South Staffordshire Plc

Annual Report

2022

Pivotal in supporting the provision of essential services within the communities we serve

South Staffordshire Plc

Report overview

South Staffordshire Plc

Key highlights of the year

Supported Eden Geothermal to supply renewable heat to the Eden Project

OnSite designed, supplied and installed the heat main to supply heat from a geothermal borehole to the facilities at the Eden Project.

Achieved 4th place in C-MeX

South Staffs Water, and Cambridge Water had a pleasing improvement in their score and positioning in Ofwat's customer service and experience programme, achieving upper quartile sector performance.

First UK client goes live on Aptumo

SES water became the first UK water company to implement and go live with Echo's next-generation water billing software, Aptumo.

Working together to keep our people safe

We held our first group wide health and safety conference for our front line field teams.

Integrating our compliance businesses

Omega Red and IWS Water Hygiene worked closer together to deliver a full compliance package for existing and new clients.

The Group

The South Staffordshire Plc Group is a highly respected integrated services group of businesses. It operates two regulated water companies, South Staffs Water and Cambridge Water, that together serve 1.6m customers in the UK and has a range of complementary non regulated businesses that serve the water and adjacent sectors within its SSI Services and Echo divisions.

Regulated Water

Our two regulated UK water companies, Cambridge Water and South Staffs Water, supply over half a million homes with clean, fresh water.

Water, Waste and Infrastructure

Offers specialist engineering, asset management, and inspection services to regulated industries, local authorities and a range of industrial customers with critical infrastructure.

Compliance

Lightning protection systems, electrical earthing solutions, legionella control and water treatment services that help our clients achieve compliance to relevant standards and regulation.

Service and Software

Echo Managed Services and its subsidiary Aptumo support water companies globally to deliver effective customer service and drive retail operation efficiency through end to end customer service and water billing software offerings.

Commercial Water Production and Distribution

Providing pure spring water to commercial businesses and organisations as well as outdoor events and sites.

Steve Johnson

Chair's introduction

The year to March 2022 continued to see some Covid-19 impact across our businesses, mainly through employee illness. Overall, however, there was thankfully less disruption than in the previous year and most of the Group's businesses improved performance.

In particular, the Group's SSI divisions and Office Watercoolers performed in line with expectations for the year and demonstrated improvements on the prior year.

For South Staffordshire Water Plc, I would also like to highlight significantly improved customer service, as measured by Ofwat's C-MeX which is independently assessed four times a year. During 21/22, we improved from tenth to fourth out of the 17 water companies in England and Wales. We're committed to ensuring that the customers of South Staffs Water and Cambridge Water receive great service and it is pleasing to see these efforts being recognised by our customers through these external surveys.

Echo Managed Services achieved a significant milestone within the year with a successful implementation of the Aptumo billing system within its first UK client, SES Water. This followed the earlier adoption of the system last year in Australia by Coliban Water.

Phil Newland's CEO report and much of the remainder of this annual review provides further details of these and many other successes achieved by the Group during the year, and I would like to record the thanks of the Board of South Staffordshire Plc to all our colleagues for their continued hard work and contribution to the Group's achievements.

Towards the end of the year, we saw some changes to the Board and Committees, with Board colleagues from the Mitsubishi Corporation moving to other roles within their worldwide organisation. I would therefore like to recognise and thank Go Muromoto and Keita Saito for their support and contribution to the Board over the past two-years.

Subsequently to the year-end, on 8 August 2022, the existing majority shareholder in the Group, Arjun Infrastructure Partners, acquired the 44.9% held by Mitsubishi Corporation and Mitsubishi HC Capital Inc. to become the sole ultimate shareholder of South Staffordshire Plc. On that date the then serving Directors, Yasushi Umemura and Naoto Kinoshita stood down from the Board.

Looking ahead to the current year, our businesses are continuing to experience increased cost pressures due to the wider economic environment and subsequent higher energy, chemical and labour costs. However, the Group continues to see strong demand for its specialist range of services and new opportunities to broaden its client base. Accordingly, The Board remains positive about the Group's future prospects.

Steve Johnson
Chair for South Staffordshire Plc

Phil Newland

Welcome from the **Chief Executive**

Welcome to this year's annual report. Echoing the Chairman's words, I am pleased to report that overall, the Group performed strongly within the year, following a more difficult previous year due to the widespread restrictions and challenges due to the Covid pandemic.

We have remained focused on the delivery of services within our core markets alongside progressing growth plans both in the UK and overseas. This includes expanding services into adjacent sectors and supporting emerging asset classes, in particular, those aligned to our clients' decarbonisation ambitions.

Our regulated water company, South Staffordshire Water Plc, had a good year which was reflected in its performance against its key regulatory targets. In particular, the company's customer service performance and provision of additional support to its customers were key highlights. Despite some unexpected challenges, the company was also able to get its important and ambitious water treatment upgrade programme back on track and to actively participate in regional strategic water resource planning programmes - crucial in securing a long-term sustainable supply of UK water.

Within our water, waste and infrastructure division, OnSite delivered strong performance and remains well placed to support the wastewater sector as it accelerates infrastructure investment, and to continue to grow in the industrial and commercial sectors. Hydrosave also had a successful year, supporting its water sector clients to detect and reduce network leakage and improve clean water asset performance. Progress within our new ground source heat service offering has also been encouraging and we're delighted to be working alongside Eden Geothermal; helping The Eden Project transition to a renewable energy solution.

Our compliance division, compromising Omega Red and IWS Water Hygiene, faced challenges within the year due to labour shortages which required significant focus. However, there were also successes such as completing work at Hinkley Point, the creation of a new EV charging solutions business with a growing pipeline, and work to integrate the businesses together to better serve customers.

Echo Managed Services celebrated a significant milestone in the growth of Aptumo, its next generation water billing solution, with a successful go live for its first UK client – SES Water. Further implementations underway in the UK and Australia continued to make strong progress. Aptumo was also launched in the US water market within the year with a focus on building a partner network. For the service side of the business, Echo supported South Staffs Water in its C-MeX result and delivered in line with all targets for its client Northern Ireland Water for the eighth successive year. Some challenges emerged in the collections environment as household finances came under pressure; this is only expected to continue in the year ahead.

It was also a very strong performance for Office Water Coolers despite some headwinds caused by the post-covid review of flexible office working, and the business continues to focus on its exceptional service provision.

It goes without saying that The Group's performance would not have been possible without the hard work and dedication of our people across all our businesses, and, on behalf of the group executive team, I would like to thank and acknowledge them for their support in delivering a strong performance and their dedication to the customers we serve.

Phil Newland
CEO for South Staffordshire Plc

Strategic report

Regulated Water Supply

South Staffordshire Water

Overview

South Staffordshire Water (SSW), which trades as Cambridge Water and South Staffs Water, is a regulated water company within the England and Wales water sector that provides clean water services to more than 1.7 million people and around 43,000 businesses in and around Cambridge, and in Staffordshire and parts of the West Midlands.

It was a good year for the business overall which is reflected in its performance against a number of key regulatory targets. For example, the business made considerable strides with its C-MeX score, the main regulatory measure of customer experience. Having put a greater focus on the experience customers have at every point of contact, the business ended the year in 4th place in the England and Wales water sector.

The business is also ahead of its performance commitment profile for leakage and remains on track to deliver overall reductions of around 15% across both operating areas by the end of the current planning period (March 2025). Robust performance in this area is critical, as it is something customers consistently prioritise as being important to them.

With the current economic backdrop, providing additional support to customers, where needed, was a big focus in the year. More than 58,600 customers received additional financial help from the business and the reach of its Priority Services Register (PSR) for customers who may find themselves in vulnerable circumstances was also extended.

Unfortunately, there were several areas where performance wasn't as strong as SSW would have liked. For example, its education outreach target was missed due to continued Covid-related classroom access challenges. In the year ahead, SSW will look to further its work in this area and aims to get back on track.

SSW also failed to meet its targets for individual water use ('per capita consumption') across both operating areas as customer water demand, having peaked during the COVID-19 pandemic, has remained remarkably high. Changing customers' attitudes towards water through strong water efficiency messages will continue to be important moving forward alongside SSW's own leakage reduction commitments.

Delivering for our customers

Delivering the best service for customers is a cornerstone of SSW's strategy. Achieving good performance for the main regulatory measures of customer experience – C-MeX for household customers, D-MeX for developer services customers and R-MeX for water retailers and their end customers – is key to delivering this strategy.

The business' C-MeX performance moved from 10th to 4th in the sector in 2021/22.

This achievement is testament to the hard work of all the teams across the business involved in delivering an excellent experience for all households at every point of contact.

D-MeX performance has also shown signs of improvement, with the business placed 11th in the water sector. However, there is still work to do in this area, as the business is not yet where it would like to be in terms of delivering an excellent experience for developer services customers.

Similarly, while SSW started to see some improvement in its R-MeX score, it was disappointed to miss this performance commitment target and is focused on building closer relationships with developers and retailers in the year ahead.

Delivering for our communities

As the provider of an essential public service, SSW is committed to being embedded in the communities it serves. This means more than just being visible within those communities; it also means being there to provide help and support to those customers who are struggling to pay their water bills or who may find themselves in circumstances that could make them vulnerable. It also means educating the next generation of water champions, encouraging them to use water wisely.

In the current tough economic times, it has been reassuring to be able to support more customers who have been struggling financially with their water bills.

58,611 People
Received some form of additional help

SSW also extended the reach of its Priority Services Register (PSR) - the free service offered to customers who have expressed a need for specific help or service, to 8.7% of household customers, outperforming its target for the year. SSW also met its target for the number of customers on the PSR who receive an 'Extra Care' support package, with 5.1% of these customers receiving additional help.

Educating customers to use water wisely has been a key focus within the year. SSW launched its first ever TV advert to extend the reach of this message and look to impact customer behaviour. This is just one example of the customer communication work the business has undertaken to help meet the ongoing PPC (Per Capita Consumption) challenge.

Delivering a reliable service

SSW has a rolling programme of investment and maintenance in place to ensure the long-term health of its assets. The business also continues to invest in the quality of the water it supplies to customers, as this is consistently one of their top priorities and one where they think it is important to hold the business to account.

During the year, SSW performed well for the acceptability of the water supplied to customers in terms of taste, smell and appearance, receiving just 0.76 contacts per thousand of population against a target 1.11 contacts per thousand of population. This was also an improvement on the previous year's performance of 0.98 contacts per thousand of population.

SSW also continued to perform well against the Compliance Risk Index (CRI) - the main regulatory measure of compliance with very stringent water quality standards, improving its performance from previous years. The business out performed both its planned and unplanned supply interruption targets. Planned interruption performance was just over 3 minutes against a target of just 6 minutes; upper quartile performance for the sector. Over performance against the unplanned interruption target was achieved due to a focus on finding and fixing faults quickly.

At the start of the current five-year planning period, SSW introduced a new target for visible leak repairs. This is another key customer priority. The business put in place new systems and processes to find and fix leaks quickly and encouraged customers to get in touch if they spotted any leaks.

The business fixed 90% of all visible leaks within five days, which was on target.

This is a stand-out achievement, given how difficult it can be to fix leaks on public highways.

One area where SSW faced some unexpected challenges during the year is the ambitious upgrade programme at its Hampton Loade and Seedy Mill water treatment works in the South Staffs region as, in October, the construction partner for the programme went into administration. The business was able to recruit new construction partners and still aims to deliver the upgrade programme in line with the dates committed to our customers and regulators.

Delivering for the environment

SSW is mindful of the impact its activities can have on the environment. One area where it continues to perform well is in delivering environmental improvements and biodiversity benefits across its operating areas. The PEBBLE biodiversity fund and SPRING catchment management programme are key to this.

By the end of 2021/22, SSW has helped to protect or enhance the environment across 380 hectares in both operating areas.

Performance has also been strong in relation to reducing leakage from SSW's network of pipes. This is both a key customer priority and an important environmental commitment. The business ended the year ahead of its performance profile and remains on track to deliver a reduction in leakage of around 15% across both regions by the end of the current five-year planning period in 2025.

SSW continues to carefully manage the volumes of water it takes or 'abstracts' from the environment, despite the challenges posed by a sustained high demand for water since the start of the COVID-19 pandemic. This is especially important in the Cambridge region due to the impact taking water from the environment can have on the rare chalk streams that are a prominent geographic feature.

Disappointingly, SSW failed to meet its target for individual water use among household customers. The business has seen remarkably high levels of customer demand for water across both its region. This is common across all companies in the water sector, and the business is looking carefully at the reasons why water use has remained consistently high since the start of the COVID-19 pandemic.

Along with other companies in the water sector, SSW is playing its part to deliver an ambitious target to achieve net zero operational carbon emissions by 2030. It achieved its target for the year, primarily by switching to renewable energy sources at all operating sites. Looking ahead, a new net zero strategy outlines how the business will continue to target energy efficiency in the next few years.

SSW is focusing its attention on changing customers' attitudes to water and encouraging them to value it as a precious resource. In December, the business launched its first-ever TV advert to raise awareness and encourage customers to use water wisely. The business plans to build on the success of this campaign in the year ahead.

Delivering for our business

In its business plan for the five years from 2020 to 2025, SSW committed to run an efficient business with people who are happy in their jobs and where suppliers are treated fairly.

The business has a specific performance commitment for employee engagement and focused much of its attention during the year on improving the channels it uses to communicate and engage with its employees. The business has also run or participated in a number of surveys on a range of subjects, including health and wellbeing and diversity and inclusion.

And, it has continued to deliver against its Investors in People (IIP) action plan, including launching four new values that focus on equality and inclusion, excellence in service, responsibility and trust, embedding the new values in its employee objectives and appraisals process.

One of the ways SSW engenders trust is by treating its suppliers fairly and paying them in a timely manner, with a commitment to pay companies with turnover less than £6.5 million within 30 days of invoice receipt. Unfortunately, the business missed its target in this area and is exploring ways to improve.

Valuing employees

The business takes the health and wellbeing of its employees seriously. During the year, focus shifted more to managing risk and the business started reporting on high potential (HiPo) accidents or near misses – those with the potential to result in a life-threatening or life-altering injury. The business recorded three such incidents during the year and continues to raise employee awareness of the importance of good health and safety practice at work.

SSW also continued a programme of site visits for the executive team and senior leaders during the year, to increase the visibility of senior leaders across the business and give them more opportunity to engage with the different operational teams. 72 visits took place during the year.

The importance of protecting people's mental health and wellbeing, both within and outside the workplace has remained a focus. SSW continued to support its employees during the year through initiatives such as 'Wellbeing Wednesdays' and by raising awareness of mental health issues through support for nationwide campaigns such as Mental Health Awareness Week, which takes place in May each year.

During the year the business also launched a 'Proud to be…' employee engagement campaign as a way of celebrating success and highlighting the wide variety of roles across the business. The aim is to create a sense of pride in the work of the business among all employees.

Future focus

Looking ahead, South Staffordshire Water will continue to focus its attention on playing a leading role within the water sector. This includes continuing to deliver long-term regional water resources plans as a key member of Water Resources East (WRE) in the Cambridge operating area and Water Resources West (WRW) in the South Staffs operating area. The emerging regional plans were published in January, with the formal draft plans being published for consultation later this year. The final regional water resources plans are due to be published in 2023.

The business has also started planning for the next regulatory price review – known as 'PR24' – which will cover the five years from 2025 to 2030. Every five years, Ofwat – the economic regulator of the water sector in England and Wales – sets the price, service and investment package that customers receive from monopoly water companies. This includes setting controls on the prices the water companies can charge their customers, which are reflected in the bills they play.

The business has established a clear governance process for PR24 and has engaged the Board on the key building blocks and expected themes for the price review. In addition, looking further ahead, SSW continues to focus on its longer term strategy to meet the refreshed regulatory expectations, engaging with customers throughout this process.

South Staffordshire Water is in the process of developing its 25-year water resources management plans.

This will consider aspects like climate change and population growth. Work has already started to understand household and non-household customers' views and priorities, and this insight will be reflected in both plans. The business will submit its draft water resources management plans to the Secretary of State for Environment, Food and Rural Affairs in the autumn, ahead of publishing them for wider consultation.

Case Study

Creating a ripple with PEBBLE

Every year, the business makes grants available for projects that deliver biodiversity benefits and positive community impacts. Charities, community groups and other organisations can apply for grants of up to £10,000 from the PEBBLE biodiversity fund. During the year, the business awarded more than £88,000 to 21 charities and community groups for projects that will enhance the environment in around 18 hectares across the Cambridge and South Staffs operating areas.

In the Cambridge operating area, for example, around £39,700 was awarded to 10 organisations for a range of projects, including:

- restoration work at Coldhams Brook, a chalk stream in the centre of Cambridge;
- creating wildflower areas on the East Road Estate and at five schools in Cambridge;
- refurbishing a pond in Barrington by reinstating and reshaping the banks; and
- developing a wetland and reed bed at the Mill River Reserve to improve water quality and provide additional wildlife habitats.

In the South Staffs operating area, grants totalling more than £48,400 were awarded to 11 charities and community groups for projects that include:

- monitoring the presence of skylarks in the area around our Blithfield reservoir;
- creating a community green space in a neglected area in Dudley;
- eradicating Himalayan Balsam from a site in Kinver; and
- providing more habitats for bees at the Grenfell Road Allotments in Walsall.

Since the business first launched its PEBBLE fund in 2016, 54.7 hectares of land (the equivalent of nearly 55 rugby pitches) across the Cambridge and South Staffs operating areas have been improved thanks to the biodiversity projects it has supported.

Read more: www.south-staffs-water.co.uk/environment/biodiversity/pebble-fund

SSI Water, Waste & Infrastructure Division

Clean water services

Overview

The SSI Water, Waste & Infrastructure division offers specialist engineering, asset management, and inspection services to regulated industries, local authorities and a range of industrial customers with critical infrastructure. The division consists of several businesses that are renowned specialists in their respective sectors.

Specialist engineering services:

- **G Stow |** borehole engineering
- **Integrated Water Services (IWS) |** mechanical and electrical engineering design, build and maintenance
- **OnSite Pipelines |** specialist civil engineering and pipeline repair and installation
- **OnSite Specialist Maintenance |** leak sealing, water proofing and concrete repairs

Asset management services:

- **Advanced Engineering Solutions |** infrastructure inspection and asset integrity services
- **Hydrosave |** water loss management and pipeline management

Wastewater services:

- **OnSite Utility Services |** inspection, monitoring and maintenance of sewerage and drainage networks

UK wide service & international innovation partners

The division, which has over 25 regional depots and offices, provides services across the UK and Ireland via integrated customer delivery models. In 2021, the engineering businesses successfully implemented a central project management office to deliver consistent, low carbon, and innovative engineering design and build projects, including off site build where possible.

Many of the businesses partner with international technology providers to support the development, growth and adoption of products in the UK. This includes smart telemetered systems across water and sewerage networks where, as an independent specialist, we provide design, installation, and maintenance of multi-sensor data capture and remote monitoring systems that facilitate early warning events and effective management and efficiency of pipeline networks.

Engineering and Asset Management

The engineering businesses deliver specialist borehole, civil, mechanical, electrical, control and automation design, build and maintenance projects to the UK water companies, the regulated environmental sector, and to commercial and industrial customers.

As principal contractors, the health, safety and welfare of employees, customers, and the public is of paramount importance to effective service delivery and is driven through a culture of compliance, combined with openness and freedom of thought for employees to adopt safe systems of work in an everchanging and adapting working environment.

Focused on sustainability and growth in adjacent sectors, the engineering division is well placed to support the development of the UK's low carbon heat networks and growth in the use of ground source heat pumps. Investment in sales, marketing and specialist recruitment within the year enabled the division to secure its first high profile project at the Eden Project in Cornwall, and it has established numerous new opportunities and partnerships in this rapidly evolving sector.

Integrated Water Services (IWS) M&E had a successful year following a transitional period and extensive restructuring to enhance project governance with a new centralised project management office.

As well as supporting new sustainability initiatives such as low carbon heating and electrical vehicle charging, core projects included specialist design and build, water treatment, chemical dosing systems, pumping station refurbishments, and pump optimisation within the UK water sector, the regulated environment sector and for mine water management.

The company's midlands-based pump workshops continued to provide a bespoke modification and optimisation service, and the northwest office, which provides specialist wastewater mechanical and electrical engineering, secured multiple new long-term frameworks to facilitate substantial future growth opportunities. IWS also continued to grow its portfolio of complex and retrofit UV water treatment projects.

G Stow had a challenging year due to ground condition issues encountered at a borehole drilling site, which resulted in significant additional remedial work and operating loss during the year.

However, the business remains well placed to generate increased opportunities from the water sector and has already secured three drilling projects for delivery in 22/23, as well as numerous mechanical and electrical projects, and borehole CCTV and cleaning projects. Borehole installation opportunities also exist in other sectors including commercial/industrial and to facilitate complex open loop ground source heat network installation.

The **OnSite Pipelines** division provides specialist civil engineering capability, offering a range of pipeline, and associated underground and above ground civil engineering services, to the built environment. With a core of projects in the water sector, the division offers a range of services including installation, network maintenance, main rehabilitation, directional drilling, and specialist civil engineering.

Operating in multiple sectors, the business is focused on customer service, positive impact on the environment, and helping clients achieve industry leading performance. With a directly employed model supplemented by key sub-contract partners, success has continued, and the business has a solid foundation to enable sustainable growth.

Within the year the business secured a major 4-year framework extension and several new pipe rehabilitation and specialist civil engineering frameworks within the water sector. Multiple projects were also delivered to commercial and industrial customers and the business has been instrumental in supporting growth in low carbon heating systems and electric vehicle charging, including **the civil engineering and main laying of a thermally insulated heat transfer main at the Eden Project in Cornwall** that connects in to one of the deepest geothermal boreholes in the world.

OnSite's Specialist Maintenance division had a challenging second half of the year with a low order book, which resulted in a business restructuring. However, the business remains an expert specialist offering a unique range of services including waterproofing, concrete repairs, chemical resistant coatings, ground stabilisation and reservoir repairs.

The business continues to focus on its vision for growth and encouragingly was awarded a major reservoir maintenance contract towards the end of the year.

With a vast proven experience and unique engineering skills, the business operates in highly regulated and safety conscious sectors such as rail, water, construction, and highways. Often working at height and using specialist materials and chemicals, health and safety is of paramount importance and pre and post project briefings are a regular occurrence. The business is now in a transition phase as it looks to secure more longer-term frameworks with an order book supplemented by specialist one off projects.

OnSite Utility Services offers specialist wastewater and drainage services, including sewer flow monitoring, rehabilitation, CCTV surveys, sewer lining, and specialist cleaning services to the water, rail, and highways regulated sectors and to local authorities and private customers. The business also supports the continued maintenance and refurbishment of inland waterways and canal networks across England and Wales.

