South Staffordshire Plc

2020

ANNUAL REPORT

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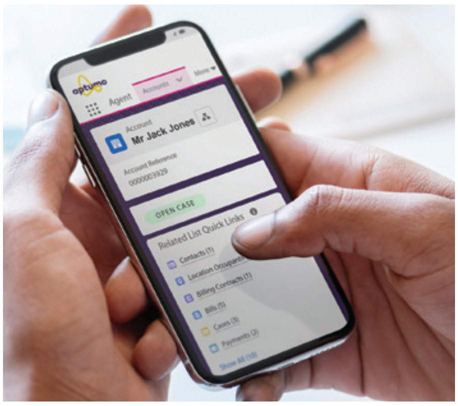

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Executive Summary

Group overview, strategy and business model

South Staffordshire Plc (the "Company" or the "Group") is an integrated services group, comprising:

- South Staffordshire Water PLC ("South Staffs Water" or the "company"), a regulated water supply company with operating areas in the South Staffs and Cambridge regions;
- SSI Services (UK) Limited ("SSI Services"), a specialist essential services provider to owners and operators of infrastructure, including design and installation, testing, repair and maintenance;
- Echo Managed Services Limited ("Echo"), a specialist outsourcing business and leading developer of billing software, providing multi-channel customer contact services, and comprehensive debt and revenue management solutions; and
- Office Watercoolers Limited ("OWC"), a provider of drinking water dispensers to businesses across the UK,

SSI Services, Echo and OWC are non-regulated divisions.

The Group's strategy is to:

- continue to meet all our legal and regulatory obligations and commitments;
- grow in all our operations by providing high levels of service quality and innovation while remaining price competitive; and
- maintain a safe and enjoyable working environment for all our people.

Details of how we implement this strategy are set out in the Strategic Report.

South Staffs Water

It has been a busy year for South Staffs Water, dominated by the conclusion of the regulator Ofwat's PR19 price review process and the Covid-19 outbreak. The division has risen to these challenges, and has continued to deliver the high-quality and resilient services that customers expect and pay for.

In December, it received Ofwat's final determination on its business plan for 2020/25. We are delighted that within this package South Staffs Water will be making the largest investments it has made for more than 20 years – driving water quality improvements for around 1.7 million people. While Ofwat agreed with the proposals to upgrade the strategically important water treatment works at Hampton Loade and Seedy Mill, the determination overall is challenging and South Staffs Water will have to continue to work hard to deliver its ambitious targets.

At the end of the reporting year, South Staffs Water experienced an unprecedented situation with the Covid-19 outbreak. This meant adapting very quickly and working in different ways – with field-based teams observing social distancing, and nearly all office-based employees working from home. It also meant moving quickly and proactively to provide and promote a range of support packages to help customers impacted by the outbreak.

We are pleased to report that South Staffs Water exceeded the targets on 11 out of 15 performance commitments for 2019/20. This is the best result for five years and is set within the context of some of the targets becoming more challenging over that time. For example, it outperformed the leakage targets in both regions by 2.3% and 5.2%, giving the division a strong foundation on which to build for the next five years.

South Staffs Water also achieved the second lowest number of burst mains in ten years. However, this is set within the context of two major bursts it experienced on the same length of water main in Tipton in October 2019 and February 2020. These serious incidents had an enormous impact on the local community and damaged customers' trust. To mitigate this, South Staffs Water provided practical help and support to those residents affected by both incidents. It also replaced the entire 300-metre length of main to reassure the community that something like this would not happen again.

SSI Services

After a difficult year in 2018/19, SSI Services delivered an improved performance in 2019/20, with profit growth of 6% compared with the previous year. The division has continued to grow its business outside the UK water sector and has extended its operations across a number of markets. For example, during the reporting year, the OnSite Rail department secured framework contractor status to Network Rail for drainage services. OnSite's experience and expertise was also called upon in August 2019 to help secure the structural integrity of the Toddbrook Reservoir dam, which was in danger of collapsing as a result of heavy rainfall.

Within the SSI Services division, the focus has continued to be on innovation with the ongoing development of the HydroSEAL pipe leak repair solution. This contributed to another successful year for Hydrosave, which delivered growth of 20% compared with the previous year. Its new leak detection framework with Thames Water came into effect, while its leakage framework with Scottish Water was renewed for another eight years. OnSite also had a strong year, delivering profit growth of 13%. The sewer lining department achieved its financial targets, while the drainage services department saw increased revenue generated from its flow monitoring and sewer jetting activities.

IWS was restructured during the year; it is now in a position to deliver sustainable future growth. Operational delivery has also improved, with the successful delivery of several large projects. G Stow remains well placed to generate increased revenue in the year ahead. During 2019/20, it installed a new borehole at Seedy Mill and secured a framework with Thames Water for bespoke pump supply.

As most of the division's employees operate remotely and often in challenging environments, health and safety is a key concern. We are disappointed to report that the division suffered six RIDDOR events during the year, compared with zero in 2018/19. SSI Services carried out full investigations for these events, and updated practices and training to eliminate further the likelihood of such events recurring.

Echo

The past year has been one of challenge and change for Echo's core utility markets, with some companies in the water sector in England and Wales delaying purchasing decisions while they awaited their PR19 final determinations from Ofwat and delays to the smart meter roll out programme in the UK energy market. In addition, the Covid-19 outbreak meant Echo had to mobilise large-scale homeworking while minimising the impact on its clients' customers. The outbreak also had an immediate impact on the customer visits carried out by Grosvenor Services, Echo's field-based subsidiary company.

Despite these challenges, the business continued to maintain new and existing services to clients. Grosvenor Services continued to support its energy clients and also continued to deliver its revenue protection work.

It has been another successful year for Aptumo, Echo's innovative utility billing platform, with the first implementation projects here in the UK and in Australia due to go live in 2020/21. The business has continued to support the UK and Australian water markets and at the time of writing had just announced its second contract in Australia. It is planning further geographical expansion in the year ahead.

Echo continued to support South Staffs Water in its commitment to increase the number of digital services available to its customers and in growing the use of its successful mobile app. In addition, it helped to raise awareness of South Staffs Water's schemes to help and support vulnerable customers. It also enhanced the experience for Northern Ireland Water's customers with the introduction of social media and webchat functionality. Finally, it continued to grow its offshore operation in India, expanding the software teams.

In the year ahead, Echo will continue to consider how its service offering and operational processes may need to evolve to support the needs both of its clients and its business as a whole.

Financial

Overall, Group turnover increased by 1.5% in the year to £270.6m; EBITDA of £67.8m (before infrastructure renewals - see reconciliation on page 27) was lower than the previous year (£77.7m), largely due to the increase of the bad debt provision for South Staffs Water. Operating profit for the year was £24.3m (2019: £37.0m). There was an increase in the year in capital investment to £52.2m (2019: £51.2m), with the operational delivery of these programmes still representing a significant achievement.

Employees

The Group's continued progress this year is the result of the commitment and professionalism of our people to provide good value in the services we provide to our customers. We are passionate about the safety, wellbeing and development of our people and examples of this are highlighted in the divisional reports below. The Executive Management Team and Board thank all our colleagues for their hard work and contribution to the success of the Group over the past year.

Outlook

As the Financial Year to March 2020 was drawing to a close, the Covid-19 pandemic started to emerge resulting in the nationwide lockdown in the UK in late March. Throughout the period since then South Staffs Water has continued to provide essential water services and customer support. Parts of the Echo, SSI businesses and Office Watercoolers were inevitably impacted by the interruption to normal business and working arrangements but as we approach autumn almost all of the Group's businesses have largely returned to expected trading levels.

Therefore, we look ahead with confidence as South Staffs Water seeks to deliver the commitments in its five-year plan to 2025 and the rest of the Group continues to develop and exploit new opportunities for growth and increased profitability.

In a year of challenge, South Staffs Water continues its focus on providing the highest-quality water, while remaining affordable, to our customers.

Overview

South Staffs Water is a regulated water-only company, supplying around 1.7 million customers in the South Staffs and Cambridge regions.

It has been a very busy year for South Staffs Water – one dominated by the conclusion of Ofwat's PR19 price review process and the Covid-19 outbreak, which has had an enormous impact on almost every aspect of our daily lives. Throughout, its people have continued to work hard to provide customers with clean, high-quality and reliable water supplies, and an excellent service.

We are pleased to report that the company exceeded its targets on nearly all of its performance commitments over the 2019/20 financial year. This is its best result in five years and is set within the context of the targets for some measures becoming more challenging over that time. One of the areas where the company performed well is with the acceptability of the water it delivers to customers in terms of colour, taste and smell. It has invested heavily in this area since 2015, and has seen its performance improve by almost 40%.

South Staffs Water also achieved its lowest level of supply interruptions and its second lowest number of burst mains in ten years. However, this is set within the context of two major bursts in the same length of water main in Tipton in October and February, which had a huge impact on the local community. As well as providing practical help and support to customers affected by the bursts, the entire 300-metre length of main was also replaced to reassure customers that something like this would not happen again and to regain their trust.

Leakage is another area where customers' trust is easily lost. It is pleasing to report that the company exceeded its leakage targets by 2.3% in its South Staffs region and 5.2% in its Cambridge region. This is the result of hard work from its people and significant investment in leakage detection and repair.

Making sure bills are affordable and that extra support is available to those who need it is also important to customers. We are delighted to report that South Staffs Water has again reached its target for the percentage of customers who are happy with the value for money it provides and the affordability of its water bills. It also vastly exceeded its target for the number of customers helped through support schemes – with more than 38,000 receiving extra help and financial support.

Excellent water quality

Water quality is one of the most important areas of South Staffs Water's service. It is also a top priority for its customers. That is why the company has two performance commitments covering overall drinking water compliance and the acceptability of water to customers. There are stretching regulatory targets for both these measures.

We are disappointed to report that the company has not met its target of 100% water quality compliance, as 3 out of 18,342 samples in the South Staffs region and 2 out of 4,762 samples in the Cambridge region did not meet the strict regulatory compliance standards in 2019. Despite this, water quality remains at a very high standard overall, with 99.98% compliance in the year we saw a strong year on year improvement in all water quality metrics.

Following five years of hard work and continuous improvement, we are pleased to report that South Staffs Water performed better than its target for the acceptability of the water it supplies to customers. This is measured by how often customers make contact to report problems with the colour, taste and smell of their water supply. Since 2015, South Staffs Water's performance in this measure has improved by almost 40%.

South Staffs Water remains committed to improving this area of service and in the five years to 2025, it plans to improve its performance by a further 30%. This will be challenging, and one of the ways it will achieve it is by carrying out the largest scale of investment for more

than 20 years including carrying out work to upgrade the Hampton Loade and Seedy Mill water treatment works. This will improve the quality of the water that enters the company's network of pipes.

Fair customer bills

South Staffs Water's customers currently pay one of the lowest water bills (£145, on average) in England and Wales.The company thinks very carefully about how it spends customers' money and where it invests. It always tries to find the right balance, making sure bills are affordable for all customers, while continuing to invest in the network to maintain its service for future generations.

Every three months, South Staffs Water surveys a representative sample of customers and asks them about whether they think their bills are affordable and if it provides value for money. We are very pleased to report that during 2019/20, South Staffs Water again achieved its target with 93% of customers satisfied with value for money and affordability.

We recognise that some customers who struggle to afford their water bills may need some form of additional help or support. South Staffs Water provides a range of schemes to help these customers, tailored to their individual needs. These schemes have continued to grow – with more than 38,000 customers helped during the year, vastly exceeding its target.

We are delighted with the continued interest South Staffs Water is seeing in its assistance schemes, as it means those customers in genuine need are receiving help and do not have to worry about paying for their water supply. These schemes will be extended over the five years to 2025 to provide help to even more people who need it.

Excellent customer service, every time

South Staffs Water continued to focus on its customer service performance during 2019/20 and finished fifth overall in the service incentive mechanism (SIM) for the five years of AMP6 (2015/20). This was also a trial year for Ofwat's new customer service measure of experience, known as C-MeX, which will be in place until 2025. Unlike the SIM, Ofwat's new measure monitors customers who contact South Staffs Water as well as those who do not. Therefore, it provides a more rounded view of customer service and engagement.

Following a strong final quarter, South Staffs Water achieved an overall C-MeX score of 77.47, which ranked it 10th among the water companies in England and Wales. We are also pleased to report that it has achieved its customer satisfaction target of 98% again this year. This means it has reached this target in four out of the five years to 2020.

H_2Online – our community of customers

In November, South Staffs Water launched a new customer engagement initiative in the form of H2Online, its online community. This is a two-way platform that enables customers to give their honest opinions and feedback about the services it offers. It also provides valuable insight, enabling customers' views to be built into South Staffs Water's decision-making.

As at May 2020, 692 customers (380 in the South Staffs region and 312 in the Cambridge region) had signed up for H2Online and completed their profiles. To date, H2Online has featured polls and discussions on a wide range of subjects, including water hardness, paperless billing, the benefits of having a water meter and South Staffs Water's response to the Covid-19 outbreak in terms of the financial support it put in place for customers. South Staffs Water will continue to add new content to H2Online and use its different communications channels to encourage more customers to join and participate.

In addition, South Staffs Water's employees have continued to participate in a wide range of community and volunteering activity, and it has exceeded its target by delivering 527 days of community activity during the year.

Secure and reliable supplies, now and in the future

One of South Staffs Water's highest priorities is to maintain a continuous supply of clean, high-quality drinking water to its customers' taps. This means minimising the risk of supply interruptions and maintaining the overall health of its pipes, reservoirs and pumping stations.

Since the extreme weather event known as 'the Beast from the East' in 2018, South Staffs Water has worked hard to put plans in place to minimise the number of burst pipes on its network. It has also continued to improve its already high levels of resilience; by which we mean its ability to recover from shocks or disturbances. The action taken has helped the company to achieve the lowest level of supply interruptions and its second lowest number of burst mains in ten years.

We are delighted with this level of performance. However, it does not detract from the small number of serious bursts occurring from time to time. In October and February, for example, two bursts took place on a large trunk main in Tipton in the South Staffs region, which regrettably damaged a number of homes in the area. The company carried out a detailed investigation into the condition of this main. It also decided that replacing the entire 300-metre length of main was in the best interests of customers even though it was not all in poor condition. As well as providing practical help and support to customers affected by the bursts, replacing the entire pipe would reassure customers that something like this would not happen again and regain their trust. This work was progressed immediately and was completed in March this year.

Being at the heart of the communities we serve

South Staffs Water has continued to develop its community activities and build meaningful relationships with a number of partner organisations in the local area.

The community hub in Wednesbury in the South Staffs region, for example, continues to go from strength to strength and provides a vital lifeline to people in the area. Since it opened in April 2018, more than 10,400 customers have visited the hub, attending meetings and events, asking for advice on water meters and support to pay their bills, and to sign up for the Priority Services Register.

In addition, the role that it plays in the community has been recognised with a number of awards over the year. In July, it won an award for the outstanding contribution it has made to the wellbeing of the people of Sandwell at the Celebrate Sandwell event. This was followed by an award from Sandwell Citizens Advice.

Also, in December, the company beat stiff competition from other utilities companies to be crowned Community Initiative of the Year at the prestigious Utility Week awards, which recognises an initiative that makes a significant contribution to communities. Finally, in March, the hub was recognised with an award from the Institute of Customer Service for the innovative approach taken to being visible in our communities.

Unfortunately, the business had to take the difficult decision to temporarily close its community hub in March because of the Covid-19 outbreak. Staff continued to remain in contact with regular visitors to the hub and engaged with the community organisations that used the hub, albeit remotely. The Covid-19 outbreak also affected plans to open a second hub in another part of the South Staffs region.

Throughout the year, South Staff Water's community team and other volunteers have also been active in both regions, visiting local community centres and the council offices in Cambridge, and attending a wide range of events. These included the Wednesbury Carnival as well as the Cambridge Big Weekend and the Cambridge Folk Festival, where another new initiative – the water bar – made its debut, giving those who attended the opportunity to refill their water bottles free of charge and swap their single-use plastic bottles for reusable metal ones. Over the course of the Festival, there were more than 5,000 visits to the water bar, and it was declared the "most loved sponsorship activity" at the event.

Environmentally sustainable operations

Water is a precious and finite resource. So, South Staffs Water must make sure that it maintains adequate water supplies and protects the natural environment for future generations. The business also has wider responsibilities to make sure its operations do not have a negative impact on natural habitats for plants and wildlife.

We are pleased to report that South Staffs Water exceeded its leakage target by 2.3% in its South Staffs region and by 5.2% in its Cambridge region during 2019/20. This gives a solid foundation on which to build for the next five years as the company has stretching targets to reduce leakage by approximately 15% in both regions.

South Staffs Water has also 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. During 2019/20, it continued to deliver improvements on 169 hectares of land – the equivalent of around 169 rugby pitches – benefiting both the local environment and local communities.

It is disappointing that South Staffs Water missed its water usage target of 128.31 litres per person per day in 2019/20. Unfortunately, this is the third year where it has recorded an increase in household water consumption. There may be a number of reasons why households use more water in any given year. This year, we believe it is due, in part, to the impact of the UK Government's response to the Covid-19 outbreak and its guidance on handwashing and home working. The company has stretching targets in this area over the next five years. It will continue to engage with customers to help them to find ways to use water wisely.

