Association there were three directors appointed during the year who were required to offer themselves for re-election at the AGM and no directors were eligible to retire by rotation.

Business review

The strategic report on pages 30 to 40 provides detailed information relating to the Group, its strategy and the operations of its businesses, future developments and the Group's financial results and position for the year ended 31 March 2021.

Details of the principal risks and uncertainties facing the Group are set out in the strategic report on pages 32 to 38.

Financial results

The Group's turnover was £261.6m (2020: £270.6m), with operating profit of £28.8m (2020: £24.3m) and profit before tax of £16.8m (2020: £11.0m). The Group's financial results and position are explained in more detail in the financial review section of the strategic report on pages 30 to 40 and shown in the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement on pages 74, and 81.

Environment, Social and Governance

The Group regards compliance with relevant environmental laws, the adoption of responsible social and ethical standards and the health, safety, well-being, fair treatment and development of its people, including disabled persons, and those who become disabled while in the Group's employment, as an integral part of and fundamental to its businesses.

The Group places considerable value on the engagement of its people and continues to keep them informed on matters affecting them as employees and various factors affecting the Group's performance. This is achieved through formal and informal meetings, workplace internal communications.

Further information about the Group's environment, social and governance activities is set out in the strategic report on pages 23 to 28.

Energy use and carbon emissions

The UK water sector is leading the world in its commitment to achieve net zero carbon emissions by 2030. This goal forms part of Water UK's Public Interest Commitment, which sets out five stretching social and environmental ambitions that each of the water companies is contributing towards.

The Company is required to publish the following information about its carbon emissions.

Methodology

These figures have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP), which was developed by the World Resources Institute and the World Business Council for Sustainable Development. They have been collated and summarised through the use of the UKWIR Carbon Accounting Workbook, which was developed to be used as a standard process for carbon accounting within the UK water sector and audited by an external auditor appointed by Ofwat. The company has also used UK Carbon Factors for Greenhouse Gas Emissions produced by the Department for Business, Energy and Industrial Strategy (BEIS).

Scope 1 energy use and emissions

Scope 1 energy use and emissions are directly associated with the company's operations. This includes the use of natural gas and fuel oils to operate its site generator plant and fuel for transportation on direct company business, such as transportation to its sites. The company's Scope 1 energy use and carbon dioxide emissions for the year were as follows.

At the South Staffordshire Water water treatment works at Hampton Loade we have commissioned a new natural gas fired engine to reinforce the supply of electricity through the generation of 5.6MW of electrical power. The new plant has significantly benefitted the reliability of water production, which had suffered as a result of power supply quality issues. But it has increased carbon emissions resulting from the on-site combustion of natural gas to generate power for the site.

	2020/21		2019/20	
Fuel	**kWh**	**Tonnes CO2**	**kWh**	**Tonnes CO2**
Natural gas	81,986,780	15,075	871,928	161
Diesel BS EN 590	8,534,205	2,182	3,693,471	903
Gasoil (Class A2)	9,739,780	2,660	200,715	52
Kerosene	—	—	35,966	9
Hydrogenated vegetable oil (HVO)	524,198	10	—	—
Unleaded 95	167,433	41	105,146	25
Total	**100,952,397**	**19,967**	**4,907,226**	**1,150**

Scope 2 energy use and emissions

Scope 2 emissions are those associated with the company's direct consumption of grid electricity for pumping and water treatment in addition to relatively small amounts used to operate its buildings.

The company consumed around 104,603,943kWh of grid electricity, with associated emissions of 24,387 tonnes of CO2e using location-based factors. However, during 2020/21 it procured its electricity supplies from a tariff guaranteeing UK clean renewables sources, backed 100% by REGO Certificates.

Efficiency measures

During the reporting year, the group has continued to invest in the efficiency of its network through ongoing pump efficiency and leak reduction programmes, by improving production efficiency and by reducing our demand for energy, respectively. The company also completed the process to convert the diesel generators at the Hampton Loade water treatment works to operate on Hydrogenated Vegetable Oil, which it believes will deliver air quality benefits in the form of reduced emissions. The company is in the process of preparing a strategy to achieve net zero operational carbon emissions by 2030 and is assessing and estate-wide renewable energy strategy for on-site generation as a key component of this commitment.

Acquisitions

There were no acquisitions during the year. Although, the company did acquire further shares in Office Water Coolers limited, increasing its total shareholding to 95% of the entire share capital.

The Company also transferred the shares of Grosvenor Services Group Limited from a subsidiary company, Echo Managed Services Limited

Corporate governance

A detailed corporate governance report is set out on pages 41 to 73. The Group's shareholders and structure is shown in the charts on pages 55 and 56.

Risk management

Details of the Group's policy in respect of financial and treasury risk are provided in note 28 to the financial statements.

The Group's activities in respect its management and focus on business risks are set out on pages 32 to 38 of the strategic report and 60 of the governance report.

Capital investment

Capital expenditure, on tangible and intangible assets, before contributions from third parties and excluding infrastructure renewals during the year amounted to £49.4m (2020: £52.2m).

Payment of suppliers and commercial arrangements

The Group's policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. Group trade creditors at 31 March 2021 represent 59 days of purchases during the year (2020: 53 days). The Group is not reliant on any single commercial arrangement.

Going concern

The company's statement on going concern and the basis for the going concern assumption are set out on pages 39 and 40.

Dividends

Following the year-end the Company declared a dividend of £8,969,000 in September 2021. This was approved by the board for payment on 29 September 2021.

Independent auditor

In accordance with the provisions of section 418 of the Companies Act 2006, the Directors confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditor is unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A resolution proposing the appointment of Deloitte LLP as auditor will be put to the Board.

Approved by the Board and signed on its behalf by

RoMalley.

Rob O'Malley
Group Chief Finance Officer
30 September 2021

Current Board of Directors and Advisors

Board of Directors	Steve Johnson - Chairman
	Peter Antolik Keith Harris
	Keita Saito
	Go Muromoto
	Phil Newland (Group Chief Executive)
	Rob O'Malley (Group Chief Finance Officer)
Secretary	Caroline Stretton
Registered Office	Green Lane, Walsall, West Midlands, WS2 7PD
	Telephone: 01922 638282
	Registered in England, Number 04295398
Auditor	Deloitte LLP, Statutory Auditor
	2 New Street Square, London, EC4A 3BZ, United Kingdom

Corporate Governance Report

The Board of Directors has always placed good governance at the core of the Group and is aware of its obligations to ensure effective leadership and appropriate governance arrangements are in place.

Although the Company is not publically listed, the Board of Directors seeks to apply the principles of the UK Corporate Governance Code ('the UK Code'), where considered applicable to a private unlisted group of companies. Details of how the Company follows these principles are set out below. The Directors consider the annual report and financial statements to comply with the Walker Guidelines for Disclosure and Transparency in Private Equity.

The Company also regularly monitors corporate governance and reporting best practice, as well as the applicability of any developments to it. Any changes to the Group's governance and reporting arrangements considered appropriate are implemented within agreed timescales.

Compliance with the 2018 Corporate Governance Code

The Company is committed to delivering good corporate governance and believes it is essential to give stakeholders confidence in the Company and Group's performance. Some of the ways in which the Company can demonstrate its compliance with the Corporate Governance Code are set out below:

Corporate Governance Code requirement	How the Company demonstrates compliance
Board leadership and company purpose	Company strategy (pages 3 and 4) Section 172 (1) statement (pages 41 to 44) Environment, Social and Governance (pages 23 to 28)
Division of responsibilities	Functions of the Board (pages 58 to 59) Matters Reserved for the Board (page 59) Board Committees (pages 61 to 67) Directors' responsibilities statement (page 68)
Composition, succession and evaluation	Board structure (pages 45-47, 49 and 57) Board effectiveness (page 59)
Audit, risk and internal control	Risk review and analysis of key risks for the business (pages 32 to 38)
Remuneration	Remuneration report (pages 65 to 67)

Group Structure

As the immediate parent company of South Staffs Water, the Company and its Board of Directors recognise the responsibilities that come from providing a public service. The Company is therefore fully committed to maintaining high standards of leadership, transparency and governance as a parent of a regulated business. The Company maintains an open dialogue with all of its subsidiaries and fully supports South Staffs Water in complying with its statutory and regulatory obligations and ensuring that it can make strategic and sustainable decisions that are in the long-term interests of the regulated business. This includes Condition P of South Staffs Water's licence and although some Directors sit on the Boards of both companies, South Staffs Water acts where applicable, with the support of the Group, as if it were a separate listed company. The Company provides management, professional and administrative support services to South Staffs Water and other subsidiaries at cost. There was no direct interaction between South Staffs Water and the ultimate controlling party, Arjun Infrastructure Partners Limited during the year.

The Board of Directors can confirm, on behalf of Arjun Infrastructure Partners Limited, that it, as the ultimate controlling party of the Group for the year ended 31 March 2021, also fully supports these principles of Board leadership, transparency and governance.

There have been no material changes to corporate governance arrangements in the Group during the year. The Board confirms that, to the best of its knowledge, there are no issues or risks at the Group level which may negatively impact on the Group.

Details of the borrowings of the Group are provided in the financial review section of the strategic report, the financial statements, including the analysis of net debt and the notes to the consolidated cash flow statement and financial statements.

Details of how the Group preserves value over the long-term, business models and how these and the Group strategy are delivered are provided in the strategic report on pages 3 to 40.

Details of the Group structure are set out below:

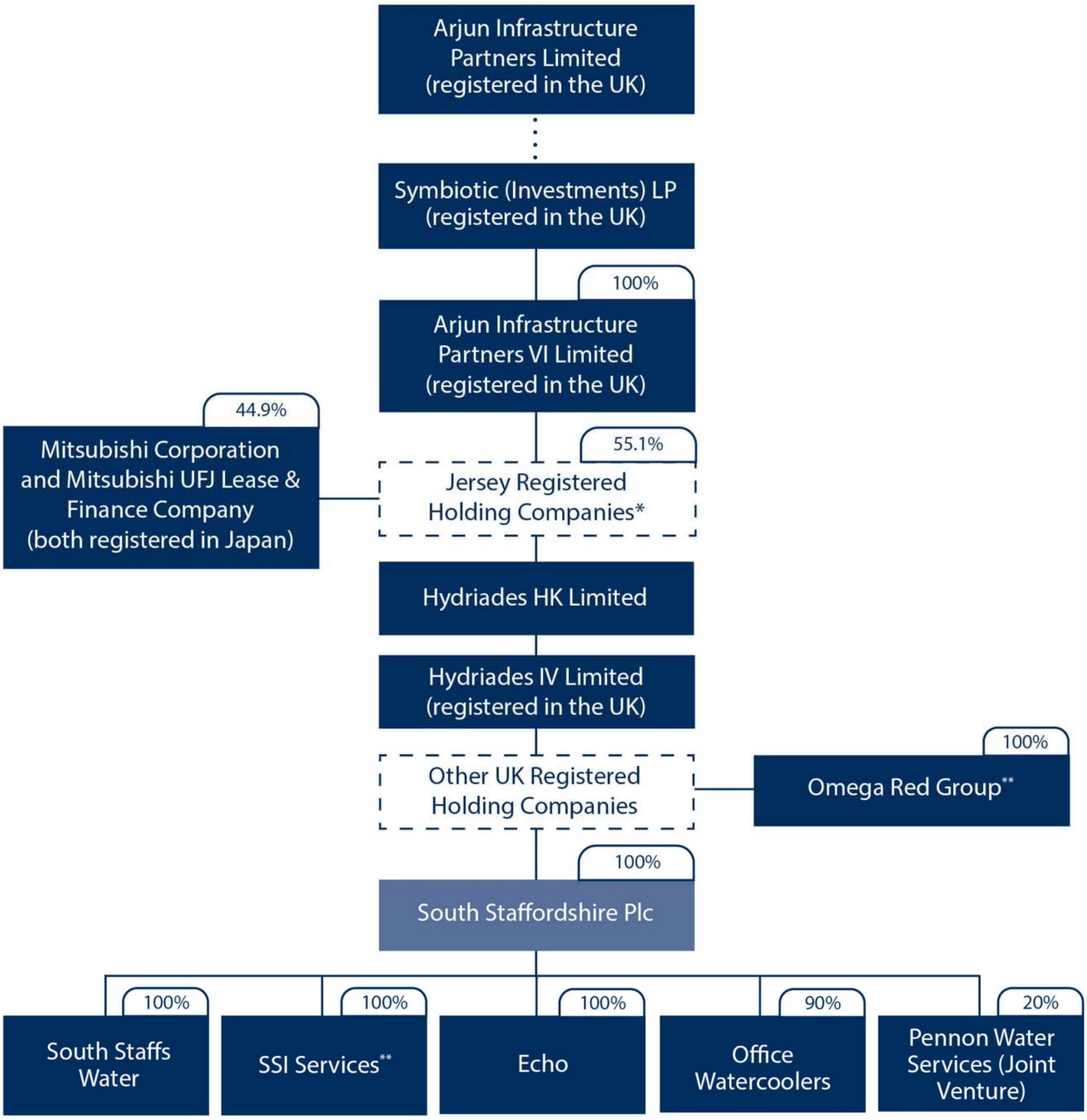
Our investors as at 31 March 2021

Long-term pension scheme and institutional investors, advised and managed by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018

Note: Post the year end Mitsubishi UFJ Lease (MUL) merged with Hitachi Capital Corporation and the new trading name is Mitsubishi HC Capital Inc.

Simplified Group structure as at 31 March 2021



* Jersey registered holding companies are UK resident for tax purposes.

** Omega Red Group is managed within the SSI Services division.

% represents economic equity interest held.

Relations with investors and immediate holding companies

During the year, there were a number of UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydriades IV Limited. There are intermediate holding companies above Hydriades IV Limited, which are registered in Jersey, but are registered in the UK for tax purposes and one intermediate holding company, which is registered in Hong Kong. There are a number of UK registered entities above the companies registered in Jersey and the ultimate controlling party is now Arjun Infrastructure Partners Limited, a company registered in the UK.

Three of the UK holding companies have loans payable to South Staffs Water and the Company which bear interest at commercial rates. Any UK tax losses surrendered to South Staffs Water from other companies in the structure are paid for at face value.