Performance within the rail division was strong in 2022/23, with excellent financial results, delivering trackside drainage services and managing of critical risk direct to Network Rail and to several main contractors in the Southeast, Wessex and North London regions and routes.

OnSite rail continues to grow

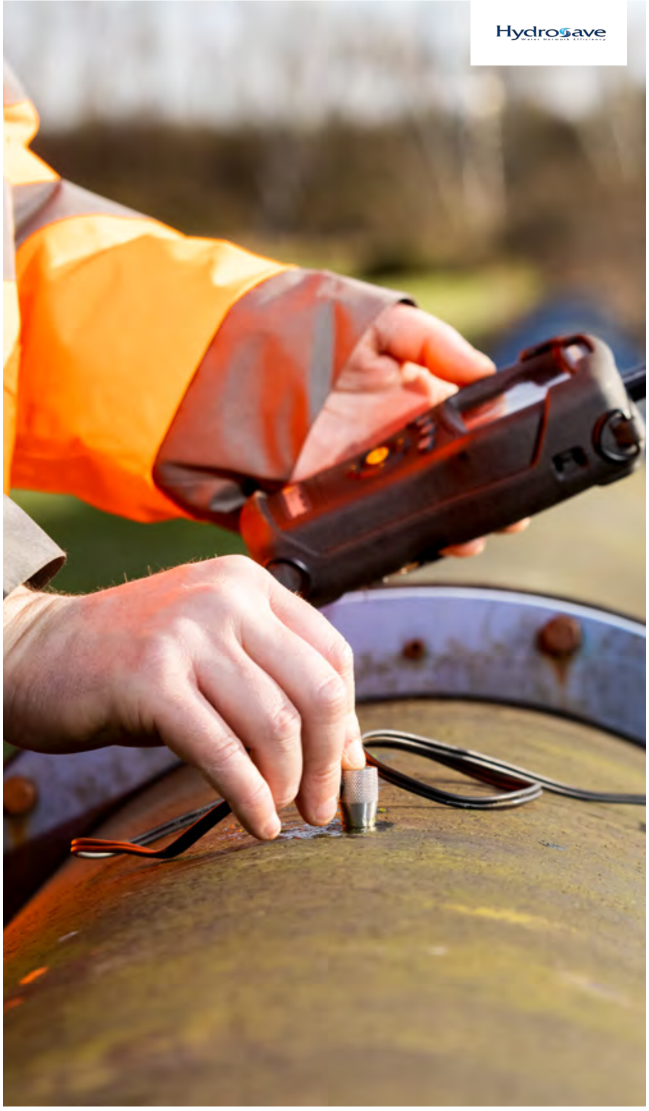
The sewer lining business had a successful year, increasing operating profit as a trusted and valued service delivery framework supplier to several water utilities, and with further investment into specialist plant and machinery, has continued to support the UK programme of trenchless sewer rehabilitation.

The flow department supported a water sector national sewer level and early warning flood sensor installation project and secured ongoing maintenance frameworks for the remainder of the regulatory period. In-house product development and rental of temporary flow monitors to support sewer design and predictive modelling projects has continued.

The business made significant investment into new low carbon and efficient sewer jetting systems.

This investment enabled continued expansion of drainage services supported by forensic CCTV inspection programmes. Facilitating inspection works and maintenance on infrastructure projects, the OnSite PortaDam system was regularly deployed to provide safe and dry customer working conditions.

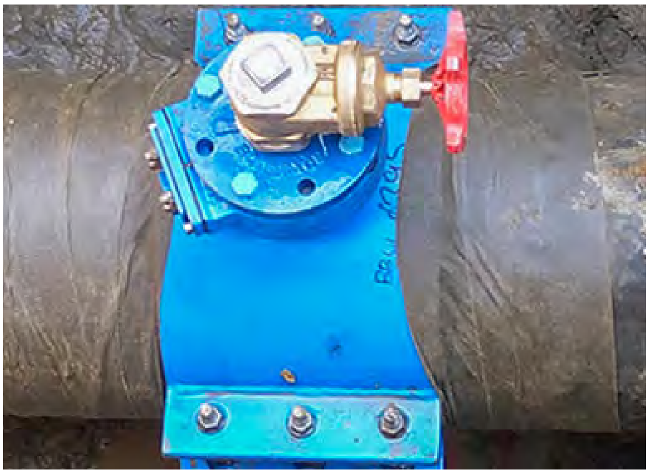
Looking forward, the business anticipates accelerated investment in wastewater network telemetry and is well placed to support the water sector in this ambition.



Hydrosave provides **asset management services** that support the resilience and quality of the UK water network. 21/22 was a successful year where significant profit improvement was achieved by operational overperformance.

Particular success was achieved on water loss management and leakage detection frameworks carried out across regions in the UK, helping the water sector in its ambition to drive leakage reduction.

A technology led approach and investment in leak detection continues to be adopted on all contracts using a range of the latest technologies from around the world. These include acoustic, flow and pressure sensors, in-pipe CCTV systems and the analysis of Smart networks. Services also include validating and auditing network boundaries, customer demand, trunk mains leak detection surveys, and specialist customer side leakage teams.



With effective partnering, our investment in technology, and the efforts of our training and operations teams, all our clients this year outperformed their annual leakage targets as set by the respective UK regulators.

It was another successful year for the pipe condition assessment department, **where in the UK, a multitude of pipelines were assessed for corrosion and remaining asset life**. This service was supplemented by sister company Advanced Engineering Solutions Ltd (AESL).

As the water sector evolves to be more data rich and information led, the businesses have continued to develop their smart networks installation and maintenance teams to service over 50,000 flow, pressure, transient and water quality sensors across the UK.

Advanced Engineering Solutions Ltd (AESL) has a water department and a gas department. The water department works closely alongside sister company Hydrosave to offer water utilities a comprehensive set of services to support asset health and management.

The **AESL Water** department provides forensic non-destructive testing and pipeline analysis services to the water sector using a patented in-house SmartCAT® technology to measure internal and external corrosion.

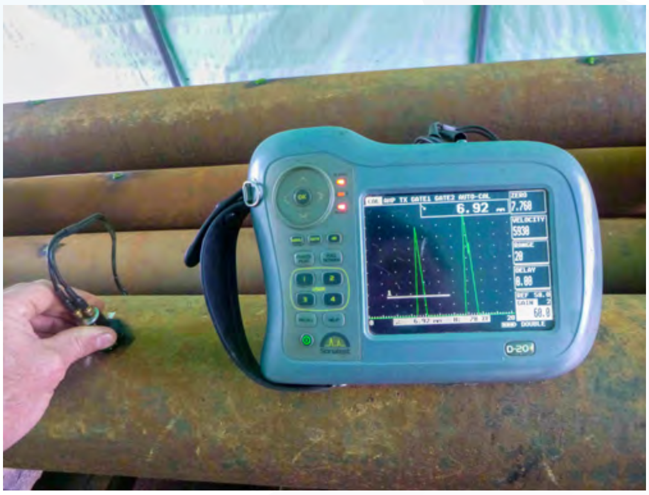
The **AESL Gas** department continued to grow working closely with key national suppliers and gas network operators on their key asset infrastructure repair and maintenance, and to demonstrate compliance to the Pressure Systems Safety Regulations (PSSR). Inspection, testing and maintenance of gas assets including inspection traps, water baths, and pressure control units is a critical infrastructure service to the UK gas sector.

Looking ahead

The outlook continues to be positive as the businesses within the division work increasingly closer together to support infrastructure owners and operators with their challenges and priorities. Within the core water sector market, innovation and new technologies will continue to be a focus for the division as the water companies look to maximise performance in the current AMP and begin to plan their longer-term strategies for PR24 and beyond.

The division will also continue to develop its client base outside of the water sector in adjacent and complementary commercial and industrial markets where its products and services can add value to asset operators and owners. This includes supporting its clients' decarbonisation agendas through the division's ground source heat pump and EV charging infrastructure installation services.

Finally, having already had some international success, the division will look to explore overseas markets where its services or products, via a sale or licence model, are closely aligned to market challenges and drivers to support further growth.



Case Study

Helping Eden Geothermal unlock energy from deep underground rock

Eden Geothermal Ltd was set up to drill a 4.5km deep well at the Eden Project, and heat its famous Biomes, greenhouses and offices.

As part of the first phase of the project, OnSite's pipelines division was appointed to design, supply and install a heat main from the geothermal site to the Eden Energy Centre. The 8km pipeline installation comprised a pre-insulated hot water feed line and a cool water return line, both buried beneath ground level. The pipelines were laid in a common trench using open cut techniques to install and nearly 2000 m3 of material was excavated, 50% of which was reused by processing it on site and grading it for suitable backfill.

The OnSite pipelines team was keen to support the ethos of the Eden Project by reducing the waste generated by the pipeline installation and supporting biodiversity in the area. Natural gabion baskets were formed from large rocks excavated from trenches to support above ground pipes. Excavated large rocks were also used to create hibernacula for insects to bask on and live in. Finally, topsoil bunds were created for insects from excavated material, supporting in particular burrowing bees and all soft ground trenches were reinstated with topsoil and seeded wildflower mix.

This project marked the first appointment for South Staffordshire Plc's new ground source heat division which offers a full turnkey service to clients from borehole drilling and maintenance (delivered by G Stow) through to the installation of interconnecting heat mains pipework (delivered by OnSite) and plant room mechanical and electrical works (delivered by IWS M&E).

Read more: www.onsite.co.uk/eden-geothermal-project

Compliance Division

Overview

Our compliance business comprises Omega Red Group and IWS Water Hygiene. In their own right, both businesses are market leading and both share the same commitment in combining an uncompromising safety first approach with a high quality service.

Integrating both businesses into one division, we believe, offers our customers the flexibility as to how these services are procured, whether as a single service or multiple services.

Our business is built on reputation, as reflected by the high levels of customers who choose to retain our inspection, test and maintenance services year after year, along with significant levels of repeat business we receive for our design and construction services, both of which enabled strong and profitable growth in the year.

With over 30 years of experience, our comprehensive and proven methodologies uniquely allow us to deliver end-to-end safety solutions aligned to providing regulated installations, testing, inspection, and compliance services.

We also share this expertise and best practice, along with taking benefit from, with the various specialist organisations the business is associated with, including our contributions to both national and international technical standards.

Our safety-first approach is embedded within our culture and DNA, with investment in training and equipment and employees supported in the knowledge that they are fully empowered to stop any job if they feel that it cannot be done safely.

Developing this culture is made easier when our talent is "home grown", with some of our most senior managers having started their careers as apprentices and being given the opportunity of progressing their way through the business, supported by additional training such as our future leader's programme. Our field staff benefit from a structured approach that rewards experience, supporting the way in which competencies are managed throughout the business and giving individuals the opportunity for progression.

Employee surveys and feedback from our teams has clearly identified the importance for the business to offer opportunities for progression, an area that the business has worked hard on over the last year and will continue to invest in.

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. Our 24 hours a day, 365 days a year, regional business services a wide range of customers including local authorities, housing associations and facilities management companies. The continued investment in our mobile work management platform, which drives operational efficiency, is fundamental to our success. This investment is planned to continue, along with the development of remote monitoring technology to further automate manual processes.

Omega Red Group

Omega Red Group has a wide and diverse portfolio of customers ranging from national infrastructure and blue chip companies to small privately owned businesses. In addition to the lightning protection and height safety services, Omega Red Group also provide specialist earthing and earthing design services predominantly to the power, rail and construction sectors.

Expanding into the EV market

Within the year, Omega Red Group has been able to draw upon the wider skills of the whole SSI Services Group to create a new EV Charging Solutions business. Throughout the year, this business has gained some pace in this expanding market and is expected to further grow in the year ahead as the UKs decarbonisation agenda pushes forward.

The focus is within the commercial sector supporting clients with design, procurement and installation of the right charging infrastructure solution for the needs of both their own businesses and customer base.

The COVID pandemic had an undeniable impact on our business throughout the majority of the year, however it is testament to the shear tenacity, resilience and commitment of our employees that they have navigated their way through, successfully returning the business to performance and growth levels above those of prepandemic.

This financial year saw some significant contract wins for the compliance business. As we look ahead, we have entered the new year with our forward order book remaining at record levels, with the business continuing to leverage its expertise in securing new opportunities for key infrastructure projects such as HS2 and nuclear power, in addition to the award of strategically importance maintenance contracts.

Commercial Water Production and Distribution

Executive summary

Office Watercoolers Limited (OWC) provides water coolers, spring water and other ancillary items such as boilers, SIPP, sanitisation, service and repair to businesses across the UK. The company is customer focused, which shows in its exceptional service levels. The company continues to take advantage of new technologies to reduce the impact on the environment for both the business and its customers including reducing energy used and carbon emissions.

- Our reputation and culture as the market leader for service quality and standards, enhances the customer experience and also increases operating margins.
- OWC has a proven track record of acquiring, integrating and delivering strong performance for bolt on acquisitions.
- A dedicated management team with over 50 years' experience, drives the culture of quality and efficiency throughout the business.
- 4 regional distribution centers allow for national network coverage, timely delivery and advertising efficiency.

Business overview

Office Watercoolers has been providing excellent service and high quality water since 2001. With **more than 20 years' experience within the industry**, the business is now one of the most successful water cooler companies in the UK.

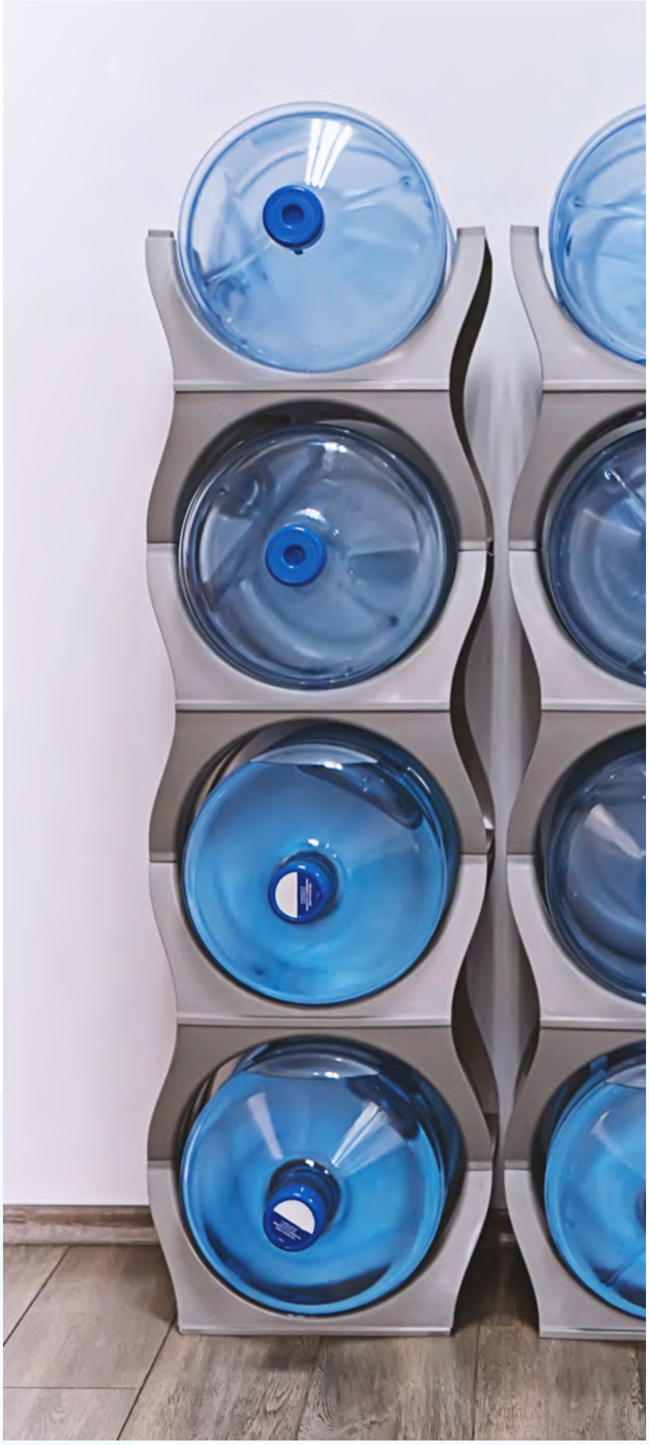
Based in the Midlands, with depots across the country, customers are offered a nationwide service, installing bottled and mains fed dispensers and delivering water and a hot and cold beverage service.

The extensive range of high quality coolers the business offers can be sited in any location and satisfy all levels of demand, along with a high quality customer experience.

OWC prides itself on its customer service ethos. The company's dedicated teams work hard to deliver a highly tailored service and to establish long term relationships with all customers.

'We always put the customer first'

Through organic growth and acquisition Office Watercoolers now has a nationwide presence and is able to meet the demands of its customers.



During the recent Covid pandemic, the business continued to operate and supply its customers who provide critical care and logistics, including hospitals, nursing homes and key food suppliers.

Business within the workplace environment was a challenge due to post-pandemic changes in working patterns that led to an increase in flexibility and working from home.

In addition, there were some Covid pandemic supply chain challenges for the business which it worked hard to manage and minimise throughout the year.

Echo Managed Services

Overview

Echo delivers customer service and software solutions to water utilities that support and enhance their customer operations. Broadly, this incorporates outsourced customer service solutions including customer contact handling, billing, meter reading and debt collection and developing, implementing and supporting billing and CRM software.

Throughout the year, Echo continued to operate against the backdrop of the on-going Covid pandemic, successfully supporting its clients to deliver their essential services to their customers. The global vaccination programme enabled a loosening of Government restrictions towards the later half of the year, and the business was able to welcome more of its people back into its offices and workplaces as the year ended.

Overall performance across the board in the year was strong, and Echo also made preparations for the years ahead with a change in strategic focus together with growth pathway plans in new markets.

Strategic direction

Echo has a strong reputation and lengthy proven record as a service partner to water utilities.

In particular, Aptumo, Echo's innovative customer billing software, presents growth opportunities for the business both in the UK and overseas. Together with the customer service side of the business, both offer significant business transformation opportunities for clients. With this in mind, the business decided to divest its field-based subsidiary, Grosvenor Services, which undertakes debt collection and revenue protection services on behalf of energy companies across the UK. The sale was completed in March 2021.

The business will now solely focus on water sector customer service and software.

Software services

Echo continued to support the UK and Australian water markets throughout the year, helping its clients transform their customer management systems to deliver a cost-effective and better experience for their customers.

In the UK, SES Water became Echo's first client to go live with the company's next-generation, cloud-based billing and customer information software, Aptumo, whilst SES Business Water continued to progress its Aptumo implementation programme. South Staffs Water also entered the final stages of its implementation programme, with go-live scheduled for 2022.

SES Water, first UK live client

Within the year, Echo also invested in its software services team structure, expanding ahead of the forecasted growth in the coming years, as well as investing in product development. The business also remained actively involved in its clients' planning processes for the next AMP and accompanying price review process.

In Australia, the business also grew its team to support current demand and future anticipated growth. The focus in the year has been on supporting North East Water through its ongoing Aptumo implementation programme as well as servicing its existing client, Coliban Water, actively bidding on live procurements in the water sector and building up a partner network that will bolster business development activity alongside programme delivery.

End-to-end customer service and collections

Echo delivered a strong performance against South Staffs Water's customer performance commitments including an upper quartile C-MeX position, over achievement on the number of customers on the company's priority services register and the number of customers receiving additional support. Customer complaints performance was also strong, with Echo supporting South Staffs Water to a strong position within the industry league table. During the year, adaptions were also made to collections processes and policies to support customers through growing affordability challenges and manage the impacts of the Covid-19 pandemic.

Supported upper quartile C-MeX performance

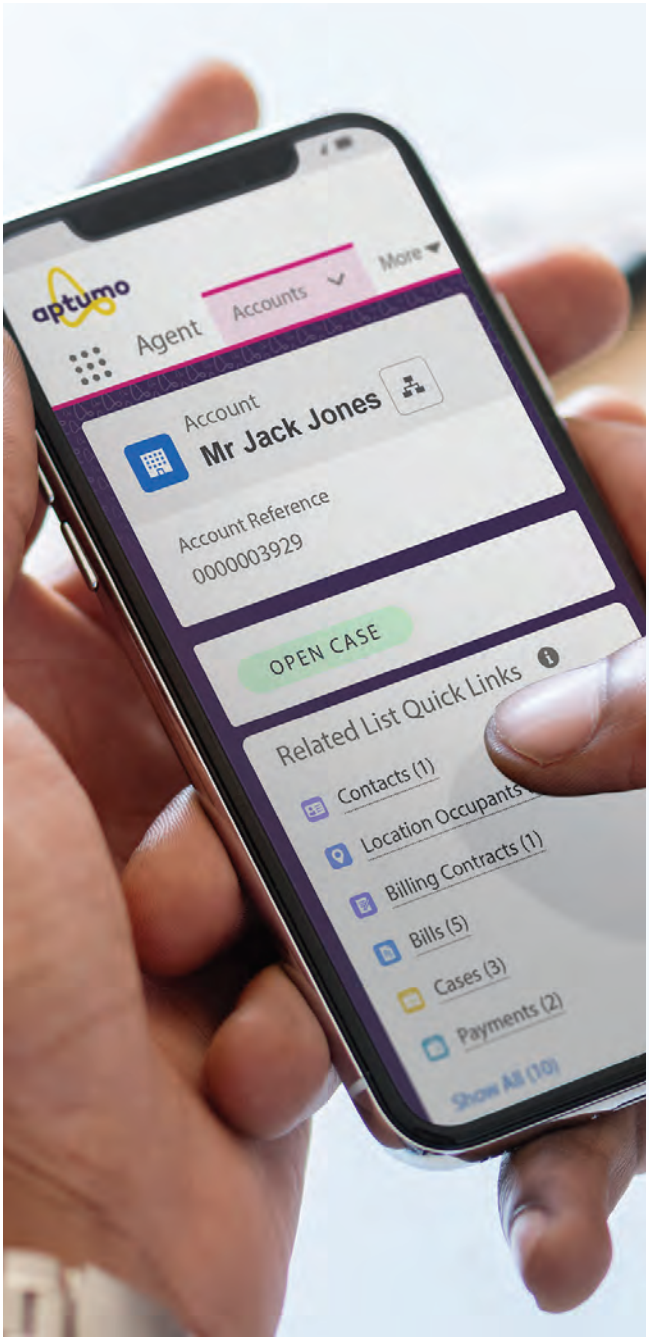
Echo delivered in line with all targets for its client Northern Ireland Water for the eighth successive year.

Home working was maintained and optimised to improve service resilience and the business continued to invest in its service improvement and innovation strategy, further enhancing digital services for Northern Ireland Water's customers, embedding voice of the customer at the heart of the service and driving operational efficiencies.

Echo's wholly owned offshore operation in India continued to deliver agility and efficiency for existing clients in a range of back office and administration functions, whilst preparing for expansion into wider processes and service offerings including reporting and supply management, which will go live in 2022.

