Annual performance report
2016-17

www.wessexwater.co.uk

Wessex Water
YTL GROUP

Contents

Annual Performance Report introduction

The board of Wessex Water is accountable for the quality and transparency of the information provided on our performance. This report provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. This allows us to be transparent with our customers and stakeholders as well as ensure we comply with requirements by Ofwat.

Information assurance

The data and information we provide is a key part of ensuring we do the right thing by our customers and stakeholders. Customers' service expectations continue to grow as the world around them changes, and the priorities of younger generations are becoming more distinct from our longer-term customers. Similarly, the information we provide to residents of coastal towns needs to be different to the information we provide to farmers or brewers or city dwellers.

As part of Ofwat's company monitoring framework methodology we have published details of our information assurance processes, including in October 2016 an information assurance statement, and in May 2017 an information assurance plan, both of which can be found on our website.

The statement provided an update on the progress we made against our commitments and explained how we have gone about reassessing our risks strengths and weaknesses in information provision. It then identifies any mitigations we needed to put in place to reduce these risks. The Plan provided details of what we are doing in 2017 to make these improvements.

In summary, the statement concluded that we have made good progress against our previous plan with positive action taken in all the identified areas. It also concluded that the formal data that we provide in this Annual Performance Report has a high level of assurance because it is subject to well-established and independent external financial audit by KPMG and technical audit by Mott Macdonald. The Audit Committee receives assurance reports, including where appropriate specific recommendations for improvement, from these external auditors.

Our customer challenge group, the Wessex Water Partnership, reviewed and challenged the performance commitment information provided in this Annual Performance Report and reported their conclusions to the board having separately had access to the work undertaken by the technical auditor.

Pages 17 to 21 provide the Independent Auditor's Report and a summary of the technical auditor's assurance report is provided below. The Wessex Water Partnership Report is separately published on the company website.

The audit committee considers these external assurance reports and the results of our own internal assurance process before making a recommendation to the board to endorse the Annual Performance Report.

Our internal assurance processes include the identification of a data originator, information compiler and a senior manager owner for all information tables provided as part of this Annual Performance Report. Each of the above is required to certify that the information has been produced with the intention of presenting a true and fair view of the business transactions and performance and that reasonable steps have been taken to ensure that the content is not false in a material particular. All of these certifications were received without qualification.

Ofwat has noted that the standard materiality threshold used by statutory financial auditors would be unlikely to give it sufficient confidence in the accuracy of the costs shown for the retail price control units. We have amended our certification process so that compilers and owners of the relevant information have certified that they have taken all reasonable steps to ensure the accuracy within a materiality threshold of £30,000.

The information assurance statement and the resulting plan did identify a number of detailed areas where improvements were proposed including new ways to respond to customer needs, improving our website and continuing to ensure that our accounting and asset data is as robust as it can be. We will be reporting progress on the information assurance plan when we publish our next information assurance statement in the autumn of 2017.

Assurance of our annual review

In this section we explain how the data included in our annual review (including the annual performance report, annual review and accounts, and sustainability indicators and accounts) has been assured, and the outcome of that assurance.

Our board is accountable for the quality and transparency of the information we provide on our performance – both financial and operational. We have detailed internal audit processes that are available in our regulatory assurance manual, which can be found on our website. These processes are supported, where necessary, by external audits carried out by independent experts.

In producing the annual review and data tables and ensuring the information therein is reliable, accurate and complete we pay keen attention to our performance reporting and verification procedures. Full details of the procedures involved in the compilation of the annual review are in the regulatory assurance manual.

The following table outlines the overall reporting structure:

DATA FLOW	The Board/Audit Committee	**RISK AND COMPLIANCE STATEMENT**
	Accountable Executive Member	**ACCOUNTABLE MANAGERS**
	Programme Manager (where applicable), Table Owner	**DATA PROVIDERS** **(Typically responsible for providing source data, completing data tables and associated commentaries)** **KPI data collated by Business Performance section from multiple data sources.**
	Data Compilers	
	Source Data Originator(s)	

The Risk and Compliance Statement is published on pages 2 – 5 of the Annual Report and Accounts.

We met all of the requirements set out in the regulatory assurance manual including:

- Producing detailed method statements for 100% of our reporting tables
- Producing signed certificates for 100% of our reporting tables
- Completing a full external independent audit of the data produced
- Receiving an audit committee recommendation that the board approves the data
- Receiving board approval of the data.

All areas of the company that interact with regulatory and statutory reported instruments are covered by a relevant BSi standard. All data entry points in the annual review are within the scope of our ISO9000 Quality Management certification. This is externally verified annually by Lloyds Register and has an internal programme of audits (called management reviews) that cover all topical items, including performance commitment data. This programme is controlled via the Internal Audit Department, and overseen by the formal Wessex Water Services Limited Audit Committee. We remain assured our quality processes are adequate for the collection of this data.

Mott MacDonald were appointed as our new technical auditors in 2016 and they have independently checked the data and information used for each of our performance commitments in 2017 too. This audit ensures we follow due process in reporting our data on performance commitments, follows up on actions proposed in the previous year and makes recommendations for improvements in the future. Mott MacDonald have provided an overview of their process, findings and recommendations, which is copied below for reference.

Alongside this technical audit, we also continue a rigorous and well-established audit of the regulatory accounts. This is carried out by KPMG and confirms that our financial data is produced consistent with the definitions set out in Ofwat's regulatory accounting guidelines, accounting standards and our own accounting policies.

Each of our external auditors follow a detailed assurance process, culminating in the production of an audit statement. These statements can be found alongside the relevant sections of our annual review.