Arjun Infrastructure Partners Limited, AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure Partners Limited) and Mitsubishi Corporation have signed Condition P undertakings in accordance with South Staffs Water's Instrument of Appointment. The companies giving the Condition P undertakings agree to:

- provide South Staffs Water with all information needed to comply with its obligations; and to procure that their subsidiaries will;
- refrain from taking any action which might cause South Staffs Water to breach any of its obligations; and
- ensure that the Board of South Staffs Water contains no less than three Independent Non-executive Directors, or such higher number to ensure that the Independent Non- executive Directors are the largest single group on the Board, who are persons of standing with relevant experience.

There is regular dialogue between the Board and investors to ensure that their objectives and priorities are carefully considered. This dialogue is achieved through Board meetings, with investors having representation on the Board of Directors, through committee meetings and other less formal communications.

The Board of Directors

The Directors are collectively responsible for the long-term success of the Company and the Group's businesses.

Directors may be appointed by the Company by Ordinary Resolution or by the Board. As set out in the Company's Articles of Association (Articles), a Director appointed by the Board will hold office until the next Annual General Meeting (AGM). At each AGM, one third of the Directors will retire by rotation and will submit themselves for re- election at least once every three years.

All Directors are aware of the procedure for those wishing to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary, who is also responsible for monitoring corporate governance matters. The Board is responsible for the appointment and removal of the Company Secretary.

Insurance and indemnities

The Company maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the Company's Articles of Association (Articles), and to the extent permitted by law, the company indemnifies each of its Directors and other Officers against certain liabilities that may be incurred as a result of their positions with the Group. The indemnity was in force throughout the tenure of each Director during the last financial year and is currently in force.

Board membership

A full list of Board members can be found on page 49 and the skills and experience of the current directors are set out in the biographies on pages 45 to 47.

Steve Johnson MBE was appointed to the Board as an independent Non- Executive Director and Chairman on 3 July 2018.

Peter Antolik was appointed to the Board as a Non-Executive Director and representative of Arjun Infrastructure Partners Limited. On 3 July 2018. He is also a Director of all of the UK registered holding companies above the Group up to and including Hydriades IV Limited, Hydriades HK Limited and the Jersey registered holding companies in the Group structure as at 31 March 2021.

Keith Harris was appointed to the Board as a Non-Executive Director and representative of Arjun Infrastructure Partners Limited on 30 October 2020.

Satoru Tamiya and Michihiko Ogawa were appointed to the Board as representatives of Mitsubishi Corporation and they resigned on 1 April 2020 and 26 June 2020 respectively. Kieta Saito (appointed 1 April 2020) and Go Muromoto (appointed 26 June 2020) replaced both as Mitsubishi Corporation representatives.

Adrian Page stepped down as Group Chief Executive and as an Executive Director of the Company and all of its UK subsidiaries and holding companies on 29 April 2020.

Phil Newland was appointed as Group Chief Executive, Executive Director of the Company and a number of its subsidiary companies on 29 April 2020. Phil is also an Executive Director of South Staffs Water.

On 29 April 2020, Rob O'Malley was appointed an Executive Director of the Company, a number of its subsidiary companies and all UK registered holding companies below Hydriades IV Limited.

Caroline Stretton is the General Counsel & Company Secretary

Functions of the Board

The Board's primary focus is to develop, implement and fulfil the strategy to deliver the service and performance to meet the needs of:

- customers and commercial partners;
- the ongoing needs of the business supporting future growth;
- equity investors and other providers of capital;
- employees;
- environment; and
- other stakeholders.

The Board sets standards of conduct to promote the Company's success, provide leadership, and review the Company and the Group's governance structure. It approves major financial and investment decisions over senior management thresholds and evaluates the performance of the individual businesses, as well as the Group as a whole, by monitoring reports received directly from the subsidiary businesses and those prepared at a Group level. The Non-executive Directors, headed by the Chairman, are responsible for overseeing this work, and scrutinising management performance. They constructively challenge and help develop proposals on strategy.

Overall, the Board is also responsible for the Group's systems of internal control, evaluating and managing significant risks to the Group as a whole. In accordance with the Company's Articles the Board delegates some of these responsibilities to and works in conjunction with the Audit Committee.

On joining the Board, Directors receive induction material, about the Group and each business, appropriate to their needs and responsibilities. This may include, but is not limited to:

- business models;
- strategic and financial plans;
- financing structure;
- operational activities;
- information on the regulatory and operating framework in which the Group operates; and
- information on the wider Group structure

The Directors and Executive team carry out site visits to maintain familiarity with the Group's operations and to refresh their skills and knowledge. The Directors also keeps up to date with legal and regulatory changes and developments by receiving written updates from both internal and external advisers and regulators.

The Directors are supported by an Executive team and by other senior managers who are responsible for assisting them in the development and achievement of the Group's strategy, and reviewing the financial and operational performance of the Group, as well as its individual businesses. Along with the Directors, the Executive team is responsible for monitoring policies and procedures along with any other matters that are not reserved for the Board. There are procedures providing a framework of authorisation levels for key decision- making. Details of the Executive team's skills and experience are contained in their biographies on pages 45 to 46.

The Board is satisfied that its membership contains an appropriate balance of different skills and experience, as well as that each Director continues to contribute effectively, allocating appropriate time and commitment to their role. On a regular basis, the Board considers its own performance, the performance of the individual Directors and its Committees. A formal review was carried out during the year with Directors completing a survey where they were asked to consider, amongst other things, the effectiveness of decision making, strategy and relationships with stakeholders. Following the review the Board will be introducing a strategy day and will consider the results of the company's group wide employee survey.

Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on Institute of Chartered Secretaries and Administrators best practice. The matters include, but are not limited to:

- reviewing and approving capital and operating budgets;
- reviewing and approving the Group's strategy and performance;
- reviewing and approving material changes to the Group's capital structure and borrowings;
- reviewing and approving financial reports;
- reviewing and approving financial policies, including dividend policies and considering the likely impact on the Group's credit ratings and broader financial metrics;
- contracts that are material, either strategically or by reason of size, according to specified limits;
- appointment and removal of any Director;
- prosecution, defence or settlement of litigation above £1m, or being otherwise material;
- material changes to the company's pension arrangements;
- ensuring maintenance of a sound system of internal control and risk management;
- considering the balance of interests between investors, employees, customers and the community; and
- powers to delegate authority.

The Directors maintain a flexible approach to Board matters, with the delegation of power to a Committee, with precise terms of reference for specified routine purposes. Both the terms of reference and composition of Committees are reviewed to ensure their ongoing effectiveness.

While South Staffs Water acts as though it were a separate public listed company, a limited number of matters in respect of this subsidiary company also need the approval of the Company Board. These include:

- material submissions to Ofwat, particularly in respect of price reviews and major structural reform;
- contracts that are material either strategically or by reason of size, according to specified limits;
- appointment and removal of any Director who is a shareholder representative;
- prosecution, defence or settlement of litigation above £1 million or being otherwise material; and
- material changes to pension arrangements, where operated on a Group basis.

Board meetings

The Board holds regular scheduled meetings throughout the year. During the year ended 31 March 2021, there were ten Board meetings (eight scheduled and two additional meetings).

All Board members are provided with sufficient information prior to any Board meeting to allow appropriate preparation to ensure that they can properly discharge their duties. Key information provided in these reports includes reports on operational performance, regulatory matters, health and safety, financial performance and corporate matters.

The attendance by individual Directors at scheduled meetings of the Board during the year is shown in the table in the Director's report on page 49.

Since the onset of the Covid-19 outbreak, the Board has received separate regular updates on business performance, employee wellbeing, and the businesses' compliance with the evolving Government's guidance and legal restrictions. .

Organisational structure

A defined organisation structure exists for the Group with clear lines of responsibility, accountability and appropriate division of duties.

The Directors set overall strategy for the Group. They have delegated the necessary authority to the Executive team and business departments in order to deliver that strategy. This is communicated to employees through published policies and procedures, and regular management and employee briefings.

The Group's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Executive team, a Director or by the Board collectively. In addition, formal Treasury policies are in place. Where appropriate, commercial and financial responsibility is clearly delegated to the Executive team and supported by the Directors. In November 2020 an Internal Control Manual was introduced providing a reference tool to improve clarity on delegated authorities across the Group.

Risk Management

The Group takes the same approach to risk as that reflected by South Staffs Water's status as a regulated and licensed water undertaker providing an essential public service.

The non-regulated businesses also operate in principally in regulated environments and, as such, must also have a strong approach to risk. The Group balances the need to manage exposure to risk while aiming to deliver high standards of operational and financial performance across the Group.

A strong risk management and control framework is in place in South Staffs Water, the non-regulated businesses and at a Group level to understand and manage identified risks. The Board and Audit Committee discuss the effectiveness of the Group's risk management and internal control systems on a regular basis both in terms of the Group as a whole and its individual businesses. The Executive team is required to monitor risk and its management. Any changes in business risks and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit Committee.

Further details of risk management and principal risks are set out on pages 32 to 38 of the financial review section of the strategic report.

Details in respect of the Company's going concern assumptions can be found in the Directors' report on pages 39 and 40.

Regulatory reporting

South Staffs Water makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate, and that is supported by suitable systems and procedures. South Staffs Water's board, including its Independent Non-executive Directors, are involved in the approval process for key regulatory information. This process supports the:

- the governance in place;
- the review of information by an independent technical auditor (Jacobs);
- the audit work; and
- certain agreed-upon procedures in respect of the extraction of specific information performed by the external independent auditor (Deloitte LLP).

Where identified as necessary by South Staffs Water's assurance framework, the Group's Internal Audit function will review processes and data to provide appropriate assurance.

South Staffs Water places great emphasis on regulatory reporting to ensure it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat, other regulators and stakeholders. It is important to South Staffs Water that this information is robust, not just for its external credibility, but to also allow it to manage the performance of its business and make appropriate decisions with reference to this data.

Board Committees

Audit and Risk Committee Review

Membership for the year ended 31 March 2021

Chairman	Keith Harris (Meetings attended 3/3)
Other members	Michihiko Ogawa (resigned 26 June 2020) Peter Antolik (Meetings attended 3/3) Steve Johnson (Meetings attended 3/3) Keita Saito (Meetings attended 3/3)
Meetings are also regularly attended by:	Deloitte LLP (the Group's external independent auditor), the Group Chief Executive, the Group Chief Financial Officer, The Group Internal Audit Manager and representatives from the Group's owners; Arjun Infrastructure Partners Limited and Mitsubishi Corporation.

Role and responsibilities

The Audit & Risk Committee focuses on the audit, assurance and risk processes within the business. It is responsible for reviewing and monitoring the Company's financial statements, internal controls and systems for mitigating the risk of financial and on-financial loss which it does in conjunction with senior management, the auditors(both internal and external) and the financial reporting team. This includes:

- assessing the integrity of the financial statements;
- considering changes to accounting policies;
- reviewing financial reporting procedures and risk management processes; and
- monitoring systems.

The Committee is also responsible for:

- recommending to the Board the appointment, re-appointment and if necessary removal of the external auditor; and
- monitoring the internal and external auditor's independence, performance and effectiveness.

Its responsibilities further extend to approving the nature and scope of material internal and external audits and approving the external auditor's remuneration.

Key terms of reference

The Committee reviews and challenges Internal Audit reports, individual papers from management, external auditor reports and the Group risk register. It also reviews areas of accounting judgement and estimation and, where appropriate, makes comment and/or recommendations; and seeks further management clarification as required.

Audit & Risk Committee activities

In the year ended 31 March 2021, the Audit Committee focused on the key business risks set out on pages 32 to 38 of the financial review section of the strategic report, including:

- reviewing the Group business risk register and risk mitigation;
- reviewing the effectiveness of internal controls including approval of the revised Internal Control Manual;

- ensuring compliance with the ISO 27001 Information System Security Risk Management standard for IT services provided by Group Services and;
- the year-end external audit planning process.

Each business is responsible for identifying, quantifying, reporting and controlling risks relevant to their activities. Risk reports are produced and reviewed by the Audit Committee once a year. Group Internal Audit critically assesses the risks identified by each business.

The Committee reviews and challenges papers and feedback from senior management, external auditors' reports, reports from Group Internal Audit and the Company's risk register. It also discusses areas of judgement and estimation, making comment and recommendations, where appropriate, and seeks further management clarification, where required.

The responsibilities of the external auditor in relation to financial reporting for 2020/21 are set out in its report on pages 69 to 73.

Financial reporting and planning

The Board, supported by the Audit Committee, recognises the need to present a fair, balanced, understandable and clearly defined assessment of the Group's operational and financial performance and position, including its future prospects. This is provided by a review of the Group's operations, including the future outlook and the Group's performance as set out in the strategic report.

Business plans, annual profit and loss budgets, cash flow budgets and forecasts, longer-term financial forecasts and investment proposals for each business, and for the Company, have been formally prepared, reviewed and approved by the Board, supported by the Audit Committee. Actual financial results and cash flows, including a comparison with budgets and forecasts, are regularly reported to the Board with variances being identified and used to initiate any action deemed appropriate.

Details of the Group's actual and forecast future compliance with its borrowing covenants are also prepared on a regular basis, and forecasts of the Group's level of its undrawn and available borrowing facilities and cash balances for liquidity purposes are also prepared and reported to the Board.

The Committee received copies of the annual report and financial statements to review during the drafting process to ensure that the key messages being followed in the annual report were aligned to the Company's position, performance and strategy being pursued and that the narrative sections of the annual report were consistent with the financial statements.

Sensitivity analysis has been carried out on the Group's longer-term financial forecasts to ensure its long-term viability; for the current year, this included two Covid-19 scenarios. This ensures Company has the ability to withstand certain severe but plausible events in order to demonstrate and provide the Board with evidence of its long-term viability and financial resilience.

Internal control

The Board, supported by the Audit & Risk Committee, attaches considerable importance to the Company's system of internal control and reviews its effectiveness. This includes ensuring reasonable steps are taken to safeguard the wider group's assets and to prevent and detect material fraud and other irregularities. The internal control system can provide only reasonable and not absolute assurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The Company has an established internal control framework that is continually reviewed and updated, taking into account the nature of its operations and structure.

Internal Audit

The Internal Audit function operated at Group level is dedicated to ensuring internal control activities remain a priority within the Group. It also provides valuable support to businesses in maintaining good systems of internal control, providing financial and operational risk assurance, testing legal and regulatory compliance and financial controls, it also helps ensure appropriate corporate governance.