Looking to the future

Consumers continue to face challenging times, with a growing cost of living concern and resulting bill affordability challenge. At the same time, they have rising expectations around service, digital offerings and convenience. As the UK water sector plans and prepares for PR24, Echo will continue to innovate and offer both software and services that help its water sector clients deliver efficiently for both consumers and against the drivers from the market regulator. In Australia, water companies continue to focus on customer centricity and an improved experience for their customers, and Echo's Aptumo billing software is well placed to support the sector to achieve its ambitions.



Expansion into the USA in 22/23

Echo has a clear strategic path to both retain its dominant UK billing software market position and to grow overseas. Software development and the product's roadmap remains firmly founded in the areas of customer service excellence, effective debt collection, greater customer insight and efficiency drivers and will be closely aligned to the priorities of the UK sector as it plans for the next AMP, and the challenges and drivers in overseas markets. In the year ahead, the business will prepare to expand its software offering into the US water utility market, launching Aptumo there in Q1 of 2022 and building a partner network to support market entrance.

With its service offering, a key focus for Echo will be on planning for and responding to Northern Ireland Water's retender of the current contract, as the contract timeframe comes to an end. The business will also continue to grow its India subsidiary to support the water sector with operational agility for a range of back office and administration activities.

As Aptumo goes live in South Staffs Water, Echo's focus will be on embedding the system into operations and supporting its client to maximise the customer benefits of a next-generation solution alongside a continuing focus on C-MeX positioning, debt collection and complaints performance, with the Aptumo implementation being a key enabler to drive performance.

Case Study

Supporting Upper Quartile C-MeX performance for South Staffordshire Water

Echo Managed Services, which operates South Staffordshire Water's (SSW) contact centre, billing and debt collection operations, supported the water company, which trades as South Staffs Water and Cambridge Water, to achieve a significant improvement in its customer satisfaction and experience scores in the year.

Having finished the previous year in 10th place in the water sector C-MeX league table, the water company, working collaboratively with the Echo team, ended the 2021/22 year in 4th - an upper quartile position within the sector. This placed SSW in the mechanism's reward category.

C-MeX rankings are based on the outcomes of a comprehensive programme of on-going customer surveys to help ensure customers in the non-competitive water sector receive a high-quality service along with the right support to help them manage bills and consumption.

The Echo team focusing on a programme of service improvements, delivering targeted communications to encourage customer engagement, and establishing an internal communications campaign and ongoing training schedule to provide its contact centre team with the depth of knowledge and skills needed to help answer all customer queries at the first point of contact.

Taking note of how different customers choose to engage, a wider range of digital channels were made available, and customer service agents were upskilled to ensure they could engage effectively across all platforms. To attract the right talent into the contact centre, recruitment processes moved to focus on candidate behaviours, such as displaying empathy and understanding, rather than solely on skills and experience.

Greater use of data segmentation and intelligence helped to drive proactive, targeted campaigns when issues such as unusually high bills were predicted, helped identify more vulnerable customers who may need additional support through the Priority Service Register, and improved signposting to financial help such as social tariffs or the availability of tailored payment schedules.

A billing system upgrade programme in the coming year should only further enhance this performance improvement.

Environment, Social and Governance (ESG)

The Group is passionate about making a positive contribution to the environment, our clients, our people and the communities in which we live and work. Given the nature of the Group and its businesses, understanding and improving our ESG performance is a vital part of our business strategy and is reported to investors quarterly and annually.

Environment

The Group is mindful of the impact of its operations on the environment and is passionate about playing its part in protecting the natural environment for the years to come. This includes supporting climate resilience and biodiversity as well as reducing waste, conserving water and sustainable supply chain sourcing. The Group reports to its investor Arjun Infrastructure Partners on its performance in all these areas regularly.

Some examples of environment initiatives within the year include:

OnSite Pipelines, having been appointed to install a heat main for Eden Geothermal, ensured a focus on biodiversity during the works. Natural gabion baskets, instead of concrete alternatives, were formed from large rocks excavated from trenches to support above ground pipes. Excavated large rocks were also used to create hibernacula for insects to bask on and live in. Finally, topsoil bunds were created for insects from excavated material, supporting in particular burrowing bees and all soft ground trenches were reinstated with topsoil and seeded wildflower mix.

The **Cambridge Water** and **South Staffs Water PEBBLE biodiversity fund** awarded over £88,000 to 21 charities and community groups this year for projects that will enhance the environment in around 18 hectares across the Cambridge and South Staffs operating areas. Since the business first launched its PEBBLE fund in 2016, 54.7 hectares of land (the equivalent of nearly 55 rugby pitches) across the Cambridge and South Staffs operating areas have been improved thanks to the biodiversity projects it has supported.

The Group has taken steps to electrify its fleet, encouraging all drivers at all levels to choose electric or hybrid vehicles and taking the first delivery of small electric vans for field-based teams. To support this, investment in EV charging infrastructure took place in the year, with EV chargers installed at the Group's head office and three of its businesses' regional depots. We plan to continue to expand this important work in the year ahead.

The Group seeks to foster positive and collaborative relationships with its employees, customers, suppliers and the wider communities in which its businesses operate. This includes valuing and promoting diversity and inclusion as an employer, attracting and developing talent, having a positive community impact, ensuring customer satisfaction and providing a safe work environment for our people. The Group reports to its investor Arjun Infrastructure Partners on its performance in all these areas regularly.

Diversity and inclusion

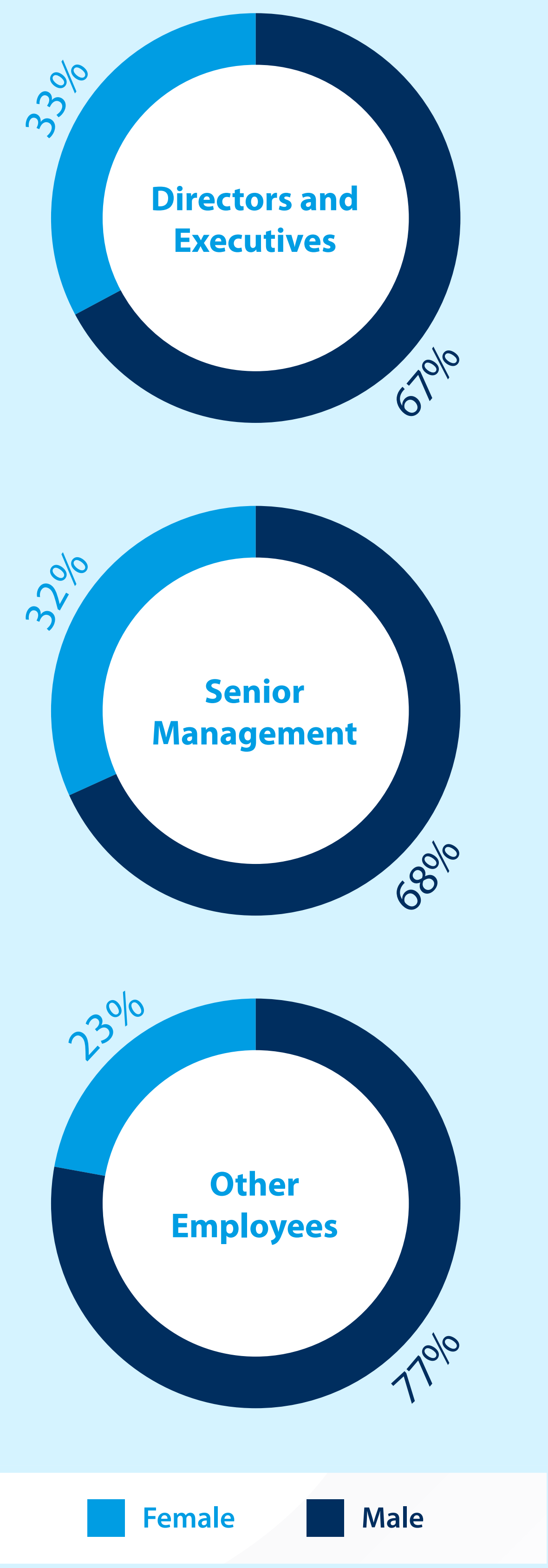
The Group is committed to providing a positive and inclusive working environment, free from discrimination and unfair treatment. We welcome diversity and provide equal opportunities for employment, training and promotion, having regard to employees' particular aptitudes and abilities, regardless of their gender, race, age, disability or any other protected characteristics.

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.

This year, our first group wide employee diversity and inclusion survey focused on whether our people felt they belong at work, can be themselves and are treated fairly. The survey results were encouraging with no marked difference in scores by gender, race, age or ethnicity and low overall disagreement in all areas. However, employees living with disabilities were markedly less satisfied which led to the creation of a working with a disability group, sponsored by the executive team to raise the profile of working with a disability and look at how the Group can become more disability friendly and confident.

Analysis of Group employees by gender



Community impact & charitable causes

During the year, the Group made a range of charitable contributions across local causes and those at the heart of the sectors we serve.

Some examples of initiatives include:

The Group has supported the County Air Ambulance Trust (CAAT) since 1993, when an employee was in a serious road accident and needed to be airlifted to hospital. Over the past 28 years, the Group has provided free office space, meeting rooms, IT support and equipment to CAAT, helping them to continue to save lives, every day.

Within the **SSI waste, water and infrastructure and compliance divisions**, colleagues support local causes as well as those that are important to their clients. This tends to be smaller, more localised community and fundraising initiatives. OnSite entered the Thames Water Raft Race to raise money for WaterAid and IWS Water Hygiene employees volunteered at Bury Hospice to redecorate.

South Staffs Water's community hub is located on Wednesbury high street, at the heart of one of the region's most socially deprived areas. It was able to reopen within the year following a temporary Covid pandemic closure, as a trusted, friendly and accessible location for customers to interact with the company and other support agencies. It's a space that is open all week and accessible to the whole local community and operates in partnership with over 200 regional organisations and charities.

In India, **Echo Managed Services** has supported the Mala Smriti orphanage for a number of years. The orphanage is a non-government funded operation which relies on regular support from the community in order to provide the best care and environment possible for the children who find a home there. As well as running a number of activities to raise money for the orphanage, The Echo India team pride themselves on giving their time and efforts to give the children a better life. Each year, the office hosts Santa Claus and the children are invited to come in, hear stories and have a party whilst also receiving a gift from Santa. The children are often also invited to join with festivities such as Holi, the festival of colours, and food is provided by Echo to the orphanage for other celebrations.

The Group's regulated water companies **Cambridge Water** and **South Staffs Water** continued to focus on their promise to offer customers the right level of support for their individual needs and help everyone learn how to use water wisely. 58,611 customers received some form of additional help within the year.

Health and Safety

Governance for performance and oversight of significant events rests with the Group Executive team, supported by the Group Head of Health and Safety. We believe safety at work is a basic human right, and workplace conditions directly impact our employees, as well as their families and communities. Our employees should expect an unequivocal level of dedication and continual improvement, using a determined learning approach so they can go home safe every day. Fulfilling our statutory duties is an obligation but one driven by the ethics of caring for our people.

The Group's all accident performance improved during 21/22. The injury rate fell from 1.49 to 1.25. The majority of the events in this banding are of low potential severity, but a reduction remains a positive marker. Our RIDDOR performance declined slightly increasing to 0.11 from 0.07. More positive indicators, such as near misses and leadership visits, remain healthy compared to previous year and are illustrative of the value we place on an open, honest and proactive reporting culture that allows our people to share their knowledge, experience, skill and innovations.

Injury rate fell from
1.49 to 1.25

We continue to work hard to transform how we think and manage health and safety, widening our view from just focusing on accidents. An important change has been around how we classify, treat and focus on high potential events. Introducing a potential severity approach has shifted our focus to our most critical risks and a new metric of high potential frequency in our Group reporting highlights a more proactive way of learning and driving improvements. All our businesses took a deeper look at critical risk management to ensure we have active and defence in depth controls.

This year marked **our first Group Health and Safety conference**, held as a direct response to our Health and Safety engagement survey which covered safety, training, leadership, equipment and stopping work. One of our highest scoring responses was that our people (90%) felt they could challenge unsafe working. Responses highlighted that recognising success needed further work. With these initiatives we are driving a more employee centred approach to how we improve successful work outcomes - using the experts who are closest to the work.

Our people have access to specialist occupational health advisors, who provide proactive health surveillance and advice to help keep them fit and healthy. Employee assistance programmes are available across the Group providing counselling on a variety of issues, both work related and personal. There is a marked focus on general employee wellbeing, with a specific attention on mental health. This was especially important during the Covid-19 outbreak, as we supported a different way of working. Mental Health first aiders have been trained in many of our businesses.

Governance

Good governance, compliance and business ethics are fundamental to the Group and its operations. This includes the make up of our Board and how it operates, policies and procedures such as anti-bribery, modern slavery and whistleblowing, and cyber security and data protection; performance in all these areas is regularly reporting through to investor Arjun Infrastructure Partners. More information on this can be found within the Governance section of this annual report.

South Staffordshire Plc

Financial review

Overview

The Group monitors its financial performance through targeted Key Performance Indicators such as Turnover, Profit, EBITDA, Net Debt and dividend distribution. In the year ended 31 March 2022, the Group beat its key financial targets for sales and operating profit bouncing back well from the impacts of COVID-19 restrictions. The Water business saw strong sales performance and each of the non-regulated services businesses saw strong year-on-year growth through strong business partnerships and in response to COVID-19 restrictions being lifted.

Turnover and profit

Group turnover increased by 7.8% to £281.9m in the year (2021: £261.6m). Turnover generated by South Staffs Water increased to £140.1m (2021: £130.3m), from both household and non-household metered revenue. (This number included £2.4m reclassification of commissions costs to operating expenditure). External turnover from the non-regulated service businesses increased by £10.5m to £141.8m (2021: £131.3m), back to pre-COVID-19 levels which had stunted revenue performance due to access issues in the previous year.

Group EBITDA (before infrastructure renewals) of £79.2m, reconciliation below, was £6.0m higher than the previous year (2021: £73.2m). South Staffs Water operating profit grew in the year despite continued cost pressures from a 5% higher than pre-COVID-19 period water demand and implementation costs of the new Aptumo billing system. Profit performance in the Non-Regulated Service included higher profits for the non-regulated services businesses driven by increased access following the lifting of COVID-19 restrictions. Group operating profit was £28.6m (2021: £28.8m), marginally lower than the previous year's performance. . Operating profit for South Staffs Water was £27.2m (2021: £25.6m).

There was an increase in net finance charges in the year of £11.4m to £20.3m, due to an increase in the index-linked debt charges because of higher RPI.

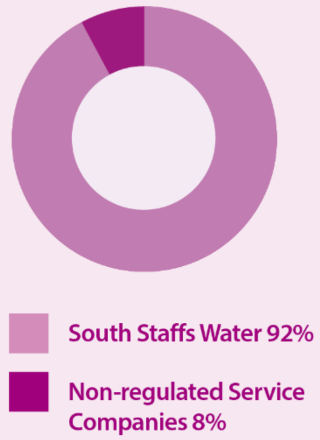
Overall, Group profit before tax was £8.3m (2021 restated: £19.9m). Details of restatement can be found in note 34.

'Reconciliation of operating profit (Before infrastructure renewals) to reported EBITDA' (Before infrastructure renewals)

	2022 £'000	2021 £'000
Operating profit	28,598	28,802
Depreciation	31,360	32,655
Infrastructure renewals	12,845	10,114
Amortisation of goodwill	2,867	2,863
Impairment of goodwill	6,124	1,309
Amortisation of intangible assets	778	732
Amortisation of capital contributions	(3,356)	(3,228)
EBITDA (before infrastructure renewals)	79,216	73,247

Group turnover

Analysis of Group operating profit



Tax

The tax charge for the year increased to £19.2m (2021 restated: £4.2m) mainly due to the impact of the recognition of the future tax rate from 19% to 25% with effect from 1 April 2023 (charge £15.0m). Current tax has been recognised at 19%. Details of restatement can be found in note 34.

The main driver for the tax charge being higher than the statutory rate of 19% (2021: 19%), of pre-tax profits was due to the Group goodwill amortisation charges not being deductible for corporation tax purposes.

On 23 September 2022, the Chancellor of the Exchequer announced that the planned tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. As the enacted rate at the balance sheet date was 25% this announcement does not represent an adjusting event and the company's deferred tax balances as at 31 March 2022 are still calculated at that higher rate. When recalculated at the lower 19% rate the deferred tax liability would reduce by approximately £19.2m.

The Group's approach to tax is explained in the group approach to tax section of the report.

Cash flow and dividends

The Group continues to place significant emphasis on its cash flow. Group cash flow from operating activities was £86.3m (2021: £57.9m), with the increase relating to deferred income, higher levels of trade creditors, higher impairment add back and less corporation tax paid in the year. Capital investment (net of contributions, disposals and capital creditor movements) was £40.7m (2021: £38.4m) with the movement due mainly to increased capital investment by South Staffs Water, however, the expenditure was lower than the budget expectations. Overall, free cash flow (cash flow from operations less interest, tax and capital expenditure) of £26.9m (2021: £6.8m), was ahead of our target. Total dividends paid and proposed in the year were £24.7m (2021: £20.7m).

Financing, net debt and liquidity

Group net debt reported for covenant purposes at 31 March 2022 amounted to £424.9m (2021 restated: £409.3m) The movement being largely due the increase in the value of index-linked debt in South Staffs Water. Group net debt for statutory accounting reporting purposes under FRS102 at 31 March 2022 amounted to £452.8m (2021 restated: £420.9m) with the value fully reconciled to the value used for covenant purposes in the notes to the consolidated cash flow statement along with a detailed analysis of the Group's net debt. Details of restatement can be found in note 34.

In South Staffs Water, net debt for covenant reporting purposes was £231.0m (2021: £246.4m restated) being 51.4% (2021: 61.1%) of its regulatory capital value (RCV) of £449.6m (2021: £403.2m).

The Group and South Staffs Water have maintained and continue to forecast to maintain 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 2022, the Group had undrawn bank borrowing facilities of £nil (2021: £31.5m), in addition to its cash balances of £70.3m (2021: £15.0m), providing significant liquidity headroom of £70.3m (2021: £46.5m).

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 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, details what each risk means for the Group and actions being taken to manage and mitigate the impacts.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
Resilient supply of good quality water#	We are legally required to meet regulatory standards for water quality and to ensure our customers always receive a reliable water supply. Failing to provide a secure supply of clean, safe drinking water or meet long-term demand requirements may: • impact public health; • result in regulatory enforcement action; and • damage our customers' trust and confidence in us.	We have carried out significant work to mitigate the water quality and safety risks. This includes: • installing ultraviolet (UV) treatment at our Hampton Loade and Seedy Mill water treatment works; and, • having an ambitious, long-term capital investment and asset maintenance programme. We also have a number of controls in place to reduce the probability of having insufficient water resources, including: • Our long-term water resources management plans (WRMP) for both our South Staffs and Cambridge regions; and, • having drought plans consistent with our WRMPs and business plan for 2020 to 2025. We are also collaborating with other water companies and key stakeholders on regional water resources plans through Water Resources East (WRE) and Water Resources West (WRW).
Water resources#	There is a risk that the demand for water may exceed the volume we have available for supply – for example, during a severe drought. The impact of running out of water is high because of the potential impact on public health, and the long-term financial and reputational damage that could arise as a result. Incidences of prolonged hot, dry weather – such as that experienced in summer 2018 – can pose challenges to our supply/demand balance over the longer term; underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk. There is a low residual that our selected options – for example, large-scale leakage reduction, lower per capita consumption (PCC) and more household metering will not deliver the water savings expected. The impact of the COVID-19 pandemic has had in terms of driving a material increase in household water use is also a challenge.	We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include: • our WRMPs and drought plans; • collaborative regional engagement through WRE and WRW; • tracking our leakage and PCC metrics; and, • our ongoing asset maintenance programme to minimise the risks of short-term supply interruptions. To mitigate this risk, we are continuing to work with the Environment Agency to produce our WRMPs, regional water resources plans and on the delivery of our environmental programme (WINEP). We have also updated our drought plans, which we submitted to the Secretary of State at Defra on 30 March 2022, and we have focused particularly on our Cambridge region through our work with WRE to identify medium- and long-term solutions for additional water resources.