South Staffs Water has not met its target for carbon emission savings. When it set its targets for the five years from 2015/20, it expected to be able to install solar panels at several locations to save on energy consumption and lower our emissions. But it found that it was uneconomic to do this, as the solar panels would not generate enough energy to offset the costs over their lifespan. It believes it was not in its customers' best interests to pursue this approach. It is continuing to deliver energy efficiency improvements, where they are cost beneficial, and delivered 716 tonnes of carbon emission savings in 2019/20 compared to a 2014/15 emissions baseline.

Valuing our people

Being active in local communities is important to South Staffs Water and during 2019/20 its employees took part in a wide range of volunteering opportunities – from working on community gardens to helping to deliver water efficiency workshops in local schools.

Over the past year, South Staffs Water has used a variety of channels and approaches to engage with staff, including: workshops; business updates from members of the Executive team; communications bulletins; and a monthly e-newsletter. It also introduced Workplace as a way of providing real time updates and posts.

In addition, work started to embed the principles of Investors in People (IIP) accreditation across the business. The company has a commitment in its business plan to achieve this in 2020/21. During the year, South Staffs Water began assessing how well it is performing against the IIP people framework and held a number of workshops across its South Staffs and Cambridge regions, involving employees from all business departments. It received some great ideas and feedback to take forward and prepare for the next steps, which we will report in next year's annual report.

A new HR/Payroll system was introduced to give staff greater control over their personal data. Also, during the Covid-19 outbreak South Staffs Water embraced video conferencing, using software that enabled its people to keep in touch and share their work.

In 2019/20, unfortunately, South Staffs Water's health & safety performance dipped – with ten minor accidents and one reportable RIDDOR incident. The business has learned the lessons of this incident and remains committed to its 'safety first' culture and to changing behaviours associated with work-related accidents. In addition, it continues to ensure that all employees are appropriately trained for the roles they carry out and that they have an understanding of the risks associated with their work.

Future focus

South Staffs Water has been preparing for the next five-year planning period, known as 'AMP7', which started in April 2020 and runs until 31 March 2025. Following the regulator Ofwat's initial assessment of the company's plans, in January 2019, South Staffs Water submitted its revised business plan at the start of the 2019/2020 financial year, having challenged itself to look again at the efficiency of costs and the stretch associated with its performance targets. In July, the company received Ofwat's draft determination on the price, service and investment package that it will deliver for customers over AMP7 and which is reflected in the bills they pay. The draft determination was challenging and South Staffs Water responded in August with a robust set of representations. It received the final determination in December, which will see average customer bills reduce by around 10% in real terms over the five years to 2025 and allows the company, among other things to invest £112million on improvements to services, resilience and the environment.

While finalising plans for AMP7, South Staffs Water started to make some headway during the year on its ambitious programme, laying the foundations for the investment it will make in its assets and services over the next five years. In August, for example, it awarded the contract for the design element of its water treatment works upgrade to an experienced infrastructure provider – the first step in a £70 million programme to ensure the long-term resilience of its Hampton Loade and Seedy Mill treatment works, which supply around 60% of customers in the South Staffs region.

Looking ahead, South Staffs Water is facing a number of challenges over the next year – not least the turbulent economic climate, the impact of Brexit, environmental pressures resulting from climate change and changes in customers' expectations.

As the provider of an essential public service, South Staffs Water has to make sure that whatever new trading or customs arrangements are put in place after the United Kingdom's exit from the European Union, it always has the chemicals and other supplies it needs to ensure its customers continue to receive clean, high-quality water supplies. South Staffs Water has been working closely with the rest of the water sector and its supply chain to mitigate any risks associated with the uncertainty around our new relationship with the European Union. It has also taken part in exercises to test collaboration across government and the water sector, which has included testing the processes that would normally be important when managing a major, large-scale incident. It has also carried out a thorough evaluation of stock levels and provided additional staff training. As a result, we believe the company has done all it can to prepare effectively should any disruption occur while new trading arrangements are finalised. In addition, the sector's plans in this area have been commended by government ministers.

South Staffs Water will continue to consider all its operations in the round – building more flexibility and resilience into its systems and processes across the business to ensure it can adapt and respond to these changing circumstances quickly and efficiently.

SSI has continued to increase and develop operations within the rail, power generation, industrial and facilities management markets.

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 specialist skills 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.

Our people

SSI Services has 1,800 employees, operating from 27 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 it continues to focus on developing a strong health and safety culture throughout all its operations. During the year, the division delivered more than three million man hours of services and suffered six RIDDOR reportable events, compared with zero in 2018/19. The increase in the number of recorded RIDDORS is highly disappointing as SSI considers all accidents are preventable. Full investigations, updated practices and renewed training were implemented where appropriate to eliminate still further the likelihood of recurrence. 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.

Improved performance

SSI Services delivered an improved performance in 2019/20, with profit growth of 6% compared with 2018/19. The strategy of reducing reliance on the UK water sector has provided good growth opportunities and the OnSite Rail department enjoyed a successful year – securing framework contractor status to Network Rail for drainage services. In addition, during August 2019, OnSite responded to a critical emergency at Toddbrook Reservoir in Whaley Bridge where the dam was showing visible signs of collapse. It dispatched specialist teams to help with the dam stabilisation operation. OnSite was able to secure the structural integrity of the dam using a specialist grout material, which provided structural strengthening support to the 525 tonnes of ballast that was lowered into place by the RAF.

There were also a number of positive developments during the year, with Hydrosave commencing the new Thames Water leakage contract for North London, and securing the renewal of the Scottish Water leakage framework. SSI Services has continued to focus on innovation with the ongoing development and operation of the HydroSEAL internal pipe leak repair solution; it is anticipated that this will be launched into the UK water sector during 2020/21, as regulatory pressure increases to achieve leakage reduction targets. Trading conditions remain challenging in a number of the division's target markets, which are becoming highly price competitive and which require innovation and the continued improvement of operational delivery efficiencies to remain competitive.

SSI Services comprises three business areas: Clean Water Services, OnSite and IWS Water Hygiene. In addition, Omega Red, which provides market leading lightning protection and electrical earthing services, while being a subsidiary of a holding company of the Group, also trades as part of, and is managed within, SSI Services.

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 another successful year, delivering EBITDA growth of 20% compared with 2018/19. The new leak detection framework with Thames Water started during the year and the leakage framework with Scottish Water also performed well and has now been renewed for another eight years. The smart networks department continues to make good progress, with deployment of flow data logging, air valve monitoring and pressure transience monitoring. AES had another mixed year with the gas division again performing strongly. However, revenue generation was lower in the water division, which was exposed to the effects of the end of AMP cycle on its main water sector clients.

The IWS M&E business has continued to experience challenges because of a number of overrunning projects on the Essex & Suffolk Water framework, which have now been completed. Operational delivery has improved considerably with large projects at Syleham, Lound and Stratford St Marys being delivered successfully. During 2019/20, the business was reorganised; it is now in a good position to deliver future sustainable profits through broadening the client base and taking a more selective approach to risk and reward.

G Stow also was exposed to the final year of the water utility AMP cycle, with a related reduction in expenditure by several of its key water sector clients. A new borehole was drilled at Seedy Mill, while increased revenue was generated from Enisca Browne and JN Bentley, as the business seeks to balance its reliance on the water sector. A new drilling rig was delivered in July 2020, which will significantly increase the efficiency of delivery. G Stow remains well placed to generate increased revenue from the new AMP cycle, and has secured a framework with Thames Water for bespoke pump supply.

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 2019/20, delivering EBITDA profit growth of 13% compared with 2018/19. The Rail business had another excellent year, continuing to deliver year-on-year growth. Significant clients included Network Rail, Balfour Beatty Rail, SMB JV and Dyer & Butler. The Sewer Lining business experienced a good year, and achieved all its financial targets while also successfully targeting increased revenue outside the traditional water

Pipe Jacking

OnSite Rail was asked to carry out remedial repairs to a brick drainage culvert at Acton Town Station platform. The actual area needing repair ran directly under the Piccadilly Line to Heathrow in close proximity to a set of points in constant use. Following works approval, OnSite Rail Services were officially engaged to provide the no-dig structural lining solution known as 'Pipe Jacking' to the failing drainage beneath the station.

The 'Pipe Jacking' technique was developed more than 50 years ago. The technology pushes pipes through the ground using a hydraulic jack. This solution enabled the new steel pipe to be positioned without further exacerbating the fracture in the old waste water line. In order to provide strength, without compromising the set of points that ran above the fractured section of drainage pipeline, a new 400mm diameter steel pipe was jacked into the existing 600mm diameter culvert in 1.0m sections. Each pipe segment was jacked-in in sequence and flash butt welded at the joint. The lining process requires each segment to be welded before another segment could be added.

The pipe jacking started on Saturday at 11:45 hours at the critical run of 66m with severe deformation, with the final pipe being jacked into place by Sunday 12:15 hours. Due to the amount of time available at the weekend possession, another 19.0m of pipe out of the 28.4m were jacked in. The remaining 9.4m of liner was jacked-in in Engineering Hours post-possession. Finally, the annulus between the brick and steel was filled with grout. Grouting seals any voids and further increases the overall strength of the remediated waste water culvert.

The works were completed without any accidents or incidents. This is a significant piece of critical works that could potentially cost so much more if an open cut method had been adopted. The non-dig approach negated temporary point removal, making a significant saving for the Client. More importantly, the risk of a drain collapsing under 44 Points which serve the busy Westbound Fast Piccadilly Line to Heathrow had been eliminated.

sector market. There was a much improved performance from the Drainage Services department, with increased revenue generated from the flow monitoring and sewer jetting activities.

OnSite Specialist Maintenance also had a successful year and confidence in the business is high for continued growth in 2020/21. As well as providing the response to the critical emergency at Toddbrook Reservoir, 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. During the year, the department became a licenced IOSH training provider. This will help to drive positive and safe behaviour throughout the business.

OnSite's Pipeline business also performed well ahead of its targets for the year, with good levels of growth from project delivery for Public Health England and Amey.

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 a comprehensive water treatment service. It services a wide range of customers, including local authorities, housing associations and facilities management companies. The business operates in an increasingly competitive market, and has to evolve and adapt accordingly. 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, Specialist Maintenance, and Hydrosave) possess good growth opportunities. The increased focus on leakage reduction in the water sector creates the opportunity for SSI to provide innovative solutions to reduce leakage with its HydroSEAL leakage repair solution, in addition to developing efficient leak detection and repair techniques. IWS M&E is well positioned to deliver projects through its main frameworks with Essex & Suffolk Water and South Staffs Water through the new AMP cycle, and G Stow will benefit from increased efficiency as a result of deploying its new drilling rig.

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. While there remains continuing market pressure on prices and profit margins, we believe SSI Services is strongly placed to respond to these challenges.

Echo has won new business and extended relationships with existing water and energy clients in the UK.

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.

The past year has seen change and challenge across Echo's core utility markets. The UK water sector has faced challenging outcomes from Ofwat's PR19 final determinations, with increased pressure to improve customer service and their impact on the environment and society as a whole, while reducing costs. With water companies' key focus being on addressing these challenges and shaping their business plans, major investments and purchasing decisions relating to Echo's service offerings were delayed throughout the year. This directly impacted revenue generation. However, now that determinations have been finalised, increased activity is evident as the sector makes plans to achieve its performance commitments.

The UK energy market has also faced challenges, with the smart meter roll out programme continuing to experience delays, with knock-on effects to debt collection services through restricted meter engineer resource and a depleting stock of traditional meters. The sector has also seen a period of market consolidation through a number of mergers and acquisitions within the big and middle tier suppliers, and the market exit of several small companies. Through this, sector suppliers are experiencing changes to current panel structures and strategies. This combined has resulted in a challenging trading environment for Echo's field based subsidiary, Grosvenor Services.

Towards the end of the year Echo, like many other businesses, also experienced an unprecedented situation with the global Covid-19 outbreak, having to quickly adapt working practices and processes to mobilise large-scale homeworking and seamlessly transition its services minimising any impact on performance for clients and their customers. The impact of the pandemic was also felt by Echo's client base; and the necessity to temporarily cease customer visits had an immediate impact on Grosvenor Services.

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.

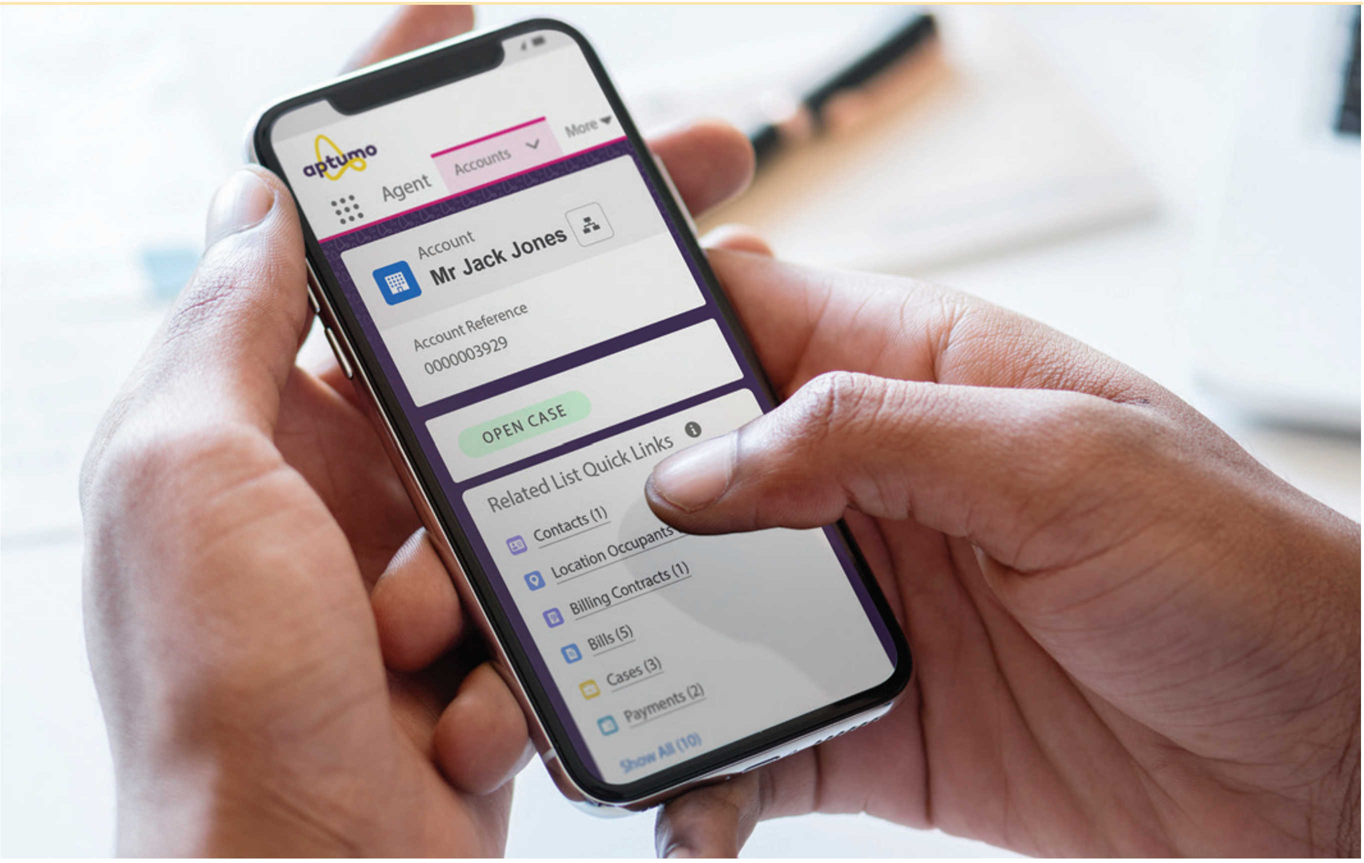
Software services

Echo continued its immediate focus on supporting the UK and Australian water markets throughout the year. In the UK, Echo is working closely with both its existing clients and the wider sector to understand the challenges they may face during the current AMP and how Echo's software offering can support their needs and strategies. In Australia, Echo has continued to embed its footprint in this new market, building relationships with the sector and its partner network, and driving brand awareness and a clear understanding of the benefits of its new software product, Aptumo.

It has been another successful year for Aptumo, which is designed to support improved customer experience and drive retail efficiencies. Both the UK and Australia products successfully passed the stringent Salesforce Security Review process and the first implementation projects at Coliban Water in Australia and SES Water and SES Business Water in the UK continued to progress, with both due to go live in 2020.

Collections and revenue protection services

Echo's wholly owned field services subsidiary, Grosvenor Services, continued to maintain its services and support its big six energy, and other clients through another challenging year for the UK energy sector.



Debt collection in particular continued to be impacted by the effects of the smart meter roll out. With the sector balancing roll out demands driven by the market regulator alongside debt performance, a lack of availability of meter engineers and meters continued to reduce the volume of pre-warrant visits and warrant work Grosvenor Services was able to carry out.

Grosvenor Services continued to deliver revenue protection work, where its UK-wide team supports the sector in meeting its energy theft investigation targets; servicing an extended client list including four of the big six UK energy companies.

The business also supported higher community awareness of the issue of energy theft, visiting local schools to educate the next generation of energy customers, alongside working with the UK media to raise the profile of this growing crime. Through this, Grosvenor has supported its clients and the wider sector in raising the profile of action against energy thieves.