An internal audit plan is presented to the Audit Committee each year; this is subject to challenge and approval. The plan combines the need for regulatory and financial reporting assurance, risk management and control evaluation with the provision of independent resource to enhance the Group's operations. The Audit Committee monitors progress against the plan through the reporting of findings and recommendations at each meeting.

During the reporting year, Group Internal Audit was involved in:

- Group business risk register including risk mitigation;
- Refinement of the group internal controls manual
- review of internal controls;
- ISO 27001 Information System Security Risk Management controls;
- regulatory assurance for South Staffs Water in line with its assurance framework;
- South Staffs Water tariffs; and
- an independent review of the South Staffs Water long term business plan stress testing modelling analysis.

The Internal Audit arrangements in operation are considered appropriate to the size and complexity of the Group. The Board will continue to review this assessment through the Audit Committee.

External independent auditor

The Board, supported by the Audit Committee reviews the external independent auditor's performance each year considering independence, effectiveness and fees, including the level of non-audit services and related non-audit fees.

In evaluating the external independent auditor, the Audit Committee assesses the calibre of the audit firm, the audit scope and plan, which is reported to the Audit Committee in advance of the work commencing, and the level and nature of audit communications, including the reporting to the Audit Committee of any significant issues.

The responsibilities of the external independent auditor in the area of financial reporting are set out in its report relating to each year's financial statements.

The current external auditor, Deloitte LLP, has been the Company's auditor since 2002, with a change in the audit Partner occurring every five years.

Non-audit fees in relation to specific parts of the regulatory accounts amounted to £35,000 (2020: £16,000)

During the year the Company conducted a review of Independent Auditor and selected Ernst & Young LLP to take effect for the Financial Year ending 31/3/23.

Nomination Committee Review

Membership for the year ended 31 March 2021		
Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	1/1
Mr Peter Antolik (appointed 03/07/2018)	Member	1/1
Mr Keita Saito (appointed 01/04/2020	Member	1/1

Meetings

Meetings are convened when required. During the year, two meetings were held to oversee the appointment of the Group Chief Executive and the appointment by South Staffordshire Water Plc of a new Managing Director.

Roles and responsibilities

In considering appointments to the Board and the Executive team the Nomination Committee considers the composition of the Board and Executive team. This includes reviewing the balance of skills, knowledge, experience, diversity (including gender) and competencies.

External search advisors can be appointed to assist the Nomination Committee where considered appropriate, but are not considered necessary in all appointments.

Key terms of reference

Key terms of reference include:

- preparing an appropriate specification for any open Executive Director Board positions or for the Executive team;
- ensuring successful candidates have the necessary skills, experience, information and knowledge to fulfil their duties;
- consideration of succession planning for Executive Directors and the Executive team.

Diversity

Information about the Group's gender diversity is set out on page 25 of the strategic report.

Remuneration Committee Review

Membership for the year ended 31 March 2021		
Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	3/3
Mr Peter Antolik (appointed 03/07/2018)	Member	3/3
Mr Keita Saito (appointed 01/04/)	Member	3/3

Meetings

Meetings are convened as required and at least once a year. During the year, three meetings were held to discuss bonus awards for the previous financial year and to approve a new Long-Term Incentive Plan for the Executive Team and a small number of senior management positions.

Roles and responsibilities

The Remuneration Committee is responsible for the remuneration policy and for setting the remuneration packages of the Board and the Executive team.

Key terms of reference

Key terms of reference include:

- agreeing remuneration that will ensure that the Group Chief Executive and the Executive team are provided with appropriate incentives to achieve high standards of performance and successful delivery of the Group's strategy and reward them for their individual contributions to the success of the Group;
- determining such remuneration packages and arrangements with regard to any relevant legal requirements and associated guidance and to obtain reliable, up-to-date information about remuneration in other companies;
- approving the design of, and determining targets for, any performance related remuneration packages for the Group Chief Executive and the Executive team;
- ensuring that contractual terms on termination are fair and that failure is not rewarded;
- overseeing any material changes in employee benefit structures throughout the Group; and
- ensure that remuneration packages are designed to attract, retain and motivate high-calibre senior executives.

Remuneration report

Remuneration policy

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors and Executive team members. The Remuneration Committee has overall responsibility for determining Board Directors' remuneration packages and considering those of the Executive team.

The total remuneration packages of Board Directors and the Executive team include basic salary, benefits (including car, fuel and private medical insurance) and annual bonuses, which are linked to individual business and Group targets, as well as personal performance-related objectives. The performance-related objectives are designed to encourage and reward continuing improvement in the Group's operational performance and financial performance and value over the longer term. The approved Long-Term Incentive Plan arrangements allow for deferral of payment of a proportion of an awarded annual bonus subject to continued employment in July 2025. Annual salary and some benefits are normally pensionable, whereas the annual and LTIP deferred bonuses are not.

No Director or member of the Executive team is involved in determining his or her own remuneration.

Board and Executive terms of engagement

Phil Newland, Group Chief Executive, is employed on a service contract of no fixed term, with a notice period of 12 months by either party. He was entitled to basic pay, private medical insurance, a car allowance, fuel and payments made by the Group in respect of a money purchase pension scheme, in addition to an annual performance- related bonus, which was designed to achieve long-term value creation and high standards of operational and financial performance.

The Executive team are employed on service contacts of no fixed term, with notice periods of either six or three months. They are entitled to:

- basic pay;
- private medical insurance;
- a company car or car allowance;
- fuel allowance; and
- payments made to a Group money purchase pension scheme or a cash allowance in-lieu.

As noted, the Remuneration Committee recognises the need to attract and retain high-performing individuals. The Committee believes it is important that, for Executive Directors and senior management, a proportion of the remuneration package should be performance-related. Therefore, there is participation in business specific bonus schemes with bonus awards linked to personal objectives, as well as being aligned to certain standards of performance in their business area.

Salaries are reviewed annually and any changes are effective from 1 July each year. In normal circumstances, Executive salary increases will not be materially different to general employee pay increases.

Each year, the Remuneration Committee reviews the standards of performance to which bonuses are linked to ensure this consistency continues to be maintained. At the end of the financial year, the Committee, following consideration of the outturn against target, assesses to what extent the targets are met and determines bonus levels accordingly. In doing so, the Committee takes into account overall company performance and in exceptional circumstances may exercise its discretion and adjust the bonus to reflect any specific factors.

Further details in respect of the Group Chief Executive, the Group Chief Financial Officer and Executive team's remuneration set out below and in note 5 to the report and accounts on page 91.
The remuneration of the Chairman and one of the Non-Executive Directors is determined by the Board. As the other Non-Executive Directors for the year ended 31 March 2021 are representatives of the Company's shareholders, they do not receive any remuneration from the Company and their appointments have no fixed term.

Long-Term Incentive Plan (LITP)

A new LITP was was introduced during 2020. This incentive plan aligns the long-term interests of the shareholders and the executive team, retains and rewards executive management of certain calibres as well as rewards for the performance over the 2020/25 (AMP7) regulatory period, for certain managers.

Performance is assessed annually. Each cycle within the bonus plan effectively covers four performance years with four annual payments being awarded, of which half is a paid as a short-term incentive plan bonus, in year, and half is deferred or banked to LTIP. LTIP profiles are set at varying levels to be banked.

The awards under the LTIP are accrued and at the end of the fifth year 80% of the accrued amount, at target level, could be paid provided that the employee is still employed or has left as a 'Good Leaver'. Multiplier arrangements will apply at the end of the bonus plan cycle. The aggregate bonus bank will be varied based on the extent to which the South Staffordshire Plc group has hit its cumulative distributions and profit after tax. Adjustments will be subject to the terms (plus or minus and no lower than nil). Malus and clawback provisions also apply. All awards are subject to income tax.

	Executive Directors		Chairman & Non-Executive Directors		Executive Team*		Total	
	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000	2019/20 £'000
Basic Salary	392	250	75	75	518	630	986	955
Benefits	25	14	—	—	59	55	83	69
Bonus	322	—	—	—	347	105	669	105
Total Emoluments	**739**	**264**	**75**	**75**	**924**	**790**	**1,738**	**1,129**
Pension Contributions	35	55	—	—	49	56	84	111
Total Remuneration	**774**	**319**	**75**	**75**	**973**	**846**	**1,822**	**1,240**

* Excluding the Executive Directors. The Executive team are remunerated by other companies within the Group.

Directors' Responsibilities Statement

The following statement, which should be read in conjunction with the Independent Auditor's statement of its responsibilities set out on the following pages, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the independent auditor in relation to the accounts.

The Directors are responsible for preparing the annual report and financial statements, including the strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors of the Company and their roles are listed on page 49.

Independent auditor's report to the members of South Staffordshire Plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of South Staffordshire Plc (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing management's projected cash flow and sensitivity analysis;
- assessing the assumptions used in establishing the liquidity position throughout the going concern period, with reference to forecast income and expenses;

- evaluating the financing requirements and maturity profile of existing finance; including a headroom analysis on covenants; and,
- evaluating the appropriateness of the disclosures in the financial statements.

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 group's and parent 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 the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements along with those which do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty . These included UK Companies Act, pensions legislations and tax legislation along with other relevant laws as applicable.

We discussed among the audit engagement team and relevant internal specialists such as tax, valuations, pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified that the greatest potential for fraud in the valuation and recoverability of Accrued Income, and recoverability of trade receivables for South Staffordshire Water.

Our specific procedures in relation to Accrued Income to address this included;

- testing the design and implementation of controls over the valuation and recoverability of accrued income and, specific to South Staffordshire Water; general IT controls over the billing system;
- testing the associated revenue balance through a combination of analytical review and tests of detail around invoicing and tracing back to supporting documentation to ascertain whether transactions were accounted for in the correct period and if they are accurate and complete;
- for South Staffordshire Water, involve data specialists in performing a full re-calculation of the accrued income balance and assessing the difference to the amount recognised in the financial statements;
- for South Staffordshire Water, assess the accuracy of the prior year accrual in relation to measured income by performing a retrospective review of the estimate made at the previous year-end and an assessment of current year accrual against subsequent billings, and
- challenging the recognition of accrued income to ensure it relates to work performed or services supplied pre-year end, but not invoiced until after year end.

Our specific procedures in relation to recoverability of trade receivables included;

- obtaining an understanding of the relevant controls over the calculation of the bad debt provision and general IT controls over the billing systems;
- assessing and challenging the method used to calculate the bad debt provision to assess whether it is reasonable by considering the most recent collection experience, consistency of the method with prior years, and any changes in our understanding of the business;
- obtaining the year-end bad debt provision calculation and assessing the accuracy of Management's calculation in the context of historical trends and plans for future collection and testing whether It is calculated in line with the company's policy;
- testing the accuracy and completeness of the source data from which the cash collection

rates are derived by agreeing to underlying invoices and cash receipts; and;
- obtaining and challenging Management's assessment of the impact of COVID-19 on the expected cash collection rates by assessing actual cash collections recognised post year-end and comparing the impact against similar companies in the Water industry.

As a result of performing the above, we identified the greatest potential for fraud in thevaluation and recoverability of Accrued Income.

Our specific procedures performed to address this included;

- testing the design and implementation of controls over the valuation and recoverability of accrued income;
- testing the associated revenue balance through a combination of analytical review and tests of detail around invoicing and tracing back to supporting documentation to ascertain whether transactions were accounted for in the correct period and if they are accurate and complete; and,
- challenging the recognition of accrued income to ensure it relates to work performed or services supplied pre-year end, but not invoiced until after year end.

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

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

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, in-house and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing reviewing correspondence with regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

Matters on which we are required to report by exception

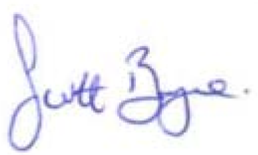
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Scott Bayne FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

30 September 2021

Financial statements

Consolidated Profit and loss account – for the 12 months ended 31 March 2021

	Note	31 Mar 21 £'000	31 Mar 20 £'000
Group Turnover	2	261,625	270,630
Operating costs before goodwill amortisation (net)	3	(238,890)	(246,509)
Other operating income	6	9,786	5,809
Group operating profit before goodwill amortisation and share of joint venture		32,521	29,930
Share of joint venture operating profit / (loss)		453	(772)
Group operating profit before goodwill amortisation and impairment		32,974	29,158
Amortisation of Goodwill	11	(2,863)	(4,066)
Goodwill Impairment	11	(1,309)	(799)
Total operating profit		28,802	24,293
Finance charges (net)	7	(11,965)	(13,255)
Profit before taxation		16,837	11,038
Taxation on profit	8	(3,572)	(8,216)
Profit after taxation		13,265	2,822
Less profit after tax on non-controlling interests	27	(86)	(90)
Profit for the financial year		13,179	2,732
Earnings per share			
Basic and diluted	10	102.8p	21.3p

The results above are derived from continuing operations. The accompanying notes are an integral to these financial statements.