What is the risk?	What does this risk mean for us?	How are we mitigating this 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 injuries and fatalities. They also include non-compliance prosecutions, and the reputational damage that could result from failing to meet our own health and safety standards. These risks could result in incidents leading to a loss of life and could impact on families and our people. They could also result in damaging press coverage, Board involvement, stress and the risk of imprisonment for members of the Executive team. A Health and Safety Executive (HSE) enquiry could impact on resources and morale.	We aspire to be a zero injury workplace and are continuing to drive down the risks associated with health and safety. In addition, the approach we took as we emerged from COVID-19 restrictions in terms of installing monitoring equipment for adequate ventilation and enhanced cleaning routings will help to form the basis of our continued mitigation. We have also implemented a number of other mitigations during the reporting year, these aimed at driving a culture that puts critical risk management at the heart of everything we do. These include: • introducing a severity matrix for evenets and escalations; • shifting our focus to high potential (HPo) risks, which we report to the Board each month; • Reviewing the function and purpose of the Health and Safety Committee to ensure it continues to deliver value at a strategic level; • putting in place a programme of insight tours for Executive and senior leadership teams; • carrying out Health and Safety training and education, and face-to-face induction training; and, • Working with Cadent, Willmott Dixon and City Fibre on a services improvement project for safe digging practices.
Failure to meet regulatory performance commitments#	There is a risk that we could underperform against the commitments agreed by Ofwat in our PR19 final determination. Out of 30 performance commitments, 19 have financial incentives attached. Ofwat has deliberately set performance targets at stretching levels. Their purpose is to drive our service forward. This policy has led to challenging step change targets to achieve in the areas of: • leakage; • bursts; • Supply interruptions; and • The Compliance Risk Index (CRI) water quality measure.	We have implemented a number of actions to help us achieve our performance commitment targets. These include: • improving our reporting/assurance processes; and, • having greater exposure of our performance at Executive and Board level on a regular basis. We are also mitigating the risk of a net underperformance penalty by making sure we maximise the reward opportunity for other measures. The action plans we have in place for each measure take this into account. Some performance (such as PCC and education outreach) continue to be susceptible to the long-term impacts of the COVID-19 pandemic. This could also impact other survey-based metrics, such as C-Mex, D-Mex, trust and, value for money.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
	Some performance commitments are exposed to significant volatility from factors outside of direct management control. There are revenue, reputational and regulatory impacts associated with this risk.	This will require a representation to Ofwat on these impacts, which are substantially outside of management control. We are involved in some cross-sector collaborative work to help build this case.
Asset reliability and resilience#	We have a number of assets that a critical to the supply of clean drinking water to customers. The reliability and resilience of our assets are fundamental in ensuring we are able to abstract, treat, store and distribute sufficient volumes of clean water to maintain supplies to all our customers and deliver against our agreed performance commitment targets. We must make sure that sufficient funding is available and prioritised to enable us to control the risks around: • customer service – in particular, the significant impact reactive failures can have on C-Mex performance; • reputation management – including the impact high-profile asset failures that result in supply interruptions can have in terms of negative media attention and criticism from external stakeholders; • water quality – such as the risk of prosecution by the Drinking Water Inspectorate (DWI) for failing to meet the required water quality standards, and the impact of this on CRI and C-Mex targets; and, • finance – including the risks of financial penalties for asset failures and increased operating costs for inefficient assets.	We recognise the need to improve our assets. Our long-term plans are set in the wider context of managing and maintaining our assets and supply capabilities. Our business plan has modelled an identification of needs and solutions to support optimum investment strategies to mitigate this risk. This includes: • making significant investment in Hampton Loade and Seedy Mill; • carrying out proactive maintenance programmes; and, • reducing network failure through targeted mains rehabilitation. We have aligned our asset management function with proactive interventions based on the continuous monitoring of the performance of assets. We justify any investment based on the inherent risk within the business, making sure that resources and finances are prioritised effectively. As part of this, we have implemented mechanisms to facilitate efficient reporting of the status of our assets. The Executive team reviews these each month.
Achieving our AMP7 leakage reduction target#	The risk is that we do not achieve specific regulatory measures across our South Staffs and Cambridge operating areas. Under-performance in this area will incur a reputational and financial impact. We have a commitment within our WRMPs to reduce leakage and mitigate the environmental impact of our abstraction. Ofwat, the Environment Agency and CCW, amongst others, scrutinise our performance in this area very closely.	We have put a strategy in place to achieve our leakage targets across both regions, including: • continuous monitoring of our performance; • sufficient resourcing of leak detection and repair activity; • prioritising prompt leak repairs; • replacing ageing assets; and, • investing in a proactive live operating network.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
		The COVID-19 pandemic impacted our work to reduce leaks on customers' supply pipes. But our overall detection performance has improved and leaks are being repaired quickly. At the time of writing both our South Staffs and Cambridge regions are currently performing ahead of, or in line with, our leakage targets.
Impact of our activities on the environment*	The risk is that our activities could cause harm to the environment. This risk relates to the negative consequences associated with harming the environment. This could include pollution incidents or failure to comply with permits and licences. In addition, this risk covers the real and perceived reputational impact of our operations on habitats such as chalk streams and rivers. This area of our work is subject to much greater media attention – driven mainly by the focus on water and sewerage companies' discharges from sewer overflows into rivers and other water courses. The risk also relates to non-compliance with environmental regulations or legislation and includes pollution incidents or the failure to comply with our permits and licences. MCERTS conditions are now included on some of our discharge permits and we are audited each year to ensure compliance. The next audit is scheduled to take place on 27 September 2022. The water resources risk above considers risks associated with climate change.	We summarise all our environmental obligations in our Water Industry Strategic Environmental Regulations (WISER) submission made to the Environment Agency in August 2018. Specific risk mitigations in this area include: • fast mobilisation of on-the-ground teams when incidents occur; • our Water Industry National Environmental Programme (WINEP) work; • delivery of our eel screening programme by September 2022; • the Abstraction Incentive Mechanism (AIM), which helps us to maintain sustainable abstraction practices; • our well-established and successful SPRING catchment management programme, which we are currently expanding; • our PEBBLE biodiversity fund, which helps to deliver wider societal and community benefits, as well as environmental enhancements; • maintaining MCERTS compliance for selected discharge permits through close cross-team working; and, • Identifying alternative water sources in our Cambridge operating area because of the detrimental impact of abstraction on chalk streams.
Non-compliance with regulatory obligations#	The risk is that we fail to comply with our statutory or regulatory obligations as a licensed water undertaker. This could result in Ofwat or other regulatory bodies taking action against us. Examples of the types of potential breaches that might arise include: • our annual data returns not complying with Ofwat's guidelines, leading to the data having to be re-published; • failing to operate a level playing field for retailers, developers and new markets, in breach of competition rules; and,	We consider and assess, on an annual basis, what our obligations as a licensed water undertaker are, that we understand these in detail and can demonstrate compliance. We do this in a number of ways, including: • assessing the impact of any licence or legislative changes made during the year; and, • making sure we adopt any new obligations. In addition, we review and publish any documents as required under our licence, making use of appropriate internal and external assurance as required.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
	• not complying with our licence conditions, leading to regulatory enforcement action and fines of up to 10% of turnover.	We also require formal Board sign-off on all significant obligations – such as our customer charges and annual performance report.
Supply – economic impacts#	There is a significant risk of critical supply loss or disruption to the delivery of: • Chemicals, which we require to treat the water we abstract to the regulated standards; • Critical component spares, which could impact on the operation of critical equipment, such as pumps for water distribution; • Stock consumable items, such as pipes and fittings, which could impact planned maintenance and repair work; and, • Fuels, which could have a wide range of impacts on our operations.	Our Executive team and senior leadership team continue to work with the Defra, Water UK, relevant sub-groups and the supply chain to mitigate the impact of this risk. We previously reviewed our business continuity plans in light of the risks associated with the UK's exit from the European Union. We continue to monitor supplier deliveries and stock levels. We also report through water sector working groups, which have continued to focus on early identification of supply or delivery issues – notably in relation to the availability of chemicals.
Technology, systems and security*	There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure, which could result in reputational damage or regulatory fines. These risks fall into the following categories: • disaster recovery capabilities, which includes the risk of the Green Lane data centre going offline, impacting our ability to access our email, financial and network data sharing systems; • legacy system support and management, with a specific focus on the lack of access to either internal or external capabilities to support legacy systems; • data integrity (including loss or corruption), which includes the risk of inadequate controls resulting in the loss of data or information, or an external data breach; and, • state sponsored cyberattacks, given the increase in tensions between the UK and Russia (including financial sanctions).	• We are mitigating these risks in a number of ways, including: • an Information Security Steering Group (ISSG) with Information Security Forums feeding into this; • a compliance framework in place for Security of Network & Information Systems Regulations (NIS); • ISO27001 certification for Group IT operations; • Implementing a Group Cloud strategy to reduce legacy impacts; • managed services in place for monitoring and security operations (SOC) provision; • operational technology intrusion detection systems (OT IDS) software implemented on critical networks; • implementing a new supervisory control and data acquisition (SCADA) system across both our South Staffs and Cambridge regions; • ensuring all data is backed up and subject to regular recovery tests; • , • Applying robust change control processes to ensure changes to live systems are only made when the risk to confidentiality, availability and integrity of data is reduced to an acceptable level.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
Finance*	The key risks for us are around: • having insufficient financial resources to finance the business; • reduced access to capital markets; • the potential for lower credit ratings; • higher funding costs; • the levels of fixed cost embedded debt; and • changes in risk scoring by rating agencies, which could lead to some or all of the above.	To mitigate this risk, we have: • ; • During 2021 we conducted a major refinancing exercise, including engaging with Standard & Poor's to test various structural scenarios, resulting in a number of changes to the Group structure and raising £135m of new debt. As a result the revised Group S&P credit ratings were affirmed as Stable. • The new debt raised was largely utilised to repay near-term maturing bank facilities and comprises £95m of term-loans and a new 5-year £40m Revolving Credit Facility. • undertaken regular cashflow management, monitoring and reporting; • . • ; • implemented a new Group structure to ring-fence regulated liquidity from other parent group non-regulated activities; • Development and implementation of a long-term financing strategy
Customer satisfaction#	As customer expectations continue to increase, there is a risk around the demand for service provision that is multi-channel and accessible 24/7. The implementation of our digital channels is a recent change for us, we have also experienced a high level of 'phone contact, which increases our cost to serve. In addition, the C-MeX measure of customer service and experience monitors both customer service and customer engagement. Although our performance in this area has improved, single events can have a significant impact on our C-Mex scores, which may result in in-year penalties and have a negative effect on our reputation.	Insight gained from our customer engagement activity has helped to shape our customer experience strategy, improve our digital channels and improve the customer journey. In addition, we have set up a monthly Customer Experience Steering Group and have put improvement plans in place. We also monitor our performance and customer satisfaction daily. Monthly service delivery meetings provide a decision forum for any actions directly impacting our customers. Other actions to mitigate this risk include: • Delivering a retail change programme, which includes making improvements to MyAccount and our mobile app, reducing repeat contacts and improving the 'moving house' customer journey; • Considering how we provide suitable customer support packages and how this may affect our debt performance; and, • making balanced decisions in the context of C-Mex.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
Customer affordability and debt#	There is a revenue risk as a result of levels of customer bad debt and the associated costs of collection delivery. There is also a risk that the economic climate created by the COVID-19 pandemic, the end of Government support schemes (such as Furlough and the temporary Univeral Credit uplift) and rises in other household bills, will place an additional pressure on customers, impacting their ability to pay their water bills. The conflict in Ukraine is also likely to have a negative impact on the economy.	We hold monthly Debt Steering Group meetings to monitor our performance. In addition, we have launched a debt transformation project, using a debt best practice framework to deliver changes focusing on debt prevention, data use and sharing, and standard and advanced collection activity. This project is progressing in line with CCW's affordability review. We also have an affordability plan, which considers how we improve our support schemes and make access easier. Weekly review meetings monitor activity and debt performance, enabling us to make informed decisions quickly. Other actions to mitigate this risk include: • putting in place and promoting customer support tariffs; • rolling out customer debt payment matching schemes; • adding litigation methods to the advanced recovery process; • increasing/changing activity within the standard recovery process; • instigating a trace service; and, • introducing open banking to enhance income and expenditure (I&E) checks.
Failure or increased cost of capital projects/ exposure to contract failures#	There is a risk around the business experiencing additional costs and delays that impact the condition or performance of our assets. This in turn could impact on customer service, water quality, efficiency or environmental performance.	We have created a dedicated Capital Delivery Director role with a focus on aligning our asset management / capital investment delivery functions. The aim is to provide clarity around the priorities of our capital programme. We have also set up an Investment Programme Steering Group. In addition, we have put additional resources and cost controls in place to facilitate the escalation in activity associated with our Hampton Loade and Seedy Mil upgrade programmes. We are implementing various best practice initiatives and incorporating these into our programme and projects so as to ensure delivery is on budget and to the required quality. We are also backfilling vacancies within the investment delivery function and are using resources from Costain under our engineering services framework to assure the financial administration of our contracts. In October 2021, NMCN, our construction partner for Hampton Loade and Seedy Mill upgrades went into administration. We are continuing to work with advisers and the supply chain to mitigate the impact, notably in relation to

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?
		delays and cost pressures. We have novated to Galliford Try and the Seedy Mill upgrade and have awarded the Hampton Loade contract to Ross-Shire Engineering and Barhale.
Workforce*	If we are unable to attract, engage and retain the right people, with the right skills, then our businesses could face: • skills shortages; • loss of company knowledge; • reduced operational capacity; • over-reliance on key personnel; • additional pressures on other employees; and, • inadequate succession arrangements. This in turn may mean that one or more Group businesses is unable to meet current and future workforce needs and this could affect delivery of strategic priorities.	A range of measures have been applied in support of managing this risk. These include: • a hybrid working policy (South Staffordshire plc) to allow more flexibility for office-based personnel; • benchmarking of pay accompanied by addressing pockets of upwards pay pressure (*e.g.* HGV drivers); • introduction of small retention bonuses in certain circumstances; • creating an attractive multi-functional space at Green Lane where people can work, meet and collaborate; • renumeration packages for certain Executive and Director roles; • succession planning re-instigated for top-level roles; • Developing and approach for other senior and business-critical roles We recognise that there are additional mitigations to action for this risk. These include: • taking on the feedback received from employee surveys run in the year; • reviewing rewards and benefits; • Improving some of our work areas and conditions; and, • Improving engagement with our people to make them feel more valued.

* 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 2025, which reflect the stated strategic objectives and operational plans, and include but are not limited to trading forecasts with turnover, operating and capital maintenance costs along with cash flow projections Including operating cash flows, the planned Investment programme, tax and finance related cash flows. The level of net debt is also projected through the period and is compared to the level of gearing as permitted in the Group's borrowing covenants as is its interest cover. The Directors have considered the operational and financial forecasts when assessing the going concern assumption and consider the assumption that the Group will still be a going concern for at least the next 12 months to be appropriate.

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

Based on the business plan and associated sensitivity analysis detailed above the Board of Directors has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the going concern assessment. In considering the results of the sensitivities performed, we have also considered additional actions that could be taken to ensure we maintain liquidity and a strong financial position. These include reducing dividend payments based on free cash flows available and a reduction in discretionary capital spend. In the period since the end of the financial year under review the financial forecasts have been reviewed and updated given the emerging economic environment and risks such as the latest expectations of higher inflation.

Given the RPI-linked debt instruments held by South Staffordshire Water PLC, there is a risk that the interest charge, including the non-cash accretion will be significantly higher than previously forecast. Having reviewed the calculation of the key covenanted financial ratios, and clarified this with lenders, the Directors have determined that this impact will not have a material impact on the going concern assessment.

In December 2021 the Group successfully raised £135m of new funding comprising £95m in term-loans of eight and ten-year maturities together with a new five-year Revolving Credit Facility. The proceeds of this financing were largely utilised to repay bank facilities with maturities of up to 3-years. Consequently, the Group has removed near-term refinancing risk as no debt facilities mature prior to December 2026.

In addition, to support the long-term financing needs of South Staffordshire Water PLC, an agreement was reached during the year for £60m of new long-term fixed rate funding from Pricoa Private Capital. The first tranche of £20m was received on 1 September 2022 with the remaining £40m scheduled for after the year-end and was subsequently received on the 1 June 2022. These funds are to be utilised towards the long-term investment at Seedy Mill and Hampton Loade and for general corporate purposes.

On the 15 August 2022 South Staffordshire Plc announced that it had been the subject of a criminal cyber-attack. The nature of the attack did not include data encryption or destruction but did include data exfiltration. The incident is still being investigated but the Directors do not consider that the incident and likely costs represent a change to the going concern assumption. The directors took swift action to respond to the incident, engaging a number of professional advisers and notifying relevant authorities. The directors will continue to monitor the risk of fines or penalties as the investigation completes. However, at this stage, there is insufficient information in order to assess this risk.

The strategic report is approved on behalf of the Board of Directors.

P C Newland
Group Chief Executive
3 October 2022

Section 172 (1) Statement

Group statement

Each Director has a duty to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to factors contained in section 172(1) of the Companies Act 2006. These being:

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

Further detail of how the company has taken account of section 172(1) factors can be found in the strategic report.

In identifying our stakeholders, we recognise certain groups may be affected by our decisions and activities whilst others are able to affect us through their actions and decisions. During the year, the company has sought to engage with, and understand, its stakeholders so that their interests and priorities are given due regard and consideration as part of the Directors' balanced decision-making in support of strategy execution and long-term sustainable success.

Key stakeholder group	How we have engaged with these stakeholders
Customers / Clients	Across the Group, customers and clients have been given regular updates using a number of communication channels including social media, local radio, regular meetings and website content. **South Staffs Water** Continued to engage regularly with household and non-household customers during the year, as their views are essential in driving decision-making. It is important to always provide a good experience for all customers as a failure to do so could cause reputational or financial harm. A range of deliberative and quantitative customer research techniques and customer communication channels are used in engagement, including: • corporate website • H2O online customer community • Social media – Facebook, Twitter and Instagram • You Tube. Customer insights are shared through a combination of internal communications, Board reports, interactive de-briefs (with the senior

	managers responsible for delivering plans) and presentations to the Executive Team and Board steering groups. The engagement of the Independent Customer Panel has been sought regularly to share information and seek their input on the quality of our customer engagement and customer-facing corporate documents. Board insight on customer engagement was furthered by the attendance of Non-executive Directors at several Customer Panel meetings during the year. To help in more effective communication of the impact of the research and insights programme to stakeholders, including customers, a blend of processes and approaches were used. These include: 1. Enhancement of the 'you said, we did' section of the customer dashboard to make it easier for customers to see the actions taken to improve service as a result of their feedback. 2. Providing updates to members of the H2Online community on changes made as a direct result of their feedback and enabling them to comment on decisions. 3. The strategic research programme reaches out to customers at the end of engagement and asks if they would like to receive feedback on next steps. Those expressing an interest are sent a link to a video and infographic outlining how their feedback has been reflected in our decision-making. 4. A strategic document has also been developed for senior managers which outlines what customers are saying about performance against key targets and then supports alignment of actions with customers stated delivery expectations. The outcome of such engagement activity is reflected by the excellent C-Mex performance delivered for the reporting year. Forums have been hosted during the year to support engagement with developers, self-lay providers and, new appointments and variations (NAVs). These were structured by customer segment and covered a range of themes, such as: • Developer charges. • A self-lay code for adoption. • Water efficiency opportunities. • Changes to the customer journey. Further, the level of day-to-day proactive contact with customers about the cost and status of their works was increased; website content continued to be developed; information provide to customers was simplified; and, the first of a series of user guides was introduced. To support delivery of excellent service for retailers (reflected by the 'R-Mex' performance measure) effort was directed at developing further relationships with retailers and their end customers. A Retail Market Manager was appointed during the year who, as part of the role and its responsibility for implementing the R-Mex strategy, has:

	• Held quarterly review meetings and twice-yearly review sessions with all retailers. • Attended regularly meetings of the Market Operator Services Ltd (MOSL) Operational Advisory Group and MOSL User Forum, sharing insight and information with stakeholders. • Held metering sessions on a monthly basis with one key retailer. • Quarterly, produced newsletters for retailers and MOSL. • Engaged with the Consumer Council for Water (CCW) on our retail market plan. **Echo** • Active relationship management, regular communication and understanding how we can best support our water sector clients forms part of our approach to service delivery and engagement. This is reflected by our excellent reputation and proven record as a services partner. • Design and implementation of a vulnerable customer framework to manage how the customers of water companies are engaged with across the business. This will be of increasing importance as multiple households face serious cost of living increases and financial challenges. • As part of our Belfast call centre team's induction process for new joiners, we partner with Northern Ireland Water to provide a virtual interactive tour and which enables our people to engage with, and better understand, what happens at our client's water assets and see some of the remote locations (such as Sperrin Catchment and Ben Crom) it manages. • Being recognised with a special award by the Contacts Centre Network Northern Ireland (CCNNI) for the successful relationship fostered between Echo Managed Services and Northern Ireland Water and the way we work together to deliver what matters for its customers. **SSI Services** • Continuing with the "Shared Life" philosophy (as featured in the 2020/21 report) puts clients / customers at the centre of each business. • Working together to support delivery of client / customer targets and objectives. For example, working with clients to ensure groundwater gets to where it needs to, efficiently and sustainably • Actively encouraging client / customer feedback and engagement with the business. • Client / customer recognition of engagement, standard of service and results delivered. For example, the reduced energy consumption and carbon emissions identified over the 2021/22 period for Anglian Water of c. 2,198,858 kWhr and 466.90T CO_2 emissions, this supporting the client's delivery of its own targets and subsequently, as a valued supplier, being nominated for an award.
Key stakeholder group	**How we have engaged with these stakeholders**

Community	As COVID-19 restrictions were eased further during the year, more direct participation in engagement was possible and this complemented the other ways the Group's divisions had found to support local communities during earlier phases of the pandemic. **South Staffs Water** • Being embedded in the communities of the two regions served by our water division and fostering good relationships with these is important for our brand identity, the trust and confidence of customers and the company's reputation. • In August 2021, the community hub was re-opened following temporary closure necessary during earlier periods of COVID-19 restrictions. This enabled participation once again in local initiatives and activities including a 'dress to impress' campaign for people needing access to smart work wear for job interviews; a 'love my hub' campaign; and, the launching of a 'baby bank' project for families in need. • The hub serves as a focal point, within the South Staffs operating area, for the community of Wednesbury and also provides a designated 'place of welcome' where local community members can go each Monday for a drink and the opportunity to meet and chat to others. • Within the Cambridge operating area, a mobile community initiative 'water on wheels' was launched to provide a means of face-to-face contact for customers, some of which are located in rural areas, so enabling direct engagement, an increased presence and greater visibility of the brand across the region. • Following further easing of lockdown restrictions, the employee volunteer scheme (EVS) relaunched in July 2021. Employees are able to spend up to three days per year participating in activities that make a positive impact on their communities. During the year these have included helping out at community events and festivals and, planting trees and hedges. Such employee involvement reinforces community involvement and our Group profile. • Engagement with the H2Online community platform contributes to raising the company's profile whilst also providing valuable insight on customer views, which in turn can be considered during decision-making. H2Online provides a feedback loop through to update customers on the resultant actions taken due to their engagement and comments. • Restrictions on access to schools for most of the year, severely curtailed education outreach activity. Our annual design competition for children aged 5-11 across both supply regions is based around producing a water saving and efficiency poster that helps encourages others to use water wisely. Winning design for each region were published on the corporate website. • Meaningful relationships have been built with over 400 community groups and charities. During the year we continued to both share information with these and work in partnership with other organisations. This included providing ongoing support and sponsorship of the Dry Garden featured within Cambridge University's Dry Botanic Garden. The garden has been specifically designed to feature plants which thrive in areas of low rainfall; this being of

relevance to the Cambridge Water region where annual rainfall is 550 mm and the area is under severe water stress.

Echo

- In India, Echo Managed Services continued its longstanding support of, and involvement with, the Mala Simriti orphanage.
- Engaging in various fundraising and other activities to support and promote good causes and their aims. This included: Echo personnel in Green Lane participating in fundraising activities in support of World Water Day 2022; Clashion dressing up and a bake sale at our Walsall site to raise funds for Red Nose Day; staff taking part across the business in Save the Children's Christmas Jumper Day.

SSI Services

- Businesses across SSI Services are encouraged to support:
    - local charities, groups and initiatives making a positive impact on their local communities; and
    - client / customer schemes that add value in local communities and the community groups, organisations and initiatives therein.

- Throughout the year, employees have been involved in multiple fundraising and other activities to support good causes and their aims. These include:
    - sponsored bike rides and walks;
    - a charity golf day;
    - annual events such as a Christmas jumper day (Save the Children) and the Thames water raft race (Water Aid); and,
    - painting and redecorating as part of a longstanding involvement with, and support of, Bury Hospice.

- Businesses within SSI Services look to give back to their communities when they can and, where possible, combine this with supporting improvements to the environment. For example:
    - undertaking acts of kindness for local communities in areas where businesses are working – one example in the year being scraping mud and silt off a bridleway, so improving the environment and the safety of the bridleway for its users; and,
    - lightning protection consultancy was provided on the large main sculpture that forms part of the Hope Sculpture project which saw construction companies collaborating pro bono in the utilisation of sustainable building methods and low carbon materials to provide a lasting legacy for Glasgow (linked to COP26 taking place there).