Customer contact services

Echo has supported its client, South Staffs Water to introduce and increase customer usage of a number of new digital services, including automation of the high-volume home move customer journey, the introduction of further social media channels, and growing the use of the client's customer app. Increasing support for vulnerable customers has also been a focus, with Echo supporting South Staffs Water to reach out to its customers and raise awareness of its additional help schemes. A number of initiatives were also delivered as part of a joint debt management programme alongside the creation of the new operational delivery plan to support South Staffs Water in meeting its new outcome delivery targets for the new AMP.

In Northern Ireland, Echo delivered in line with all challenging contractual targets for its client Northern Ireland Water for the sixth successive year, as well as introducing both social media and web chat trials to enhance the client's digital service offering and overall customer experience. Echo also took on surveying and disconnection work on behalf of the client as part of its end-to-end debt collection process, with the service being transitioned from another third party provider.

Echo also continued to grow its wholly owned offshore operation in India throughout the year, expanding its software team, servicing additional processes and work streams through its back office customer service team.

Looking to the future

Looking ahead, Echo will continue to consider how its service offering and operational processes may need to evolve during the ongoing pandemic and in a post-Covid world to support both client needs and those of the business and its employees. Sustainable growth

Introducing new digital channels at Northern Ireland Water

Echo has provided Northern Ireland Water with contact handling, billing and collections services since 2006. Over this time, the service offering has continuously evolved in line with the changing customer services landscape.

This year, Echo has worked together with Northern Ireland Water to introduce new digital channels into its customer operations. The project began with the launch of a social media pilot, across two platforms, to provide new digital customer engagement channels. The aim was to improve the customer experience, while contributing to a reduction in calls from customers who may prefer to use online channels.

The pilot achieved excellent results, with exceptional levels of growth in Northern Ireland Water's social media reach. The volume of customers engaging through social media has steadily increased throughout the project, with direct messaging proving to be particularly popular. The feedback received from customers has also been very positive.

Testament to the success of the project, Northern Ireland Water decided to extend what was a three-month pilot into a permanent channel offering. In addition, the digital channel project also expanded to include web chat and extended operating hours.

The project is an excellent example of a true partnership approach, with Echo able to offer expertise and insight through its existing delivery of these services for other water sector clients, ensuring the project continues to be a success.

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 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, the impacts of Covid-19 on residential field services are likely to continue for some time, with the sector having to balance any debt collection measures against 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 and the Ofgem consultation around the prevention of pre-payment meter customer self-disconnection is also likely to have an impact on the sector.

Echo recognises that challenges will remain for its residential field services delivered through Grosvenor Services, and the business will look to work closely with clients to adapt services in line with these external impacts and evolving client needs. These debt impacts 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; prioritising identification and support for those in need alongside income maximisation.

The Group is committed to supporting its local communities and protecting the natural environment.

South Staffordshire Plc

Overview

Corporate social responsibility (CSR) remains a key priority for the Group. 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 employees. A Group level Health and Safety Strategy Forum, led by the Group Chief Executive and supported by the Head of Group Health and Safety, continues to oversee activities across the Group in this important area of the business.

The Group's accident performance was below the high standards that we expect, when compared against previous years with an increase in our All Accident Injury rate from 0.99 (2018/19) to 1.58 (2019/20). However, the majority of these events were low in potential severity. A similar comparable was also seen in our RIDDOR rate 0.02 (2018/19) to 0.12 (2019/20). An encouraging improvement in hazard reporting 72% (663 in 2018/19 to 1,139 in 2019/20) illustrates the value we place on an open, honest and proactive reporting culture that allows our people to share their knowledge, experience, skill and innovations for how we become safer tomorrow than we are today are essential to improvement. 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.

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.

Employees 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 continuing 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.

However, we believe that we can do even better and evolve our approach to how we keep our people safe and well. We want to develop our systems and standards to enable our employees to be able to adapt and manage risks dynamically.

The Group's strategy for 2020/21 includes developing our leaders' safety knowledge and proactively engaging with our people. It also includes developing our systems and standards to ensure we learn through investigations, and our assurance activity.

- Training, development and engagement

South Staffs Water's apprenticeship scheme continues to flourish, with six apprentices transitioning into full-time, permanent roles across both regions, including in the areas of water production, developer services and customer liaison. In addition, work has started on embedding the principles of Investors in People (IIP) accreditation across the business. This included holding a number of workshops, involving employees from across both regions and all business departments. In December, South Staffs Water also achieved its Competent Operator Scheme accreditation, which is valid for five years. This framework was agreed by the Drinking Water Inspectorate (DWI), Water UK, and Energy & Utility Skills, the assessment body for the sector. It ensures that people involved with the production of water are appropriately trained, assessed and audited. Finally, it introduced Workplace as a tool for internal engagement and a new HR/Payroll system, which gives its people greater control over their personal data.

Following its annual employee engagement survey, Echo's senior management team held small face-to-face workshops with all employees from across the business to help it understand fully current strengths and areas for improvement. Employee feedback supported the introduction of Echo-wide and local business area employee engagement action plans, with a range of commitments, following a 'you said, we will' format, to be delivered over the next 12 months.

Echo's software services teams continue to enhance their knowledge of the Aptumo software through the Salesforce Trailhead Programme, and a new training pathway programme that offers learning and development opportunities specific to role and experience. This is supporting the team to upskill in the processes and technologies that characterise a SaaS-based software business.

Echo's Northern Ireland team held their inaugural Big Personal Development Week, dedicating an entire week to growth and development. This included a variety of workshops and guidance tools, work shadowing and mock interview sessions. In addition, the team were able to take advantage of external training opportunities and demos of new technologies and systems.

Developing its people remains a key priority for SSI Services – during 2019/20, it continued to deliver its Developing Managers Programme, which is now in its second year, focused on group-based training covering management skills, including people and financial management. The more general, modular approach to development through Training For Success also continued to be well supported. Apprenticeship programmes continue to be delivered across all businesses, where appropriate. During the second half of 2020, SSI Services will introduce a programme of 'Quick Learns' under the Training For Success banner. This will enable employees to undertake training via Microsoft Teams in two-hour, bite-sized slots. In addition, there have been a number of employee surveys initiated and feedback – both from training and through performance reviews – is an important facet to life within SSI Services.

- 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

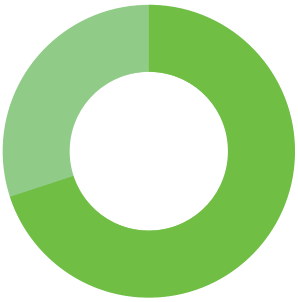
South Staffs Water continues to work closely with landowners and the Environment Agency to deliver innovative catchment management solutions to mitigate its operational impact on the natural environment and improve the quality of the raw water supplied to its treatment works. It has exceeded its target 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. It has also delivered improvements on 169 hectares of land benefiting both the local environment and local communities.

In Northern Ireland, Echo is certified to ISO14001:2015. This covers all aspects and impacts relevant to its activities. The business has increased the focus on reducing its carbon footprint both through travel to and from work, and within the field services team, with much of this is ongoing through continued benchmarking of performance. 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 is determined to continually review its approach to the environment and believes strongly that work should be carried out with environmental priorities at the fore. To support this, during 2019/20, SSI continued to develop ways to maintain and repair infrastructure with less intrusive technology and to support the

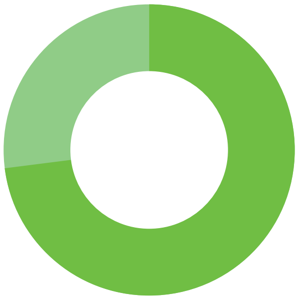
Analysis of Group employees by gender

Directors and Executives



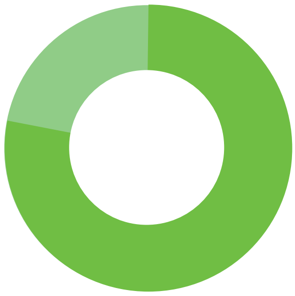
Male 70% Female 30%

Senior Management



Male 73% Female 27%

Other Employees



Male 78% Female 22%

many ways that employees can get involved – through transport choice, recycling and energy saving. Companies 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, £9,235 was raised from the Group lottery, customer donations, and World Water Day.

Each of our businesses have provided support to their local communities and organised or attended charitable and community events.

South Staffs Water exceeded its target by delivering 527 days of community activity during the year. In addition, more than 10,400 customers have visited its community hub in Wednesbury since it opened in April 2018, attending meetings and events, asking for advice on water meters and support to pay their bills, and to sign up for the Priority Services Register. As mentioned in the strategic report above, the community hub also won a number of awards, including prestigious national awards from Utility Week magazine and the Institute of Customer Service. In addition, the company repeated the success of its Young Innovators' Panel – this time in the Cambridge region, with 18 students from six schools taking part in a real life business challenge.

During the UK's national Gas Safety Week, Echo's field services agency, Grosvenor Services, carried out a number of activities in the community to raise awareness of the dangers of meter tampering and energy theft. This included engaging the next generation of energy customers through visits and workshops with sixth formers in local secondary schools and a gas safety poster competition for local primary schools.

Echo's offshore India-based operation spent time volunteering in the community and raising funds to support their local Orphanage Charity, Mala Smriti. This included the team cleaning, painting and improving the orphanage buildings and fundraising events to support the purchase of materials, food supplies and activities for the children.

Echo's Walsall-based teams raised money and provided support for the local Acorns children's hospice, which has been at risk of closure because of poor funding. Activities included bake sales, raffles, a toy drive and, more recently, a crowd funding campaign to support hospice families during the lockdown that followed the Covid-19 outbreak.

From supporting a community festive party for people who might otherwise be on their own to sponsoring employees undertaking charitable challenges, SSI Services has continued to work within its wider communities – supporting local schools and community events and encouraging employees to get involved. During 2019/20, it introduced a tree planting scheme for schools – with schools able to request a number of different tree types to be delivered directly to them, with support for planting.

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.

This year South Staffs Water has also been conscious of the impact that the Covid-19 has had on all of its customers and the impact of the two mains bursts on our customers in Tipton. Covid-19

has had a significant impact on all customers and South Staffs Water moved quickly to put in a wide range of support and financial assistance tailored to individual needs. It also made available a number of digital communication channels for its customers and saw an uptake in customers making contact through Facebook, Twitter and by downloading the mobile app and requesting e-bills. For customers affected by the Tipton burst South Staffs Water provided round the clock support and help. Regular updates were provided on its website and social media channels.

As detailed in the strategic report, South Staffs Water continued to focus on its customer service performance during 2019/20. This has been a trial year for Ofwat's new C-MeX measure of customer service and experience. A strong final quarter saw the company achieve of a score of 77.47. The previous customer service measure, the service incentive mechanism (SIM), was not monitored within the year; but a year-end proxy has been calculated from surveys carried out, giving the company a score of 81.36. South Staffs Water also reached its customer satisfaction target of 98% for the fourth time in five years.

Echo continued to invest in its memberships with the Institute of Customer Service, UK Revenue Protection Association and the UK Call Centre Management Association. Through membership with these organisations, Echo ensures an outward-looking focus; learning through best practice benchmarking, industry networking and a number of seminars, events and research projects. In 2019, this included Echo welcoming more than 30 customer service professionals from a variety of UK businesses and sectors to its Walsall site to showcase, together with South Staffs Water, its complaint management and reduction programme. During the year, Echo held a 'Summer of Innovation', with all business areas spending a dedicated week focused on innovation, new ideas and learning opportunities. The initiative included input from employees, clients and industry associations; it focused on the generation of innovative ideas to drive service improvement and future opportunities.

Customer service initiatives continue to be developed and supported throughout SSI Services. Customer service training (through the Think Customer First training approach) is available across the division, with continuous improvement a key focus. This is supported by encouraging all areas of SSI Services to understand its customer's priorities and to reflect these in the way the business delivers service to the 'customer's customer'. Time has been invested in understanding customer business plans and structuring solutions to support these.

Suppliers/partners

For South Staffs Water, engagement with suppliers is primarily through meetings and content on its website specifically for suppliers and potential suppliers, including access to its bid assessment framework. As detailed in the strategic report during the year, South Staffs Water has engaged with partners and suppliers on its long-term investment plans and has been collaborating with government departments, the rest of the water sector and its supply chain to mitigate any risks associated with Brexit. It also entered into a unique partnership with the local authorities in Lichfield and Tamworth to trial a new technology enabling meter readings to be taken when bin lorries pass customer homes.

Supplier engagement forms part of Echo's quality management system, and relationships are managed through a supplier relationship process, of which one of the objectives is to build positive relationships with the supplier base. Supplier reviews regularly take place through various traditional and digital mediums. Echo also works with more strategic suppliers where a partner model is more appropriate. For example, Echo's Aptumo software is built on the SalesForce platform, with Echo beng a SalesForce ISV partner. As such, Echo is purchasing both a product/service but also entering a collaborative partnership with opportunities to benefit from a wider ecosystem alongside joint business development activities.

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 Staffs Water is the main division within the Group, which has relationships with regulators and government.

Just before Christmas, South Staffs Water was pleased to welcome Sir James Bevan, Chief Executive of the Environment Agency to its new water treatment plant at Fowlmere in Cambridge. In March Jonson Cox, Ofwat's Chair, and Aileen Armstrong, Ofwat's Senior Director of Finance and Governance conducted a tour of the Fowlmere site, together with a nearby RSPB reserve and Chalk Stream. In August, South Staffs Water welcomed Wendy Morton, Member of Parliament for Aldridge-Brownhills to its Head Office in Walsall. She visited the control room and customer contact centre, and spent time with our water quality team. And in February, Shaun Bailey, the new Member of Parliament for West Bromwich West visited the Community Hub and spoke with members of South Staffs Water's community team about the hub's work and the positive benefits it provides to customers in the local area.

South Staffs Water also launched a bespoke service for Members of Parliament with constituencies in our South Staffs and Cambridge regions. Called "MPdirect", this new service aims to help MPs serve their constituents better. Alongside other communication channels, it enables South Staffs Water to quickly resolve complaints customers have made to MPs about its service, respond to enquiries and share information and updates about individual incidents.

The Group once again achieved its challenging cash flow target for the year.

South Staffordshire Plc

Overview

The Group monitors its financial performance through targeted Key Performance Indicators. In the year ended 31 March 2020, the Group met its key financial targets for cash flow and net debt; however, turnover and profitability were less than expected.

Turnover and profit

Group turnover increased by 1.5% to £270.6m in the year (2019: £266.6m). Turnover generated by South Staffs Water increased to £129.3m (2019: £128.8m), with appointed turnover increasing in line with the allowed below inflation increase. External turnover from the non-regulated service businesses grew by £3.4m to £141.3m (2019: £137.9m), with continued delivery on important framework contracts and projects in SSI Services.

Group EBITDA (before infrastructure renewals) of £67.8m was £9.9m lower than the previous year (2019: £77.7m). This included the impact on profitability of an increase in the bad debt provision of £7.0m for South Staffs Water. Delays to the implementation of a new debt recovery system in 2018/19 impacted forecast improvements in collections performance during the year and has resulted in an increase to the bad debt provision. In addition, because of the current economic circumstances a further adjustment has been provided for the impact of the Covid-19 outbreak based on our best estimate of the impact of the pandemic on the debt book and to cover any deterioration in collection rates linked to this. The performance also included lower profits for the non-regulated businesses with the customer services and debt collections EBITDA at Echo being lower than the prior year due to the impact of smart meter roll outs across the UK energy sector. Group operating profit was £24.3m (2019: £37.0m), with the expected reduction largely reflecting the higher level of depreciation charges (£2.2m) deducted from EBITDA following the continued investment in the fixed asset base mainly in South Staffs Water; however, there was a lower level of infrastructure renewals expenditure (£0.1m). Operating profit for South Staffs Water (after allocation of central items) was £22.1m (2019: £31.4m) with non-regulated operating profit of £3.0m (2019: £5.6m).

As expected, there was an increase in net finance charges in the year of £0.4m to £13.3m, largely due to the repayment of a £15m parent company loan to South Staffs Water (£0.7m).

Overall, Group profit before tax was £11.0m (2019: £24.2m).

Tax

The tax charge for the year increased to £8.2m (2019: £5.2m) with the increase being mainly due to the impact of prior year adjustments (2020: charge £4.8m, 2019: charge £0.6m). A reduction in the future UK corporation tax rate from 18% to 17% was substantively enacted in the Finance Act 2016 with effect from 1 April 2020. However, in the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%. This

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

	2020 £'000	2019 £'000
Operating profit	24,293	37,018
Depreciation	31,838	29,656
Infrastructure renewals	9,715	9,807
Amortisation of goodwill	4,066	3,943
Impairment of goodwill	799	—
Amortisation of capital contributions	(2,907)	(2,707)
EBITDA (before infrastructure renewals)	67,804	77,717

new law was substantively enacted on 17 March 2020; therefore, its effects have been included in these financial statements.

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

The Group's approach to tax is explained on page 34.

Cash flow and dividends

The Group continues to place significant emphasis on its cash flow. Group cash flow from operating activities was £65.9m (2019: £64.1m), including lower year-on-year investment required in working capital, which was also lower than the budget set at the start of the year. Capital investment (net of contributions, disposals and capital creditor movements) decreased to £37.5m (2019: £41.4m) due mainly as expected to decreased capital investment by South Staffs Water in the final year of the AMP6 investment period, along with decreased investment in the non-regulated businesses, particularly Echo, with the reduction in expenditure on the new billing platform. Overall, free cash flow (cash flow from operations less interest, tax and capital expenditure) of £17.8m (2019: £12.4m), was ahead of our target. Total dividends paid and proposed in the year were £12.6m (2019: £27.0m).