Consolidated Balance sheet – as at 31 March 2021

	Note	31 Mar 21 £'000	Restated 31 Mar 20 £'000
Fixed Assets			
Intangible assets	11	19,935	24,283
Investment in joint venture	12	222	97
Investments	16	86,400	95,314
Tangible assets	13	582,958	567,249
		689,515	686,943
Current Assets			
Stocks	17	4,371	3,628
Debtors - amounts recoverable within one year	18	69,265	68,241
Debtors - amounts recoverable in more than one year	18	2,857	3,302
Retirement benefit surplus	22	46,272	90,842
Cash at bank and in hand		49,291	77,903
		172,056	243,916
Creditors – amounts falling due within one year			
Borrowings	19	(34,358)	(70,888)
Other creditors	20	(94,210)	(99,106)
		(128,568)	(169,994)
Net current assets		43,488	73,922
Total assets less current liabilities		733,003	760,865
Creditors – amounts falling due in more than one year			
Borrowings	19	(446,395)	(426,777)
Other creditors	20	(18,022)	(16,460)
Accruals and deferred income	15	(163,332)	(159,328)
Provisions for liabilities	21	(55,774)	(63,116)
		(683,523)	(665,681)
Net Assets		49,480	95,184
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Revaluation reserve	25	17,155	17,390
Capital redemption reserve	25	1	1
Merger reserve	25	(253)	(253)
Currency translation reserve	25	(58)	4
Hedging reserve	25	(5,372)	(6,002)
Profit and loss account		21,470	67,293
Shareholders' Funds		49,274	94,764
Non-controlling interest	27	206	420
Total capital employed		49,480	95,184

A statement of movement of reserves is given in the Consolidated Statement of Changes in Equity.
The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 30 September 2021

P C Newland Group Chief Executive

Company Balance sheet – as at 31 March 2021

	Note	31 Mar 21 £'000	Restated 31 Mar 20 £'000
Fixed Assets			
Investments	16	165,621	173,035
Tangible assets	13	2,600	2,629
		168,221	175,664
Current Assets			
Stocks	17	26	91
Debtors - amounts recoverable within one year	18	9,936	8,078
Retirement benefit surplus	22	35,289	72,144
Cash at bank and in hand		7,736	22,708
		52,987	103,021
Creditors – amounts falling due within one year			
Other creditors	20	(12,250)	(24,572)
		(12,250)	(24,572)
Net current assets		40,737	78,449
Total assets less current liabilities		208,958	254,113
Creditors – amounts falling due in more than one year			
Borrowings	19	(172,944)	(164,566)
Trade and other payables	20	(7,895)	(3,943)
Provisions for liabilities – deferred tax	21	(6,554)	(13,598)
		(187,393)	(182,107)
Net Assets		21,565	72,006
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Capital redemption reserve	25	1	1
Profit and loss account		5,233	55,674
Shareholders' Funds		21,565	72,006

The profit in the year ended 31 March 2021 for the Company is £1,081,000 (2020: £3,336,000 loss). The Company has applied the section 408 exemption from preparing a separate profit and loss account. A statement of movement of reserves is given in the Company Statement of Changes in Equity. The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue on 30 September 2020.

P C Newland Group Chief Executive

Consolidated Statement of comprehensive income – for the year ended 31 March 2021

	31 Mar 21 £'000	31 Mar 20 £'000
Profit for financial year	13,179	2,732
Movement on hedging reserve	745	(579)
Deferred tax impact of movement in hedging reserve	(115)	137
Actuarial (loss)/gain relating to retirement benefit surplus	(46,157)	23,242
Deferred tax on actuarial gain/(loss) relating to retirement benefit surplus	8,770	(4,416)
Deferred tax rate change	-	(1,163)
Exchange movements on translation of overseas operations	(62)	(12)
Total consolidated comprehensive income for the year from controlling interests	(23,640)	19,941
Profit for financial year from non-controlling interests	86	90
Total consolidated comprehensive income for the year	(23,554)	20,031

The results in both statements above are derived from continuing operations.

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of changes in equity – as at 31 March 2021

	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Merger reserve	Revaluation reserve	Profit and Loss Account	Currency translation reserve	Hedging Reserve	Shareholders funds	Non-controlling interests	Total capital employed
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2019	5,449	10,882	1	(253)	17,625	59,411	16	(5,715)	87,416	333	87,749
Profit for financial year	-	-	-	-	-	2,732	-	-	2,732	90	2,822
Exchange movements on translation of overseas operations	-	-	-	-	-	-	(12)	-	(12)	-	(12)
Change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	(721)	(721)	-	(721)
Deferred tax on change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	137	137	-	137
Actuarial gain relating to retirement benefit surplus	-	-	-	-	-	23,242	-	-	23,242	-	23,242
Deferred tax on actuarial gain relating to benefit surplus	-	-	-	-	-	(4,416)	-	-	(4,416)	-	(4,416)
Deferred tax rate change	-	-	-	-	-	(1,317)	-	154	(1,163)	-	(1,163)
Amounts transferred to profit and loss	-	-	-	-	(235)	235	-	176	176	-	176
Deferred tax on amounts transferred to profit and loss	-	-	-	-	-	-	-	(33)	(33)	-	(33)
Total comprehensive income/(loss)	5,449	10,882	1	(253)	17,390	79,887	4	(6,002)	107,358	423	107,781
Acquisition in the year	-	-	-	-	-	-	-	-	-	(3)	(3)
Dividends (note 9)	-	-	-	-	-	(12,594)	-	-	(12,594)	-	(12,594)
Balance at 31 March 2020	5,449	10,882	1	(253)	17,390	67,293	4	(6,002)	94,764	420	95,184

Consolidated Statement of changes in equity – as at 31 March 2021 (continued)

	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Merger reserve	Revaluation reserve	Profit and Loss Account	Currency translation reserve	Hedging Reserve	Shareholders funds	Non-controlling interests	Total capital employed
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Profit for financial year	-	-	-	-	-	13,179	-	-	13,179	86	13,265
Exchange movements on translation of overseas operations	-	-	-	-	-	-	(62)	-	(62)	-	(62)
Change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	604	604	-	604
Deferred tax on change in value of hedging instruments - cash flow hedges		-	-	-	-	-	-	(115)	(115)	-	(115)
Actuarial loss relating to retirement benefit surplus	-	-	-	-	-	(46,157)	-	-	(46,157)	-	(46,157)
Deferred tax on actuarial loss relating to benefit surplus	-	-	-	-	-	8,770	-	-	8,770	-	8,770
Amounts transferred to profit and loss	-	-	-	-	(235)	235	-	174	174	-	174
Deferred tax on amounts transferred to profit and loss	-	-	-	-	-	-	-	(33)	(33)	-	(33)
Total comprehensive income/(loss)	5,449	10,882	1	(253)	17,155	43,320	(58)	(5,372)	71,124	506	71,630
Acquisition of non-controlling interest shares	-	-	-	-	-	(1,200)	-	-	(1,200)	(300)	(1,500)
Dividends (note 9)	-	-	-	-	-	(20,650)	-	-	(20,650)	-	(20,650)
Balance at 31 March 2021	5,449	10,882	1	(253)	17,155	21,470	(58)	(5,372)	49,274	206	49,480

The accompanying notes are an integral part of the financial statements.

Company Statement of changes in equity – as at 31 March 2021

	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit and Loss Account £'000	Shareholders funds £'000
Balance at 1 April 2019	5,449	10,882	1	57,013	73,345
Profit for financial year	-	-	-	(3,336)	(3,336)
Actuarial loss relating to retirement benefit surplus	-	-	-	19,283	19,283
Deferred tax on actuarial gain relating to retirement benefit surplus	-	-	-	(3,664)	(3,664)
Deferred tax rate change	-	-	-	(1,028)	(1,028)
Total comprehensive income	5,449	10,882	1	68,268	84,600
Dividends (note 9)	-	-	-	(12,594)	(12,594)
Balance at 31 March 2020	5,449	10,882	1	55,674	72,006
Profit for financial period	-	-	-	1,081	1,081
Actuarial loss relating to retirement benefit surplus	-	-	-	(38,114)	(38,114)
Deferred tax on actuarial loss relating to retirement benefit surplus	-	-	-	7,242	7,242
Deferred tax rate change	-	-	-	-	-
Total comprehensive income	5,449	10,882	1	25,883	42,215
Dividends (note 9)	-	-	-	(20,650)	(20,650)
Balance at 31 March 2021	5,449	10,882	1	5,233	21,565

The accompanying notes are an integral part of the financial statements.

Consolidated Cash flow statement – as at 31 March 2021

		31 Mar 21		31 Mar 20	
	Note	**£'000**	**£'000**	**£'000**	**£'000**
Cash inflow from operating activities			60,415		80,308
Corporation tax paid			(2,476)		(4,518)
Net cash inflow from operating activities	(a)		57,939		75,790
Cash flows from investing activities					
Purchase of tangible fixed assets		(46,554)		(48,437)	
Proceeds from sale of tangible fixed assets		888		1,002	
Interest received		6,947		2,573	
Repayment of intercompany loan to parent undertakings		8,914		-	
Cash consideration for subsidiaries acquired (including costs)		-		(1,448)	
Cash balances of subsidiaries acquired (net)		-		33	
Net cash outflow from investing activities			(29,805)		(46,277)
Cash flows from financing activities					
Interest paid		(12,453)		(13,083)	
Equity dividends paid		(20,650)		(12,594)	
Drawdown of bank loans		58,500		12,250	
Repayment of bank loans		(75,000)		(7,882)	
Bank loan issue costs paid		(426)		-	
Repayment of private placement loan notes		-		(20,500)	
Additions to private placement loan notes		-		30,000	
Private placement loan notes issue costs paid		-		(17)	
Finance lease repayments		(92)		-	
Net cash outflow from financing activities			(50,121)		(11,826)
Increase in cash and cash equivalents			(21,987)		17,687
Cash or cash equivalents brought forward			37,000		19,313
Cash or cash equivalents carried forward			15,013		37,000

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in that paid £46,554,000 (2020: £48,437,000) and additions in the fixed asset note of £48,903,000 (2020: £52,170,000) is due to an increase in the year of creditors due relating to capital purchases of £2,349,000 (2020: £3,733,000 increase).

The cash balance of £15,013,000 (£37,000,000) represents positive cash balances of £49,291,000 (2020: £77,903,000) net of overdraft balances of £34,278,000 (2020: £40,903,000).

Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	31 Mar 21		31 Mar 20	
	£'000	£'000	£'000	£'000
Total operating profit		28,802		24,293
Depreciation	32,655		31,528	
Amortisation of goodwill	2,863		4,066	
Impairment of goodwill	1,309		799	
Amortisation of intangible assets	732		310	
Amortisation of capital contributions	(3,228)		(2,907)	
Defined benefit pension scheme contributions (employer)	-		(570)	
Share of associate operating (profit) / loss	(453)		772	
Profit on disposal of tangible fixed assets	(349)		(726)	
Capital contributions received	7,232		9,925	
		40,761		43,197
(Increase) in stocks	(743)		(218)	
(Increase)/decrease in debtors	(2,988)		5,936	
(Decrease)/increase in creditors	(5,417)		7,100	
		(9,148)		12,818
Cash inflow from operating activities		60,415		80,308
Corporation tax paid		(2,476)		(4,518)
Net cash inflow from operating activities		57,939		75,790

(b) Reconciliation in movement in net debt

	31 Mar 21	31 Mar 20
	£'000	£'000
(Decrease)/ increase in cash or cash equivalents	(21,987)	17,687
Finance lease additions	(423)	-
Finance lease repayments (cash)	92	-
Drawdown of bank loans	(58,500)	(12,250)
Repayments of bank loans	75,000	7,882
Bank loan issue costs paid	426	-
Bank loan issue cost amortisation (non-cash)	(172)	(333)
Repayment of private placement loan notes (net of issue costs cash)	-	20,500
Issue of private placement loan notes (net of issue costs cash)	-	(29,983)
Private placement issue cost amortisation (non-cash)	(29)	(24)
Movement on index-linked debt (non-cash)	(6,107)	(5,887)
Increase in net debt in year	(11,700)	(2,408)
Net debt brought forward	(419,762)	(417,354)
Net debt carried forward	(431,462)	(419,762)

Notes to the cash flow statement (continued)

	Balance at 31 Mar 2020	Acquisitions and disposals	Cash Flow	Non-Cash Movements	Balance at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand (net of overdraft)	37,000	-	(21,987)	-	15,013
Short-term bank loans	(29,985)	-	30,000	(15)	-
	7,015	-	8,013	(15)	15,013
Irredeemable debenture stock	(1,652)	-	-	-	(1,652)
Index-linked debt (net of issue costs)	(235,643)	-	-	(6,106)	(241,749)
Bank loans (net of issue costs)	(116,668)	-	(13,074)	(158)	(129,900)
Private placement loan notes (net of issue costs)	(72,814)	-	-	(29)	(72,843)
Obligations under finance leases and hire-purchase contracts	-	-	92	(423)	(331)
Net debt	(419,762)	-	(4,969)	(6,731)	(431,462)

The cash flows in respect of the Company's bank loans include repayments of £75,000,000 and drawdowns of £58,500,000.

Non-cash movements represent indexation, amortisation of issue costs, amortisation of the discount/premium on index-linked debt and non-cash reduction in finance leases. The book value of net debt detailed above differs from the value used for covenant reporting purposes of £409,518,000 (2020: £400,750,000). Index-linked debt used for covenant reporting purposes is the indexed principal whereas, in accordance with applicable accounting standards, the book value represents amortised cost. Also, bank loans and private placement loan notes for covenant reporting purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. A reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 Mar 21	31 Mar 20
	£'000	£'000
Book net debt (as reported above)	(431,462)	(419,762)
Exclude book premium on issue of index linked debt	12,774	13,116
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	11,083	8,113
Exclude unamortised issue costs	(2,558)	(2,357)
Exclude accrued interest	645	140
Net debt reported for borrowing covenants	(409,518)	(400,750)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders to monitor key financial metrics of the Group.

Notes to the financial statements

1. Statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

(a) General Information and Basis of Accounting

South Staffordshire Plc (the Company) is a privately owned Public Limited Company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the Company's registered office is shown on page 53.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The functional currency of the Company and Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company and Group operates. The Company and Group meet the definition of a qualifying entity under FRS 102, and has therefore taken advantage of the disclosure exemptions available to them in respect of financial instruments.

(b) Basis of Consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings made up to 31 March each year.

Certain group reorganisations which took place in previous years have been accounted for using merger accounting principles, in order to meet the overriding requirement under section 393 of the Companies Act 2006 for financial statements to present a true and fair view. The transactions accounted for using these principles did not meet all of the conditions for merger accounting under the Companies Act 2006, namely that the fair value of any non-equity consideration must not exceed 10 per cent of the nominal value of equity shares issued as consideration. However, the Directors consider that in substance the consideration for these transactions comprised equity share capital with no net cash impact and that the alternative approach of acquisition accounting, with the restatement of separable assets and liabilities to fair values, the creation of goodwill, as well as the inclusion of post reorganisation results only would not give a true and fair view of the Group's results and financial position. The substance of the transactions was not the acquisition of businesses, but rather a group reconstruction under which the ultimate shareholders of the businesses transferred their rights relative to the others remained unchanged. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 2006 requirements.

Other business combinations have been accounted for under the acquisition method.

(c) Turnover

South Staffs Water turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services in the normal course of business. For water supplied, turnover includes amounts billed for water supplied but unbilled at the year end. Other income includes rental income, which is recognised over the term of the lease.