- Being able to engage directly with potential future employees and increase awareness of the career and development opportunities offered at all levels by SSI Services is important. Attendance at job fairs in Scotland and across England has enabled face-to-face interaction, raising the profile of SSI Services as an employer within local areas and communities.

Employees	The Group continued to engage with its employees throughout the year, using a range of tools in support of this and the sharing of information. 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.
	
	Our people are key and should feel valued, engaged and motivated if they are to deliver and contribute to the success of Group businesses.
	
	South Staffs Water
	
	• Following on from achieving investors in people (IIP) accreditation (as reported in last year's section 172(1) statement), refreshed corporate values have been launched this year. These focus on equality, diversity and inclusion; excellence in service; responsibility; and trust. The employee appraisal process now reflects these and embeds them into peoples' objectives, so helping in delivery of the outcomes important to our customers.
	
	• To encourage more employee engagement, internal communications have been reinvigorated. For example, during the year, WhatsApp groups have been deployed specifically for field-based teams; the internal monthly newsletter has been refreshed, relaunched and renamed as "News Splash"; a revised version of the MiHub self-service platform was released; and, a full complement of tools have been used to engage and inform employees, including regular:
	    • updates on internal engagement, sharing and collaboration platform Yammer;
	    • health and wellbeing surveys;
	    • internal communications emails on a range of different topics; and,
	    • quarterly publication of a 'Talent Pipeline' newsletter covering new starters, promotions and leavers.
	
	Echo
	• Recognising, celebrating, and sharing the achievements and successes of our people, with our people, such as with our Software Services Team at Green Lane for work on Aptumo development and delivery; and with those shortlisted for, and winning, industry awards (both as individuals and teams) across our call centres and wider business, such as the Northern Ireland team receiving a special recognition CCNNI award.
	
	• Encouraging or new joiners to develop a better understanding of the water company companies we deliver services to by providing employees with an induction that features sessions from such customers. For example, partnering with Northern Ireland Water to provide a virtual interactive tour.
	
	• Members of our India team coming together to celebrate the colourful festival of Holi and the arrival of spring.

Key stakeholder group	How we have engaged with these stakeholders

Employees (continued)	**SSI Services**
	• People are key to the success of SSI Services. It is important that they feel valued, engaged and motivated. Examples of the way that this has been supported during the year include:
	    • introducing a “Safety First” approach to support employee empowerment and embed the right safety culture;
	    • publishing various articles to promote female engineers, introduce some of the females working in engineering within SSI Services and support International Womens Day;
	    • providing specialist training and refreshers, e.g., safe working at height;
	    • celebrating our people who have been a valuable part of businesses for many years e.g., long service awards and recognition;
	    • recognising employees who step-in to help others e.g., employees administering CPR to a member of the public until an ambulance arrived; and,
	    • continuing to deliver apprenticeship programmes.

Regulators/ government	The regulators and government stakeholder groups are key to the South Staffs Water business. Failure to comply with applicable legal and regulatory requirements could result in potential enforcement action, financial penalties and reputational damage. The remainder of the Group businesses are not party to direct relationships with these stakeholder groups although compliance with applicable legislation is of fundamental importance.
	
	• For South Staffs Water, engagement during the year was primarily through regulatory submissions, meetings and membership of relevant groups and organisations, including:
	    • Water UK’s Regulatory and Strategy Committee, which is attended by Strategy and Regulation Directors and discusses future regulation policy;
	    • Ofwat’s regulatory working groups (such as the costs assessment working group) to help shape future decisions; and
	    • Various Environment Agency technical advisory groups.
	
	• As a key member of Water Resource East (WRE) in the Cambridge region and Water Resources West (WRW) in the South Staffs region, South Staffs Water engaged with other water companies and key stakeholders on the development of long-term regional water resource plans allowed for in the Environment Agency’s national framework for water resources. In January, along with other regional planning groups, WRE and WRW published their emerging regional plans, ahead of formal consultations in autumn 2022. The final regional plans are due to be published in 2023.
	
	• South Staffs Water has continued to engage with national and local elected officials during the year. An example being the hosting of the Conservative MP for South Cambridge, Anthony Browne, at the

	Cambridge office in September, during which plans for securing long-term water resources were shared. Just outside of the reporting year, in April 2022, the Conservative MP for Ludlow, Philip Dunne, visited the Hampton Loade water treatment works to learn more about the upgrade programme and the successful green recovery bid, which enables the installation of an innovative ceramic membrane-based filtration system at the works.

Shareholders	Our shareholders want to be assured that the Group businesses are run efficiently, and that Directors engage proactively with them on strategic decisions. Failure to engage with this stakeholder group would impact effective delivery of Group strategy.
	
	• Engagement with shareholders takes place through monthly management and board meetings. Regular dialogue also takes place with shareholders through a variety of other mechanisms such as briefings, calls and informal meetings. The Group Chief Executive and Group Chief Finance Officer also have regular dialogue with shareholders on key issues, which affect the business as and when those issues arise. Shareholders are engaged in discussions on the matters referred to below.
	  • financial performance;
	  • risk review; and
	  • long term viability and financial resilience.

Suppliers / partners	Group businesses within each division, work with a range of suppliers and partners across different disciplines and sectors. Each division has its own relationships with suppliers and partners who support their individual businesses.
	
	South Staffs Water
	• Continued to work with a range of companies across a number of disciplines and sectors during the year. This ensures the right suppliers and skills to support to support the business in maintaining water supplies and serving customers.
	
	• To support delivery of value for money and provision of goods and services of the required quality, a range of competitive processes are used to appoint suppliers. The business works closely with its supply chain to ensure they understand the importance of ethical procurement and review their health and safety, cyber security and insurance policies.
	
	• In March 2022, a new supplier code of conduct was published. This outlines the expectations South Staffs Water has of how their suppliers, and supply chain partners, should act when the business with providing goods and services. Themes include:
	  • business ethics;
	  • dealing with fraud and tax evasion;

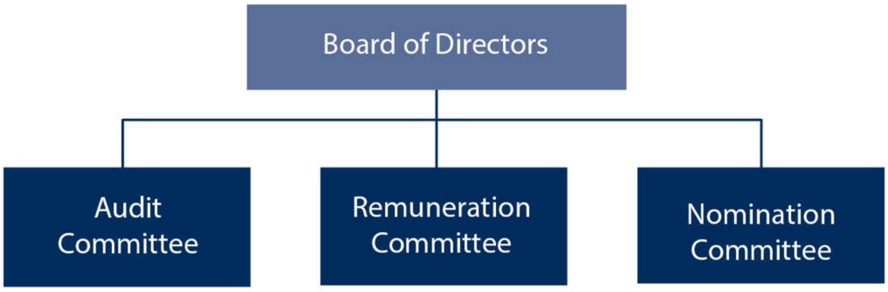
	• entertainment and hospitality; and • health and safety. • All suppliers are expected to acquaint themselves with, and follow, the supplier code of conduct.
Key stakeholder group	**How we have engaged with these stakeholders**
Suppliers / partners (continued)	**Echo** • Supplier engagement forms part of Echo's quality management system. • Supplier reviews have increased as the business and suppliers adapt to COVID-19 pandemic. **SSI Services** • SSI engages with suppliers primarily through meetings and has in place a sustainable procurement policy.

This statement was approved at a meeting of Directors held on 3 October 2022
and duly signed on its behalf.

P C Newland
Group Chief Executive
3 October 2022

Board of Directors

During the year the Board comprised of:



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

Following the resignation of the Directors representing the Mitsubishi shareholders on the 8 August, the details of the Directors appointed as at the date of this report are as follows:

Steve Johnson – Independent Non- Executive Chairman

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

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

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

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

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

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

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

Phil Newland – Group Chief Executive

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

External appointments: Director, Pennon Water Services Ltd.

Rob O'Malley – Group Chief Finance Officer

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

Executive Team

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

Phil Newland – Group Chief Executive

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

Rob O'Malley – Group Chief Finance Officer

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

Monica Mackintosh – Managing Director of Echo

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

Andrew Willicott – Managing Director of South Staffs Water

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

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

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

Neil Shailer – SSI Services – Managing Director - Compliance Business

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

Anna Fell – Group HR Director

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

Directors' Report

The Directors are pleased to present their annual report, together with the audited Group financial statements, for the year ended 31 March 2022.

Directors

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

	Director type	Appointed	Date resigned	Meetings attended [1]
Steve Johnson	Independent Non-Executive Chairman	3 July 2018		12/12
Peter Antolik	Non-Executive Director & Arjun Investment Partners Representative	3 July 2018		12/12
Keita Saito	Non-Executive Director & Mitsubishi Corporation Representative	1 April 2020	31 March 2022	12/12
Phil Newland	Group Chief Executive	29 April 2020		12/12
Rob O'Malley	Group Chief Finance Officer	29 April 2020		12/12
Go Muromoto	Non-Executive Director & Mitsubishi Corporation Representative	26 June 2020	31 December 2021	9/12
Yasushi Umemura	Non-Executive Director & Mitsubishi Corporation Representative	1 April 2022	8 August 2022	N/A
Naoto Kinoshita	Non-Executive Director & Mitsubishi Corporation Representative	1 April 2022	8 August 2022	N/A
Keith Harris	Non-Executive Director & Arjun Investment Partners Representative	30 October 2020		12/12

[1] In addition to the 10 scheduled Board meetings, 2 additional meetings were called.

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

Retirement and re-election of directors

In accordance with the Companies Act 2006 and the Articles of Association there was one director appointed during the year and two directors were eligible to retire by rotation. who were required to offer themselves for re-election at the AGM.

Business review

The strategic report 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 2022.

Details of the principal risks and uncertainties facing the Group are set out in the strategic report.

Financial results

The Group's turnover was £281.9m (2021: £261.6m), with operating profit of £28.6m (2021: £28.8m) and profit before tax of £8.3m (2021: £19.9m). The Group's financial results and position are explained in more detail in the financial review section of the strategic report and shown in the consolidated profit and loss account, consolidated balance sheet and consolidated cash flow statement.

Environment, Social and Governance

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

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

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

Energy use and carbon emissions

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

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

Methodology

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

Scope 1 energy use and emissions

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

	2021/22		2020/21	
Fuel	kWh	Tonnes CO_2	kWh	Tonnes CO_2
Natural gas	105,539,614	19,377	81,986,780	15,075
Diesel BS EN 590	8,837,682	2,093	8,534,205	2,182
Gasoil (Class A2)	1,504,145	386	9,739,780	2,660
Kerosene	298,028	74	0	0
Hydrogenated vegetable oil (HVO)	202,393	2	524,198	10
Unleaded 95	404,543	93	167,433	41
Total	**116,786,405**	**22,026**	**100,952,397**	**19,967**

Scope 2 energy use and emissions

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

The company consumed around 97,676,198 kWh of grid electricity, with associated emissions of 20,992 tonnes of CO2e using location-based factors.

Efficiency measures

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

Acquisitions

There were no acquisitions of external businesses in the year to 31 March 2022' however, as part of a restructure of the Group, Omega Red Group Holdings Limited was acquired by South Staffordshire Plc from one of its parent holding companies, Hydriades Limited. This means that all the trading companies in the Hydriades IV Limited Group are now direct or indirect subsidiaries of South Staffordshire Plc.

Corporate governance

A detailed corporate governance report follows. The Group's shareholders and structure is also shown.

Risk management

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

The Group's activities in respect its management and focus on business risks are set out in the strategic report and the governance report.

Capital investment

Capital expenditure, on tangible and intangible assets, before contributions from third parties and excluding infrastructure renewals during the year amounted to £57.8m (2021: £49.4m)

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 2022 represent 69 days of purchases during the year (2021: 59 days). The Group is not reliant on any single commercial arrangement.

Dividends paid

During the year the Company paid a first and second interim dividend totalling 192.3 pence per share. There are no proposed dividends.

Going concern

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

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.

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. Under FRC guidance the Company is required to appoint a new auditor given the tenure of Deloitte LLP. During the 20/21 year the Company conducted a review of Independent Auditor and selected Ernst & Young LLP to take effect for the Financial Year ending 31/3/23.

It is intended that Ernst & Young will be appointed as auditor to the Company during 2022/3 and a resolution proposing the appointment will be put to the Board. Deloitte LLP is expected to resign as auditor to the Company at the same date.

Approved by the Board and signed on its behalf by

Rob O'Malley
Group Chief Finance Officer
3 October 2022

Current Board of Directors and Advisors

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

Corporate Governance Report

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

Although the Company is not publicly 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. 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.

Group Structure

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 its subsidiaries and fully supports South Staffs Water in complying with its statutory and regulatory obligations and ensuring that it can make strategic and sustainable decisions that are in the long-term interests of the regulated business. This includes Condition P of South Staffs Water's licence and although some Directors sit on the Boards of both companies, South Staffs Water acts where applicable, with the support of the Group, as if it were a separate listed company. The Company provides management, professional and administrative support services to South Staffs Water and other subsidiaries at cost. There was no direct interaction between South Staffs Water and the ultimate controlling party, Arjun Infrastructure Partners Limited during the year.

The Board of Directors can confirm, on behalf of Arjun Infrastructure Partners Limited, that it, as the ultimate controlling party of the Group for the year ended 31 March 2022, also fully supports these principles of Board leadership, transparency, and governance.

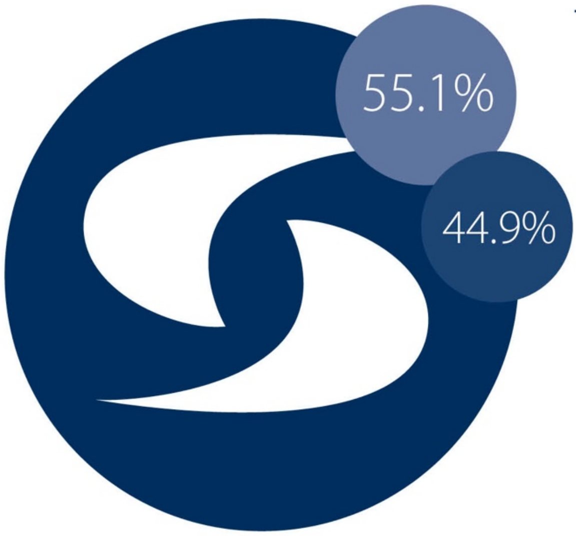
There have been no material changes to corporate governance arrangements in the Group during the year. The Board confirms that, to the best of its knowledge, there are no issues or risks at the Group level which may negatively impact on the Group.

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

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

Details of the Group structure are set out below:

Our investors as at 31 March 2022



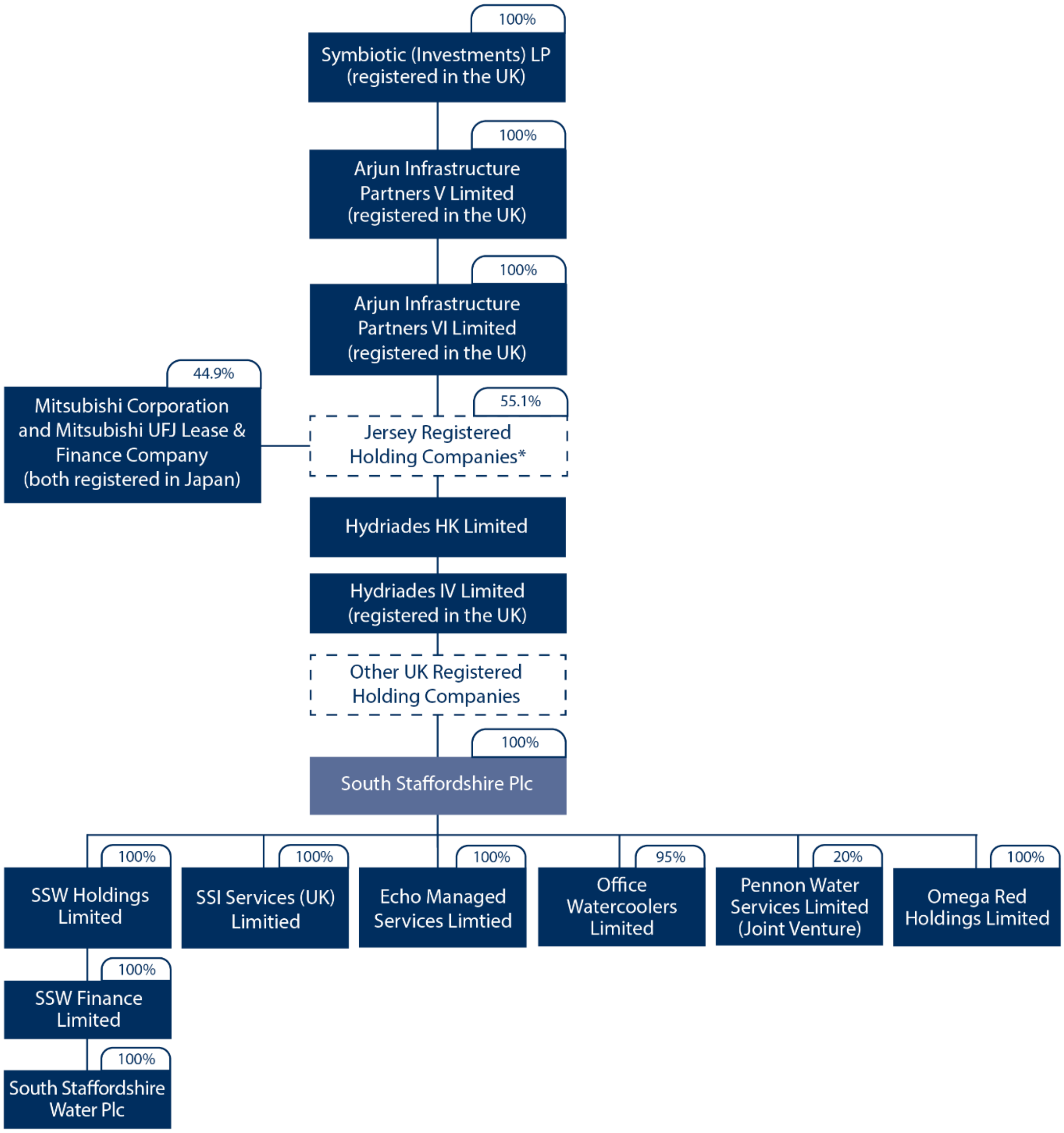
Long-term pension scheme and institutional investors, advised and managed by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

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

Note: During the year to 31 March 2022, Mitsubishi UFJ Lease (MUL) merged with Hitachi Capital Corporation and the new trading name is Mitsubishi HC Capital Inc.

Post balance sheet event. On 8 August 2022, investors advised by Arjun Infrastructure Partners Limited, acquired the 44.9% held by Mitsubishi Corporation and Mitsubishi HC Capital Inc.
Therefore funds advised by Arjun Infrastructure Partners Limited now control 100% of the shares of the Hydriades IV Limited Group and of South Staffordshire Plc.

Simplified Group structure as at 31 March 2022



* Jersey registered holding companies are UK resident for tax purposes.
% represents economic equity interest held.

Relations with investors and immediate holding companies

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

During the year, SSW Finance Limited and SSW Holdings Limited were created as intermediate holding companies the purpose of restructuring debt within the Group.

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

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

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

The Board of Directors

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

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

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

In accordance with the Companies Act 2006 and the Articles of Association there was one director appointed during the year and two directors were eligible to retire by rotation. who were required to offer themselves for re-election at the AGM in September 2021.

Insurance and indemnities

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

Board membership

A full list of Board members and the skills and experience of the current directors are set out in the biographies in the previous section called Board of Directors.

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

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

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

Go Muromoto and Keita Saito were appointed to the Board as representatives of Mitsubishi Corporation, and they resigned on 31 December 2021 and 31 March 2021 respectively. Yasushi Umemura and Naoto Kinoshita were both appointed on 1 April 2022 replaced both as Mitsubishi Corporation representatives. Both resigned on 8 August 2022 on the date of the sale of the Mitsubishi Corporation's shareholding to investors advised by Arjun Infrastructure Partners Limited.

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

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

Caroline Stretton is the General Counsel & Company Secretary

Functions of the Board

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

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

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

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

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

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

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

The Directors are supported by an Executive team and by other senior managers who are responsible for assisting them in the development and achievement of the Group's strategy, and reviewing the financial and operational performance of the

Group, as well as its individual businesses. Along with the Directors, the Executive team is responsible for monitoring policies and procedures along with any other matters that are not reserved for the Board. There are procedures providing a framework of authorisation levels for key decision- making. Details of the Executive team's skills and experience are contained in their biographies in the previous section.

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

Matters reserved for the Board

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

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

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

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

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

Board meetings

The Board holds regular scheduled meetings throughout the year. During the year ended 31 March 2022, there were twelve Board meetings (ten scheduled and two additional meetings).

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

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

Organisational structure

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

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

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

Risk Management

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

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

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

Further details of risk management and principal risks are set out in 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.

Regulatory reporting

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

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

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

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

Board Committees

Audit and Risk Committee Review

Membership for the year ended 31 March 2022

Chairman	Keith Harris (Meetings attended 3/3)
Other members	Peter Antolik (Meetings attended 3/3) Steve Johnson (Meetings attended 3/3) Keita Saito (Resigned 31 March 2022, meetings attended 3/3)
Meetings are also regularly attended by:	Deloitte LLP (the Group's external independent auditor), the Group Chief Executive, the Group Chief Financial Officer, The Group Internal Audit Manager and representatives from Arjun Infrastructure Partners Limited and Mitsubishi Corporation.

Role and responsibilities

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

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

The Committee is also responsible for:

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

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

Key terms of reference

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

Audit & Risk Committee activities

In the year ended 31 March 2022, the Audit Committee focused on the key business risks set out in the financial review section of the strategic report, including:

- reviewing the Group business risk register and risk mitigation;
- reviewing the effectiveness of internal controls including approval of the revised Internal Control Manual;
- ensuring compliance with the ISO 27001 Information System Security Risk Management standard for IT services provided by Group Services and;
- the year-end external audit planning process.

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

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

The responsibilities of the external auditor in relation to financial reporting for 2021/22 are set out in its report that follow.

Financial reporting and planning

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

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

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

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

Sensitivity analysis has been carried out on the Group's longer-term financial forecasts to ensure its long-term viability. This ensures the Company can withstand certain severe but plausible events to demonstrate and provide the Board with evidence of its long-term viability and financial resilience.

Internal control

The Board, supported by the Audit & Risk Committee, attaches considerable importance to the Company's system of internal control and reviews its effectiveness. This includes ensuring reasonable steps are taken to safeguard the wider group's assets and to prevent and detect material fraud and other irregularities. The internal control system can provide only reasonable and not absolute assurance against material misstatement 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, considering the nature of its operations and structure.

Internal Audit

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

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

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

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

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

External independent auditor

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

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

The responsibilities of the external independent auditor in 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.