Financing, net debt and liquidity

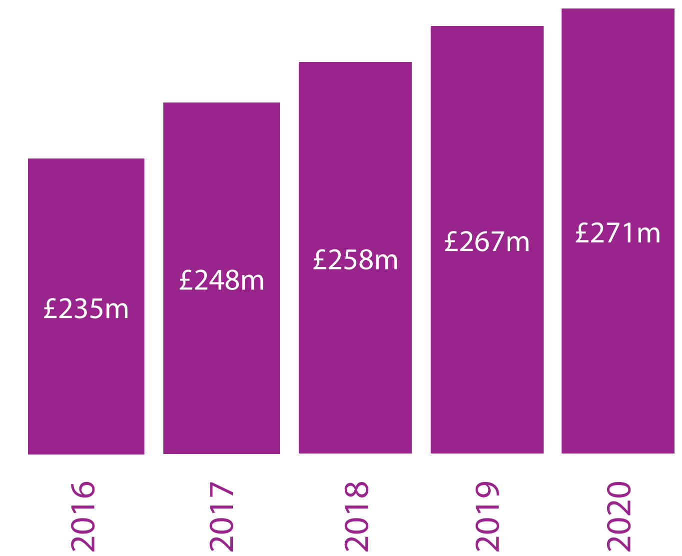
Group net debt reported for covenant purposes at 31 March 2020 amounted to £400.8m with the increase from 31 March 2019 (£398.6m) being largely due to the additional borrowing through private placement loan notes (£30.0m) which have replaced expiring private placement loan notes of £20.5m and a term loan of £7.9m and the increase in the value of index-linked debt in South Staffs Water due to indexation for the year of £5.9m. Group net debt for statutory accounting reporting purposes under FRS102 at 31 March 2020 amounted to £419.8m (2019: £417.4m) with the value fully reconciled to the value used for covenant purposes in the notes to the consolidated cash flow statement on page 65 along with a detailed analysis of the Group's net debt.

In South Staffs Water, net debt for covenant reporting purposes was £246.1m (2019: £248.8m) being 63.5% (2019: 65.5%) of its regulatory capital value (RCV) of £387.4m (2019: £380.1m), representing the PR14 final determination RCV uplifted for actual inflation.

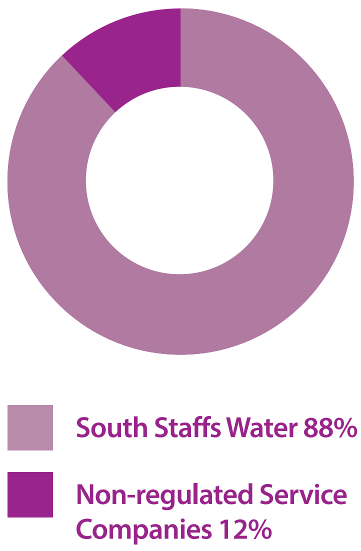
The Group and South Staffs Water have maintained, and continue to forecast to maintain, significant headroom in respect of all borrowing covenants, which include both interest cover and leverage covenants. Standard & Poor's continues to rate South Staffs Water as BBB+, well within investment grade.

At 31 March 2020, the Group had no undrawn bank borrowing facilities (2019: £12.3m), in addition to its cash balances of £37.0m (2019: £19.3m), providing significant liquidity

Group turnover



Analysis of Group operating profit



headroom of £37.0m (2019: £31.6m) and with financing already secured to refinance borrowings that are due to mature in the next 12 months.

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.

Principal group risks

Risks	What does it mean for us?	How are we managing the risk?
Resilient supply of good quality water#	We are legally required to meet regulatory standards for water quality. A failure to provide a secure supply of clean, safe drinking water or meet long-term requirements could result in negative public reactions. This, in turn, could affect customers' trust and confidence in our ability to supply clean water.	We have carried out significant work to mitigate the water quality and safety risks, including: • installing UV treatment at our Hampton Loade and Seedy Mill water treatment works; • installing powder activated carbon (PAC) dosing at Hampton Loade and bringing it into commission; • progressing work to replace the granular activated carbon (GAC) at Hampton Loade; • trialling ceramic membrane treatment in line with our long-term plan; and • having a capital investment and asset maintenance programme in place.
Running out of water#	There is a risk that our raw water resources could run out. This is a fundamental risk for the business, with potential implications for customers, public health, and our reputation and financial performance. There is also a risk that the demand for water may exceed the available supply – for example, during a severe drought or as we have seen recently, the effects of Covid-19 combined with a prolonged period of hot and dry weather, such as that experienced in summer 2018, can pose challenges to our supply/demand balance. In 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 risk that large-scale leakage reductions, per capita consumption reductions and increased 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 associated annual reviews; • collaborative cross-sector regional work with groups such as Water Resources East and Water Resources West; • our drought plans; • the investment we continue to make in our supply/demand balance; • our ongoing engagement with the Environment Agency in relation to abstraction licences and our environmental programme; and • our continuing asset maintenance programme. We continue to work with the Environment Agency on implementing our WRMPs and actively engage with environmental groups and abstractors from other sectors. We have also started work on our next drought plans. We will continue to invest to maintain sufficient supply to meet demand. This investment will help to reduce demand and leakage, as well as to develop new, sustainable water supplies.
Asset reliability and resilience#	We have a number of assets that are critical to the supply of clean drinking water to customers. Ageing assets and limited delivery capacity require important investment decisions to be made. The potential risks are around delivery capacity and around our performance commitment targets for secure and reliable water supplies. A lack of, or poorly optimised asset investment has the potential to impact on the business. For example: • significant, high-profile asset failures such as burst trunk mains or a loss of water sources resulting in supply interruptions could damage our reputation; • operating our asset base inefficiently could have a financial impact; • inadequate treatment processes could affect the quality of the water we supply, resulting in additional customer contacts; and • asset failures and deteriorating service could impact on our C-MeX scores.	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 risk. This includes: • investment in our strategically critical Hampton Loade and Seedy Mill water treatment works; • improving our network resilience by implementing additional valves/connectivity; • reducing network failure through targeted mains rehabilitation; and • carrying out a programme of proactive maintenance, supported by process improvements and data capture.

Risks	What does it mean for us?	How are we managing the risk?
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 injury and fatalities; • non-compliance prosecutions; • external investigations; and • reputational damage.	The end of the reporting year saw us focus on mitigating the risks associated with the Covid-19 outbreak. This included: • enabling all our office-based people to work from home, prioritising those in high-risk categories in the first instance; • implementing new risk assessments and providing personal protective equipment (PPE) for customer-facing people; • introducing site and safety audits; • publicising our wellbeing portal to help our people's mental health; and • developing and publicising 'return to office' plans for our employees. We also aspire to be a zero injury workplace; in our continued drive to improve accident rates and reduce risk further, we are: • continuing to drive a 'health and safety first' culture; • focusing on prompt hazard identification and reporting; • making full use of the Group Incident and Accident database; • conducting health and safety strategic and tactical working groups; • carrying out senior management and director workplace audits; • carrying out health and safety training and education; and • placing an emphasis on health and safety management systems and processes.
Failure to meet regulatory performance commitments*#	There is a risk that we could underperform against the commitments set by Ofwat in our PR19 final determination. A number of our performance commitments have financial incentives or penalties attached to them. Underperformance could have a financial and reputational impact. A particular risk is the Compliance Risk Index (CRI) measure of water quality. Our reliance on two large treatment works in our South Staffs region and planned redevelopment leaves us the most exposed company in the sector. There are also challenging upper quartile targets to achieve on leakage, mains burst and supply interruptions.	We are putting in place the reporting methodologies for our performance commitments for the five years to 2025. We have held discussions with our technical auditor for some performance commitments where reporting definitions remain unclear. We have also carried out shadow reporting of our performance commitments to build up a data history and help us understand the current performance risks. Finally, we are designing and implementing delivery strategies to help us achieve our performance commitments.
Impact of our activities on the environment*	The risk is that our activities could damage the environment and relates to the negative consequences associated with this. There is also a risk around non-compliance with environmental obligations. Over the five years to 2025, non-delivery of our performance commitments for biodiversity and per capita consumption will attract a financial penalty and could have a negative impact on our reputation. In addition, non-compliance with other environmental legislation could result in us causing pollution incidents (although in recent years these have only been of a minor/moderate nature). In early 2020, we passed an external audit on our MCERTS management system, which are now included on some of our discharge permits. Continued MCERTS compliance requires considerable investment in terms of time and resources. In addition, the Environmental Performance Assessment (EPA) will increasingly apply to our activities in relation to permit and abstraction licence compliance.	We have a number of controls in place to mitigate the risks associated with non-compliance with our environmental obligations, including: • working with the Environment Agency, Natural England and others on delivering our environmental obligations; • delivering the eel screening capital programme by the March 2021 deadline to comply with the Eels Regulations. Covid-19 is threatening the delivery date of this and other schemes. We are working with the Environment Agency as part of our plans to mitigate this risk; • the abstraction incentive mechanism (AIM), which helps to maintain sustainable abstraction practices; • having a well-established catchment management programme and expanding our SPRING environmental protection programme; • putting in place plans over the five years to 2025 that will not only meet our environmental obligations but also deliver wider societal and reputational benefits. Our PEBBLE biodiversity fund is one element of this; and • recruiting a team member with specialist skills in relation to environmental permits to ensure compliance with our discharge permits is monitored and preventive action is taken.

Principal group risks (continued)

Risks	What does it mean for us?	How are we managing the risk?
Non-compliance with regulatory obligations#	The risk is that we fail to comply with our legal obligations as a licensed water undertaker. Depending of the severity of the breach, this could result in action by Ofwat or other statutory bodies. Examples of the types of breach and the actions that could be taken include: • reporting of annual performance report (APR) data not being compliant with Ofwat's guidelines, requiring us to republish the APR; • failing to operate on a level playing field in relation to retailers, developers and new markets, resulting in legal action for breaking competition rules; and • breaching our licence conditions, resulting in enforcement action by Ofwat and the imposition of financial penalties of up to 10% of our turnover.	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 changes or changes to the Water Industry Act 1991 made during the year, and making sure we adopt any new obligations; • reviewing and publishing relevant documents as required under out licence; • using appropriate assurance where required, either through internal audit or external technical audit; and • requiring Board sign off of all significant obligations – for example, customer charges and the annual performance report.
UK exit from the European Union*	There is a risk of significant impact to us if the transition process of leaving the EU is not constructive and there is a disorderly departure. There is also a risk of loss of critical supply or disruption to delivery of elements such as: • chemicals, which are required to treat the water to regulated standards; • critical component spares, which may prevent the operation of critical equipment, such as the pumps that are needed for water distribution; • stock consumable items, such as pipes and fittings, which would impact planned repair work; and • fuels, which could have a wide-ranging impact, including on the ability of our people to attend sites, or on our operations. All these could affect our ability to produce and supply clean drinking water to our customers.	We have been working with the Department for Environment and Rural Affairs (Defra), Water UK, local resilience forums and associated sub-groups to mitigate risks based on the worst-case scenario presented by Defra. As part of this, we have engaged in conference calls, working groups, supplier audits, delivery reporting and daily stock reporting to ensure a full sector view of our situation and any potential impacts. We have also set up an internal Steering Group to lead actions such as increasing the stocks we hold in house and liaising with suppliers to hold stock on our behalf that we cannot store on site (for example, chemicals). In addition, we have reviewed our business continuity plans, increasing the number of people on our incident team and carrying out additional training. We have used all the internal communications channels at our disposal to engage with our people and keep them informed. While the risk of a disorderly exit has reduced, we will continue to monitor this, 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, which have continued to ensure early identification of any issues arising from this situation.
Finance*	The risk is that we are unable to fund the business sufficiently to meet our liabilities as they fall due. Having insufficient financial resources carries the risk of: • reduced access to capital markets; • potential for a lower credit rating; • higher funding costs; and • higher levels of fixed-cost embedded debt. Changes in risk scoring by rating agencies could lead to some or all of the above. There are potential risks arising from the Covid-19 outbreak, which could also have an impact, including reduced income, cash collections and an increase in the level of bad debt.	To mitigate this risk, we have: • engaged with external advisors on options for reducing our cost of embedded debt; • reduced gearing levels; • refinanced; • employed hedging strategies; • put rolling credit facilities (RCF) in place; • secure access to additional liquidity through the ECP programme; • carried out regular monitoring of markets; and • carried out regular cash flow reporting and management. We are closely monitoring the potential economic impact of Covid-19. While there will be a likely impact, the scenarios have been modelled, this does not affect our liquidity.

Risks	What does it mean for us?	How are we managing the risk?
Technology, systems and security*	There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure. Specific risks include: • external failures (loss of communication links, power or the internet); • system failures (failure of hardware or software and reduced performance); • data integrity (including loss or corruption); • IT/OT change management outside of agreed processes; • lack of access to technical skills and reducing capability to support end-of-life platforms; and • infrastructure location (lack of geographic dispersion). A high standard of professionalism and control is required to be exerted over the IT and OT estates, applying best practice and appropriate restrictions to safeguard against deliberate or unintentional damage/loss.	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; • implementing a Group Cloud strategy; • having managed services for monitoring and security operations centre (SOC) provision in place; • implementing a new SCADA system across both our South Staffs and Cambridge regions; • implementing OT intrusion detection software on critical networks; • having a privacy team and Data Protection Officer in place and implementing a sustainability plan; • carrying out data back up and regular recovery tests; and • making sure high availability architecture and monitoring is built into our cores systems, such as firewalls, networks, switches and servers.
Customer challenges#	We have identified a number of risks relating to customers, including: • the risk to revenue because of levels of customer bad debt and the associated costs of collection delivery; • demand for a service provision that is multi-channel and accessible 24/7. With only recent implementation of our digital channels, we have experienced a high level of phone contact, which also increases cost to serve; and • C-MeX, which is a new risk that is monitored for both customer service and customer engagement throughout the shadow reporting year. Our performance has been declining in recent years in-year penalties could be incurred unless performance improves.. The impact of increasing customer expectations and standards of customer service may lead to: • failure to meet these expectations; • a reduction in C-MeX scores and poor complaints performance; and • higher levels of customer debt.	In mitigating these customer risks, we have: • monthly Debt Steering Group meetings, which monitor performance and agree strategy; • a new debt management system, which has enabled customers to be contacted quickly and various customer contact strategies to be deployed; • improved our customer experiences through engagement activity. As part of this, we have looked at a number of retail processes, including meter requests, bill design and a variety of customer journeys. This insight has helped us to shape a customer experience strategy plan that looks to strengthen our digital channels and improve key customer journeys; and • monthly Customer Experience Steering Group meetings and use a series of KPIs to review performance; and • customer experience improvement plans in place. We are also planning to: • complete the roll out of our new debt system and use customer strategies to lower levels of debt; • ensure necessary customer support tariffs are in place and promoted to customers. We will use customer tracking surveys to understand the success of this; and • deliver a retail change programme, including our mobile app, making improvements to MyAccount, reducing repeat contacts, implementing the new customer bill and making improvements to customer journeys – in particular, home moves.

* 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 three-year period to 31 March

2023, 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. Other scenarios for the first three years of AMP7 relevant to South Staffs Water only have been considered, including specific scenarios for the potential impact of the Covid-19 pandemic. 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.

In July 2020 the group successfully refinanced the £30m RCF facility with NatWest Bank held by South Staffs Water which is due to expire in December 2020 with a new 3 year facility.

We have also taken steps to secure access to additional liquidity through the European Paper (ECP) programme to provide extra financial resilience should the business require it. South Staffordshire Water PLC and South Staffordshire Plc have access to £75m and £20m facilities respectively. The facilities will be available throughout the going concern period, however management do not intend to utilise these facilities throughout the period. Management continue to look for additional banking facilities in line with business need.

The strategic report on pages 4 to 35 is approved on behalf of the Board of Directors.

P C Newland
Group Chief Executive
30 September 2020

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. See: South Staffs Water • Covid-19 outbreak (page 24); • Tipton mains burst (page 24); and • H_2Online – our community of customers (page 9). Echo Echo has supported its customers to introduce new communication channels: • supporting South Staffs Water (page 18); and • new digitial channels at Northern Ireland Water (page 19). SSI Services • understanding our customer's business (page 24); and • developing customer business plans (page 24).
Community	Active and wide ranging community programmes are in place across the Group. See: South Staffs Water • award winning community hub in Wednesbury (pages 9 & 23); • Cambridge region Young Innovators' Panel launched (page 23); • being at the heart of the communities we serve (page 9); and • enhancing biodiversity with our PEBBLE fund (page 10). Echo • energy theft (page 23); • working with schools (page 23); and • Charities at home and oversees (page 23).