Software licence income is recognised within turnover once software implementation and customer acceptance are complete unless there is an agreement to pay a rental charge for the product, in which case, turnover is recognised based on the value of the rental charge each month. Income from separate software maintenance contracts is recognised evenly over the contract period to which it relates. Income generated through the performance of software development and consultancy services is included within turnover on the basis that turnover is matched with the delivery of the service.

Contract accounting is applied to certain contracts which the Group is a party to. Where the outcome of the contract can be assessed with reasonable certainty, attributable turnover and profit are calculated on an appropriate and prudent basis, and included in the accounts for the period under review. Where a contract loss is anticipated, the entire anticipated loss is recognised immediately.

Turnover of other non-regulated activities represents amounts receivable excluding VAT, from the sale of goods and services.

(d) Dividends

Dividends are recognised if they have been paid or if they have been approved by the shareholders before the year-end.

(e) Goodwill

Goodwill arising on acquisitions represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill is amortised over its estimated useful life of 10 to 20 years.

(f) Tangible Fixed Assets and Depreciation

Tangible fixed assets comprise infrastructure assets (including water mains, impounding and pumped raw water storage reservoirs and dams), specialist operational assets (including pumping stations, treatment stations, boreholes and service reservoirs), land and buildings, as well as other assets including fixed plant and equipment.

Infrastructure Assets

Infrastructure assets principally comprise two separate regional networks of systems that are intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of their components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks is treated as an addition, which is included at cost. Infrastructure renewals expenditure, which is the annual expenditure required to maintain the operating capability of the network, is not considered to represent an increase in capacity or network enhancement and is therefore not capitalised within tangible fixed assets but is expensed within operating costs for the year. In accordance with FRS 102, new infrastructure assets are depreciated on a straight line basis over their useful economic life of 100 years. The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 is being depreciated over the estimated remaining economic life of 80 years.

Other Assets

Other assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on a straight line basis to write off the cost less estimated residual value over the estimated useful lives of the assets, with the exception of land which is not depreciated. The estimated useful lives of assets are as follows:

Boreholes	100 years
Buildings and Service Reservoirs	Up to 80 years
Fixed Plant	Up to 30 years
Water Meters	Up to 15 years
Office Equipment	Up to 10 years
Mobile Plant	Up to 10 years
Motor Vehicles	3–7 years

Specialised operating assets includes boreholes, buildings and service reservoirs and pumping / treatment station plant.

(g) Capital Contributions

Capital contributions, including those in respect of infrastructure assets, are treated as deferred income and released as a credit to operating costs over the estimated useful lives of the assets concerned.

(h) Leased Assets

Assets financed by leasing and hire-purchase arrangements which transfer substantially all the risks and rewards of ownership to the Group are included in tangible fixed assets, and the net obligation to pay future rentals is included as borrowings within creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis.

(i) Investments

Investments held as fixed assets are stated at cost less amounts written off and any provision for impairment. In accordance with Section 611 of the Companies Act 2006, the cost of shares acquired from a fellow group undertaking by way of a share for share exchange are recorded at the higher of the nominal value of the shares issued as consideration and the carrying value of the investment in the transferring company.

(j) Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis (FIFO). Cost includes an appropriate element of overheads. Provision is made for obsolete, slow moving or defective items where appropriate.

(k) Foreign Currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, or the rate of the relevant forward exchange contracts.

The results of overseas operations are translated at the average rates of exchange during the year, and their balance sheets at the rates prevailing at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the consolidated statement of comprehensive income. All other exchange differences are included in the profit and loss account.

(l) Pensions

The profit and loss charge or credit in respect of defined benefit pension schemes represent:

- The cost or credits associated with benefit changes, settlements and curtailments. These are charged or credited against operating profit.
- The net interest charge or credit on the net defined benefit deficit or surplus. This is charged or credited within finance charges (net).

Actuarial gains and losses are charged or credited directly to the consolidated statement of comprehensive income net of deferred tax. The defined benefit scheme liabilities, valued using the projected unit method and the fair value of scheme assets, are recognised in the relevant balance sheet as a net retirement benefit surplus or obligation before the related deferred tax, which is reported separately.

Pension scheme surpluses have been recognised in the statement of financial position as the recoverability of the surplus in the form of a refund or a reduction in future contributions does not depend on the future decisions of the trustees of the scheme. The recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

In accordance with the agreed policy in the Group, as the South Staffordshire section of the defined benefit Water Companies Pension Scheme is a multi-employer scheme with deferred members of the scheme being employees of a number of companies in the Group, this section is accounted for in the individual company accounts of South Staffordshire Plc, the holding company of the participating companies in the Group. The Cambridge Water section of the defined benefit Water Companies Pension Scheme is accounted for in the accounts of Cambridge Water Plc. The defined benefit scheme of G. Stow Plc is accounted for in the accounts of G. Stow Plc.

In respect of the Group defined contribution schemes the amounts charged to the profit and loss account are the contributions payable in respect of the year.

(m) Research and Development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred, unless the specific criteria under FRS 102 for capitalisation of development costs have been met, in which case, the costs are capitalised and depreciated over the estimated useful life of the subsequent revenue streams.

(n) Taxation

Current corporation tax payable is provided on taxable profits at the current rate. Deferred tax is provided in respect of capital allowances in excess of depreciation, and all other timing differences that have originated, but not reversed at the balance sheet date using future tax rates anticipated at the time of reversal that have been enacted at the balance sheet date.

(o) Financial Instruments

Financial Assets

All financial assets, being cash and cash equivalents, debtors and loans receivable are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Financial Liabilities

Financial liabilities other than derivative financial liabilities (see Hedge Accounting below) are initially measured at fair value and subsequently measured at amortised cost. The premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument, which is included in finance charges (net) in the profit and loss account.

(p) Hedge Accounting

The Group designates certain hedging instruments, including derivatives, as cash flow hedges. At inception of the hedge relationships, the Group documents the relationships between the hedging instruments and the hedged items, along with the Group’s risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the Group documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity (net of tax) in a hedging reserve. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. The amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account.

Hedge accounting is discontinued when the Group de-designates the hedging relationships, the hedging instruments expire, are terminated or sold, or they no longer qualify for hedge accounting. Any cumulative gain or loss that remains in the hedging reserve at that time is recognised when hedged forecast transactions are ultimately recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

(q) Related Party Transactions

As of 31 March 2021, the Company was an indirectly wholly owned subsidiary undertaking of Hydriades IV Limited, the ultimate parent company in the United Kingdom at that date. As such, the Company has taken advantage of the exemption from disclosing transactions with other members of the Group headed by Hydriades IV Limited, as consolidated financial statements for this company in which the accounts of the Company and its subsidiaries are included, are publicly available. The Group has no other related party transactions requiring disclosure other than those disclosed in note 30.

Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements. These are based on historical experience, future forecasts, and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed, and amended where necessary, on a regular basis. However, it is also recognised that the actual outcomes may still differ from the judgements, estimates and assumptions made. Provided below are details of the principal accounting judgements, estimates and assumptions that the Directors have made when applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The more significant judgements were:

Hedge accounting

In applying the Group's interest rate hedging strategy and the corresponding hedge accounting applied in the financial statements, a judgement has been made that there will be highly probable floating interest rate payments over the term of the interest rate derivatives. Underlying this judgement is the assessment that the future refinancing of bank facilities is highly probable. The basis for this judgement includes South Staffs Water's long-term 25-year water supply licence, its related long-term business model and regulated asset base, its ability to access capital markets including the bank debt market, its solid investment grade credit rating, and also the stability and predictability of the regulated UK water sector as a whole.

The key accounting estimates were:

Accrued income

An estimate of water consumption by metered customers of South Staffs Water since the date of the last water bill and the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from South Staffs Water's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2021 was £12,707,000 (2020: £12,399,000). A 1% movement in consumption equates to a £97,000 movement. Other accrued income, including unregulated group activities, totalled £8,516,000 (2020:£10,500,000), with the balances assessed on an individual contract basis based on work completed at the reporting date.

Bad and doubtful debt provision

The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year-end, requires judgement. For South Staffs Water, this judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually calculated as a percentage of the total amount billed in each year. This information is used in order to estimate the level of debt outstanding at the end of the year which is expected to be irrecoverable after following the processes of collection that South Staffs Water adopts. This estimate represents the year-end bad and doubtful debt provision of South Staffs Water which was £29,177,000 as at 31 March 2021 (2020: £42,326,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase approximately £1,000,000.

Tangible fixed assets – Assessment of useful economic lives

There is a requirement to estimate the useful economic lives of tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the businesses forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of assets lives. The total net book value of Group tangible fixed assets as at 31 March 2021 is £582,958,000 (2020: £567,249,000). South Staffordshire Water PLC assets included in the total above amounted to £569,088,000 (2020:£551,578,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be approximately £3,000,000.

Defined benefit pension schemes

Judgements, assumptions and estimates are required to appropriately record the assets and liabilities of defined benefit pension schemes in the balance sheet at each period end. The Directors use the services of professional actuaries to advise on the most appropriate valuations for these assets and liabilities in accordance with the relevant accounting standard. The net accounting surplus for these assets and liabilities as at 31 March 2021 in the consolidated balance sheet is £46,272,000 (2020: £90,842,000). A 3% movement in the net accounting surplus of the schemes would result in a comprehensive income movement of £1,388,000.

2. Segmental information

Turnover

	31 Mar 21 £'000	31 Mar 20 £'000
South Staffs Water	130,290	129,346
Inter divisional	(1)	(25)
South Staffs Water (external)	130,289	129,321
Non-regulated service businesses	165,458	174,759
Inter-divisional	(34,122)	(33,450)
Non-regulated service businesses (external)	131,336	141,309
Group turnover	261,625	270,630

Operating profit

South Staffs Water	25,136	22,108
NHH Joint Venture	438	(787)
South Staffs Water (including non-household retail joint venture)	25,574	21,321
Non-regulated service businesses	3,228	2,972
Total operating profit	28,802	24,293

The Directors do not consider the turnover and operating profit of acquisitions in the year or the previous year to be material to the Group and as such these have not been separately disclosed.

Reconciliation of operating profit to reported EBITDA (before infrastructure renewals):

Operating profit	28,802	24,293
Depreciation	32,655	31,528
Infrastructure renewals (net of contributions)	10,114	9,715
Amortisation of goodwill	2,863	4,066
Impairment of goodwill	1,309	799
Amortisation of intangible assets	732	310
Amortisation of capital contributions	(3,228)	(2,907)
EBITDA (before infrastructure renewals	73,247	67,804

2. Segmental information (continued)

Net operating Assets

	31 Mar 21 £'000	31 Mar 20 £'000
South Staffs Water	373,638	345,805
Non-regulated service businesses	39,694	61,792
Net operating assets	413,332	407,597
Net debt (book value)	(431,462)	(419,762)
Intangible assets	19,935	17,136
Loans receivable from parent undertakings in more than one year	64,883	73,797
Other non-operating net liabilities	(7,904)	(9,364)
Corporation tax receivable (net)	198	(1,946)
Retirement benefit surplus	46,272	90,842
Provisions for liabilities - deferred tax	(55,774)	(63,116)
Net assets	49,480	95,184

The Directors do not consider the turnover, operating profit and net operating assets arising outside of the United Kingdom to be material to the Group and as such these have not been separately disclosed.

3. Operating costs

	31 Mar 21 £'000	31 Mar 20 £'000
Operating costs were as follows:		
Raw materials and consumables	28,889	29,561
Staff costs (see note 4)	86,133	90,661
Depreciation : non-infrastructure assets	28,600	27,318
Depreciation : infrastructure assets	4,055	4,210
Infrastructure renewals expenditure	10,114	9,715
Amortisation of intangible assets	732	310
Own work capitalised	(9,124)	(9,305)
Operating lease rentals:		
plant and machinery	54	424
other	4,167	4118
Charge for bad and doubtful debts	3,634	10,429
Other operating costs	81,636	79,068
	238,890	246,509

Auditor remuneration is analysed as follows.

	31 Mar 21 £'000	31 Mar 20 £'000
Audit of the Company's annual accounts	57	41
The audit of other Group undertakings pursuant to legislation	269	213
Total audit fees	326	254
Audit related assurance services	84	49
Other assurance services	14	
Total non-audit fees	98	49

4. Staff costs

	31 Mar 21 £'000	31 Mar 20 £'000
Wages and salaries	76,443	79,931
Social security costs	7,129	7,723
Pension costs (see note 29)	2,561	3,007
	86,133	90,661

	31 Mar 21 Number	31 Mar 20 Number
Average number of employees (full-time equivalents)		
South Staffordshire Plc	73	74
South Staffs Water	432	435
Non-regulated service businesses	2,075	2,205
	2,580	2,714

The monthly average number of employees by activity, including Directors on a service contract and are on a full-time equivalents basis.

5. Directors' remuneration

	31 Mar 21 £'000	31 Mar 20 £'000
Emoluments	849	339

No Directors holding office at 31 March 2021 accrued benefits under a Group defined benefit pension scheme during the year (2020: Nil) and 1 Director was a contributing member of a Group money purchase pension scheme during the year (2020: 1 Director). There were £35,000 of contributions paid by the Group in respect of money purchase pension schemes for Directors during the year (2020: £55,000).

The highest paid Director received emoluments of £385,000 (2020: £264,000) during the year. There were £18,000 of Group contributions in respect of a money purchase pension scheme for the highest paid Director (2020: £55,000).

None of the Directors had a material interest in any contract to which the Group was party during the year or the preceding year. Further details of the remuneration of the Executive team are provided in the Remuneration Committee Review on page 65.

6. Other operating income

	31 Mar 21 £'000	31 Mar 20 £'000
Profit on disposal of fixed assets	349	726
Rental income	416	453
Grants and Contributions	3,228	2,907
Corporate job retention scheme receipts	3,489	-
Infrastructure renewals contributions	2,304	1,723
	9,786	5,809

6. Other operating income (continued)

Significant rentals included in rental income include:

- Fulbourn Road lease from 6 March 2020, expires 5 March 2022; rent is fixed at £186,000 per annum for the term of the lease for part occupation of the property. Rent is payable quarterly in advance; and
- Fradley land, tenancy with rent £30,000 per annum paid annually in advance; hence this is an annual tenancy running year to year.