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

Nomination Committee Review

Membership for the year ended 31 March 2022		
Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	1/1
Mr Peter Antolik (appointed 03/07/2018)	Member	1/1
Mr Keita Saito (appointed 01/04/2020)	Member	1/1

Meetings

Meetings are convened when required. During the year, one meeting was held to oversee appointments to the senior leadership team.

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 29 of the strategic report.

Remuneration Committee Review

Membership for the year ended 31 March 2022		
Director	Role	Board Meetings Attended
Mr Steve Johnson (appointed 03/07/2018)	Chair	3/3
Mr Peter Antolik (appointed 03/07/2018)	Member	3/3
Mr Keita Saito (appointed 01/04/2020)	Member	3/3

Meetings

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

Roles and responsibilities

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

Key terms of reference

Key terms of reference include:

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

Remuneration report

Remuneration policy

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

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

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

Board and Executive terms of engagement

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

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

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

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

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

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

Further details in respect of the Group Chief Executive, the Group Chief Financial Officer and Executive team's remuneration set out below and in note 5 to the report and accounts.
The remuneration of the Chairman and one of the Non-Executive Directors is determined by the Board. As the other Non-Executive Directors for the year ended 31 March 2022 are representatives of the Company's shareholders, they do not receive any remuneration from the Company and their appointments have no fixed term.

Long-Term Incentive Plan (LITP)

The LTIP was introduced in 2020 and the scheme is in its second year. This incentive plan aligns the long-term interests of the shareholders and the executive team, retains and rewards executive management of certain calibres as well as rewards for the performance over the 2020/25 (AMP7) regulatory period, for certain managers.

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

The award0s under the LTIP are accrued and at the end of the fifth year 80% of the accrued amount, at target level, could be paid provided that the employee is still employed or has left as a 'Good Leaver'. Multiplier arrangements will apply at the end of the bonus plan cycle. The aggregate bonus bank will be varied based on the extent to which the South Staffordshire Plc group has hit its cumulative distributions and profit after tax. Adjustments will be subject to the terms (plus or minus and no lower than nil). Malus and clawback provisions also apply. All awards are subject to income tax.

	Executive Directors		Chairman & Non-Executive Directors		Executive Team*		Total	
	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000
Basic Salary	439	392	108	75	578	518	1,125	986
Benefits	28	25	—	—	37	59	65	83
Bonus	274	322	—	—	310	347	584	669
Total Emoluments	**741**	**739**	**108**	**75**	**925**	**924**	**1,774**	**1,738**
Pension Contributions	37	35	—	—	59	49	97	84
Total Remuneration	**778**	**774**	**108**	**75**	**984**	**973**	**1,871**	**1,822**

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

Directors' Responsibilities Statement

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

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

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

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

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

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

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

The Directors of the Company and their roles are listed in the previous section called Board of Directors.

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 31st March 2022 and of the group's loss 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 and parent company balance sheets;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 34.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:
• assessing Management's financing facilities including nature of facilities, repayment terms and covenants;
• assessing Management's projected cash flow by reviewing past performance and retrospective review of previous assumptions and estimates;
• assessing the assumptions used in establishing the liquidity position throughout the going concern period, with reference to forecast income and expenses;
• challenging the headroom on covenants through performing sensitivity analysis; and
• evaluating the appropriateness of the disclosures in the financial statements.

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the group's regulations surrounding pollution of water, the Drinking Water Inspection (DWI), the consumer council for water and the Environment Agency (EA).

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

As a result of performing the above, we identified the greatest potential for fraud in the evaluation and recoverability of Accrued Income. Our specific procedures performed to address this included;

- obtaining an understanding of the relevant controls over the cut-off and recoverability of accrued income;
- testing the associated revenue balance through a combination of analytical review and tests of detail around invoicing and tracing back to supporting documentation to ascertain whether transactions were accounted for in the correct period and if they are accurate and complete;
- challenging the recognition of accrued income to ensure it relates to work performed of services supplied pre-year end, but not invoiced until after year end;
- testing the recoverability of accrued income through inspection of post year end invoices and cash receipt; and;
- performing alternate procedures where cash has not been received, including discussions with management and corroboration of explanations through the inspection of correspondence from customers and consideration of historic validity.

Our specific procedures in relation to South Staffordshire Water Plc Accrued Income included;

- obtaining an understanding of the relevant controls over the recognition of accrued income and general IT controls over the billing system;
- assessing the historical accuracy of assumptions related to measured income by performing a retrospective review;
- involving data specialists in performing a full re-calculation of the accrued income balance and assessing the difference to the amount recognised in the financial statements;
- testing the accuracy and completeness of the source data from which the historical billed consumption data is derived by agreeing to underlying customer bills and meter reads; and
- challenging the appropriateness of manual adjustments made by management in finalising the accrued income estimate by developing our own point estimate to consider the reasonableness of management's adjustments.

We have also identified that the greatest potential for fraud in the recoverability of trade receivables for South Staffordshire Water Plc.

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

- obtaining an understanding of the relevant controls over the calculation of the bad debt provision and general IT controls over the billing systems;
- assessing and challenging the method used to calculate the bad debt provision to assess whether it is reasonable by considering the most recent collection experience, consistency of the method with prior years, and any changes in our understanding of the business;
- obtaining the year-end bad debt provision

calculation and assessing the accuracy of Management's calculation in the context of historical trends and plans for future collection and testing whether It is calculated in line with the company's policy;
• testing the accuracy and completeness of the source data from which the cash collection rates are derived by agreeing to underlying invoices and cash receipts; and
• obtaining and challenging Management's assessment of the impact of wider economic trends such as inflation and pressure on household income on the expected cash collection rates including, by assessing actual cash collections recognised post year-end and comparing the impact against similar companies in the Water industry.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit. We have nothing to report in respect of these matters.

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

Scott Bayne FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds,
United Kingdom
03 October 2022.

Financial statements

Consolidated Profit and loss account – for the 12 months ended 31 March 2022

	Note	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Group Turnover	2	281,889	261,625
Operating costs before goodwill amortisation (net)	3	(252,241)	(238,890)
Other operating income	6	7,425	9,786
Group operating profit before goodwill amortisation and share of joint venture		37,073	32,521
Share of joint venture operating profit / (loss)		516	453
Group operating profit before goodwill amortisation and impairment		37,589	32,974
Amortisation of Goodwill	11	(2,867)	(2,863)
Goodwill Impairment	11	(6,124)	(1,309)
Total operating profit		28,598	28,802
Finance charges (net)	7	(20,264)	(8,872)
Profit before taxation		8,334	19,930
Taxation on profit	8	(19,188)	(4,160)
(Loss)/profit after taxation		(10,854)	15,770
Less profit after tax on non-controlling interests	27	(61)	(86)
(Loss)/Profit for the financial year		(10,915)	15,684
Earnings per share			
Basic and diluted	10	-85.1p	122.3p

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

Consolidated Balance sheet – as at 31 March 2022

	Note	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Fixed Assets			
Intangible assets	11	44,465	19,935
Investment in joint venture	12	421	222
Investments	16	73,145	86,400
Tangible assets	13	607,586	582,958
		725,617	689,515
Current Assets			
Stocks	17	5,229	4,371
Debtors - amounts recoverable within one year	18	70,148	69,265
Debtors - amounts recoverable in more than one year	18	2,654	2,857
Retirement benefit surplus	22	54,538	46,272
Cash at bank and in hand		101,682	49,291
		234,251	172,056
Creditors – amounts falling due within one year			
Borrowings	19	(31,461)	(34,358)
Other creditors	20	(112,285)	(96,214)
		(143,746)	(130,572)
Net current assets		90,505	41,484
Total assets less current liabilities		816,122	730,999
Creditors – amounts falling due in more than one year			
Borrowings	19	(523,021)	(435,847)
Other creditors	20	(16,499)	(18,022)
Accruals and deferred income	15	(168,704)	(163,332)
Provisions for liabilities	21	(79,915)	(55,774)
		(788,139)	(672,975)
Net Assets		27,983	58,024
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Revaluation reserve	25	14,248	17,155
Capital redemption reserve	25	1	1
Merger reserve	25	(253)	(253)
Currency translation reserve	25	(26)	(58)
Hedging reserve	25	(3,133)	(5,372)
Profit and loss account		548	30,014
Shareholders' Funds		27,716	57,818
Non-controlling interest	27	267	206
Total capital employed		27,983	58,024

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 3 October 2022

P C Newland Group Chief Executive

Company Balance sheet – as at 31 March 2022

	Note	31 Mar 22 £'000	31 Mar 21 £'000
Fixed Assets			
Investments	16	242,695	165,621
Tangible assets	13	232	2,600
		242,927	168,221
Current Assets			
Stocks	17	136	26
Debtors - amounts recoverable within one year	18	617	9,936
Retirement benefit surplus	22	42,532	35,289
Cash at bank and in hand		15,088	7,736
		58,373	52,987
Creditors – amounts falling due within one year			
Other creditors	20	(16,675)	(12,250)
		(16,675)	(12,250)
Net current assets		41,698	40,737
Total assets less current liabilities		284,625	208,958
Creditors – amounts falling due in more than one year			
Borrowings	19	(133,333)	(172,944)
Trade and other payables	20	(9,143)	(7,895)
Provisions for liabilities – deferred tax	21	(9,942)	(6,554)
		(152,418)	(187,393)
Net Assets		132,207	21,565
Capital and reserves			
Share capital	24	5,449	5,449
Share premium account	25	10,882	10,882
Capital redemption reserve	25	1	1
Profit and loss account		115,875	5,233
Shareholders' Funds		132,207	21,565

The profit in the year ended 31 March 2022 for the Company is £132,166,000 (2021: £1,081,000 loss) which also included £750,000 profit from the sale of Grosvenor to a third party. The Company has applied the section 408 exemption from preparing a separate profit and loss account. A statement of movement of reserves is given in the Company Statement of Changes in Equity. The accompanying notes are an integral part of these financial statements. The financial statements of South Staffordshire Plc, registered number 4295398, were approved by the Board of Directors and authorised for issue 3 October 2022.

P C Newland Group Chief Executive

Consolidated Statement of comprehensive income – for the year ended 31 March 2022

	31 Mar 22 £'000	31 Mar 21 £'000 Restated
(Loss)/Profit for financial year	(10,915)	15,684
Movement on hedging reserve	2,344	745
Deferred tax impact of movement in hedging reserve	(554)	(115)
Actuarial (loss)/gain relating to retirement benefit surplus	7,969	(46,157)
Deferred tax on actuarial gain/(loss) relating to retirement benefit surplus	(1,993)	8,770
Deferred tax rate change	(2,327)	-
Exchange movements on translation of overseas operations	32	(62)
Total consolidated comprehensive income for the year from controlling interests	(5,444)	(21,135)
Profit for financial year from non-controlling interests	61	86
Total consolidated comprehensive income for the year	(5,383)	(21,049)

The results in both statements above are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

Consolidated Statement of changes in equity – as at 31 March 2022

	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**	**Shareholder Funds £'000**	**Non-controlling Interests £'000**	**Total Capital Employed £'000**
Balance at 31 March 2020 previously stated	5,449	10,882	1	(253)	17,390	67,293	4	(6,002)	94,764	420	95,184
Chnages due to restatement prior year	-	-	-	-	-	6,039	-	-	6,039	-	6,039
Balance at 31 March 2020 restated	**5,449**	**10,882**	**1**	**(253)**	**17,390**	**73,332**	**4**	**(6,002)**	**100,803**	**420**	**101,223**
Profit for the financial period	-	-	-	-	-	15,684	-	-	15,684	86	15,770
Exchange movements on translation of overseas operations	-	-	-	-	-	-	(62)	-	**(62)**	-	**(62)**
Change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	604	**604**	-	**604**
Deferred tax on change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	(115)	**(115)**	-	**(115)**
Actuarial loss relating to retirement benefit surplus	-	-	-	-	-	(46,157)	-	-	**(46,157)**	-	**(46,157)**
Deferred tax on actuarial gain relating to retirement benefit surplus	-	-	-	-	-	8,770	-	-	**8,770**	-	**8,770**
Deferred tax rate change	-	-	-	-	-	-	-	-	**-**	-	**-**
Amounts transferred to profit and loss	-	-	-	-	(235)	235	-	174	**174**	-	**174**
Deferred tax on amounts transferred to profit and loss	-	-	-	-	-	-	-	(33)	**(33)**	-	**(33)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(235)**	**(21,468)**	**(62)**	**630**	**(21,135)**	**86**	**(21,049)**
Acquisition of non-controlling interest shares	-	-	-	-	-	(1,200)	-	-	**(1,200)**	(300)	**(1,500)**
Dividends (Note 9)	-	-	-	-	-	(20,650)	-	-	**(20,650)**	-	**(20,650)**
Balance at 31 March 2021	**5,449**	**10,882**	**1**	**(253)**	**17,155**	**30,014**	**(58)**	**(5,372)**	**57,818**	**206**	**58,024**

Consolidated Statement of changes in equity – as at 31 March 2022 (continued)

	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	Shareholder Funds £'000	Non-controlling Interests £'000	Total Capital Employed £'000
Balance at 31 March 2021	**5,449**	**10,882**	**1**	**(253)**	**17,155**	**30,014**	**(58)**	**(5,372)**	**57,818**	**206**	**58,024**
Profit/(loss) for the financial period	-	-	-	-	-	(10,915)	-	-	**(10,915)**	61	**(10,854)**
Exchange movements on translation of overseas operations	-	-	-	-	-	-	32	-	**32**	-	**32**
Change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	2,215	**2,215**	-	**2,215**
Deferred tax on change in value of hedging instruments - cash flow hedges	-	-	-	-	-	-	-	(554)	**(554)**	-	**(554)**
Actuarial gain relating to retirement benefit surplus	-	-	-	-	-	7,969	-	-	**7,969**	-	**7,969**
Deferred tax on actuarial gain relating to retirement benefit surplus	-	-	-	-	-	(1,993)	-	-	**(1,993)**	-	**(1,993)**
Deferred tax rate change	-	-	-	-	-	(2,776)	-	449	**(2,327)**	-	**(2,327)**
Amounts transferred to profit and loss	-	-	-	-	(2,907)	2,907	-	172	**172**	-	**172**
Deferred tax on amounts transferred to profit and loss	-	-	-	-	-	-	-	(43)	**(43)**	-	**(43)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,907)**	**(4,808)**	**32**	**2,239**	**(5,444)**	**61**	**(5,383)**
Dividends (Note 9)	-	-	-	-	-	(24,658)	-	-	**(24,658)**	-	**(24,658)**
Balance at 31 March 2022	**5,449**	**10,882**	**1**	**(253)**	**14,248**	**548**	**(26)**	**(3,133)**	**27,716**	**267**	**27,983**

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

Company Statement of changes in equity – as at 31 March 2022

			Called-up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	**Shareholders' Funds £'000**
Balance at 31 March 2020			**5,449**	**10,882**	**1**	**55,674**	**72,006**
Profit for the financial period			-	-	-	1,081	**1,081**
Actuarial loss relating to retirement benefit surplus			-	-	-	(38,114)	**(38,114)**
Deferred tax on actuarial gain relating to retirement benefit surplus			-	-	-	7,242	**7,242**
Total comprehensive income			5,449	10,882	1	25,883	**42,215**
Dividends (Note 9)			-	-	-	(20,650)	**(20,650)**
Balance at 31 March 2021			**5,449**	**10,882**	**1**	**5,233**	**21,565**
Profit for the financial period			-	-	-	132,166	132,166
Actuarial loss relating to retirement benefit surplus			-	-	-	7,002	7,002
Deferred tax on actuarial loss relating to retirement benefit surplus	-	-	-		(1,751)	(1,751)	
Deferred tax rate change					(2,117)	(2,117)	
Total comprehensive income	-	-	-		135,300	**135,300**	
Dividends (Note 9)			-	-	-	(24,658)	**(24,658)**
Balance at 31 March 2022			**5,449**	**10,882**	**1**	**115,875**	**132,207**

The accompanying notes are an integral part of the financial statements

Consolidated Cash flow statement – as at 31 March 2022

	31 Mar 22		31 Mar 21 Restated	
	£'000	**£'000**	£'000	£'000
Cash inflow from operating activities		86,361		60,415
Corporation tax paid		(95)		(2,476)
Net cash inflow from operating activities		86,266		57,939
Cash flows from investing activities				
Purchase of tangible fixed assets	(50,427)		(46,554)	
Proceeds from sale of tangible fixed assets	1,003		888	
Interest received	4,182		6,947	
Repayment of loans from parent undertakings	25,000		8,914	
Additions to loans to parent undertakings	(37,600)		-	
Cash balances of businesses acquired (net)	3,110		-	
Proceeds from exceptional disposal of rental income rights	-		-	
Net cash outflow from investing activities		(54,732)		(29,805)
Cash flows from financing activities				
Interest paid	(14,093)		(12,453)	
Equity dividends paid	(24,658)		(20,650)	
Drawdown of RCF	40,000		28,500	
Repayment of RCF	(100,500)		(45,000)	
Drawdown / additions to bank loans	95,000		30,000	
Bank loan issue costs paid	(1,889)		(426)	
Repayment of bank loans	-		(30,000)	
Drawdown / additions to private placement loan notes	30,000		-	
Private placement loan notes issue costs paid	(42)		-	
Capital element of finance lease and hire-purchase rental payments	(64)		(92)	
Cash outflow from financing activities		23,754		(50,121)
Increase in cash and cash equivalents		55,288		(21,987)
Cash or cash equivalents brought forward		15,013		37,000
Cash or cash equivalents carried forward		70,301		15,013

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 £50,427,000 (2021: £46,554,000) and additions in the fixed asset note of £57,821,000 (2021: £48,903,000) is due to an increase in the year of creditors due relating to capital purchases of £7,394,000 (2021: £2,349,000 increase).

The cash balance of £70,301,000 (2021: £15,013,000) represents positive cash balances of £101,682,000 (2021: £49,291,000) net of overdraft balances of £31,381,000 (2021: £34,278,000).

Notes to the consolidated cash flow statement

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

	31 Mar 22		31 Mar 21	
	£'000	**£'000**	£'000	£'000
Total Group operating profit		**28,598**		28,802
Depreciation	31,360		32,655	
Amortisation of goodwill	2,867		2,863	
Impairment of goodwill	6,124		1,309	
Amortisation of intangible assets	778		732	
Amortisation of capital contributions	(3,356)		(3,228)	
Share of joint venture operating loss / (profit)	(516)		(453)	
(Loss)/Profit on disposal of fixed assets	830		(349)	
Capital contributions received	8,728		7,232	
		46,815		40,761
Increase in stocks	(94)		(743)	
Increase in debtors	3,878		(2,988)	
Increase / (decrease) in creditors	7,164		(5,417)	
		10,948		(9,148)
Cash inflow from operating activities		**86,361**		60,415
Corporation tax paid		(95)		(2,476)
Net cash inflow from operating activities		**86,266**		57,939

(b) Reconciliation in movement in net debt

	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Increase / (decrease) in net cash	**55,288**	(21,987)
Increase in drawings on short-term bank loans	**-**	-
	55,288	
Finance lease additions	**-**	(423)
Finance lease repayments (cash)	**64**	92
Repayment of bank term loans	**-**	30,000
Intercompany loans acquired from acquisitions in the year (non-cash)	**(14,291)**	-
Draw down of RCF	**(40,000)**	(28,500)
Repayments of RCF	**100,500**	45,000
Issue of bank loans	**(95,000)**	(30,000)
Bank loan issue costs paid	**1,887**	426
Bank term loan issue cost amortisation (non-cash)	**(732)**	(172)
Issue of private placement loan notes (net of issue costs cash)	**(29,958)**	-
Private placement issue cost amortisation (non-cash)	**307**	(29)
Movement on index-linked debt (non-cash)	**(9,952)**	(3,014)
(Increase) / reduction in net debt in the year	**(31,886)**	(8,608)
Net debt brought forward	**(420,914)**	(412,306)
Net debt carried forward	**(452,801)**	(420,914)

Notes to the cash flow statement (continued)

C) Analysis of net debt

	Restated Balance at 1 April 2021	Acquisitions and disposals	Cash Flow	Non-Cash Movements	Balance at 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand (net of overdraft)	15,013	3,110	52,178	-	**70,301**
Drawings on short-term bank loans	-	-	-	-	**-**
	15,013	3,110	52,178	-	**70,301**
Intercompany loan	-	(14,291)	-	-	**(14,291)**
Irredeemable debenture stock	(1,652)	-	-	-	**(1,652)**
Index-linked debt (net of issue costs)	(231,201)	-	-	(9,952)	**(241,153)**
Bank term loans (net of issue costs)	(129,900)	-	(32,612)	(733)	**(163,245)**
Private placement loan notes (net of issue costs)	(72,843)	-	(29,958)	307	**(102,494)**
Obligations under finance leases and hire-purchase contracts	(331)	-	64	-	**(267)**
Net debt	(420,914)	(11,181)	(10,328)	(10,378)	**(452,801)**

The cash flows in respect of the Company's bank loans include repayments of £100,500,000 and drawdowns of £95,000,000 as part of the refinancing undertaken in the year.

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 £424,909,000 (2021: £409,314,000). Index-linked debt used for covenant reporting purposes is the indexed principal whereas, in accordance with applicable accounting standards, the book value represents amortised cost. Also, bank loans and private placement loan notes for covenant reporting purposes are reported at principal value before costs whereas the book value above includes un-amortised costs. A reconciliation of book net debt (as reported above) to net debt for covenant purposes is provided below.

	31 Mar 22	30 Mar 21
	£'000	£'000
		Restated
Book net debt (as reported above)	(452,801)	(420,914)
Exclude intercompany loan	14,291	-
Exclude book premium on issue of index linked debt	12,803	13,165
Exclude unamortised issue costs	(1,561)	(2,251)
Exclude accrued interest	2,359	686
Net debt reported for borrowing covenants	(424,909)	(409,314)

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

Notes to the financial statements

1. Statement of accounting policies

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

(a) General Information and Basis of Accounting

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

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

(b) Basis of Consolidation

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

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

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

(c) Turnover

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

Other income includes rental income, which is recognised over the term of the lease.

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

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

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

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(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 Pumping stations, booster stations and treatment plant	Specialised Operational Assets	100 years 50-80 years
Mains, mains diversions Impounding reservoirs and land	Infrastructure Assets	100 years 50-80 years
Fixed plant	Non Specialised Operational Assets	20-30 years
Meters	Other Tangible Assets	15 years
Mobile plant	Other Tangible Assets	Up to 10 years
Office equipment	Other Tangible Assets	Up to 10 years
Motor vehicles	Other Tangible Assets	3-7 years

(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) Opex vs Capex

Our business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgments to be made. The judgments are made based on objective criteria that the company has developed to facilitate the consistent application of its accounting policies. The costs of like for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised.

(i) 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.

(j) 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.

Loans receivable/intercompany balances for continuing use are held at cost.

Investments in joint ventures are measured at cost less impairment.