Key stakeholder group	How we have engaged with these stakeholders
Community (continued)	SSI Services • community festive party (page 23); • sponsorship programmes (page 23); and • tree planting for schools (page 23).
Employees	Regular updates take place for employees across the Group using numerous channels, including workshops, Executive roadshows, updates, monthly Conduit e-newsletter, team meetings, Workplace and MiHub. See: South Staffs Water • aiming to achieve IIP accreditation by the end of the 2020/21 financial year (page 11); • employee engagement (page 11); • health and wellbeing (page 21); and • developing skills for the future (pages 21 & 22). Echo • employee engagement (page 22); • Salesforce training (page 22); • big personal development week (page 22); and • health and wellbeing (page 21). SSI Services • employee engagement (page 22); • developing managers programme and training for success (page 22); • apprenticeship programme (page 22); and • health and wellbeing (page 21).
Regulators/ government	Other than South Staffs Water the remainder of the Group does not have any significant relationships with regulators or government, nor is there any potential impact of Brexit on the non-regulated trading parts of the Group. 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. See: • Fowlmere visits for Environment Agency CEO and Ofwat Chair (page 25); • bespoke service for MPs (page 25); • PR19 – the steps to our final determination (page 11); • planning ahead of the UK exiting the EU (page 11); and • welcoming Westminster to Walsall and Wednesbury (page 25).
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. See: • financial performance (pages 27 to 35); • risk review (pages 29 to 33); and • long term viability and financial resilience (page 35).

Section 172 (1) Statement

Key stakeholder group	How we have engaged with these stakeholders
Suppliers / partners	Each division has its own relationships with suppliers and partners who support their individual businesses. South Staffs Water's procurement function supports significant tender processes at Group level. 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. • Preparing for the next planning period (page 11); • Has your water meter 'bin' read? (page 25); and • Planning ahead of the UK exiting the EU (page 11). Echo • supplier framework (page 25); and • Aptumo (page 25). SSI Services • supplier meetings and discussions (page 25); and • sustainable procurement strategy (page 25).

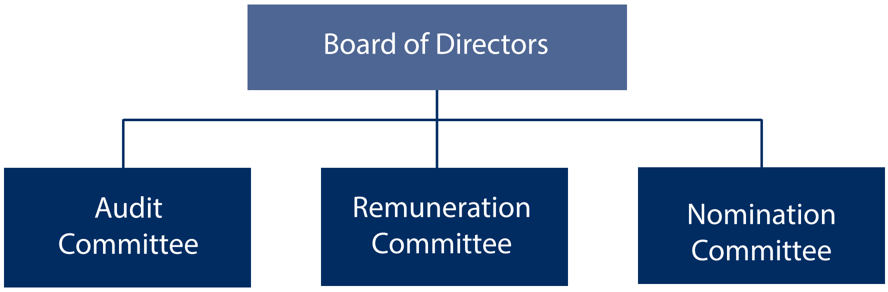
This statement was approved at a meeting of Directors held on 25 September 2020 and duly signed on its behalf.

P C Newland
Group Chief Executive
30 September 2020

Board, Directors and Executive

Board structure

The Board follows best practice with established Committees covering Audit, Remuneration and Nomination as set out below. The wholly owned subsidiary South Staffs Water has its own Board governance arrangements to meet both the Companies Act 2006 requirements and those of its licence from Ofwat, including Committees and Independent Non-Executive Directors. Full details can be found in South Staffs Water's annual report and accounts and annual performance report.



Details of the terms of reference of all committees, their membership and activities during the year are reported on pages 52 to 56.

Board of Directors

The Board comprises:

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

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

1. 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.

2. Peter Antolik
Non-Executive Director & Arjun Infrastructure Partners Representative

Appointed to the Board in July 2018 as part of the investment in the Group by investors advised by Arjun Infrastructure Partners. Peter is a Partner of Arjun Infrastructure Partners (AIP) and his background covers regulated companies, transport regulation, and the management of infrastructure funds and investments. Peter joined AIP from the Office of Rail and Road and was previously the Strategy and Regulation Director of Thames Water. Peter has previously worked with Macquarie Bank, creating and managing the European infrastructure funds. He was also an Executive Director in JP Morgan's Infrastructure Investment Fund and started his career with Accenture.

3. Keita Saito (appointed 1 April 2020)
Non-Executive Director and Mitsubishi Corporation Representative

Appointed as a Non-Executive Director in April 2020, Keita heads the Overseas Business Development Team for Mitsubishi Corporation's water business. Keita has been with Mitsubishi for over 15 years with extensive experience in business development, project management, M&A and investment management. His main experience is in the renewable energy and water sectors across Europe, Asia Pacific and the Middle East. Keita was a Director of TRILITY (formerly United Utilities Australia) from 2017 to 2018.

4. Go Muromoto
(appointed 26 June 2020)
Non-Executive Director and Mitsubishi Representative

Go was appointed as a Non-Executive Director 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.

4. Phil Newland
(appointed 29 April 2020)
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.

4. Rob O'Malley
(appointed 29 April 2020)
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.

Executive Team

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

1. 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.

2. 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.

3. 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 seven years and during this time has successfully headed up both the software and customer service areas of the business.

4. Andrew Willicott[1]
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.

5. Simon Dray[1]
SSI Services - Managing Director - Water

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.

6. Neil Shailer[1]
SSI Services - 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.

[1] Andrew Willicott, Simon Dray and Neil Shailer joined the Executive Team in May 2020

Directors' Report

The Directors are pleased to present their annual report, together with the audited Group financial statements, for the year ended 31 March 2020.

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.

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 no directors appointed during the year who were required to offer themselves for re-election and no directors were eligible to retire by rotation.

Business review

The strategic report on pages 4 to 35 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 2020.

Details of the principal risks and uncertainties facing the Group are set out in the strategic report on pages 4 to 35.

Financial results

The Group's turnover was £270.6m (2019: £266.6m), with operating profit of £24.3 (2019: £37.0m) and profit before tax of £11.0m (2019: £24.2m). The Group's financial results and position are explained in more detail in the financial review section of the strategic report on pages 4 to 35 and shown in the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement on pages 60, 61 and 65.

Corporate Social Responsibility

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 corporate and social responsibility activities is set out in the strategic report on pages 4 to 35.

Energy use and carbon emissions

Energy use and carbon emissions

The UK water sector is leading the world in its commitment to achieve net zero carbon emissions by 2030.

	Director type	Appointed	Date resigned	Meetings attended
Steve Johnson	Independent Non-Executive Chairman	3 July 2018		8/8
Adrian Page	Group Chief Executive	4 December 2003	29 April 2020	7/8
Satoru Tamiya	Non-Executive Director & Mitsubishi Corporation Representative	28 April 2016	1 April 2020	8/8
Peter Antolik	Non-Executive Director & Arjun Investment Partners Representative	3 July 2018		8/8
Michihiko Ogawa	Non-Executive Director & Mitsubishi Corporation Representative	3 July 2018	26 June 2020	8/8
Keita Saito	Non-Executive Director & Mitsubishi Corporation Representative	1 April 2020		n/a
Phil Newland	Group Chief Executive	29 April 2020		n/a
Rob O'Malley	Group Chief Finance Officer	29 April 2020		n/a
Go Muromoto	Non-Executive Director & Mitsubishi Corporation Representative	26 June 2020		n/a

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.

Fuel	kWh	Tonnes CO2
Natural gas	871,928	161
Diesel BS EN 590	3,693,471	903
Gasoil (Class A2)	200,715	52
Kerosene	35,966	9
Unleaded 95	105,146	25
Total	**4,907,226**	**1,149**

Scope 1 energy use and emissions
Scope 1 emissions are directly associated with the Group' operations. They include the use of natural gas and fuel oils for the operation of its on-site generator plant and fuel for transportation on direct company business, such as transport to different sites.

During 2019/20, the Scope 1 energy use and carbon dioxide emissions were as follows (see table). This disclosure is new for this year and therefore prior year breakdown comparatives are not available.

Scope 2 energy use and emissions
Scope 2 emissions are those associated with the Group's direct consumption of grid electricity for pumping and water treatment, as well as relatively small amounts for the operation of its buildings. The Group consumed 127,787,127 kWh of grid electricity with associated emissions of 32,662 tonnes of CO2. Again, this disclosure is new for this year and therefore prior year comparatives are not available.

Methodology
These figures have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP) as developed by the World Resources Institute, which promotes environmental sustainability, economic opportunity, and human health and wellbeing; and the World Business Council for Sustainable Development, which is leading the transition to a sustainable world.

Efficiency measures
During the reporting period, the Group has continued to invest in the efficiency of its network through ongoing pump efficiency and leakage reduction, improving production and reducing demand for energy, respectively. In March, South Staffs Water also completed the construction of a 5.6MW combined heat and power (CHP) plant at its Hampton Loade treatment works in its South Staffs region. This is a major investment, which will also ensure the security of the energy supply at the Group's largest and most important facility.

Acquisitions
Details of business acquisitions made in the year can be found in note 28 to the financial statements.

Corporate governance
A detailed corporate governance report is set out on pages 45 to 51. The Group's shareholders and structure is shown in the charts on pages 45 and 46.

Risk management
Details of the Group's policy in respect of financial and treasury risk are provided in note 29 to the financial statements.

The Group's activities in respect its management and focus on business risks are set out on pages 29 to 33 of the strategic report and 43 of the governance report.

Capital investment
Capital expenditure before contributions from third parties and excluding infrastructure renewals during the year amounted to £52.2m (2019: £51.2m).

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 2020 represent 53 days of purchases during the year (2019: 54 days). The Group is not reliant on any single commercial arrangement.

Going concern and basis for assumption
The Directors consider that it is appropriate to prepare the accounts on a going concern basis. Based on a review of the Group's planning, budget and financial forecasts to 31 March 2022, and the related sensitivity analysis performed, a going concern basis is considered appropriate. This assertion is based on:

- the trading performance of the Group subsidiaries and the markets in which they operate;
- the price review for South Staffs Water, the related five-year investment programme and forecast returns to the Group as shareholder;
- the committed borrowing facilities

Directors' Report

available to the Group, together with cash balances, actual and forecast compliance with borrowing covenants and other important financial metrics and ratios; and
- its access to bank and capital markets raise finance in the future.

The group's five-year business plan, approved by the Board in May, included a thorough review of assumptions and stress testing of the financial covenants.

The Directors have carefully considered the going concern basis in relation to the impact of the Covid-19 outbreak on the Group and have concluded that this remains appropriate. The Board has received and considered updating forecasts for the current financial year and carefully assessed headroom to covenants and available liquidity. The main impact was experienced by the Group shortly after the end of the financial year and as at the date of this report most of the Group's businesses have largely returned to normal trading.

Some enduring impact remains in the financial performance for the current year and there remains an increased level of uncertainty surrounding the longer-term impacts on the wider economy, including the risk of non-payment by South Staffs Water's customers. The Board will continue to keep these matters under close review.

The Company is confident that it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and accounts. Since the year end, South Staffs Water has signed a new £30m RCF with NatWest Bank in order to refinance the two expiring facilities in December 2020.

The Group's business activities, its business model and strategy, together with the factors likely to affect its future development, performance and position, are set out in the strategic report on pages 4 to 35. Additional details in respect of the long-term viability and financial resilience of the Group, its cash flows, liquidity position and available borrowing facilities are described in the financial review section of the strategic report on pages 4 to 35.

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 reappointment of Deloitte LLP as auditor will be put to the Board.

Approved by the Board and signed on its behalf by

Rob O'Malley
Group Chief Finance Officer
30 September 2020

Current Board of Directors and Advisors

Board of Directors	Steve Johnson - Chairman Peter Antolik 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

Principles of Corporate Governance

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.

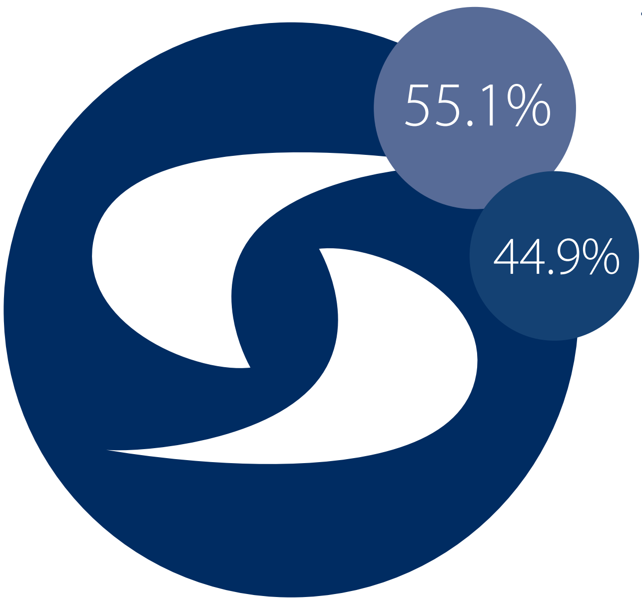
As the immediate parent company of South Staffs Water, the Company and its Board of Directors recognise the responsibilities that come from providing a public service. The Company is therefore fully committed to maintaining high standards of leadership, transparency and governance as a parent of a regulated 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.

South Staffs Water continues to apply the principles of its own corporate governance code (the 'SSW Code'), which supports Ofwat's published principles on board leadership, transparency and governance and which draws on certain principles of the UK Code that may be applicable to a privately owned regulated company providing essential services. A copy of the SSW Code can be found on South Staffs Water's website (www.south-staffs-water.co.uk).

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 2020, 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.

Our investors as at 31 March 2020

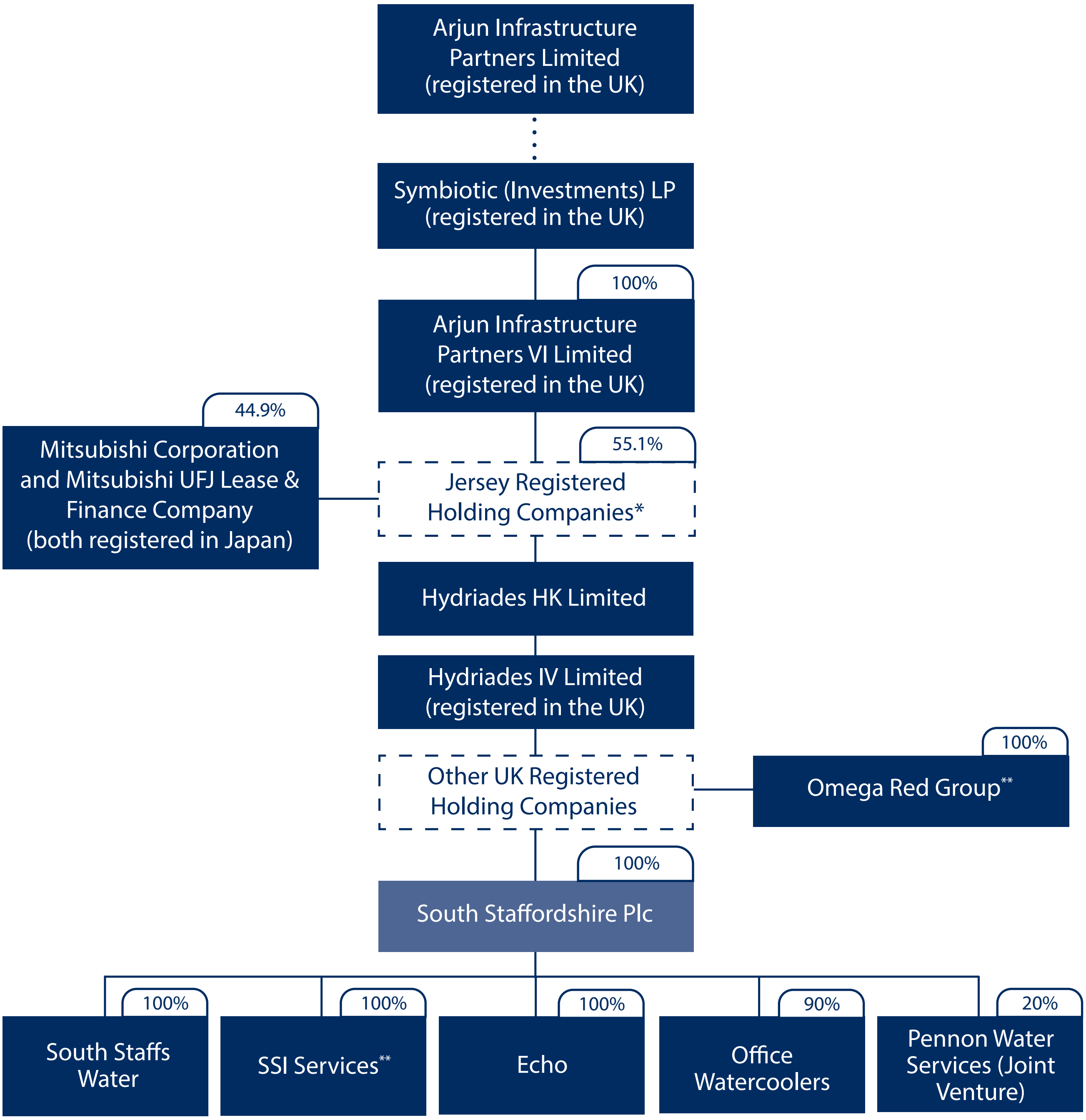


Long-term pension scheme and institutional investors, advised and managed by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

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

Corporate Governance Report

Simplified Group structure as at 31 March 2020



* 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.

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 4 to 35.

Compliance with the 2018 Corporate Governance Code

See table opposite.