During the year certain group companies utilised the government's Corporate Job Retention Scheme, with certain employees being placed on furlough during the COVID-19 pandemic. The total amount of contribution from the scheme was £3,489,000 and has been disclosed as other operating income above.

7. Finance costs (net)

	31 Mar 21 £'000	31 Mar 20 £'000
Interest payable and similar charges:		
Index-linked debt (cash)	7,401	7,832
Index-linked debt (non-cash)	6,106	5,887
Bank term loan, drawings on short-term bank loans and other interest payable (net)	2,357	2,790
Private placement loan notes	2,166	2,638
Share of interest payable in associate	328	294
Irredeemable debenture stock	68	68
	18,426	19,509
Interest receivable:		
Interest receivable from associate	(328)	(294)
Interest on loans to parent undertakings	(4,527)	(4,948)
	13,571	14,267
Other finance income: (net)		
Defined benefit pension scheme interest credit (net)	(1,780)	(1,188)
Amounts recycled from hedging reserve	174	176
	11,965	13,255

8. Tax on profit

	31 Mar 21 £'000	31 Mar 20 £'000
Current tax:		
UK corporation tax at 19% (2020: 19%)	3,331	2,689
Adjustments in respect of prior periods	(1,120)	(53)
Foreign tax	62	95
Total current tax charge	2,273	2,731
Deferred tax:		
Origination and reversal of timing differences	421	717
Effect of change in deferred tax rate	-	4,975
Adjustments in respect of prior periods	878	(207)
Total deferred tax charge	1,299	5,485
Total tax charge	3,572	8,216

Tax included in statement of comprehensive income

	31 Mar 21 £'000	31 Mar 20 £'000
Deferred tax:		
Actuarial (loss)/gain on pension scheme	(8,770)	4,416
Movement in hedging reserve	115	(137)
Effect of change in deferred tax rate	-	1,163
Total tax (credit)/charge	(8,655)	5,442

The tax assessed on the profit for the year is higher than the standard rate of corporation tax in the UK of 19% (2020 - 19%). The differences are reconciled below:

	31 Mar 21 £'000	31 Mar 20 £'000
Profit on ordinary activities before tax	16,837	11,038
Profit multiplied by standard UK corporation tax rate of 19% (2020: 19%)	3,199	2,097
Expenses not deductible for tax purposes (net)	996	1,357
Impact of changes in future tax rates	-	4,975
Adjustments in respect of prior years	(242)	(275)
Group relief received not paid for	(385)	36
Deferred tax not provided	(17)	-
Difference in foreign tax rates	21	26
Total tax charge	3,572	8,216

A reduction on the future UK corporation tax rate from 18% to 17% was substantively enacted in the Finance Act 2016 and will take effect in April 2020. However, in the Spring budget 2020, the Government announced that from 01 April 2020 the corporation tax rate would remain at 19%. This new law was

8. Tax on profit (continued)

substantively enacted on 17 March 2020; therefore, its effect has been included in these financial statements. Current tax and deferred tax have been recognised at 19%.

On 3 March 2021 the Chancellor announced an increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. As the rate change was not substantively enacted at the balance sheet date, all deferred tax at 31 March 2021 is recognised at the prevailing rate of 19%. South Staffordshire Plc holds a net deferred tax liability of £55,775,000 at 31 March 2021 in respect of accelerated capital allowances and retirement benefits. The closing deferred tax liability at 31 March 2023 is estimated to be £54,580,000. The impact of the rate change from 19% to 25% would result in an increase in the net deferred tax liability from the estimated £54,580,000 to £71,838,000, with a corresponding debit to deferred tax expense in the profit & loss account of £14,876,000 and a debit to the statement of other comprehensive income of £2,381,000.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £2,077,000 (2020: £1,858,000).

9. Dividends paid

	31 Mar 21 **£'000**	**31 Mar 20** **£'000**
Equity Interests		
Ordinary Dividends paid of 161.1p (2020: 98.2p) per share	20,650	12,594

10. Earnings per share

	31 Mar 21 **£'000**	**31 Mar 20** **£'000**
Profit for the financial year and profit for earnings per share	13,179	2,732

	31 Mar 21 **Number of** **Shares**	**31 Mar 20** **Number of** **Shares**
Weighted average number of shares for basic and diluted earnings per share	12,819,856	12,819,856

	2021	2020
Earnings per share	102.8p	21.3p

11. Intangible assets

Group

	Development costs	**Goodwill**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 April 2020	7,609	57,720	65,329
Additions	527	-	527
Adjustments in respect of prior year acquisitions	-	29	29
As at 31 March 2021	8,136	57,749	65,885
Depreciation			
At 1 April 2020	462	40,584	41,046
Charge for the year	732	2,863	3,595
Impairment of goodwill	-	1,309	1,309
As at 31 March 2021	1,194	44,756	45,950
Net Book Value			
As at 31 March 2021	6,942	12,993	19,935
Net Book Value			
At 31 March 2020	7,147	17,136	24,283

During the year ended 31 March 2021 adjustments were made in respect of goodwill on prior year acquisitions of £29,000 reflecting adjustments made in the year to the provisional fair values of consideration and the acquired assets and liabilities as reported last year.

During the year ended 31 March 2020 the Directors made an assessment of the goodwill assets held by the Group and elected to impair goodwill balances where the relating asset no longer justified the goodwill balance. The carrying value of goodwill is determined based on the basis of a value in use calculation. The value is determined using a discounted cash flow calculation for each Cash Generating Unit (CGU) and is based on the most recent financial projections for the CGUs. These value in uses are compared to the carrying values of goodwill to identify assets that may require impairment.

The total impairment recognised in the year relates to Grosvenor Services Group Limited, with the remaining goodwill balance of £1,309,000 being deemed impaired from the value in use calculation, with the value in use being lower than the carrying value of the remaining goodwill. The business suffered from the COVID-19 pandemic and is not forecast to recover the performance to pre-pandemic levels, as such the Directors do not consider the asset to have any material value to the Group and have impaired the asset in full.

12. Investment in Associate

Group

	£'000
Balance at 1 April 2020	97
Profit after taxation	125
Balance at 31 March 2021	222

During the year the Group provided Wholesale water services to the retailer Pennon Water Services Ltd and turnover of £15,501,000 (2020:£19,138,000) in relation these transactions was recognised and there was a trade debt outstanding of £27,000 (2020: £195,000) at the year end.

The Group has an outstanding interest bearing loan balance due from PWSL of £6,517,000 (2020:£6,517,000) which remained outstanding at 31 March 2021.

13. Tangible fixed assets

Group

	Land and buildings	Infrastructure Assets	Fixed Plant & Equipment	Specialised Operational Assets	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2020	28,895	494,506	287,843	261,827	1,073,071
Additions	113	11,869	25,889	11,032	48,903
Disposals	(9)	-	(10,628)	-	(10,637)
As at 31 March 2021	28,999	506,375	303,104	272,859	1,111,337
Depreciation					
At 1 April 2020	9,867	189,386	183,928	122,641	505,822
Charge for the year	526	4,055	19,093	8,981	32,655
Disposals	(9)	-	(10,089)	-	(10,098)
As at 31 March 2021	10,384	193,441	192,932	131,622	528,379
Net Book Value					
Owned	18,615	312,934	109,571	140,927	582,047
Leased	-	-	601	310	911
As at 31 March 2021	18,615	312,934	110,172	141,237	582,958
Net Book Value					
Owned	19,028	305,120	103,613	138,881	566,642
Leased	-	-	302	305	607
At 31 March 2020	19,028	305,120	103,915	139,186	567,249

Freehold land of £2,337,000 (2020: £2,337,000) included above is not subject to depreciation.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,644,000 (2020: £7,375,000) less accumulated depreciation of £6,733,000 (2020: £6,758,000).

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £28,900,000 at 31 March 2021 (2020:£28,300,000).

Judgement is required to determine whether costs incurred when work is carried out on assets of South Staffs Water are capital or revenue in nature. This work includes repairs, like-for-like replacement, new assets or replacement of assets with an element of asset enhancement or increased capacity. Identifying which element of expenditure represents capital expenditure rather than revenue expenditure, may include judgement that the South Staffs Water's two regional infrastructure networks each represent single infrastructure assets. In order to apply the appropriate accounting, a judgement is made as to whether it is probable that the expenditure will generate future economic benefits, as well as if the costs can be measured reliably.

13. Tangible fixed assets (continued)

Company

	Land and buildings £'000	Fixed Plant & Equipment £'000	Total £'000
Cost			
At 1 April 2020	80	3,291	3,371
Additions	-	963	963
Disposals	-	(566)	(566)
As at 31 March 2021	80	3,688	3,768
Depreciation			
At 1 April 2020		742	742
Charge for the year	-	991	991
Disposals	-	(565)	(565)
As at 31 March 2021	-	1,168	1,168
Net Book Value			
As at 31 March 2021	80	2,520	2,600
Net Book Value			
At 31 March 2020	80	2,549	2,629

Freehold land of £80,000 (2020: £80,000) held at 31 March 2021 was not subject to depreciation

None of the tangible fixed assets of the Company were financed by finance leases or hire purchase agreements.

14.Commitments

Group capital commitments outstanding at 31 March 2021 were £25,607,000 (2020: £5,957,000). The significant increase relates to the major upgrade of South Staffordshire Water's two largest water treatment works

The Company had no capital commitments at either year-end.

15. Capital contributions – accruals and deferred income

Group

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2020	145,521	13,807	159,328
Capital contributions received	5,559	1,673	7,232
Amortised in year	(1,843)	(1,385)	(3,228)
Balance at 31 March 2021	149,237	14,095	163,332

The Company had no capital contributions at either year-end.

16. Fixed Asset Investments

Group	Loan to Joint Venture £'000	Loans to Parent Undertakings £'000	Total £'000
At 1 April 2020	6,517	88,797	95,314
Reduction to intercompany loans	-	(8,914)	(8,914)
At 31 March 2021	6,517	79,883	86,400

Included in loans to parent undertakings are;

- £25,000,000 (2020: £25,000,000) identified as a loan with a repayment date 30 June 2051 with an interest rate of 7%;
- £22,200,000 (2020: £22,200,000) identified as a loan with no fixed repayment date with an interest rate of 5.5%;
- £17,683,000 (2020: £26,597,000) identified as a loan with no fixed repayment date with an interest rate of 7%; and
- £15,000,000 (2020: £15,000,000) identified as an intercompany balance with no fixed repayment date with no interest charged.

Company	Loan to Joint Venture £'000	Loans to Parent Undertakings £'000	Investment in Associate £'000	Shares in Subsidiary Undertakings £'000	Total £'000
At 1 April 2020	6,517	63,797	1,982	100,739	173,035
Additions during the year	-	-	-	5,048	5,048
Impairment of investment	-	-	-	(3,548)	(3,548)
Reduction to intercompany loans	-	(8,914)	-	-	(8,914)
At 31 March 2021	6,517	54,883	1,982	102,239	165,621

16.Fixed Asset Investments (continued)

Shares in subsidiary undertakings and investment in associate are stated at their cost which is equal to net book value.

Additions in the year represent the acquisition of part of the minority stake holding of Office Watercoolers Limited (£1,500,000) and the acquisition of the investment in Grosvenor Services Group Limited (£3,548,000). The investment in Grosvenor Services Group Limited was a share transfer from a subsidiary company, Echo Managed Services Limited, and has subsequently been fully impaired following a review of the investment assets held by the Company.

The increased share of the minority stake holding of Office Watercoolers Limited is detailed is provided below:

	Total £'000
Tangible fixed assets	34
Investments	267
Stocks	1
Debtors	73
Creditors and provisions	(75)
Net increase to minority interest	300
Consideration	(1,500)
Charge to reserves	(1,200)

The consideration has been deferred for payment until June 2022. The consideration has a contingent element for over performance in the next 12 months up to June 2022, however, the current forecast performance is not expected to be materially different to the £1,500,000 deferred consideration.

16.Fixed Asset Investments (continued)

As at 31 March 2021, the Company's trading subsidiary undertakings, all of which are incorporated in the United Kingdom with the exception of Echo India Private Limited, which is incorporated in India and OnSite Utility Services Canada Limited, which is incorporated in Canada, and all of which have only ordinary shares in issue, were as follows:

Company Name	Company Number	Direct Ordinary Shareholding	Indirect Ordinary Shareholding	Nature of Business
South Staffordshire Water PLC	02662742	100%		Regulated water supply
Aqua Direct Limited	03349782	100%		Supply of spring and mineral water
Office Watercoolers Limited	04144740	95%		Rental of water cooling units and sale of spring water
Echo Managed Services Limited	04102885	100%		Customer management
Echo Northern Ireland Limited	NI057759		100%	Customer management
Inter-Credit International Limited	01024737	100%		Customer credit management
Grosvenor Services Group Limited	03621315	100%		Customer credit management
Echo India Private Limited	U72900DL201 1FTC227486		100%	Software development support services to UK parent company
SSI Services (UK) Limited	03824088	100%		Holding company for those companies listed below
OnSite Central Limited	02712788		100%	Sewer and wastewater asset inspection, relining, surveying, cleaning and flow monitoring. Clean water asset installation, repair, maintenance and refurbishment
OnSite Utility Services Canada Limited	BC1007169		100%	Sewer and wastewater asset inspection, surveying and cleaning
Integrated Water Services Limited	05283349		100%	Mechanical and electrical and water hygiene services
Hydrosave UK Limited	03460346		100%	Water main leak detection services and clean water network management services
Immerse Asset Management Limited	02784266		100%	Water efficiency and bill management services
G. Stow Plc	02645390		100%	Borehole drilling and refurbishment
Advanced Engineering Solutions Limited	03082093		100%	Pipeline engineering

16.Fixed Asset Investments (continued)

Other subsidiaries of the Company as at 31 March 2021, which were all non-trading companies as at that date, were as follows:

365 Environmental Services Limited	Grosvenor Legal Services Limited	Rapid Systems Limited
Aquastations Water Coolers Limited	Ion Water and Environmental	Recoup Revenue Management Limited
Aquaven Limited	IWS M&E Services Limited	Smart Water Coolers Limited
Brocol Consultants Limited	IWS Pipeline Services Limited	South Staffordshire Infrastructure
Brightwater Limited	IWS Water Hygiene Services Limited	South Staffordshire Water Holdings
Cambridge Water Plc	Lingard Limited	Subaqua Solutions Limited
Data Contracts Specialist	OnSite Specialist Maintenance Limited	Waterflo Limited
Debt Action Limited	Phoenix Water Coolers Limited	Wells Water Treatment Services Limited
Freshwater Coolers Plc	Portadam Limited	Woodside Environmental Services
Greenacre Pumping Systems	Perco Engineering Services Limited	
Green Compliance Water Division Limited	Pump Services Limited	

As at 31 March 2021, the registered address of the above subsidiaries is Green Lane, Walsall, WS2 7PD, with the exception of Aqua Direct Limited (Elmhurst Spring, Lichfield Road, Elmhurst, Lichfield, Staffordshire, WS13 8HQ), Echo Northern Ireland Limited (Capital House, Wellington Place, Belfast, Northern Ireland, BT1 6FB), Echo India Private Limited (304, 3rd Floor, Laxmi Chamber, Plot No. D-223, VikasMarg, Laxmi Nagar, New Delhi - 110092), OnSite Utility Services Canada Limited (Three Bentall Centre, Vancouver, British Columbia, Canada, V7X 1L3), Cambridge Water Plc (90 Fulbourn Road, Cherry Hinton, Cambridge, CB1 9JN) and Debt Action Limited (Capital House, 3 Upper Queen Street, Belfast Northern Ireland, BT1 6PU).