(k) Stocks

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

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Related Party Transactions

As of 31 March 2022, 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 31.

(s) Saas agreements

The company has changed its accounting policy related to the capitalisation of certain software costs; this change follows the IFRIC Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under 'Software as a Service' ('SaaS') arrangements.

The Group's accounting policy has historically been to capitalise costs directly attributable to the configuration and customisation of Saas arrangements as an asset in the balance sheet, irrespective of whether the services were performed by the Saas supplier or third party. Following the adoption of the above IFRIC guidance, current Saas arrangements were identified and assessed to determine if the company has control of the software. For the arrangements where we do not have control of the developed software, to the extent that the services were performed by third parties, the company derecognised the intangible asset previously held as works in progress (WIP). This change in accounting policy led to the costs for the new billing system being expensed in the year; there is no prior year adjustment.

(t) Hedge accounting

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

Significant judgements were:

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 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 2022 was £13,558,000 (2021: £12,707,000). A 1% movement in consumption equates to a £109,000 movement. Other accrued income, including unregulated group activities, totalled £13,535,000 (2021: £8,516,000), with the balances assessed on an individual contract basis based on work completed at the reporting date.

Amortised cost of index-linked borrowings

In order to record the company's index-linked borrowings at amortised cost the actual inflation rate (Retail Price Index - or RPI) per annum is assessed. The net book value of index-linked borrowings as at 31 March 2022 was £241,153,000 (2021: £231,201,000 restated).

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 £33,411,000 as at 31 March 2022 (2021: £29,177,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase approximately £1,000,000.

Tangible fixed assets – Assessment of useful economic lives

There is a requirement to estimate the useful economic lives of tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the businesses forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of assets lives. The total net book value of Group tangible fixed assets as at 31 March 2022 is £607,586,000 (2021: £582,958,000). South Staffordshire Water PLC assets included in the total above amounted to £597,728,000 (2021: £569,088,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be approximately £3,000,000.

Defined benefit pension schemes

Judgements, assumptions and estimates are required to appropriately record the assets and liabilities of defined benefit pension schemes in the balance sheet at each period end. The Directors use the services of professional actuaries to advise on the most appropriate valuations for these assets and liabilities in accordance with the relevant accounting standard. The net accounting surplus for these assets and liabilities as at 31 March 2022 in the consolidated balance sheet is £7,969,000 (2021: £46,272,000). A 3% movement in the net accounting surplus of the schemes would result in a comprehensive income movement of £1,388,000.

Goodwill

We undertake an exercise to estimate future cash flows from each CGU when we conduct our annual impairment review. We have key assumptions over growth rates of EBITDA which impacts the profit assumed and hence free cash flow generation in each CGU. The key area for estimation uncertainty surrounds the growth rates applied to EBITDA.

2. Segmental information

Turnover

	31 Mar 22 £'000	31 Mar 21 £'000
South Staffs Water	140,108	130,290
Inter-divisional	(1)	(1)
South Staffs Water (external)	**140,107**	130,289
Non-regulated service businesses	182,283	165,457
Inter-divisional	(40,501)	(34,122)
Non-regulated service businesses (external)	**141,782**	131,335
Group Turnover	**281,889**	261,625

Operating profit

South Staffs Water	27,156	25,136
NHH Joint Venture	46	438
South Staffs Water (including non-household retail joint venture)	27,202	25,574
Non-regulated service businesses	1,396	3,228
Total operating profit	28,598	28,802

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):

	31 March 22 £'000	31 March 21 £'000
Operating profit	28,598	28,802
Depreciation	31,360	32,655
Infrastructure renewals (net of contributions)	12,845	10,114
Amortisation of goodwill	2,867	2,863
Impairment of goodwill	6,124	1,309
Amortisation of intangible assets	778	732
Amortisation of capital contributions	(3,356)	(3,228)
EBITDA (before infrastructure renewals	79,216	73,247

2. Segmental information (continued)

Net operating Assets

	31 Mar 22 £'000	31 Mar 21 £'000
South Staffs Water	366,626	377,516
Non-regulated service businesses	63,972	35,815
Net operating assets	430,598	413,331
Net debt (book value)	(452,801)	(420,914)
Intangible assets	44,465	19,935
Loans receivable from parent undertakings in more than one year	37,337	64,883
Other non-operating net liabilities	(4,701)	(7,904)
Corporation tax receivable (net)	(1,538)	(1,806)
Retirement benefit surplus	54,538	46,272
Provisions for liabilities - deferred tax	(79,915)	(55,774)
Net assets	27,983	58,024

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

3. Operating costs

	31 Mar 22 £'000	31 Mar 21 £'000
Operating costs were as follows:		
Raw materials and consumables	32,451	28,889
Staff costs (see note 4)	91,265	86,133
Depreciation: non-infrastructure assets	27,555	28,600
Depreciation: infrastructure assets	3,805	4,055
Infrastructure renewals expenditure	12,845	10,114
Amortisation of intangible assets	778	732
Own work capitalised	(8,594)	(9,124)
Loss on disposal of fixed assets	830	-
Operating lease rentals:		
plant and machinery	35	54
other	4,295	4,167
Charge for bad and doubtful debts	4,516	3,634
Other operating costs	82,460	81,636
	252,241	238,890

Auditor remuneration is analysed as follows.

	31 Mar 22 £'000	31 Mar 21 £'000
Audit of the Company's annual accounts	100	57
The audit of other Group undertakings pursuant to legislation	444	269
Total audit fees	**544**	326
Audit related assurance services	102	84
Other assurance services	-	14
Total non-audit fees	**102**	98

4. Staff costs

	31 Mar 22 £'000	31 Mar 21 £'000
Wages and salaries	80,927	76,443
Social security costs	7,595	7,129
Pension costs (see note 29)	2,743	2,561
	91,265	86,133

	31 Mar 22 Number	31 Mar 21 Number
Average number of employees (full-time equivalents)		
South Staffordshire Plc	76	73
South Staffs Water	431	432
Non-regulated service businesses	2,182	2,075
	2,689	2,580

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

5. Directors' remuneration

	31 Mar 22 £'000	31 Mar 21 £'000
Emoluments	849	814
Company contributions to money purchase pension schemes	37	35
Total	886	849

No Directors holding office at 31 March 2022 accrued benefits under a Group defined benefit pension scheme during the year (2021: Nil) and 2 Directors were contributing members of a Group money purchase pension scheme during the year (2021: 1 Director). There were £37,000 of contributions paid by the Group in respect of money purchase pension schemes for Directors during the year (2021: £35,000).

The highest paid Director received emoluments of £417,000 (2021: £385,000) during the year. There were £17,000 of Group contributions in respect of a money purchase pension scheme for the highest paid Director (2021: £18,000).

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 section above.

6. Other operating income

		31 Mar 22 £'000	31 Mar 21 £'000
Profit on disposal of fixed assets		-	349
Rental income		462	416
Grants and Contributions	14	3,356	3,228
Corporate job retention scheme receipts		89	3,489
Infrastructure renewals contributions		3,518	2,304
		7,425	9,786

Rentals included in rental income include:

- Fulbourn Road lease from 6 March 2020, expires 5 March 2022; rent is fixed at £186,000 per annum for the term of the lease for part occupation of the property. £56,000 annual service charge and £80,000 in rates is included within the above. Rent, service charge and business rates are payable quarterly in advance. This agreement ended on 6 March 2022; and
- Fradley land, tenancy with rent £30,000 per annum paid annually in advance; hence this is an annual tenancy running year to year.
- Infrastructure renewals contributions are for mains diversionary works.
- During the year certain group companies utilised the government's Corporate Job Retention Scheme, with certain employees being placed on furlough during the COVID-19 pandemic. The total amount of contribution from the scheme was £89,000 (2021: £3,489,000) and has been disclosed as other operating income above.

7. Finance costs (net)

	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Interest payable and similar charges:		
Index-linked debt (cash)	7,981	7,401
Index-linked debt (non-cash)	9,952	3,013
Bank term loan, drawings on short-term bank loans and other interest	3,460	2,357
Private placement loan notes	2,805	2,166
Share of interest payable in joint venture	317	328
Irredeemable debenture stock	68	68
	24,583	15,333
Interest receivable:		
Interest receivable from joint venture	(317)	(328)
Interest on loans to parent undertakings	(3,877)	(4,527)
	20,389	10,478
Other finance income: (net)		
Defined benefit pension scheme interest credit (net)	(297)	(1,780)
Amounts recycled from hedging reserve	172	174
	20,264	8,872

8. Tax on profit

	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Current tax:		
UK corporation tax at 19% (2021: 19%)	(421)	3,919
Adjustments in respect of prior periods	157	(1,120)
Foreign tax	94	62
Total current tax charge	(170)	2,861
Deferred tax:		
Origination and reversal of timing differences	4,577	421
Impact of prior period accounting adjustments (before discount)	15,307	-
Adjustments in respect of prior periods	(526)	878
Total deferred tax charge	19,358	1,299
Total tax charge	19,188	4,160

Tax included in statement of comprehensive income

	31 Mar 22 £'000	31 Mar 21 £'000
Deferred tax:		
Actuarial (loss)/gain on pension scheme	1,993	(8,770)
Movement in hedging reserve	554	115
Effect of change in deferred tax rate	2,327	-
Total tax (credit)/charge	4,874	(8.655)

The tax assessed on the profit for the year is higher than the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are reconciled below:

	31 Mar 22 £'000	31 Mar 21 £'000 Restated
Profit on ordinary activities before tax	8,334	19,930
Profit multiplied by standard UK corporation tax rate of 19% (2021: 19%)	1,583	3,787
Expenses not deductible for tax purposes (net)	1,174	996
Deferred tax provided at lower rate	1,102	-
Impact of changes in future tax rates	15,308	-
Adjustments in respect of prior years	(368)	(242)
Group relief received not paid for	367	(385)
Deferred tax not provided	-	(17)
Difference in foreign tax rates	22	21
Total tax charge	19,188	4,160

8. Tax on profit (continued)

An increase in the future UK corporation tax rate from 19% to 25% with effect from 1 April 2023 was substantively enacted in the Finance Act 2021 on 24 May 2021, therefore its effects have been included in these financial statements. On the 23 September 2022 the UK Government made a statement that it intends to enact legislation to reverse this increase and that the UK corporation tax will remain at 19% from 1 April 2023. Any such change in legislation will be reflected in future financial statements.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £2,733,000 (2021: £2,077,000).

9. Dividends paid

	31 Mar 22 £'000	31 Mar 21 £'000
Equity Interests		
Ordinary Dividends paid of 192.3p (2021: 161.1p) per share	24,658	20,650

10. Earnings per share

	31 Mar 22	31 Mar 21 Restated
	£'000	£'000
(Loss)/profit for the financial year and profit for earnings per share	(10,915)	15,684

	31 Mar 22 Number of Shares	31 Mar 20 Number of Shares
Weighted average number of shares for basic and diluted earnings per share	12,819,856	12,819,856

	2022	2021
Earnings per share	(85.1)p	122.3p

11. Intangible assets

Group

	Development Costs £'000	Goodwill £'000	Total £'000
Cost			
At 31 March 2021	8,136	57,749	65,885
Additions	-	34,299	34,299
Disposals	-	(3,145)	(3,145)
At 31 March 2022	**8,136**	**88,903**	**97,039**
Amortisation			
At 31 March 2021	1,194	44,756	45,950
Charge for the year	778	2,867	3,645
Disposals	-	(3,145)	(3,145)
Impairment of goodwill	-	6,124	6,124
At 31 March 2022	**1,972**	**50,602**	**52,574**
Net Book Value			
At 31 March 2022	**6,164**	**38,301**	**44,465**
Net Book Value			
At 31 March 2021	6,942	12,993	19,935

Additions in the year related to the acquisition of Omega Red Group Limited and Omega Red Holdings Limited (see note 30 for details).

During the year ended 31 March 2022 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.

When transferring the shares in ORGHL we based the valuation on the long-term valuation assumptions for our commercial businesses used by our shareholders; being based on a multiple of earnings. These multiples are benchmarked against a number of comparatives which may be transactions or market price evidence and produce a range of credible multiples. At the stage of finalising the 31 March 2022 accounts the Directors decided to re-evaluate where in this range the earnings multiple should now be, given the wider UK economic environment and heightened risks to growth. The Directors have therefore decided to base the carrying value on a multiple at the low end of the shareholder’s valuation range and this resulted in an impairment of £6,124,000.

The disposal related to Grosvenor following its sale to a third party.

12. Investment in Joint venture

	£'000
Balance at 1 April 2021	222
Profit after taxation	199
Balance at 31 March 2022	421

During the year the Group provided Wholesale water services to the retailer Pennon Water Services Ltd, incorporated in the United Kingdom (registered office: Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR. South Staffordhsire Plc own 20% of Pennon Water Services Ltd ordinary share capital. Turnover of £17,771,000 (2021: £15,501,000) in relation these transactions was recognised and there was a trade debt outstanding of £17,000 (2021: £27,000) at the year end.

The Group has an outstanding interest-bearing loan balance due from PWSL of £6,517,000 (2021: £6,517,000) which remained outstanding at 31 March 2022.

13. Tangible fixed assets

Group

	Land and Buildings £'000	Infrastructure Assets £'000	Fixed Plant & Equipment £'000	Specialised Operational Assets £'000	Total £'000
At 1 April 2021	28,999	506,375	303,104	272,859	1,111,337
Additions	2,035	12,259	30,809	12,718	57,821
Disposals	(8)	0	(21,725)	0	(21,733)
At 31 March 2022	**31,026**	**518,634**	**312,188**	**285,577**	**1,147,425**
Depreciation					
At 1 April 2021	10,384	193,441	192,932	131,622	528,379
Charge for the year	601	3,805	18,883	8,071	31,360
Disposals	(8)	0	(19,892)	0	(19,900)
At 31 March 2022	**10,977**	**197,246**	**191,923**	**139,693**	**539,839**
Net Book Value					
At 31 March 2022					
Owned	**20,049**	**321,388**	**119,975**	**145,581**	**606,993**
Leased	**-**	**-**	**290**	**303**	**593**
	20,049	**321,388**	**120,265**	**145,884**	**607,586**
Net Book Value					
At 31 March 2021					
Owned	18,615	312,934	109,571	140,927	582,047
Leased	-	-	601	310	911
	18,615	312,934	110,172	141,236	582,958

Freehold land of £2,337,000 (2021: £2,337,000) included above is not subject to depreciation.

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,045,000

(2021: £7,644,000) less accumulated depreciation of £6,715,000 (2021: £6,733,000).

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £45,825,000 at 31 March 2022 (2021: £28,900,000).

Intangible fixed assets included in the above table had additions of in the year of £1,923,000 (2021: £870,000)

13. Tangible fixed assets (continued)

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.

Company

	Land and Buildings £'000	**Plant & Equipment £'000**	**Total £'000**
Cost			
At 1 April 2021	80	3,688	**3,768**
Disposals	-	(3,478)	**(3,478)**
At 31 March 2022	**80**	**210**	**290**
Depreciation			
At 1 April 2021	-	1,168	1,168
Charge for the year	-	1,075	1,075
Disposals	-	(2,186)	(2,186)
At 31 March 2022	-	**57**	**57**
Net Book Value			
At 31 March 2022	**80**	**152**	**232**
Net Book Value			
At 31 March 2021	80	2,520	2,600

Freehold land of £80,000 (2021: £80,000) held at 31 March 2022 was not subject to depreciation

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

14. Commitments

Group capital commitments outstanding at 31 March 2022 were £74,160,000 (2021: £25,607,000). The significant increase relates to the major upgrade upgrade of South Staffordshire Water's two largest water treatment works.

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

15. Accruals and deferred income - capital contributions

Group

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
At 1 April 2021	149,237	14,095	163,332
Capital contributions received	6,294	2,434	8,728
Amortised in year	(1,894)	(1,462)	(3,356)
Balance at 31 March 2022	**153,637**	**15,067**	**168,704**

16. Fixed Asset Investments

	Investment in joint venture £'000	Loans to parent undertakings £'000	Total £'000
At 1 April 2021	6,517	79,883	86,400
Reduction to intercompany loans	-	(13,255)	(13,255)
At 31 March 2022	**6,517**	**66,628**	**73,145**

Included in loans to parent undertakings are;

- £22,200,000 (2021: £22,200,000) identified as a loan with no fixed repayment date with an interest rate of 5.5%;
- £29,807,000 (2021: £17,683,000) identified as a loan with no fixed repayment date with an interest rate of 7%; and
- £15,000,000 (2021: £15,000,000) identified as an intercompany balance with no fixed repayment date with no interest charged.

	Loan to Joint Venture £'000	Loans to subsidiary undertakings £'000	Loans to Parent Undertakings £'000	Investment in Associate £'000	Shares in Subsidiary Undertakings £'000	Total £'000
At 1 April 2021	6,517	-	54,883	1,982	102,239	165,621
Additions during the year	-	95,142	12,124	-	25,477	132,743
Transfer from debtors	-	4,650	-	-	-	4,650
Disposals during the year	-	-	-	-	(60,319)	(60,319)
At 31 March 2022	**6,517**	**99,792**	**67,007**	**1,982**	**67,397**	**242,695**

16. Fixed Asset Investments (continued)

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

Additions within Shares in Subsidiary Undertakings in the year relate to Omega Red Group Limited and Omega Red Holdings Limited (see note 30) and the agreement to buy South Staffs Water Plc by SSW Finance Limited.

Loans to Parent Undertakings – Additions

£12,124,000 – The loan between South Staffs Plc and Hydriades Limited was increased by £37,601,000 in order to fund repayment of the £25,000,000 intercompany loan between Hydriades Limited and South Staffs Water Plc (plus interest due on repayment of £601,000) and the repayment of the external facility held by Hydriades Limited with Lloyds Plc of £12,000,000. The loan was decreased by £25,477,000 to fund the purchase of Omega Red Group Limited and Omega Red Holdings by South Staffs Plc.

Loans to subsidiary undertakings – Additions

£95,142,000 relates to the agreement to buy South Staffs Water Plc by SSW Finance Limited.

Loans to subsidiary undertakings – Additions

£4,650,000 was transferred from Debtors-Amounts owed by Group undertakings for loans with Integrated Water Services Limited (£3,150,000) and Onsite Central Limited (£1,500,000).

Shares in subsidiary undertakings - Additions

£25,477,000 related to the purchase of Omega Red Group Limited and Omega Red Holdings.

Disposals

One disposal relates to the sale of South Staff Water Plc to SSW Finance Limited of £60,319,000.

The Group also sold Grosvenor Services Group Limited during the year to a third party for consideration of £750,000 with the investment being fully impaired in the prior year .

As at 31 March 2022, 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:

16. Fixed Asset Investments (continued)

Company Name	Company Number	Direct Ordinary Shareholding	Indirect Ordinary Shareholding	Nature of Business
South Staffordshire Water PLC	02662742		100%	Regulated water supply
Aqua Direct Limited	03349782	100%		Supply of spring and mineral water
Office Watercoolers Limited	04144740	95%		Rental of water cooling units and sale of spring water
Echo Managed Services Limited	04102885	100%		Customer management
Echo Northern Ireland Limited	NI057759		100%	Customer management
Inter-Credit International Limited	01024737	100%		Customer credit management
Echo India Private Limited	U72900DL2011FTC227486		100%	Software development support services to UK parent company
SSI Services (UK) Limited	03824088	100%		Holding company for those companies listed below
OnSite Central Limited	02712788		100%	Sewer and wastewater asset inspection, relining, surveying, cleaning and flow monitoring. Clean water asset installation, repair, maintenance and refurbishment
OnSite Utility Services Canada Limited	BC1007169		100%	Sewer and wastewater asset inspection, surveying and cleaning
Integrated Water Services Limited	05283349		100%	Mechanical and electrical and water hygiene services
Hydrosave UK Limited	03460346		100%	Water main leak detection services and clean water network management services
Immerse Asset Management Limited	02784266		100%	Water efficiency and bill management services
G. Stow Plc	02645390		100%	Borehole drilling and refurbishment
Advanced Engineering Solutions Limited	03082093		100%	Pipeline engineering
Omega Red Group Holdings	02197902	100%		Electrical earthing and lighting protection systems

South Staffordshire plc has issued guarantees over the liabilities of the following companies at 31 March 2022 under section 479C of the Companies Act 2006 and these entities are exempt from the requirements of the Act relating to the audit of their individual financial statements by virtue of section 479A of the Act:

- Immerse Asset Management Limited (02784266);
- Inter-Credit International Limited (01024737)

16. Fixed Asset Investments (continued)

Other subsidiaries of the Company as at 31 March 2022, which were all non-trading companies as at that date, were as follows:

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

The following dormant subsidiaries of the Company have taken advantage of the Companies Act 2006 Section 394A exemption from preparing individual accounts. These subsidiaries are exempt from the requirement to prepare individual accounts by virtue of this section.

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

As at 31 March 2022, 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, CB19JN) and Debt Action Limited(Capital House, 3 Upper Queen Street, Belfast Northern Ireland, BT16PU).

17. Stocks

	2022 £'000 Group	2021 £'000 Group	2022 £'000 Company	2021 £'000 Company
Stores and raw materials	5,229	4,371	136	26

18. Debtors

	Group		Company	
	2022 **£'000**	2021 £'000	**2022** **£'000**	2021 £'000 Restated
Amounts recoverable within one year				
Trade debtors	**45,550**	40,508	**-**	-
Other debtors	**-**	739	**43**	150
Amounts owed by Group undertakings	**-**	-	-	4,650
Amounts owed by parent undertaking	**364**	4,592	-	4,375
Prepayments	**853**	1,921	**574**	625
Corporation Tax receivable	**-**	282	**-**	136
Accrued income	**23,381**	21,223	**-**	-
	70,148	69,265	**617**	9,936
Amounts recoverable in more than one year				
Other amounts owed by parent undertakings	**2,654**	2,857	**-**	-
	72,802	72,122	**617**	9,936

19. Borrowings

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Amounts falling due within one year				
Bank overdraft	**31,381**	34,278	**-**	-
Obligations under finance leases and hire purchase contracts	**80**	80	**-**	-
	31,461	34,358	**-**	-
Amounts falling due in more than one year:				
Bank loans (unsecured and net of issue costs):				
payable between one and two years	**-**	-	**-**	**-**
payable between two and five years	**163,244**	129,900	**133,333**	100,101
Indexed-linked debt	**241,153**	231,201	**-**	-
Private placement loan notes	**102,494**	72,843	**-**	72,843
Irredeemable debenture stock (unsecured)	**1,633**	1,633	**-**	-
Perpetual debenture stock (unsecured)	**19**	19		
Amounts due to parent undertakings	**14,291**	-	**-**	-
Obligations under finance leases and hire purchase contracts:				
Payable between one and two years	**-**	-	**-**	-
Payable between two and five years	**187**	251	**-**	-
	523,021	435,847	**133,333**	172,944
Total borrowings	**554,482**	470,205	**133,333**	172,944

19. Borrowings (continued)

Analysis of Group net debt

	Restated Balance at 1 April 2021 £'000	Acquisitions and disposals £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2022 £'000
Cash at bank and in hand (net of overdraft)	15,013	3,110	52,178	-	**70,301**
Drawings on short-term bank loans	-	-	-	-	**-**
	15,013	3,110	52,178	-	**70,301**
Intercompany loan	-	(14,291)	-	-	**(14,291)**
Irredeemable debenture stock	(1,652)	-	-	-	**(1,652)**
Index-linked debt (net of issue costs)	(231,201)	-	-	(9,952)	**(241,153)**
Bank term loans (net of issue costs)	(129,900)	-	(32,612)	(733)	**(163,245)**
Private placement loan notes (net of issue costs)	(72,843)	-	(29,958)	307	**(102,494)**
Obligations under finance leases and hire-purchase contracts	(331)	-	64	-	**(267)**
Net debt	(420,914)	(11,181)	(10,328)	(10,378)	**(452,801)**

The cash flows in respect of the Company's bank loans include repayments of £100,500,000 and drawdowns of £95,000,000 as part of the refinancing undertaken in the year.