Corporate Governance Code requirement	How the Company demonstrates compliance
Board leadership and company purpose	• Company strategy (page 4) • Section 172 (1) statement (pages 36 to 38) • Corporate social responsibility (page 42)
Division of responsibilities	• Functions of the Board (page 49) • Matters Reserved for the Board (page 50) • Board Committees (pages 52 to 56) • Directors' responsibilities statement (page 57)
Composition, succession and evaluation	• Board structure (pages 39, 40 & 48) • Board effectiveness (page 49)
Audit, risk and internal control	• Risk review and analysis of key risks for the business (pages 29 to 33)
Remuneration	• Remuneration report (pages 54 to 55)

Group structure

Since 3 July 2018 a 55.1% equity stake in the Group was acquired by Arjun Infrastructure Partners VI Limited and is ultimately owned by long term pension funds and other institutional investors advised and managed by Arjun Infrastructure Partners Limited.

Mitsubishi Corporation 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.

The Company, as the immediate parent company of South Staffs Water, ensures through its comprehensive knowledge of its subsidiaries and the water sector that it understands the duties and obligations of a regulated company. 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.

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.

Relations with investors and immediate holding companies

During the year, there were a number of UK registered intermediate holding companies above the South Staffordshire Plc, 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 also 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. One of the loans payable to South Staffs Water was repaid on 24 May 2019. 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:

i) provide South Staffs Water with all information needed to comply with its obligations; and to procure that their subsidiaries will;

Corporate Governance Report

ii) refrain from taking any action which might cause South Staffs Water to breach any of its obligations; and
iii) 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.

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.

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.

Board membership

A full list of Board members can be found on page 40 and the skills and experience of the current directors are set out in the biographies on pages 40.

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

Peter Antolik was appointed to the Board as a Non-Executive Director and representative of Arjun Infrastructure Partners Limited. 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 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.

At 31 March 2020, Adrian Page was an Executive Director of the Company and all of its UK subsidiaries and holding companies. After more than 24 years with the Group, during which time the business has grown in turnover from £60m to £300m, Adrian Page decided to step down as Group Chief Executive 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.

Garry Clarke resigned as Group Chief Finance Officer and Company Secretary on 14 March 2020 and was replaced by Caroline Stretton as Company Secretary on the same date.

Functions of the Board

The Company should have an effective Board whose primary focus is to develop, implement and fulfill the Company's strategy to deliver the Group businesses services 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;
- nformation 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 page 41.

A number of new appointments have been made to the Board in recent months and 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 and following recent changes such a review will be carried out in the near future to ensure the new Board is operating effectively.

Corporate Governance Report

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 2020, there were eight Board meetings (six scheduled and two additional meetings). In addition, there were two management meetings, attended by the Executive Team and shareholder representatives.

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 42.

Since the onset of the Covid-19 outbreak, the Board has received regular updates on business performance, including customers, employee wellbeing, and current liquidity and forecasts.

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.

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 29 to 33 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 43 and 44.

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.

Audit Committee Review

Chairman during the year ended 31 March 2020:	Steve Johnson (Meetings attended 2/2)
Other members during the year ended 31 March 2020:	Michihiko Ogawa (Meetings attended 2/2) (resigned 26 June 2020) Peter Antolik (Meetings attended 2/2)
Meetings are also regularly attended by:	Deloitte LLP (the Group's external independent auditor), the Group Chief Executive, the Group Financial Officer and Company Secretary, the Group Internal Audit Manager and, representatives from the Group's owners; Arjun Infrastructure Partners Limited and Mitsubishi Corporation

Role and Responsibilities

The Audit Committee 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. This includes:

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

The Committee is 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

TThe 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 Committee activities

In the year ended 31 March 2020, the Audit Committee focused on the key business risks set out on pages 29 to 33 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;
- ensuring compliance with the ISO 27001 Information System Security Risk Management standard for IT services provided by Group Services and;
- regulatory assurance work for South Staffs Water;
- reviewing the new Payroll and HR System; and
- wholesale level playing field assurance review.

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 responsibilities of the external auditor in relation to financial reporting for 2019/20 are set out in its report on pages 58 to 59.

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.

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 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;
- South Staffs Water tariffs;
- review of internal controls;
- ISO 27001 Information System Security Risk Management controls;
- regulatory assurance for South Staffs Water in line with its assurance framework; 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. Based on current legislation, Deloitte LLP can be re-appointed for all financial years up to and including the year to 31 March 2021. Thereafter, auditor rotation is required once every ten years with this extendable to 20 years if a tender is conducted after ten years.

Non-audit fees in relation to specific parts of the regulatory accounts amounted to £16,126 (2019: £16,561).

Remuneration Committee Review

Membership for the year ended 31 March 2020		
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 Satoru Tamiya (appointed 03/07/2018 and resigned 1 April 2020)	Member	3/3

Meetings

Meetings are convened as required and at least once a year. During the year, three meetings were held to discuss remuneration packages for vacant Executive Board 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

	Executive Director		Executive Team*		Total	
	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000
Basic Salary	250	249	630	644	880	893
Benefits	14	17	55	48	69	65
Bonus	—	84	105	154	105	238
Total Emoluments	264	350	789	846	1,054	1,196
Group Money Purchase Pension Contributions	55	56	56	51	111	107
Total Remuneration**	319	406	845	897	1,165	1,303

* Excluding the Executive Director.

** In addition to the above, the Chairman received a fee of £45,000 in respect of their service in the year.

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. Some bonus arrangements allow for deferral of payment of a proportion of an awarded annual bonus subject to continued employment after two years from award. Annual salary, benefits and annual bonus awards are normally pensionable, whereas 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

Adrian Page, Group Chief Executive, was employed on a service contract of no fixed term, with a notice period of 12 months by either party, until his resignation on 29 April 2020. 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.

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 and Executive team's remuneration set out below and in note 5 to the report and accounts on page 71.

The remuneration of the Chairman is determined by the Board. As the other Non-Executive Directors for the year ended 31 March 2020 are representatives of the Company's shareholders, they do not receive any remuneration from the Company and their appointments have no fixed term.

Nomination Committee Review

Membership for the year ended 31 March 2020		
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 Satoru Tamiya (appointed 03/07/2018 and resigned 3/07/2018)	Member	3/3

Meetings
Meetings are convened when required. During the year, three meetings were held to oversee the recruitment of a Group Chief Executive following Adrian Page's resignation and a new Chief Finance Officer.

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 23 of the strategic report.

Directors' Responsibilities Statement

TThe 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 pages 40 and 42.

Independent Auditor's Report

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 31 March 2020 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 32.

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
We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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 mis-statement when it exists.

Mis-statements 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.

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 2020

Consolidated Profit & Loss Account

For the year ended 31 March 2020

	Note	2020 £'000	Restated 2019 £'000
Group turnover	2	270,630	266,588
Operating costs before goodwill amortisation (net)	3	(246,509)	(234,387)
Other operating income	6	5,809	8,712
Group operating profit before goodwill amortisation and share of joint venture		29,930	40,913
Share of joint venture operating profit		(772)	48
Group operating profit before goodwill amortisation and impairment		29,158	40,961
Amortisation	11	(4,066)	(3,943)
Goodwill impairment	11	(799)	—
Total operating profit		24,293	37,018
Finance charges (net)	7	(13,255)	(12,827)
Profit before taxation		11,038	24,191
Taxation on profit	8	(8,216)	(5,181)
Profit on after taxation		2,822	19,010
Less profit after tax of non-controlling interests	26	(90)	(85)
Profit for the financial year		2,732	18,925
Earnings per share Basic and diluted	10	21.3p	147.6p

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2020

	2020 £'000	2019 £'000
Profit for financial year	2,732	18,925
Movement on hedging reserve	(579)	112
Deferred tax impact of movement in hedging reserve	137	(19)
Actuarial gain/(loss) relating to retirement benefit surplus	23,242	(1,258)
Change in assumption for GMP equalisation relating to retirement benefit surplus	—	(1,300)
Deferred tax on GMP equalisation relating to retirement benefit surplus Deferred	—	221
tax on actuarial gain/(loss) relating to retirement benefit surplus	(4,416)	214
Deferred tax rate change	(1,163)	—
Fair value adjustment - FRS102 transition	—	(1,543)
Exchange movements on translation of overseas operations	(12)	38
Total consolidated comprehensive income for the year from controlling interests	19,941	15,390
Profit for financial year from non-controlling interests	90	85
Total consolidated comprehensive income for the year	20,031	15,475

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

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

Consolidated Balance Sheet

As at 31 March 2020

	Note	2020 £'000	Restated 2019 £'000
Fixed assets			
Intangible assets - goodwill	11	24,283	26,853
Investment in joint venture	12	97	1,162
Tangible assets	13	567,249	547,822
		591,629	575,837
Current assets			
Stocks	17	3,628	3,410
Debtors - amounts recoverable within one year	18	77,155	73,855
Debtors - amounts recoverable in more than one year	18	89,702	98,938
Retirement benefit surplus	22	90,842	65,846
Cash at bank and in hand		37,000	19,313
		298,327	261,362
Creditors – amounts falling due within one year			
Borrowings	19	(29,985)	(28,382)
Other creditors	20	(99,106)	(91,977)
		(129,091)	(120,359)
Net current assets		169,236	141,003
Total assets less current liabilities		760,865	716,840
Creditors – amounts falling due in more than one year			
Borrowings	19	(426,777)	(408,286)
Other creditors	20	(16,460)	(16,256)
Accruals and deferred income	15	(159,328)	(152,310)
Provisions for liabilities - deferred tax	21	(63,116)	(52,239)
		(665,681)	(629,091)
Net assets		95,184	87,749
Capital and reserves			
Share capital		5,449	5,449
Share premium account	25	10,882	10,882
Revaluation reserve	25	17,390	17,625
Capital redemption reserve		1	1
Merger reserve		(253)	(253)
Currency translation reserve		4	16
Hedging reserve	25	(6,002)	(5,715)
Profit and loss account		67,293	59,411
Shareholders' funds		94,764	87,416
Non-controlling interests	27	420	333
Total capital employed		95,184	87,749

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 2020.

P C Newland
Group Chief Executive

Company Balance Sheet

As at 31 March 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Investments	16	102,721	102,721
Tangible assets	13	2,629	1,210
		105,350	103,931
Current assets			
Stocks	17	91	96
Debtors - amounts recoverable within one year	18	12,342	5,772
Debtors - amounts recoverable in more than one year	18	66,050	60,764
Retirement benefit surplus	22	72,144	51,401
Cash at bank in hand		22,708	28,272
		173,335	146,305
Creditors – amounts falling due within one year			
Borrowings	19	—	(28,382)
Other creditors	20	(24,572)	(7,221)
		(24,572)	(35,603)
Net current assets		148,763	110,702
Total assets less current liabilities		254,113	214,633
Creditors – amounts falling due in more than one year			
Borrowings	19	(164,566)	(131,767)
Trade and other payables	20	(3,943)	(820)
Provisions for liabilities - deferred tax	21	(13,598)	(8,701)
		(182,107)	(141,288)
Net assets		72,006	73,345
Capital and reserves			
Share capital		5,449	5,449
Share premium account		10,882	10,882
Capital redemption reserve		1	1
Profit and loss account		55,674	57,013
Shareholders' funds		72,006	73,345

The profit in the year ended 31 March 2020 for the Company is £3,336,000 (2019: £19,363,000).

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 Changes in Equity

As at 31 March 2020

	Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Merger Reserve £'000	Revaluation Reserve £'000	Profit & Loss Account £'000	Currency Translation Reserve £'000	Hedging Reserve £'000	**Shareholders' Funds £'000**	Non-controlling Interests £'000	**Total Capital Employed £'000**
Balance at 31 March 2018	5,449	10,882	1	(253)	17,860	70,937	(22)	(5,808)	99,046	307	99,353
Profit for the financial year	—	—	—	—	—	18,925	—	—	18,925	85	19,010
Exchange movements on translation of overseas operations	—	—	—	—	—	—	38	—	38	—	38
Fair value adjustment - FRS102 Transition	—	—	—	—	—	(1,543)	—	—	(1,543)	—	(1,543)
Change in value of hedging instruments - cash flow hedges	—	—	—	—	—	—	—	(66)	(66)	—	(66)
Deferred tax on change in value of hedging instruments - cash flow hedges	—	—	—	—	—	—	—	11	11	—	11
Actuarial gain relating to retirement benefit surplus	—	—	—	—	—	(1,258)	—	—	(1,258)	—	(1,258)
Deferred tax on actuarial gain relating to benefit surplus	—	—	—	—	—	214	—	—	214	—	214
GMP equalisation relating to retirement benefit surplus	—	—	—	—	—	(1,300)	—	—	(1,300)	—	(1,300)
Deferred tax on GMP equalisation relating to retirement benefit surplus	—	—	—	—	—	221	—	—	221	—	221
Amounts transferred to profit and loss	—	—	—	—	(235)	235	—	178	178	—	178
Deferred tax on amounts transferred to profit and loss	—	—	—	—	—	—	—	(30)	(30)	—	(30)
Total comprehensive income	5,449	10,882	1	(253)	17,625	86,431	16	(5,715)	114,436	392	114,828
Acquisition in the year	—	—	—	—	—	—	—	—	—	16	16
Dividends (note 9)	—	—	—	—	—	(27,020)	—	—	(27,020)	(75)	(27,095)
Balance at 31 March 2019	5,449	10,882	1	(253)	17,625	59,411	16	(5,715)	87,416	333	87,749
Profit for the 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 retirement 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	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

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

Company Statement of Changes in Equity

As at 31 March 2020

	Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Hedging Reserve £'000	**Shareholders' Funds £'000**
Balance at 31 March 2018	5,449	10,882	1	66,821	(348)	**82,805**
Profit for the financial year	—	—	—	19,363	—	**19,363**
Change in value of hedging instruments - cash flow hedges	—	—	—	—	418	**418**
Deferred tax a change in value of hedging instruments	—	—	—	—	(70)	**(70)**
Actuarial loss relating to retirement benefit surplus	—	—	—	(1,591)	—	**(1,591)**
Deferred tax on actuarial gain relating to retirement benefit surplus	—	—	—	270	—	**270**
GMP equalisation relating to retirement benefit surplus	—	—	—	(1,000)	—	**(1,000)**
Deferred tax on GMP equalisation relating to retirement benefit surplus	—	—	—	170	—	**170**
Total comprehensive income	5,449	10,882	1	84,033	—	**100,365**
Dividends (note 9)	—	—	—	(27,020)	—	**(27,020)**
Balance at 31 March 2019	5,449	10,882	1	57,013	—	**73,345**
Loss for the 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	10882	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**

Consolidated Cash Flow Statement

For the year ended 31 March 2020

	Note	2020 £'000	2020 £'000	Restated 2019 £'000	Restated 2019 £'000
Cash inflow from operating activities			80,308		72,631
Corporation tax paid			(4,518)		(3,009)
Net cash inflow from operating activities	(a)		75,790		69,622
Cash flows from investing activities:					
Purchase of tangible fixed assets		(48,437)		(50,855)	
Proceeds from sale of tangible fixed assets		1,002		986	
Interest received		2,573		5,628	
Cash consideration for subsidiaries acquired (including costs)		(1,448)		(880)	
Cash balances of subsidiaries acquired (net)		33		23	
Net cash outflow from investing activities			(46,277)		(45,098)
Cash flows from financing activities:					
Interest paid		(13,083)		(12,990)	
Equity dividends paid		(12,594)		(27,020)	
Drawdown of RCF		12,250		8,951	
Drawdown / additions to bank loans		(7,882)		(7,882)	
Bank loan issue costs paid		—		(614)	
Repayment of private placement loan notes		(20,500)		(20,500)	
Drawdown / additions to private placement loan notes		30,000		43,000	
Private placement loan notes issue costs paid		(17)		(200)	
Net cash outflow from financing activities			(11,826)		(17,255)
Increase in cash and cash equivalents			17,687		7,269
Cash or cash equivalents brought forward			19,313		12,044
Cash or cash equivalents carried forward			37,000		19,313

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 £48,437,000 (2019: £50,855,000) and additions in the fixed asset note of £52,170,000 (2019: £51,206,000) is due to an increase in the year of creditors due relating to capital purchases of £3,733,000 (2019: £351,000 increase).