17. Stocks

	2021 £'000 Group	2020 £'000 Group	2021 £'000 Company	2020 £'000 Company
Stores and raw materials	4,371	3,628	26	91

18. Debtors

	2021 £'000 Group	Restated 2020 £'000 Group	2021 £'000 Company	Restated 2020 £'000 Company
Amounts recoverable within one year				
Trade debtors	40,508	39,947	-	-
Other debtors	739	226	150	163
Amounts owed by Group undertakings	-	-	4,650	5,650
Amounts owed by parent undertakings	4,592	2,774	4,375	10,451
Prepayments	1,921	2,395	625	728
Corporation tax receivable	282	-	136	-
Accrued income	21,223	22,899	-	-
	69,265	68,241	9,936	8,078
Amounts recoverable in more than one year				
Other amounts owed by parent undertakings	2,857	3,302	-	-
	2,857	3,302	-	-
	72,122	71,543	9,936	8,078

19. Borrowings

	2021 £'000 Group	Restated 2020 £'000 Group	2021 £'000 Company	2020 £'000 Company
Amounts falling due within one year				
Short-term bank overdraft	34,278	40,903	-	-
Bank loans	-	29,985	-	-
Obligations under finance leases and hire purchase contracts	80	-	-	-
	34,358	70,888	-	-
Amounts falling due in more than one year				
Bank loans (unsecured and net of issue costs):				
payable between two and five years	129,900	116,668	100,101	91,752
Index-linked debt	241,749	235,643	-	-
Private placement loan notes	72,843	72,814	72,843	72,814
Irredeemable debenture stock	1,652	1,652	-	-
Obligations under finance leases and hire purchase contracts:				
Payable between two and five years	251	-	-	-
	446,395	426,777	172,944	164,566
Total borrowings	480,753	497,665	172,944	164,566

19. Borrowings (continued)

Analysis of Group net debt

	Balance at 31 Mar 2020	Acquisitions and disposals	Cash Flow	Non-Cash Movements	Balance at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand (net of overdraft)	37,000	-	(21,987)	-	15,013
Short-term bank loans	(29,985)	-	30,000	(15)	-
	7,015	-	8,013	(15)	15,013
Irredeemable debenture stock	(1,652)	-	-	-	(1,652)
Index-linked debt (net of issue costs)	(235,643)	-	-	(6,106)	(241,749)
Bank loans (net of issue costs)	(116,668)	-	(13,074)	(158)	(129,900)
Private placement loan notes (net of issue costs)	(72,814)	-	-	(29)	(72,843)
Obligations under finance leases and hire-purchase contracts			92	(423)	(331)
Net debt	(419,762)	-	(4,969)	(6,731)	(431,462)

The cash flows in respect of the Company's bank loans include repayments of £75,000,000 and drawdowns of £58,500,000.

The cash balance of £15,013,000 (£37,000,000) represents positive cash balances of £49,291,000 (2020: £77,903,000) net of overdraft balances of £34,278,000 (2020: £40,903,000).

Non-cash movements represent indexation, amortisation of issue costs, amortisation of the discount/premium on index-linked debt and non cash reduction in finance leases. The book value of net debt detailed above differs from the value used for covenant reporting purposes of £409,518,000 (2020: £400,750,000). Index-linked debt used for covenant reporting purposes is the indexed principal whereas, in accordance with applicable accounting standards, the book value represents amortised cost. Also, bank loans and private placement loan notes for covenant reporting purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. A reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 Mar 21	31 Mar 20
	£'000	£'000
Book net debt (as reported above)	(431,462)	(419,762)
Exclude book premium on issue of index linked debt	12,774	13,116
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	11,083	8,113
Exclude unamortised issue costs	(2,558)	(2,357)
Exclude accrued interest	645	140
Net debt reported for borrowing covenants	(409,518)	(400,750)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders to monitor key financial metrics of the Group.

20. Trade and other payables

	2021 £'000 Group	2020 £'000 Group	2021 £'000 Company	2020 £'000 Company
Amounts payable within one year				
Trade creditors	46,455	42,999	918	3,225
Payments received in advance	30,207	26,816	-	-
Amounts owed to parent undertaking	-	7,428	-	7,428
Amounts owed to other group undertakings	-	-	9,581	7,997
Other creditors	15,254	18,068	1,599	4,697
Corporation tax payable	84	1,946	-	1,114
Other taxation and social security	2,210	1,849	152	111
	94,210	99,106	12,250	24,572
Amounts falling due in more than one year				
Payments received in advance	5,953	3,640	5,953	3,640
Derivative financial liabilities	2,271	2,875	-	-
Other creditors	9,798	9,945	1,942	303
	18,022	16,460	7,895	3,943

Derivative financial liabilities represent the market value of floating to fixed rate interest rate swaps.

21. Provisions for liabilities

Group

	Deferred Taxation £'000
At 1 April 2020	63,116
Charged to profit and loss account	1,299
Credit to other comprehensive income	(8,655)
Other adjustments	14
At 31 March 2021	55,774

Company

	Deferred Taxation £'000
At 1 April 2020	13,598
Charged to profit and loss account	198
Credit to other comprehensive income	(7,242)
At 31 March 2021	6,554

A further analysis of deferred tax is set out in note 23.

22. Retirement benefit surplus

Group

Surplus of defined benefit pension scheme

	£'000
At 1 April 2020	90,842
Current service cost (employer)	(193)
Net finance income	1,780
Actuarial loss (net)	(46,157)
Surplus at 31 March 2021	46,272

Further disclosures relating to the above surplus are provided in note 29.

22. Retirement benefit surplus (continued)

Company

Surplus of defined benefit pension scheme

	£'000
At 1 April 2020	72,144
Current service cost (employer)	(180)
Net finance income	1,439
Actuarial loss (net)	(38,114)
Surplus at 31 March 2021	35,289

23. Deferred Tax

	2021 £'000 Group	2020 £'000 Group	2021 £'000 Company	2020 £'000 Company
Deferred tax liabilities are provided as follows:				
Accelerated capital allowances	47,681	46,535	(45)	41
Timing differences in respect of hedging reserves	(1,423)	(1,570)	-	-
Timing differences in respect of retirement benefits	8,867	17,336	6,794	13,796
Other timing differences	649	815	(195)	(239)
	55,774	63,116	6,554	13,598

24. Called up Share capital

Group and Company

	31 Mar 21 £'000	31 Mar 20 £'000
Authorised:		
47,058,724 Ordinary shares of 42.5p each	20,000	20,000
Issued and fully-paid:		
12,819,856 Ordinary shares of 42.5p each	5,449	5,449

25. Other reserves

Group

	Merger Reserve £'000	Capital Redemption Reserve £'000	Currency Translation Reserve £'000	Share Premium Account £'000	Revaluation Reserve £'000	Hedging Reserve £'000
Balance at 1 April 2019	(253)	1	16	10,882	17,625	(5,715)
Total comprehensive income for the year	-	-	(12)	-	(235)	(287)
Balance at 1 April 2020	(253)	1	4	10,882	17,390	(6,002)
Total comprehensive income for the year	-	-	(62)	-	(235)	630
Balance at 31 March 2021	(253)	1	(58)	10,882	17,155	(5,372)

The capital redemption reserve represents the purchase of 660,000 ordinary 'B' shares of 0.01p each repurchased by the Group in March 2008 for a consideration of £1 and subsequently cancelled, creating a capital redemption reserve of £660.

The currency translation reserve represents differences arising from translating foreign currency assets and liabilities at the closing balance sheet rate compared to the average rate applied to retained earnings.

The share premium account represents the cash consideration paid for the issued 12,819,856 shares of 42.5p each, giving rise to the share premium accounts of £10,882,000.

The revaluation reserve represents the deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 which gave rise to a revaluation reserve of £18,800,000, net of deferred tax, which is being depreciated on a straight-line basis over the estimated remaining economic life of 80 years.

The hedging reserve represents fair value movements relating to interest rate swap agreements entered in to by South Staffordshire Water PLC, further details of the swap can be found in note 28.

26. Operating Lease Commitments

At 31 March 2021, the Group and the Company were committed to making the following total minimum payments under non-cancellable operating leases:

Group

	2021 Buildings £'000	2021 Other £'000	2020 Buildings £'000	2020 Other £'000
Amounts due:				
within one year	765	2,146	854	2,029
between two and five years	1,176	2,672	1,039	1,816
after five years	32	-	107	-
	1,973	4,818	2,000	3,845

26. Operating Lease Commitments (continued)

Company

	2021 Motor vehicles £'000	2020 Motor vehicles £'000
Amounts due:		
within one year	18	25
between two and five years	13	13
	31	38

27. Non-controlling interest

	£'000
At 1 April 2020	420
Profit on ordinary activities after taxation	86
Acquisition in the year	(300)
At 31 March 2021	206

On 1 March 2021 the Company acquired an additional 5% of the shares of Office Watercoolers Limited for £1.5m consideration, reducing the non-controlling interest share to 5%. The value paid over the net book value of the increased shareholding acquired has been recognised in the Consolidated Statement of comprehensive income as a charge to profit reserves in the year.

28. Financial assets and liabilities

The Group's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial assets and liabilities, trade creditors and trade debtors. Borrowings as at 31 March 2021 represent bank term loans, private placement loan notes, finance lease obligations, index-linked debt and irredeemable debenture stock. The purpose of the Group's borrowings is to finance the Group's operations. It is, and has been throughout the year and the previous year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating interest rates and long and short-term borrowings while not exposing the Group to significant risk of market movements (see below). As at 31 March 2021, derivative financial liabilities represent floating to fixed interest rate swaps used as cash flow hedges to reduce the Group's risk to changes in LIBOR.

	2021	**2020**
	£'000	**£'000**
Retail Price Index-linked borrowings	241,749	235,643
Fixed rate borrowings	104,625	104,367
Floating rate borrowings	100,101	116,752
	446,475	456,762

The above borrowings are stated at their book value as opposed to the value used for borrowing covenant purposes. A reconciliation between book and covenant net debt is provided on page 83. The floating rate borrowings comprise sterling denominated short-term bank loans (revolving credit facilities) that bear interest at rates based on LIBOR. Fixed rate financial liabilities include floating rate bank term loans with principal values of £30,000,000 (2020: £30,000,000) that are effectively swapped to fixed rate by cash flow hedges using floating to fixed interest rate swaps where cash flows under the swaps have commenced. The Group's trade debtors and trade creditors are not subject to interest unless considered to be overdue.

For all financial assets and liabilities, the book values and fair values are not materially different, except for the £111,400,000 (2020: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2021 of £190,140,000 (2020: £185,446,000), and a fair value of £412,135,000 (2020:£388,017,000) and the £35,000,000 (2020: £35,000,000) Retail Price Index-linked bond which had a book value at 31 March 2021 of £51,609,000 (2020:£50,197,000) and a fair value of £61,985,000 (2020: £60,620,000).

Fixed rate Borrowings

	Weighted average Interest rate %	**Weighted average period for which rate is fixed in years**
2021		
Sterling	2.4	3.2
2020		
Sterling	2.5	3.9

28. Financial assets and liabilities (continued)

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available were as follows:

	2021 £'000	2020 £'000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years but not more than five years	31,500	-
	31,500	-

Financial Risks

The Group's activities result in it being subject to a limited number of financial risks, principally credit risk, as the Group has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of risks to a level that is considered acceptable. The Group has formal principles for overall risk management, as well as specific procedures to manage individual risks.

1) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates, including those linked to LIBOR and the Retail Price Index (RPI), that expose the Group's cash flows to changes in LIBOR and RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of Group borrowings that are linked to this variable rate and by entering in to an appropriate value of floating to fixed interest rate swap contracts. Risks associated with increases in RPI are effectively managed by hedging against the revenues and the Regulatory Asset Value of South Staffs Water, both of which are also linked to RPI.

2) Credit risk

As is market practice, the Group grants certain customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of amounts receivable from these customers. Full details of the way this risk is managed are provided below. Credit risk also includes the risk over recovery of loans receivable. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to service the interest due on the loans. The total carrying value of financial assets subject to credit risk, net of provisions, at 31 March 2021 was £135,096,000 (2020: £143,762,000).

3) Liquidity risk

Liquidity risk represents the risk of the Group having insufficient liquid resources to meet its obligations as they fall due. The Group manages this risk by regularly monitoring the maturity of credit facilities, actual and forecast cash flows and ensuring that the payment of its obligations are matched with cash inflows and availability of free cash and adequate credit facilities. The table above details the undrawn committed borrowing facilities available to the Group to manage this risk

28. Financial assets and liabilities (continued)

Security Over Assets

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate. Index-linked debt, debenture stock and bank debt issued by South Staffordshire Water PLC, is not secured on any assets. The Company's bank loans and its private placement loan notes are secured against the shares of the Company and certain subsidiaries.