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 £424,909,000 (2021: £409,314,000). 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.

19. Borrowings (continued)

	31 Mar 22 £'000	32 Mar 21 £'000 Restated
Book net debt (as reported above)	(452,801)	(420,914)
Exclude intercompany loan	14,291	-
Exclude book premium on issue of index linked debt	12,803	13,165
Exclude unamortised issue costs	(1,561)	(2,251)
Exclude accrued interest	2,359	686
Net debt reported for borrowing covenants	(424,909)	(409,314)

The cash balance of £70,301,000 (2021: £15,013,000) represents positive cash balances of £101,682,000 (2021: £49,291,000) net of overdraft balances of £31,381,000 (2021: £34,278,000).

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

	2022 £'000 Group	2021 £'000 Group Restated	2022 £'000 Company	2021 £'000 Company
Amounts payable within one year				
Trade creditors	60,845	46,455	2,477	918
Payments received in advance	31,910	30,207	-	-
Amounts owed to parent undertaking	-	-	12,661	-
Amounts owed to other group undertakings	-	-	1,358	9,581
Other creditors	15,469	15,254	30	1,599
Corporation tax payable	1,538	2,088	149	-
Other taxation and social security	2,523	2,210	-	152
	112,285	96,214	16,675	12,250
Amounts falling due in more than one year				
Payments received in advance	8,031	5,953	8,031	5,953
Derivative financial liabilities	56	2,271	-	-
Other creditors	8,412	9,798	1,112	1,942
	16,499	18,022	9,143	7,895

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

21. Provision for liabilities

Group	Deferred Tax £'000
At 1 April 2021	55,774
Profit and loss account charge	19,358
Charge to other comprehensive income	4,917
Other adjustments	(134)
At 31 March 2022	**79,915**

Company	Deferred Tax £'000
At 1 April 2021	6,554
Profit and loss account charge	(480)
Charge to other comprehensive income	3,868
At 31 March 2022	**9,942**

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

22. Retirement benefit surplus

Group

Surplus of defined benefit pension scheme

	£'000
At 1 April 2021	46,272
Section expenses	(628)
Net finance income	925
Actuarial loss (net)	7,969
Surplus at 31 March 2022	54,538

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

Company

Surplus of defined benefit pension scheme

	£'000
At 1 April 2021	35,289
Section expenses	(465)
Net finance income	706
Actuarial loss (net)	7,002
Surplus at 31 March 2022	42,532

23. Deferred Tax

	Group		**Company**	
	2022	**2021**	**2022**	**2021**
	£'000	**£'000**	**£'000**	**£'000**
Deferred tax liabilities/(assets) are provided as follows:				
Accelerated capital allowances	67,245	47,681	(531)	(45)
Timing differences in respect of hedging reserves	(1,275)	(1,423)	-	-
Timing differences in respect of retirement benefits	13,635	8,867	10,633	6,794
Other timing differences	310	649	(160)	(195)
	79,915	55,774	9,942	6,554

24. Called up Share capital

Group and Company

	31 Mar 22 £'000	31 Mar 21 £'000
Authorised:		
47,058,724 Ordinary shares of 42.5p each	20,000	20,000
Issued and fully-paid:		
12,819,856 Ordinary shares of 42.5p each	5,449	5,449

25. Other reserves

Group

	Share premium account	Revaluation reserve	Capital redemption reserve	Merger reserve	Currency translation reserve	Hedging Reserve
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2020	10,882	17,390	1	(253)	4	(6,002)
Total comprehensive income for the year	-	(235)	-	-	(62)	630
At 1 April 2021	10,882	17,155	1	(253)	(58)	(5,372)
Total comprehensive income for the year	-	(2,907)	-	-	32	2,239
At 31 March 2022	**10,882**	**14,248**	**1**	**(253)**	**(26)**	**(3,133)**

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

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

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

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

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

26. Operating lease commitments

At 31 March 2022, the Group and the Company were committed to making the following total minimum payments under non-cancellable operating leases:

Group

	2022 Buildings £'000	2021 Buildings £'000	2022 Other £'000	2021 Other £'000
Amounts due:				
Within one year	728	765	2,291	2,146
Between two and five years	771	1,176	3,494	2,672
After five years	32	32	-	-
	1,531	**1,973**	**5,786**	**4,818**

Company

	2022 Motor vehicles £'000	2021 Motor vehicles £'000
Amounts due:		
within one year	23	18
between two and five years	29	13
	52	31

27. Non-controlling interest

	£'000
At 1 April 2021	206
Profit on ordinary activities after taxation	61
At 31 March 2022	267

28. Financial assets and liabilities

The Group's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial assets and liabilities, trade creditors and trade debtors. Borrowings as at 31 March 2022 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 are 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 2022, derivative financial liabilities represent floating to fixed interest rate swaps used as cash flow hedges to reduce the Group's risk to changes in SONIA.

	2022 £'000	2021 £'000 Restated
Retail Price Index-linked borrowings	241,153	231,201
Fixed rate borrowings	134,305	104,625
Floating rate borrowings	133,333	100,101
	508,791	435,927

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 shown on note 19. The floating rate borrowings comprise sterling denominated short-term bank loans (revolving credit facilities) that bear interest at rates based on SONIA. Fixed rate financial liabilities include floating rate bank term loans with principal values of £30,000,000 (2021: £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 (2021: £111,400,000) Retail Price Index-linked loan which had a book value at 31 March 2022 of £188,871,000 (2021: £182,620,000), and a fair value of £412,135,000 (2021: £412,135,000) and the £35,000,000 (2021: £35,000,000) Retail Price Index-linked bond which had a book value at 31 March 2022 of £52,283,000 (2021: £ 48,580,000) and a fair value of £54,950,000 (2021: £61,985,000).

28. Financial assets and liabilities (continued)

Fixed rate borrowings

	Weighted average interest rate	Weighted average period for which rate is fixed
2022 Sterling	2.5	7.1
2021 Sterling	2.4	3.2

Borrowing Facilities

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

	2022 £'000	**2021 £'000**
Expiring in more than two years but not more than five years	-	31,500
	-	31,500

Financial Risks

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

1) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates, including those linked to SONIA and the Retail Price Index (RPI), that expose the Group's cash flows to changes in SONIA and RPI. Risks of increases in SONIA are managed by limiting the value and proportion of Group borrowings that are linked to this variable rate and by entering 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.

28. Financial assets and liabilities (continued)

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 2022 was £107,793,000 (2021: £135,096,000).

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 is 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. The new subsidiary, SSW Finance Limited's Private Placement Notes are secured by charges over the shares in South Staffordshire Water Plc

Sensitivity Analysis

The following analysis is intended to illustrate the sensitivity to reasonably possible movements in variables affecting financial liabilities being SONIA 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.

	2022	**2021**
	£'000	**£'000**
RPI + 0.25%	(654)	(618)
RPI - 0.25%	654	618
SONIA + 1.00%	(836)	(1,146)
SONIA - 1.00%	836	1,146

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	
	2022 %	**2021 %**	**2022 £'000**	**2021 £'000**	**2022 £'000**	**2021 £'000**
5-10 Years	2.14	2.14	30,000	30,000	56	2,271

28. Financial assets and liabilities (continued)

Maturity of Financial Assets and Liabilities

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

	2022 £'000	2021 £'000
Borrowings		
In one year or less, or on demand	31,541	34,438
In more than one year, but not more than two	50,080	20,080
In more than two years, but not more than five	162,014	139,687
In more than five years, but not more than twenty	93,000	73,000
In more than twenty years	222,568	222,568
	559,203	489,773
Other financial liabilities		
In one year or less, or on demand	112,285	94,210
In more than one year, but not more than two	10,150	8,161
In more than two years, but not more than five	5,447	4,434
In more than five years, but not more than twenty	2,402	5,427
In more than twenty years	-	-
	689,487	602,005

The table above excludes future interest payments and future indexation on financial liabilities. Index- linked borrowings of £229,614,000 (2021: £ 219,265,000) 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 (2021: £358,265,000) and at redemption in 2051 is £118,379,000 (2021: £118,379,000)

Group debtors recoverable in more than one year of £61,879,000 (2021: £89,257,000) principally represent loans receivable from the Company's parent undertakings of £37,708,000 (2021: £64,883,000) with no fixed repayment date and £6,517,000 receivable from the joint venture (2021: £6,517,000).

28. Financial assets and liabilities (continued)

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 2022 in respect of such provisions was £4,516,000 (2021: £3,634,000). Total Group trade debtors (net of provisions) as at 31 March 2022 were £45,550,000 (2021: £40,508,000).

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 2022 was £1,182,000 (2021: £857,000), representing 3% (2021: 2%) 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**
2022	6,771	2,256	531	486	326	185	10,555
2021	9,005	1,147	754	468	210	379	11,963

Non-regulated service businesses	**<1 month £'000**	**1-2 months £'000**	**>2 months £'000**	**Total £'000**
2022	3,866	943	3	4,812
2021	4,313	1,108	2,252	7,673

Non-Regulated company debtors that are considered to be impaired of £4,196,000 (2021: £3,293,000) were all more than 2 months past due. An ageing analysis of debtors of South Staffs Water that are considered to be impaired is provided below:

	< 1 year £'000	1 - 2 years £'000	2 - 3 years £'000	3 - 4 years £'000	4 - 5 years £'000	5 years + £'000	**Total £'000**
2022	4,438	4,094	4,260	4,623	3,699	12,289	**33,403**
2021	4,152	4,312	4,642	3,712	3,213	9,076	**29,107**

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

29. Pension retirement benefits

The Group operates a few 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 2022, both of these sections had ceased future accrual of benefits with the South Staffordshire section ceasing future accrual from 1 April 2015 and the Cambridge section from 31 December 2010. In the 2018 financial year the Group acquired a further defined benefit pension scheme as part of the acquisition of G Stow Plc which is also closed to new entrants and had ceased accrual of benefits prior to acquisition. The Group also operates a few defined contribution pension schemes. The assets of all these schemes are held separately from those of the Group, being invested by professional fund managers.

Details of the accounting policy for pension schemes are provided in note 1. As both of the sections of the Water Companies Pension defined benefit scheme are closed to future benefit accrual, from 1 April 2015 only funding deficit contributions have been paid into the Scheme (with these being £nil in the year ended 31 March 2022 and £nil in the year ended 31 March 2021) with these contributions paid increasing the assets of the sections. No current service contributions are now paid and with effect from 1 April 2015 there is no current service cost charge to the profit and loss account. The amount charged to the consolidated profit and loss account for the defined contribution schemes in the year was £2,743,000 (2021: £2,561,000). A pension asset has been fully recognised for both sections at both 31 March 2022 and 31 March 2021 as the Group would benefit from a refund of any surplus assets following a complete run-off of the scheme (i.e. following the final benefit payment from the scheme). There were no overdue contributions at either year-end.

The G Stow Plc defined benefit scheme is closed to future benefit accrual, from 22 June 2017 only funding deficit contributions have been paid into the Scheme (with these being £nil in the year ended 31 March 2022 and £nil in the year ended 31 March 2021) with these contributions paid increasing the assets of the sections. No current service contributions are now paid and with effect from 1 April 2015 there is no current service cost charge to the profit and loss account.

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

The major assumptions used were as follows:

	31 Mar 2022 %	31 Mar 2021 %
Rate of increase in pensions	3.0	3.0
Discount rate	2.8	2.0
Annual inflation RPI	4.0	3.5
Annual inflation CPI	3.5	3.0
	31 March 2022 No of Years	31 March 2021 No of Years
Life expectancy of male aged 60 at accounting date	26.1	26.3
Life expectancy of female aged 60 at accounting date	29.1	29.2

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

	2022 %	2022 £'000	2021 %	2021 £'000
Equities	23	61,696	3	9,029
Bonds/gilts and debt instruments	38	104,984	91	255,550
Diversified growth funds	38	-	5	14,718
Other	1	105,159	-	1,152
Cash		2,007	1	1,998
Market value of scheme assets		273,846		282,447
Present value of scheme liabilities		(219,308)		(236,175)
Surplus before deferred tax (note 22)		54,538		46,272
Related deferred tax liability		(13,635)		(8,792)
Surplus after deferred tax		40,903		37,480

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

	2022 £'000	2021 £'000
Opening present value of scheme liabilities	236,175	198,228
Interest cost	4,576	4,824
Past service cost	0	193
Change in financial assumptions (gain) / loss	(6,134)	43,583
Benefits paid	(15,309)	(10,653)
Closing present value of scheme liabilities	219,308	236,175

29. Pension retirement benefits (continued)

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

	2022 £'000	2021 £'000
Opening present value of schemes' assets	282,447	289,070
Interest on scheme assets	4,873	6,604
Actuarial (gain) / loss	1,835	(2,574)
Contributions (employer	-	-
Benefits paid	(15,309)	(10,653)
Closing market value of the scheme assets	273,846	282,447

The total return on assets of the Group's schemes over the year to 31 March 2022 was a loss of £8,601,000 (2021: gain of £2,683,000).

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

	2022 £'000	2021 £'000
	Increase	Decrease
Discount rate		
Effect of a 0.1% pa change	3,591	(3,491)
Inflation		
Effect of a 0.1% pa change	(3,018)	3,118
Life expectancy		
Effect of a one year change	5,800	10,200

An analysis of the movement in the surplus of the Group's schemes during the year ended 31 March 2022 is provided in note 22.

30. Acquisitions

On 22 December 2021 the Company acquired 100 per cent of the issued share capital of Omega Red Group Limited and Omega Red Holdings Limited, a company whose primary activity is electrical earthing and lightning protection systems, for consideration comprising the issue of 23,869 B ordinary shares of £1 each in the Company and the 376,131 ordinary shares of £1 each in the Company, all of which have been issued and are fully paid and the fair value of the total consideration was £25,476,603. Both companies were purchased from Hydriades IV Limited, a group company above South Staffordshire PLC .

The acquisition has been accounted for under the acquisition method. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Total
	£
Consideration:	
Cash consideration	**25,477**
Book value of net assets acquired:	
Fixed assets	
Tangible	148
Current assets	
Stocks	764
Debtors	4,909
Cash	3,110
Total assets	8,931
Creditors	
Loans	(14,471)
Creditors and provisions	(3,282)
Total liabilities	(17,753)
Net Liabilities	(8,822)
Goodwill	34,299

Directors do not consider there to be a difference between the fair value and book value of the acquisition.

Turnover post acquisition to 31 March 2022 was £4,798,000 generating an operating profit of £1,104,000 and EBITDA of £1,131,000.

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 2022 was £3,018,000 (2021: £3,220,000). In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact. This agreement is non-interest bearing.

During the year South Staffordshire Water Plc provided Wholesale water services to the retailer Pennon Water Services Limited and its subsidiary SSWB Limited and turnover of £17,771,000 (2021: £15,501,000) in relation these transactions was recognised and £17,000 outstanding at the year-end (2021: £27,000). The receivable is due in 30 days from invoice date. Also at 31 March 2022, an amount of £284,000 was payable to PWSL for cash collected during the year that has not been paid over (2021: £303,000).

The Group has an outstanding interest-bearing loan balance due from Pennon Water Services Limited of £6,517,000 (2021: £6,517,000) which remained outstanding at 31 March 2022. The loan balance has an applicable interest rate of 5% per annum for 50% of the drawing and 3% + 12-month SONIA for the remaining 50% of the drawing.

Remuneration for key personnel is reported in the remuneration committee review section above..

32. Post Balance sheet Events

On 23 September 2022, the Chancellor of the Exchequer announced that the planned tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. As the enacted rate at the balance sheet date was 25% this announcement does not represent an adjusting event and the company's deferred tax balances as at 31 March 2022 are still calculated at that higher rate. When recalculated at the lower 19% rate the deferred tax liability would reduce by approximately £19,198,000.

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 and smallest UK group preparing consolidated accounts that include South Staffordshire Plc at 31 March 2022. 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 AIP Holdings 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

Historically the book value (that is, the amortised cost) of the index linked debt has been determined taking into account expectations of the long-term inflation rate over the contractual life of the loans. The covenant value of the debt is instead calculated taking into account actual rates of inflation experienced between the date of issuance of the debt and the balance sheet date. During the year, in view of the continued gap in the carrying value of the index-linked debt between book value and covenant value, the directors decided to undertake a review of the accounting treatment adopted. While it is an acceptable accounting policy to determine amortised cost taking into account expectations of future inflation, it was determined that the previously reported amounts did not reflect appropriately updated estimates of future cash flows over the entire contractual life of the debt. Having evaluated the requirements of FRS 102, the directors have decided to adopt a more simplified approach to the accounting whereby the amortised cost of the index-linked debt will reflect actual changes in RPI to the relevant balance sheet date and finance costs will be accrued by reference to actual RPI in any given period. The directors also consider that this treatment is more aligned to that applied by comparators.

The effect of this on the profit and loss account is as follows:

	Note	Previously reported £'000	Restated £'000	Restatement £'000
Operating profit		28,802	28,802	0
Finance costs (net)	7	(11,965)	(8,872)	3,093
Profit before taxation		**16,837**	**19,930**	**3,093**
Tax on profit	8	(3,572)	(4,160)	(588)
Profit for financial year attributable to the equity shareholders of the Company		**13,265**	**15,770**	**2,505**
Earnings per share				
Basic and diluted	10	102.8p	122.3p	19.5p

The effect of this on the balance sheet is as follows.

	Note	Previously reported £'000	Restated £'000	Restatement £'000
Other creditors - amounts falling due within one year	20	(94,210)	(96,214)	(2,004)
Net current assets/(liabilities)		43,488	41,484	(2,004)
Total assets less current liabilities		**733,003**	**730,999**	**(2,004)**
Borrowings - amounts falling due after more than one year	19	(446,395)	(435,847)	10,548
Net Assets		**49,480**	**58,024**	**8,544**
Capital and reserves				
Profit and loss account		21,470	23,975	2,505
Retained earnings			6,039	6,039
Shareholders' Funds		**49,480**	**58,024**	**8,544**

34. Prior Period restatement (continued)

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

	Previously reported £'000	Restated £'000	Restatement £'000
(bl Reconciliation in movement in net debt			
Increase/(Decrease) in cash	(21,987)	(21,987)	
Draw down of RCF	58,500	58,500	
Bank term issue cost amortisation (non-cash)	(172)	(172)	
Movement on index-linked debt (non-cash)	(6,107)	(3,014)	3,093
Decrease/(Increase) in net debt in period	(11,700)	(8,608)	3,093
Net debt brought forward	(419,762)	(412,306)	7,456
Net debt carried forward	**(431,462)**	**(420,914)**	**10,549**

The effect of this on the net debt is as follows.

	Previously reported	Restated	Restatement
Book net debt (as reported above)	(431,462)	(420,914)	10,549
Exclude book premium on issue of index linked debt	12,774	13,165	391
Difference between long-term RPI assumption and actual RPI inflation	11,083	0	(11,083)
Exclude unamortised issue costs	(2,558)	(2,251)	307
Exclude accrued interest	645	686	41
Net debt reported for borrowing covenants	**(409,518)**	**(409,314)**	**205**
Regulatory Capital Value	403,203	403,203	0
Covenant Net Debt/Regulatory Capital Value	61.2%	61.1%	-0.1%

South Staffordshire Plc

Get in touch

South Staffordshire Plc - Green Lane, Walsall, West Midlands, WS2 7PD | 01922 638282 | www.south-staffordshire.com

Regulated water

Managing Director: Andy Willicott

Cambridge Water

90 Fulbourn Road, Cambridge, CB1 9JN
01223 706 050 | www.cambridge-water.co.uk

South Staffs Water

Green Lane, Walsall, West Midlands, WS2 7PD
01922 638 282 | www.south-staffs-water.co.uk

Compliance

Managing Director: Neil Shailer

Integrated Water Services

Water Hygiene

Green Lane, Walsall, West Midlands, WS2 7PD
01922 638 282 | www.integrated-water.co.uk

Omega Red Group

Dabell Avenue, Bulwell, Nottingham, NG6 8WA
0115 877 6666 | www.omegaredgroup.com

Water, Waste and Infrastructure

OnSite Central Limited

Managing Director: Alan Plante
89 Blackpole West, Blackpole, Worcester, WR3 8TJ
01905 340 054 | www.onsite.co.uk

Managing Director: Simon Dray

Advanced Engineering Solutions (AES)

South Nelson Rd., Cramlinaton, Northumberland, NE23 1WF
01670 739 999 | www.aesengs.co.uk

G Stow

Lupton Road, Hithercroft Ind Est, Wallingford, OX10 9BS
01491 834 444 | www.gstowplc.com

Hydrosave

Swallow Court, Kettering Venture Park, Kettering, NN15 6XX
01536 515 110 | www.hydrosave.co.uk

Integrated Water Services

Mechanical & Electrical Services

Green Lane, Walsall, West Midlands, WS2 7PD
01922 638 282 | www.integrated-water.co.uk

Service and Software

Managing Director: Monica Mackintosh

Echo Managed Services

Green Lane, Walsall, West Midlands, WS2 7PD
08451 212 122 | www.echo-ms.com

Aptumo

Green Lane, Walsall, West Midlands, WS2 7PD
08451 212 122 | www.aptumo.com

Commercial Water Production and Distribution

Aqua Direct

Managing Director: Helene James
Lichfield Road, Elmhurst, Staffordshire, WS13 8HQ
01543 493 613 | www.aqua-direct.co.uk

Office Watercoolers

Managing Director: Ken Skelton
Waterloo House, 112-116 Anglesey Court, Towers Business Park, Rugeley, Staffordshire, WS15 1UL
08456 090 902 | www.office-coolers.com

South Staffordshire Plc

www.south-staffordshire.com | groupsec@south-staffordshire.com | 01922 638 282