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2020

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Total operating profit		24,293		37,018
Depreciation	31,838		29,656	
Amortisation of goodwill	4,066		3,943	
Impairment of goodwill	799		—	
Amortisation of capital contributions	(2,907)		(2,707)	
Defined benefit pension scheme contributions (employer)	(570)		—	
Share of associate operating loss / (profit)	772		(48)	
Profit on disposal of tangible fixed assets	(726)		(872)	
Profit on disposal of tangible fixed assets	9,925		8,515	
		43,197		38,487
(Increase) / decrease in stocks	(218)		(473)	
Decrease / (increase) in debtors	5,936		(2,326)	
Increase / (decrease) in creditors	7,100		(75)	
		12,818		(2,874)
Cash inflow		80,308		72,631
Corporation tax paid		(4,518)		(3,009)
Net cash inflow		75,790		69,622

Notes to the Consolidated Cash Flow Statement

For the year ended 31 March 2020

(b) Reconciliation of Movement in Net Debt

	2020 £'000	Restated 2019 £'000
Increase in cash	17,687	7,269
Increase in drawings on short-term bank loans	—	2,058
	17,687	9,327
Repayment of bank term loans	7,882	7,882
Drawdown of RCF	(12,250)	(11,009)
Bank loan issue costs paid	—	614
Bank loan issue cost amortisation (non-cash)	(333)	(208)
Repayment of private placement loan notes (net of issue costs cash)	20,500	20,500
Issue of private placement loan notes (net of issue costs cash)	(29,983)	(42,800)
Private placement issue cost amortisation (non-cash)	(24)	(71)
Movement on index-linked debt (non-cash)	(5,887)	(5,823)
Increase in net debt in the year	(2,408)	(21,588)
Net debt brought forward	(417,354)	(395,766)
Net debt carried forward	(419,762)	(417,354)

(c) Analysis of Net Debt

	Restated Balance at 1 April 2019 £'000	Acquisitions and disposals £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2020 £'000
Cash at bank and in hand	19,313	33	17,654	—	37,000
Drawings on short-term bank loans	—	—	—	(29,985)	(29,985)
	19,313	33	17,654	(29,985)	7,015
Irredeemable debenture stock	(1,652)	—	—	—	(1,652)
Index-linked debt (net of issue costs)	(229,755)	—	—	(5,887)	(235,642)
Bank loans (net of issue costs)	(141,953)	—	(4,368)	29,652	(116,669)
Private placement loan notes (net of issue costs)	(63,307)	—	(9,483)	(24)	(72,814)
Net debt	(417,354)	33	3,803	(6,244)	(419,762)

The cash flows in respect of the Company's bank loans include repayments of £187,173,000 and drawdowns of £199,423,000.

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 £400,750,000 (2019: £398,568,000). 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 March 2020 £'000	31 March 2019 £'000
Book net debt (as reported above)	(419,762)	(417,354)
Exclude book premium on issue of index-linked debt	13,116	13,447
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	8,113	7,673
Exclude unamortised issue costs	(2,357)	(2,549)
Exclude accrued interest	140	215
Net debt reported for borrowing covenants	(400,750)	(398,568)

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 35.

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 includes amounts billed together with an estimation of amounts for water supply services provided but remaining unbilled at the year-end.

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.

Notes to the Financial Statements

1 Statement of Accounting Policies (continued)

(j) Stocks

Stocks are valued at the lower of cost and net realisable value. 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 2019, 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.

Notes to the Financial Statements

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 strong 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 2020 was £12,399,000 (2019: £11,786,000). A 1% movement in consumption equates to a £100,000 movement. Other accrued income totalled £10,500,000 (2019: £10,106,000).

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 £42,326,000 as at 31 March 2020 (2019: £32,123,000).

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 2020 is £574,396,000 (2019: £554,251,000). South Staffordshire Water PLC assets included in the total above amounted to £551,578,000 (2019: £531,869,000). 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 £2,800,000.

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 2020 in the consolidated balance sheet is £90,842,000 (2019: £65,846,000). A 3% movement in the net accounting surplus of the schemes would result in a comprehensive income movement of £2,725,000.

Notes to the Financial Statements

2 Segmental Information

Turnover

	2020 £'000	2019 £'000
South Staffs Water	129,346	128,767
Inter-divisional	(25)	(43)
South Staffs Water (external)	129,321	128,724
Non-regulated service businesses	174,759	181,011
Inter-divisional	(33,450)	(43,147)
Non-regulated service businesses (external)	141,309	137,864
Group turnover	270,630	266,588

Operating Profit

	2020 £'000	2019 £'000
South Staffs Water	22,108	31,393
NHH Joint Venture	(787)	33
South Staffs Water (including non-household retail joint venture)	21,321	31,426
Non-regulated service businesses	2,972	5,592
Total operating profit	24,293	37,018

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)

	2020 £'000	2019 £'000
Operating profit	24,293	37,018
Depreciation	31,838	29,656
Infrastructure renewals	9,715	9,807
Amortisation of goodwill	4,066	3,943
Impairment of goodwill	799	—
Amortisation of capital contributions	(2,907)	(2,707)
EBITDA (before infrastructure renewals)	67,804	77,717

Net Operating Assets

	2020 £'000	Restated 2019 £'000
South Staffs Water	345,805	352,361
Non-regulated service businesses	61,792	42,642
Net operating assets	407,597	395,003
Net debt (book value)	(419,762)	(417,354)
Goodwill	17,136	20,424
Loans receivable from parent undertakings in more than one year	73,797	88,797
Other non-operating net liabilities	(9,364)	(8,932)
Corporation tax payable	(1,946)	(3,796)
Retirement benefit surplus	90,842	65,846
Provisions for liabilities - deferred tax	(63,116)	(52,239)
Net assets	95,184	87,749

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.

Notes to the Financial Statements

3 Operating Costs before Goodwill Amortisation and Goodwill Impairments

	2020 £'000	Restated 2019 £'000
Raw materials and consumables	29,561	30,322
Staff costs (note 4)	90,661	91,683
Depreciation (non-infrastructure assets)	27,318	25,822
Depreciation (infrastructure assets)	4,210	3,682
Infrastructure renewals expenditure	9,715	9,807
Amortisation of intangible assets	310	152
Own work capitalised	(9,305)	(8,715)
Operating lease rentals:		
plant and machinery	424	741
other	4,118	3,601
Charge for bad and doubtful debts	10,429	3,313
Other operating costs	79,033	73,979
	246,509	234,387

The Group auditor's remuneration is analysed as follows:

	2020 £'000	2019 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	41	39
The audit of other Group undertakings pursuant to legislation	213	190
Total audit fees	254	229
Other services pursuant to legislation	49	50
Total non-audit fees	49	50

4 Staff Costs

	2020 £'000	2019 £'000
Wages, salaries and bonuses	79,931	81,201
Social security costs	7,723	7,854
Pension costs	3,007	2,628
	90,661	91,683

	2020 Number	2019 Number
Average number of employees (full-time equivalents)		
South Staffs Water	435	411
Non-regulated service businesses	2,279	2,345
	2,714	2,756

5 Directors' Remuneration

The remuneration of the Directors of the Company, is set out below.

	2020 £'000	2019 £'000
Emoluments	339	384

No Directors holding office at 31 March 2020 accrued benefits under a Group defined benefit pension scheme during the year (2019: Nil) and 1 Director was a contributing member of a Group money purchase pension scheme during the year (2019: 1 Director). There were £55,000 of contributions paid by the Group in respect of money purchase pension schemes for Directors during the year (2019: £56,000).

The highest paid Director received emoluments of £264,000 (2019: £350,000) during the year. There were £55,000 of Group contributions in respect of a money purchase pension scheme for the highest paid Director (2019: £56,000).

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 54.

Notes to the Financial Statements

6 Other Operating Income

	2020 £'000	Restated 2019 £'000
Profit on disposal of tangible fixed assets	726	872
Rental income	453	553
Grants and contributions	2,907	2,707
Infrastructure renewals contributions	1,723	4,580
	5,809	8,712

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. 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.

7 Finance Charges (net)

	2020 £'000	2019 £'000
Interest payable and similar charges		
Index-linked debt (cash)	7,832	7,604
Index-linked debt (non-cash)	5,887	5,822
Bank term loan, drawings on short-term bank loans and other interest payable (net)	2,790	4,113
Private placement loan notes	2,638	1,912
Share of interest payable in associate	294	384
Irredeemable debenture stock	68	68
	19,509	19,893
Interest receivable		
Interest receivable from associate	(294)	(370)
Interest on loans to parent undertakings	(4,948)	(5,628)
	14,267	13,895
Other finance income (net)		
Defined benefit pension scheme interest credit (net)	(1,188)	(1,246)
Amounts recycled from hedging reserve	176	178
	13,255	12,827

Notes to the Financial Statements

8 Taxation on Profit

The tax charge for the year comprises:	2020 £'000	2019 £'000
Current tax		
UK corporation tax at 19% (2019: 19%)	2,689	3,656
Adjustment in respect of prior years	(53)	(19)
Foreign tax	95	114
Total current tax charge	2,731	3,751
Deferred tax		
Origination and reversal of other timing differences	717	857
Effect of change in deferred tax rate	4,975	—
Adjustment in respect of prior years	(207)	573
Total deferred tax charge	5,485	1,430
Total tax charge	8,216	5,181

Tax included in the consolidated statement of comprehensive income	2020 £'000	2019 £'000
Deferred tax		
Actuarial gain/(loss) on pension scheme	4,416	(214)
Movement in hedging reserve	(137)	19
Effect of change in deferred tax rate	1,163	—
Total tax charge/(credit)	5,442	(195)

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are reconciled below:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	11,038	24,191
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2019: 19%)	2,097	4,596
Expenses not deductible for tax purposes including goodwill (net)	1,357	837
Deferred tax provided at lower rate	—	(99)
Impact of changes in future tax rates	4,975	—
Adjustments in respect of prior years	(275)	553
Group relief received not paid for	36	(736)
Difference in foreign tax rates	26	30
Total tax charge	8,216	5,181

A reduction in the future UK corporation tax rate from 18% to 17% was substantively enacted in the Finance Act 2016 with effect from 1 April 2020. However, in the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19%. This new law was substantively enacted on 17 March 2020; therefore, its effects have been included in these financial statements.

Current tax and deferred tax have been recognised at 19% (2019: current tax: 19%, deferred tax 17%)

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 £1,858,000 (2019: £1,858,000).

9 Dividends Paid or Proposed

	2020 £'000	2019 £'000
Ordinary interim dividend paid of 98.2p (2019: 210.8p) per share	12,594	27,020

Notes to the Financial Statements

10 Earnings per Share

The calculation of earnings per share is based on profit for the financial year divided by the weighted average number of shares in issue during the year. The calculations of earnings per share are based on the following profits and number of shares:

	2020 £'000	2019 £'000
Profit for the financial year and profit for earnings per share	2,732	18,925

	2020 Number of Shares	2019 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	12,819,856	12,819,856

	2020	2019
Earnings per share	21.3p	147.6p

11 Intangible Assets

Group	Development Costs £'000	Goodwill £'000	Restated Total £'000
Cost			
At 1 April 2019 - Restated	6,581	56,143	62,724
Additions in the year (note 28)	1,028	1,607	2,635
Adjustments in respect of prior year acquisitions	—	(30)	(30)
At 31 March 2020	7,609	57,720	65,329
Amortisation			
At 1 April 2019 - Restated	152	35,719	35,871
Charge for the year	310	4,066	4,376
Impairment of goodwill	—	799	799
At 31 March 2020	462	40,584	41,046
Net Book Value			
At 31 March 2020	7,147	17,136	24,283
At 31 March 2019 - Restated	6,429	20,424	26,853

Details of goodwill arising on the acquisitions made in the year are provided in note 27.

During the year ended 31 March 2020 adjustments were made in respect of goodwill on prior year acquisitions of £30,000 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 recgonised in the year relates to Inter-Credit International Limited, with the remaining goodwill balance of £799,000 being deemed impaired from the value in use calculation, with the value in use being lower than the carrying value of the remaining goodwill.

12 Investment in Associate

Group	£'000
Balance at 1 April 2019	1,162
Loss after taxation	(1,066)
Balance at 31 March 2020	97

During the year the Group provided Wholesale water services to the retailer Pennon Water Services Ltd and turnover of £19,138,000 (2019: £20,267,000) in relation these transactions was recognised and there was a trade debt outstanding of £195,000 (2019: £1,000) at the year end.

The Group has an outstanding interest bearing loan balance due from PWSL of £6,517,000 (2019: £6,717,000) which remained outstanding at 31 March 2020.

Notes to the Financial Statements

13 Tangible Fixed Assets

Group	Land and Buildings £'000	Infra-structure Assets £'000	Fixed Plant & Equipment £'000	Specialised Operational Assets £'000	Restated Total £'000
Cost					
At 1 April 2019 - Restated	28,977	480,597	263,001	254,127	1,026,702
Additions	115	13,909	29,395	7,723	51,142
Disposals	(197)	—	(4,643)	(23)	(4,863)
Acquisitions	—	—	90	—	90
At 31 March 2020	28,895	494,506	287,843	261,827	1,073,071
Depreciation					
At April 2019 - Restated	9,231	185,176	169,353	115,120	478,880
Disposals	642	4,210	19,137	7,539	31,528
Acquisitions	(6)	—	(4,562)	(18)	(4,586)
At 31 March 2020	9,867	189,386	183,928	122,641	505,822
Net Book Value					
At 31 March 2020					
Owned	19,028	305,120	103,613	138,881	566,642
Leased	—	—	302	305	607
	19,028	305,120	103,915	139,186	567,249
Net Book Value					
At 31 March 2019 - Restated					
Owned	19,746	295,421	93,365	138,657	547,189
Leased	—	—	283	350	633
	19,746	295,421	93,648	139,007	547,822

Freehold land of £2,337,000 (2019: £2,517,000) included above is not subject to depreciation.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,375,000 (2019: £7,375,000) less accumulated depreciation of £6,758,000 (2019: £6,742,000).

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £28,300,000 at 31 March 2020 (2019: £31,341,000).

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.

Notes to the Financial Statements

13 Tangible Fixed Assets (continued)

Company	Land & Buildings £'000	Plant & Equipment £'000	Total £'000
Cost			
At 1 April 2019	80	1,958	2,038
Additions	—	1,722	1,722
Disposals	—	(389)	(389)
At 31 March 2020	80	3,291	3,371
Depreciation			
At 1 April 2019	—	828	828
Charge for the year	—	303	303
Disposals	—	(389)	(389)
At 31 March 2020	—	742	742
Net Book Value			
At 31 March 2020	80	2,549	2,629
Net Book Value			
At 31 March 2019	80	1,130	1,210

Freehold land of £80,000 (2019: £80,000) held at 31 March 2020 was not subject to depreciation.

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

14 Capital Commitments

Group capital commitments outstanding at 31 March 2020 were £5,957,000 (2019: £7,501,000).

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

15 Capital Contributions

Group	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2019	140,400	11,910	152,310
Capital contributions received	6,890	3,035	9,925
Amortised in the year	(1,769)	(1,138)	(2,907)
Balance at 31 March 2020	145,521	13,807	159,328

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

16 Fixed Asset Investments

			Company
	Investment in Associate £'000	Shares in Subsidiary Undertakings £'000	Total £'000
At 1 April 2019 and 31 March 2020	1,982	100,739	102,721

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

Notes to the Financial Statements

As at 31 March 2020, 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	Direct Ordinary Shareholding	Indirect Ordinary Shareholding	Nature of Business
South Staffordshire Water PLC	100%		Regulated water supply
Aqua Direct Limited	100%		Supply of spring and mineral water
Office Watercoolers Limited	90%		Rental of water cooling units and sale of spring water
Echo Managed Services Limited	100%		Customer management
Echo Northern Ireland Limited		100%	Customer management
Inter-Credit International Limited		100%	Customer credit management
Grosvenor Services Group Limited		100%	Customer credit management
Echo India Private Limited		100%	Software development support services to UK parent company
SSI Services (UK) Limited	100%		Holding company for those companies listed below
OnSite Central Limited		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		100%	Sewer and wastewater asset inspection, surveying and cleaning
Integrated Water Services Limited		100%	Mechanical and electrical and water hygiene services
Hydrosave UK Limited		100%	Water main leak detection services and clean water network management services
Immerse Asset Management Limited		100%	Water efficiency and bill management services
G. Stow Plc		100%	Borehole drilling and refurbishment
Advanced Engineering Solutions Limited		100%	Pipeline engineering

Other subsidiaries of the Company as at 31 March 2020, which were all non-trading companies as at that date, were as follows:

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

As at 31 March 2020, 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).

Notes to the Financial Statements

17 Stocks

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Stores and raw materials	3,628	3,410	91	96

18 Debtors

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Amounts recoverable within one year				
Trade debtors	39,947	47,110	—	—
Other debtors	226	1,015	163	113
Amounts owed by Group undertakings	—	—	1,000	4,618
Amounts owed by parent undertakings	11,688	15,364	10,451	—
Prepayments	2,395	3,474	728	1,041
Accrued income	22,899	21,892	—	—
	77,155	88,855	12,342	5,772
Amounts recoverable in more than one year				
Loans receivable from parent undertakings	64,883	73,797	39,883	48,797
Amounts owed by Group undertakings	—	—	4,650	5,250
Loan to joint venture	6,517	6,717	6,517	6,717
Other amounts owed by parent undertakings	18,302	3,424	15,000	—
	89,702	83,938	66,050	60,764
	166,857	172,793	78,392	66,536

Amounts due from parent undertakings was £94,873,000 (2019: £92,585,000), included within this balance there was the following;

- £25,000,000 (2019: £25,000,000) identified as a loan with a repayment date 30 June 2051 with an interest rate of 7%;
- £22,200,000 (2019: £22,200,000) identified as a loan with no fixed repayment date with an interest rate of 5.5%; and
- £26,597,000 (2019: £26,597,000) identified as a loan with no fixed repayment date with an interest rate of 7%, £8,914,000 of this loan is recoverable within one year, reducing the loan balance to £17,863,000.