Sensitivity Analysis

The following analysis is intended to illustrate the sensitivity to reasonably possible movements in variables affecting financial liabilities being LIBOR and the long-term forecast for the UK Retail Price Index (RPI) on the pre-tax profit and loss account of the Group during the year. There is no impact on reserves other than the impact on the profit and loss account after tax.

	2021	**2020**
	£'000	**£'000**
RPI + 0.25%	(618)	(584)
RPI - 0.25%	618	584
LIBOR + 1.00%	(1,146)	(542)
LIBOR - 1.00%	1,146	542

Interest Rates Swaps

The Group has entered into interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. The interest rate swaps have been accounted for as cash flow hedges with movements in the fair value of these swaps being recognised in the hedging reserve. Details of interest rate swaps are summarised below.

Period to maturity

	Interest rate fixed		**Nominal principal amount**		**Fair value**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	%	**%**	**£'000**	**£'000**	**£'000**	**£'000**
5-10 Years	2.14	2.14	30,000	30,000	2,271	2,875

28.Financial assets and liabilities (continued)

Maturity of Financial Assets and Liabilities

The maturity profile of the Group's financial liabilities recorded at repayment value, not book value, was as follows:

	2021 £'000	**Restated 2020 £'000**
Borrowings		
In one year or less, or on demand	34,438	70,903
In more than one year, but not more than two	20,080	-
In more than two years, but not more than five	139,687	117,305
In more than five years, but not more than twenty	73,000	73,000
In more than twenty years	222,568	217,485
	489,773	478,693
Other financial liabilities		
In one year or less, or on demand	94,210	99,106
In more than one year, but not more than two	8,161	4,798
In more than two years, but not more than five	4,434	1,980
In more than five years, but not more than twenty	5,427	9,682
	602,006	594,259

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £219,265,000 (2020:£215,833,000) included in the table above are stated at the principal amount indexed by the appropriate RPI value to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in 2045 is £358,265,000 (2020: £358,265,000) and at redemption in 2051 is £118,379,000 (2020: £118,379,000)

Group debtors recoverable in more than one year of £89,257,000 (2020: £89,702,000) principally represent loans receivable from the Company's parent undertakings of £64,883,000 (2020: £64,883,000) with no fixed repayment date and £6,517,000 receivable from the associate (2020: £6,517,000).

Trade Debtors

Before accepting orders from certain customers and offering credit terms, the Group undertakes appropriate credit assessments and uses this information to determine if the order is accepted and the credit terms that will be offered. Provision is made within the trade debtor values detailed below, based on judgment by senior management, for amounts considered to be unrecoverable due either to their nature or age. Due to the varying nature of the Group's businesses there is no single method that is applied to all trade debtors. This would not be considered appropriate with the methods applied being considered appropriate to each business. The total amount charged to the profit and loss account in the year ended 31 March 2021 in respect of such provisions was £3,634,000 (2020: £10,429,000). Total Group trade debtors (net of provisions) as at 31 March 2021 were £40,508,000 (2020: £39,947,000). The total amount of the

28. Financial assets and liabilities (continued)

provision included in the above, as at 31 March 2021 was £32,400,000 (2020: £45,232,000). The Group does not hold collateral over its trade debtors.

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date, to be fully recoverable at their gross book value. The Directors consider that the concentration of credit risk across the Group is limited due to the Group's customer base being significant. The largest balance outstanding from any external party at 31 March 2021 was £857,000 (2020: £332,000), representing 2% (2020: 1%) of the above Group net trade debtor total. Individually significant debtors are principally due from customers with investment grade credit ratings including utilities, government agencies and local authorities.

An ageing analysis of invoiced trade debtors that are past due but not impaired is provided below:

South Staffs Water	< 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	>5 years £'000	Total £'000
2021	9,005	1,147	754	468	210	379	11,963
2020	6,836	870	995	519	332	423	9,975

Non-regulated service businesses	< 1 month £'000	1-2 months £'000	>2 months £'000	Total £'000
2021	4,313	1,108	2,252	7,673
2020	7,783	1,312	2,139	11,234

Non Regulated company debtors that are considered to be impaired of £3,293,000 (2020: £2,989,000) were all more than 2 months past due. An ageing analysis of debtors of South Staffs Water that are considered to be impaired is provided below:

South Staffs Water	< 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	>5 years £'000	Total £'000
2021	4,152	4,312	4,642	3,712	3,213	9,076	29,107
2020	5,434	5,796	3,982	3,483	3,082	20,466	42,243

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 18 approximates to their fair value.

29. Pension retirement benefits

The Group operates a number of funded pension schemes for the benefit of its employees. The Group participates in the Water Companies Pension Scheme, by way of two separate sections, which provide benefits based on pensionable pay at certain points in time (indexed as appropriate). At 31 March 2021, both of these sections had ceased future accrual of benefits with the South Staffordshire section ceasing future accrual from 1 April 2015 and the Cambridge section from 31 December 2010. In the 2018 financial year the Group acquired a further defined benefit pension scheme as part of the acquisition of G Stow Plc which is also closed to new entrants and had ceased accrual of benefits prior to acquisition. The Group also operates a number of defined contribution pension schemes. The assets of all of these schemes are held separately from those of the Group, being invested by professional fund managers.

Details of the accounting policy for pension schemes are provided in note 1. As both of the sections of the Water Companies Pension defined benefit scheme are closed to future benefit accrual, from 1 April 2015 only funding deficit contributions have been paid into the Scheme (with these being £nil in the year ended 31 March 2021 and £500,000 in the year ended 31 March 2020) with these contributions paid increasing the assets of the sections. No current service contributions are now paid and with effect from 1 April 2015 there is no current service cost charge to the profit and loss account. The amount charged to the consolidated profit and loss account for the defined contribution schemes in the year was £2,561,000 (2020: £3,007,000). A pension asset has been fully recognised for both sections at both 31 March 2021 and 31 March 2020 as the Group would benefit from a refund of any surplus assets following a complete run-off of the scheme (i.e. following the final benefit payment from the scheme). There were no overdue contributions at either year-end.

The G Stow Plc defined benefit scheme is closed to future benefit accrual, from 22 June 2017 only funding deficit contributions have been paid into the Scheme (with these being £nil in the year ended 31 March 2021 and £70,000 in the year ended 31 March 2020) with these contributions paid increasing the assets of the sections. No current service contributions are now paid and with effect from 1 April 2015 there is no current service cost charge to the profit and loss account.

Additional disclosures regarding the Group’s defined benefit pension schemes are required under provisions of FRS 102. Valuations each year are undertaken by a qualified actuary using assumptions that are consistent with the requirements of FRS 102. The market value of investments has been calculated using the bid price.

The major assumptions used were as follows:

	31 Mar 2021	**31 Mar 2020**
	%	**%**
Rate of increase in pensions	3.0	2.0
Discount rate	2.0	2.5
Annual inflation RPI	3.5	2.9
Annual inflation CPI	3.0	1.9
	31 March 2021	31 March 2020
	No of Years	No of Years
Life expectancy of male aged 60 at accounting date	26.3	26.2
Life expectancy of female aged 60 at accounting date	29.2	28.5

29. Pension retirement benefits (continued)

The market value of the assets in the Group's schemes and the present value of these schemes' liabilities at the balance sheet date were:

Valuation

	2021 %	2021 £'000	2020 %	2020 £'000
Equities	3	9,029	3	8,942
Bonds/gilts and debt instruments	91	255,550	90	260,197
Diversified growth funds	5	14,718	6	17,183
Other	-	1,152	-	640
Cash	1	1,998	1	2,108
Market value of scheme assets		282,447		289,070
Present value of scheme liabilities		(236,175)		(198,228)
Surplus before deferred tax (note 22)		46,272		90,842
Related deferred tax liability		(8,792)		(17,260)
Surplus after deferred tax		37,480		73,582

Changes in the present value of the liabilities of the Group's schemes are as follows:

	2021 £'000	2020 £'000
Opening present value of scheme liabilities	198,228	224,785
Interest cost	4,824	5,239
Past service cost	193	-
Change in financial assumptions (gain) / loss	43,583	(20,614)
Benefits paid	(10,653)	(11,182)
Closing present value of scheme liabilities	236,175	198,228

Changes in the market value of the assets of the Group's schemes are as follows:

	2021 £'000	2020 £'000
Opening present value of schemes' assets	289,070	290,631
Interest on scheme assets	6,604	6,423
Actuarial (gain) / loss	(2,574)	2,628
Contributions (employer	-	570
Benefits paid	(10,653)	(11,182)
Closing market value of the scheme assets	282,447	289,070

The total return on assets of the Group's schemes over the year to 31 March 2021 was a gain of £2,683,000 (2020: gain of £17,819,000).

29. Pension retirement benefits (continued)

The sensitivity of projected year end defined benefit obligation to alternative assumptions is as follows:

	31 March 2021 Increase £'000	31 March 2021 Decrease £'000
Discount rate		
Effect of a 0.1% pa change	(3,491)	3,609
Inflation		
Effect of a 0.1% pa change	3,118	(3,104)
Life expectancy		
Effect of a 0.1% pa change	10,200	(10,200)

An analysis of the movement in the surplus of the Group's schemes during the year ended 31 March 2021 is provided in note 22.

30. Related Party Transactions

Historical agreements were put in place with a holding company in the Group structure to offset the impact on South Staffs Water PLC of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2021 was £3,220,000 (2020: £3,665,000). In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact. This agreement is non-interest bearing.

During the year South Staffordshire Water Plc provided Wholesale water services to the retailer Pennon Water Services Limited and its subsidiary SSWB Limited and turnover of £15,501,000 (2020: £19,138,000) in relation these transactions was recognised and £27,000 outstanding at the year end (2020: £195,000). The receivable is due in 30 days from invoice date. Also at 31 March 2021, an amount of £303,000 was payable to PWSL for cash collected during the year that has not been paid over (2020: £679,000). As South Staffordshire Water PLC provides management services, a fee of £nil is payable from PWSL and remains outstanding at year end (2020: £120,000).

30. Related Party Transactions (continued)

The Group has an outstanding interest bearing loan balance due from Pennon Water Services Limited of £6,517,000 (2020: £6,517,000) which remained outstanding at 31 March 2021. The loan balance has an applicable interest rate of 5% per annum for 50% of the drawing and 3% + 12 month LIBOR for the remaining 50% of the drawing.

There was an arrangement between senior management and Selena MEP LLP, a limited liability partnership which closed out in February 2021 and had existed since 2014. There are no services provided between Selena MEP and the company.

Remuneration for key personnel is reported on page 65.

31. Post Balance sheet Events

On 3 March 2021 the Chancellor announced an increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. As the rate change was not substantively enacted at the balance sheet date, all deferred tax at 31 March 2021 is recognised at the prevailing rate of 19%. South Staffordshire Plc holds a net deferred tax liability of £55,775,000 at 31 March 2021 in respect of accelerated capital allowances and retirement benefits. The closing deferred tax liability at 31 March 2023 is estimated to be £54,580,000. The impact of the rate change from 19% to 25% would result in an increase in the net deferred tax liability from the estimated £54,580,000 to £71,838,000, with a corresponding debit to deferred tax expense in the profit & loss account of £14,876,000 and a debit to the statement of other comprehensive income of £2,381,000.

To support the long term financing needs of South Staffordshire Water PLC commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital (‘Pricoa’) has been agreed in principle. Finalisation of the legal agreement is expected in Q2 of the 2021/22 financial year. We intend to draw down the funds in two tranches, with the first £20m drawn in September 2021 and the second tranche of £40m expected in June 2022.

32. Ultimate controlling Party

The Company’s immediate parent undertaking is Aquainvest Acquisitions Limited. During the year the ultimate parent company in the United Kingdom was Hydriades IV Limited, registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Plc at 31 March 2021. The consolidated accounts for Hydriades IV Limited can be obtained from the Company’s registered office, Green Lane, Walsall, West Midlands, WS2 7PD.

The ultimate controlling party is Arjun Infrastructure Partners Limited a Company registered in England and Wales, which controls and manages and is the General Partner of a UK registered investment entity that acquired a majority equity interest of a holding company of the Group.

33. Prior Period restatement

Presentation of cash balances and overdrafts

During the year, the directors reviewed the presentation of cash and cash equivalents along with the overdraft facilities, in particular, the contractual right of offset between the balances. Following this review, the Directors have adjusted the prior year to increase both cash and short-term borrowings by £40.9m as it did not meet the criteria for offset. Accordingly, the consolidated balance sheet and the borrowings notes have been restated.

Presentation of intercompany loan balances

During the year, the directors reviewed the presentation of long term intercompany loans and their presentation as fixed asset investments. Following this review, the Directors have adjusted the prior year to recognise the intercompany loan balances due from both parent undertakings and the joint venture as fixed asset investments. The total amount adjusted for the loans £95,314,000 for the Group and £70,314,000 for the Company.

33. Prior Period restatement (continued)

Group

As previously reported:

	£'000
Investments	-
Fixed Assets	591,629
Debtors – amounts recoverable within one year	77,155
Debtors – amounts recoverable in more than one year	89,702
Cash at bank and in hand	37,000
Total current assets	298,327
Borrowings	(29,985)
Total current liabilities	(129,091)
Net current assets	169,236
Net assets	95,184

As restated:

	£'000
Investments	95,314
Fixed Assets	686,943
Debtors – amounts recoverable within one year	68,241
Debtors – amounts recoverable in more than one year	3,302
Cash at bank and in hand	77,903
Total current assets	243,916
Borrowings	(70,888)
Total current liabilities	(169,994)
Net current assets	73,922
Net assets	95,184

33. Prior Period restatement (continued)

Company

As previously reported:

	£'000
Investments	102,721
Fixed Assets	105,350
Debtors – amounts recoverable within one year	12,342
Debtors – amounts recoverable in more than one year	66,050
Total current assets	173,335
Net current assets	148,763
Net assets	72,006

As restated:

	£'000
Investments	173,035
Fixed Assets	175,664
Debtors – amounts recoverable within one year	8,078
Debtors – amounts recoverable in more than one year	-
Total current assets	103,021
Net current assets	78,449
Net assets	72,006

Contact details

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South Staffs Water

South Staffs Water

South Staffordshire Water PLC

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* A subsidiary of Hydriades Limited (a parent company of South Staffordshire Plc).

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