19 Borrowings

	Group 2020 £'000	Group Restated 2019 £'000	Company 2020 £'000	Company Restated 2019 £'000
Amounts falling due within one year				
Bank loans	29,985	7,882	—	7,882
Private placement loan notes	—	20,500	—	20,500
	29,985	28,382	—	28,382
Amounts falling due in more than one year				
Bank loans (unsecured and net of issue costs):				
payable between one and two years	—	29,967	—	—
payable between two and five years	116,668	104,106	91,752	88,960
Index-linked debt	235,643	229,755	—	—
Private placement loan notes	72,814	42,807	72,814	42,807
Irredeemable debenture stock	1,652	1,652	—	—
	426,777	408,286	164,566	131,767
Total borrowings	456,762	436,668	164,566	160,149

Notes to the Financial Statements

Analysis of Net Debt

	Restated Balance at 1 April 2019 £'000	Acquisitions and disposals £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2020 £'000
Cash at bank and in hand	19,313	33	17,654	—	37,000
Drawings on short-term bank loans	—	—	—	(29,985)	(29,985)
	19,313	33	17,654	(29,985)	7,015
Irredeemable debenture stock	(1,652)	—	—	—	(1,652)
Index-linked debt (net of issue costs)	(229,755)	—	—	(5,887)	(235,642)
Bank loans (net of issue costs)	(141,953)	—	(4,368)	29,652	(116,669)
Private placement loan notes (net of issue costs)	(63,307)	—	(9,483)	(24)	(72,814)
Net debt	(417,354)	33	3,803	(6,244)	(419,762)

The cash flows in respect of the Company's RCF bank loans include repayments of £187,173,000 and drawdowns of £199,423,000.

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 purposes of £400,750,000 (2018: £398,568,000). Index-linked debt used for covenant reporting 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 purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. Reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 March 2020 £'000	31 March 2019 £'000
Book net debt (as reported above)	(419,762)	(417,354)
Exclude book premium on issue of index-linked debt	13,116	13,447
Difference between long-term RPI assumption (used for book value) and actual RPI inflation (used for covenant value)	8,113	7,673
Exclude unamortised issue costs	(2,357)	(2,549)
Exclude accrued interest	140	215
Net debt reported for borrowing covenants	(400,750)	(398,568)

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

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Amounts falling due within one year				
Trade creditors	42,999	41,928	3,225	221
Payments received in advance	26,816	25,227	—	—
Amounts owed to other group undertakings	—	—	7,997	—
Other creditors	18,068	19,035	4,697	5,775
Corporation tax payable	1,946	3,796	1,114	1,137
Other taxation and social security	1,849	1,991	111	88
Amounts owed to parent undertaking	7,428	—	7,428	—
	99,106	91,977	24,572	7,221
Amounts falling due in more than one year				
Payments received in advance	3,640	3,716	—	—
Derivative financial liabilities	2,875	2,153	—	—
Other creditors	9,945	10,387	3,943	820
	16,460	16,256	3,943	820

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

Notes to the Financial Statements

21 Provisions for Liabilities

Group

	Deferred Tax £'000
At 1 April 2019	52,239
Profit and loss account charge	5,485
Credit to other comprehensive income	5,442
Amounts acquired with subsidiary undertakings	(50)
At 31 March 2020	63,116

Company

	Deferred Tax £'000
At 1 April 2019	8,701
Profit and loss account charge	205
Credit to other comprehensive income	4,692
At 31 March 2020	13,598

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

22 Retirement Benefit Surplus

Group

Surplus of defined benefit pension schemes

	£'000
At 1 April 2019	65,846
Contributions (employer)	570
Net finance income	1,184
Actuarial gain (net)	23,242
Surplus at 31 March 2020 (note 29)	90,842

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

Company

Surplus of defined benefit pension scheme

	£'000
At 1 April 2019	51,401
Contributions (employer)	500
Net finance income	960
Actuarial gain (net)	19,283
Surplus at 31 March 2020	72,144

23 Deferred Tax

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Deferred tax liabilities are provided as follows:				
Accelerated capital allowances	46,535	41,460	41	(21)
Tax losses	(0)	(19)	—	—
Timing differences in respect of hedging reserves	(1,570)	(1,312)	—	—
Timing differences in respect of retirement benefits	17,336	11,267	13,796	8,738
Other timing differences	815	843	(239)	(16)
	63,116	52,239	13,598	8,701

Notes to the Financial Statements

24 Called up Share Capital

Group and Company	2020 £'000	2019 £'000
Authorised 47,058,824 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	Share premium Account £'000	Revaluation Reserve £'000	Hedging Reserve £'000
Balance at 1 April 2018	10,882	17,860	(5,808)
Total comprehensive income for the year	—	(235)	93
Balance at 1 April 2019	10,882	17,625	(5,715)
Total comprehensive income for the year	—	(235)	(287)
Balance at 31 March 2020	10,882	17,390	(6,002)

The revaluation reserve repesents the deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 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 29.

26 Operating Lease Commitments

At 31 March 2020, the Group and the Company were committed to making the following total minimum payments under non-cancellable operating leases:

Group	2020 Buildings £'000	2020 Other £'000	2019 Buildings £'000	2019 Other £'000
Amounts due:				
within one year	854	2,029	982	2,731
between two and five years	1,039	1,816	1,772	2,604
after five years	107	—	188	—
	2,000	3,845	2,942	5,335

Company	2020 Motor Vehicles £'000	2019 Motor Vehicles £'000
Amounts due:		
within one year	25	43
between two and five years	13	24
	38	67

27 Non-controlling Interests

	£'000
At 31 March 2019	333
Profit on ordinary activities after taxation	90
Acquisition in the year	(3)
At 31 March 2020	420

Notes to the Financial Statements

28 Acquisitions

On 5 July 2019, Office Watercoolers Limited acquired the entire issued ordinary share capital of Brightwater Limited, a point of use water cooler company based in Lancashire.

On 31 July 2019, Office Watercoolers Limited acquired the entire issued ordinary share capital of Waterflo Limited, a point of use water cooler company based in Lancashire.

The acquisition method of accounting has been adopted.

A summary of the acquisitions, including the consideration, the assets and liabilities acquired (both based on the provision of fair values), the related goodwill and the impact of the transaction on group cash flow and net debt are set out below:

	Total £'000
Consideration:	
Cash consideration	1,440
Deferred consideration	110
Acquisition expenses - paid	8
	1,558
Book value of net assets acquired:	
Tangible fixed assets	90
Investments	—
Stocks	—
Debtors	148
Cash at bank and in hand (net)	33
Creditors and provisions	(324)
Minority interest adjustment at 10%	4
Net assets (book value and fair value)	(49)
Goodwill on acquisition	1,607
Cash consideration paid during the year (including acquisition expenses)	1,448
Cash acquired (net)	(33)
Net cash outflow and increase in net debt in the year	1,415

There was no material difference between the book value of the net assets acquired and their provisional fair value.

The above goodwill is being amortised over an estimated useful economic life of 10 years.

29 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 2020 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 2020, 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.

Interest Rate Risk Profile

Borrowings

	2020 £'000	Restated 2019 £'000
Retail Price Index-linked borrowings	235,643	229,755
Fixed rate borrowings	104,367	102,807
Floating rate borrowings	116,752	104,106
	456,762	436,668

Notes to the Financial Statements

29 Financial Assets and Liabilities (continued)

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 66. 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 (2019: £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 (2019: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2020 of £185,446,000 (2019: £180,896,000), and a fair value of £388,017,000 (2019: £356,124,000) and the £35,000,000 (2019: £35,000,000) Retail Price Index-linked bond which had a book value at 31 March 2020 of £50,197,000 (2019: £48,167,000) and a fair value of £60,620,000 (2019: £60,270,000).

Fixed Rate Borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
2020		
Sterling	2.5	3.9
2019		
Sterling	2.6	4.0

Borrowing Facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2019 were as follows:

	2020 £'000	Restated 2019 £'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	—	12,250
	—	12,250

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 2019 was £143,762,000 (2019: £147,614,000).

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.

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.

29 Financial Assets and Liabilities (continued)

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.

	2020 £'000	2019 £'000
RPI + 0.25%	(584)	(553)
RPI - 0.25%	584	553
LIBOR +1.00%	(688)	(542)
LIBOR -1.00%	688	542

The impact on the pre-tax profit and loss account for the year to 31 March 2020 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2019 and remained different to the actual variables recorded by the stated amount during the year with all other variables remaining at the actual amounts. The comparative figures have been calculated using the same methodology assuming the stated change to the variables occurred on 1 April 2019.

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	
	31 March 2020 %	31 March 2019 %	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
5-10 years	2.14	2.14	30,000	30,000	2,875	2,153

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:

	2020 £'000	Restated 2019 £'000
Borrowings		
In one year or less, or on demand	30,000	28,382
In more than one year, but not more than two	—	30,000
In more than two years, but not more than five	117,305	104,749
In more than five years, but not more than twenty	73,000	43,000
In more than twenty years	217,485	211,749
	437,790	417,880
Other financial liabilities		
In one year or less, or on demand	99,106	91,977
In more than one year but not more than two	4,798	896
In more than two years but not more than five	1,980	5,407
In more than five years but not more than twenty	9,682	9,953
Total	553,356	526,113

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £215,833,000 (2019: £210,097,000) 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 (2019: £358,265,000) and at redemption in 2051 is £118,379,000 (2019: £118,379,000).

Group debtors recoverable in more than one year of £98,616,000 (2019: £98,938,000) principally represent loans receivable from the Company's parent undertakings of £73,797,000 (2019: £88,797,000) with no fixed repayment date and £65717,000 receivable from the associate (2019: £6,717,000).

Notes to the Financial Statements

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 2020 in respect of such provisions was £10,429,000 (2019: £3,313,000). Total Group trade debtors (net of provisions) as at 31 March 2020 were £47,297,000 (2019: £47,297,000). The total amount of the provision included in the above, as at 31 March 2020 was £42,724,000 (2019: £34,993,000). 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 2020 was £332,000 (2019: £503,000), representing 1% (2019: 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
2020	6,836	870	995	519	332	423	9,975
2019	9,266	2,427	1,619	1,126	831	555	15,824

Non-regulated service businesses	<1 month £'000	1-2 months £'000	>2 months £'000	Total £'000
2020	7,783	1,312	2,139	11,233
2019	5,362	1,124	2,378	8,864

Non Regulated company debtors that are considered to be impaired of £2,989,000 (2019: £2,800,000) were all more than 2 months past due. An ageing analysis of debotrs of South Staffs Water that are considered to be impaired is provided below:

	<1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	>5 years £'000	Total £'000
2020	5,434	5,796	3,982	3,483	3,082	20,466	42,243
2019	3,989	3,128	2,662	2,517	2,276	17,621	34,055

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.

30 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 2020, 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 previous 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 £500,000 in the year ended 31 March 2020 and £Nil in the year ended 31 March 2019) 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 £3,007,000 (2019: £2,628,000). A pension asset has been fully recognised for both sections at both 31 March 2020 and 31 March 2019 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 £70,000 in the year ended 31 March 2020 and £Nil in the year ended 31 March 2019) 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 net actuarial gain recognised in other comprehensive income in the prior year included the GMP equalisation adjustment and as such was £1.3m lower than the actual movement. The reversal of this entry has been deemed immaterial to the Group and has been netted against the actuarial gain in the current year.

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.

Notes to the Financial Statements

30 Pension Retirement Benefits (continued)

The major assumptions used were as follows:

	31 March 2020 %	31 March 2019 %
Rate of increase in pensions	2.0	2.5
Discount rate	2.5	2.4
Annual inflation RPI	2.9	3.5
Annual inflation CPI	1.9	2.5

	31 March 2020 No. of Years	31 March 2019 No. of Years
Life expectancy of male aged 60 at accounting date	26.2	26.1
Life expectancy of female aged 60 at accounting date	28.5	28.4

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	2020 %	2020 £'000	2019 %	2019 £'000
Equities	3	8,942	5	15,207
Bonds/gilts and debt instruments	90	260,197	86	249,170
Diversified growth funds	6	17,183	8	24,017
Other	—	640	—	—
Cash	1	2,108	1	2,237
Market value of scheme assets		289,070		290,631
Present value of scheme liabilities		(198,228)		(224,785)
Surplus before deferred tax (note 22)		90,842		65,846
Related deferred tax liability		(17,260)		(11,199)
Surplus after deferred tax		73,582		54,647

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

	2020 £'000	2019 £'000
Opening present value of scheme liabilities	224,785	230,135
Interest cost	5,239	5,740
Actuarial (gain) / loss	(20,614)	6,910
GMP equalisation adjustment	—	1,300
Benefits paid	(11,182)	(19,300)
Closing present value of scheme liabilities	198,228	224,785

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

	2020 £'000	2019 £'000
Opening present value of schemes' assets	290,631	297,293
Interest on scheme assets	6,423	6,984
Actuarial gain	2,628	5,654
GMP equalisation adjustment	—	—
Contributions (employer)	570	—
Benefits paid	(11,182)	(19,300)
Closing market value of the scheme assets	289,070	290,631

The total return on assets of the Group's schemes over the year to 31 March 2020 was a gain of £17,819,000 (2019: gain of £12,346,000).

An analysis of the movement in the surplus of the Group's schemes during the year ended 31 March 2020 is provided in note 22.

Notes to the Financial Statements

31 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 2020 was £3,665,000 (2019: £3,788,000). 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 PWS and its subsidiary SSWB and turnover of £19,138,00 (2019: £20,267,000) in relation these transactions was recognised and £195,000 outstanding at the year end (2019: £1,000). Also at 31 March 2020, an amount of £679,000 was payable to PWSL for cash collected during the year that has not been paid over (2019: £348,000). As South Staffordshire Water PLC provides management services, a fee of £120,000 is payable from PWSL and remains outstanding at year end (2019: £140,000 and £nil respectively). The receivable is due in 30 days from invoice date.

The Group has an outstanding interest bearing loan balance due from PWSL of £6,517,000 (2019: £6,717,000) which remained outstanding at 31 March 2020.

Certain members of the Group's senior management team are members of Selena MEP LLP, a limited liability partnership which has existed since 2014. There are no services provided between Selena MEP and the company.

Remuneration for key personnel is reported on page 54.

32 Post Balance Sheet Events

On the 16 April 2020, we took additional steps to secure access to additional liquidity through the European Commercial Paper (ECP) programme. The programme is very much like utilising Bank Revolving Credit Facilities (RCFs) and provides extra financial resilience should the business require it. To date, we have not made any use of the ECP programme or plan to make any use of the ECP programme. The programme provided South Staffordshire Water PLC access to a £75m facility and South Staffordshire Plc to a £20m facility. These facilities will be available for at least 12 months from the date of commencement.

On the 31 July 2020, South Staffordshire Water PLC refinanced bank loans of £30,000,000 due to expire on 31 December 2020, with a new 3 year £30,000,000 RCF bank loan bearing interest at 1.2% margin plus LIBOR.

33 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 2020. 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.

34 Prior Period Restatement

Other operating income

In the Profit and loss account amortisation of capital contributions received and infrastructure renewals contributions have been presented as other operating income in 2019/20 as the amounts are received from third parties as contributions directly attributed to infrastructure projects. These were presented as a reduction in operating costs in prior periods. Comparatives have been restated increasing prior year other operating income by £7,287,000 and increasing operating costs by the same amount. Other operating income included in operating costs (net) has been presented as other operating income increasing prior year operating costs £1,425,000.

In the cash flow capital contributions received have been presented as operating cash flows in 2019/20 as these credits are released to operating income over the useful economic life of the non current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing prior year operating cash inflows by £8,515,000 and decreasing investing cash outflows by the same amount.

Notes to the Financial Statements

34 Prior Period Restatement (continued)

Presentation of debt facilities and intangible assets

During the year, the directors reviewed the presentation of cash and cash equivalents along with the RCF debt facilities, in particular, the contractual right of offset between each instrument. Following this review, the Directors have adjusted the prior year to increase both cash and long-term borrowings by £15.4m as it did not meet the criteria for offset. Accordingly, the statement of cash flows is also restated. In addition, it has also been noted that software development costs recognised as an asset had been included in tangible fixed assets in the prior year, the Directors have adjusted the prior year to reclassify the asset as an intangible asset as it should be presented within intangible assets. The effect of these restatements on the statement of financial position for the company for the year ending 31 March 2019 is as follows.

As previously reported:

	£'000
Intangible assets	20,424
Tangible assets	554,251
Cash at bank and in hand	3,894
Net current assets	125,584
Total assets less current liabilities	701,421
Borrowings: amounts falling due after more than one year	(392,867)
Net assets	87,749

As restated

	£'000
Intangible assets	26,853
Tangible assets	547,822
Cash at bank and in hand	19,313
Net current assets	141,003
Total assets less current liabilities	716,840
Borrowings: amounts falling due after more than one year	(408,286)
Net assets	87,749

The effect of this on the cash flow statement is as follows.

As previously reported:

	£'000
Net cash inflow from operating activities	61,107
Net cash outflow from investing activities	(36,583)
Net cash outflow from financing activities	(28,264)
Decrease in cash	(3,740)
Cash and cash equivalents at the beginning of the year	7,634
Cash and cash equivalents at the end of the year	3,894

As restated

	£'000
Net cash inflow from operating activities	69,622
Net cash outflow from investing activities	(45,098)
Net cash outflow from financing activities	(17,255)
Increase in cash	(7,269)
Cash and cash equivalents at the beginning of the year	12,044
Cash and cash equivalents at the end of the year	19,313

There is no effect on the reported profits as a result of these presentational adjustments.

Contact Details

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South Staffordshire Plc

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South Staffs Water

South Staffs Water

CAMBRIDGE WATER COMPANY

South Staffordshire Water PLC

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

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