Technical assurance – Mott MacDonald report to Wessex Water

This note summarises our technical review of Wessex Water's Annual Performance Report, and Cost Assessment Tables.
We visited your offices between 4 May and 19 May and our audits covered:

- Your method and approach to reporting;
- Your calculation of the reported values;
- A sample of the underlying data making up the reported values for selected measures.

Scope of audit and tests

Standard tests

We applied the following tests, agreed upon at the outset of the audit:

Reference	Test
1	**Method statement**
1.1	Assess if the method statement is consistent with: ■ Wessex Water's published documents ■ Ofwat reporting guidance, where available ■ Guidance produced by other regulatory bodies (e.g. EA, DWI)
1.2	Does the method statement identify all the sources of data (and what people/teams provide the data)
1.3	Assess whether the methodology states the steps required to ensure reported values are robust and repeatable (e.g. validation, verification, technical assurance)
1.4	Have any actions outstanding after APR16 been addressed?
1.5	Does the process rely on manual manipulation of data?
1.6	Assess the extent to which manual manipulation could be reduced/removed.
2	**Governance process**
2.1	Has the methodology been checked and approved
2.2	How has the raw data been validated
2.3	How have the calculations been checked
3	**Calculations (for each line)**
3.1	What is the line and value reported (including in the Ofwat spreadsheet)
3.2	Assess whether the methodology is followed
3.3	Sample the raw data for errors
3.4	Review the calculations for errors
3.5	Review the units and decimal places are correct
3.6	Has the performance been correctly classified as earning an ODI reward or penalty?
3.7	Is the calculation of the ODI incentive correct?

Performance commitments: follow up on progress since APR 2016

We applied the standard tests (where relevant) to each performance commitment reported in Table 3A.
We followed-up on progress since our 2016 report in which we recommended specific actions on:

- Governance of ad-hoc reporting.
- Automation of reporting.
- Documentation of the reporting process (method statements).
- E1 greenhouse gas emissions (whether there have been further changes in conversion factors).
- E2 Proportion of energy self-generated (developing the method and method statement).
- Leakage (complexity of the method and the underlying assumptions).
- RA1 SIM service score (clarity of definitions and complexity of analysis).
- RA2 Percentage of customers rating service as good/very good (method statement and element of judgement in rating satisfaction).

Performance commitments: company explanation of performance

We considered whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Outcomes, Performance Commitments, and Delivery Incentives section of its Annual Performance Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters which we consider should be disclosed.

Pelican (BWBSL) contributions to reported performance

Our assurance audits included the customer service reports from Pelican (Bristol Wessex Billing Services Limited), including: wanted and unwanted contacts, DG6, DG7, and GSS.

Limitations to our scope

Our technical assurance is based on a sample of data from the reporting year. Some reported values depend on the categorisation of the activity or cost at the time the work was carried out.
For your cost assessment tables, we did not audit the underlying cost data, which are subject to your financial audit programme.

Performance commitments reported in Table 3A.

Our overall conclusions support your reported performance.

- **We found no significant issues with the reported performance.**
  Based on the results of the sampling conducted during our audits, we agreed with your assessment of performance of all the measures reported. We made some suggestions for continuous improvement, discussed in our recommendations below.
- **Minor corrections were addressed within the audit cycle**.
  None of the corrections resulted in a material change to the reported performance.
- **We recommend**:
  - **Continuing to improve your method statements**.
    We made suggestions to introduce stronger version control and approval processes, to reduce the potential for the basis of reporting to change without proper authority.
  - **Confirm the level of assurance of source data is sufficient**.
    Some aspects of performance depend on reports of activities at the time they occur. Whilst our audit included a sample of the underlying data, we did not attempt to make a meaningful sample of the accuracy of the original reports.

The actions we recommended last year have been addressed:

- **E1 greenhouse gas emissions**.
  Your method has settled on the conversion factors in place at the time the performance commitment was set, preventing unexpected swings in performance resulting from changes in external factors. Your decision to sell the renewable energy credits from GENeco, replacing them with others bought-in, is explained in your commentary.
- **E2 Proportion of energy self-generated**.
  Your method statement has been developed and explains the basis of reporting.
- **Leakage.**
  You are developing your method in line with the new UKWIR leakage methodology, for introduction in AMP7. Your AMP6 methodology includes some material assumptions which are consistent with those used at the time the target was set. We **recommend** that you obtain strong evidence appropriate to the materiality of any assumptions that you have to make in applying the new method.
- **RA1 SIM service score.**
  Your method statement has been developed.
- **RA2 Percentage of customers rating service as good/very good.**
  Your method statement has been developed. New software was introduced during the year, improving both the data collection and reporting process.

The ‘Outcomes, Performance Commitments and Delivery Incentives’ commentary in your Annual Performance Report is appropriate.

We read your draft commentary to Table 3A (22 May 2017).
We found that the explanations for performance reported in Table 3A were consistent with our knowledge gained during the audits, and adequately reflected the level of performance reported.

The calculation of outcome delivery incentives appears to be correct.

We agreed with your calculation of incentive rewards and penalties. A notional penalty of -£0.006m is calculated for abstractions at Mere exported (commitment B5). A notional reward of £5.508m is earned for good performance in internal sewer flooding incidents (commitment C1), with good performance beyond the reward cap.

We recognise that sewer flooding is to some extent linked to weather so outperformance for the remainder of the AMP is not guaranteed.

Preparations for future performance commitments and resilience

North Bristol Sewer Schemes: you briefed us on your progress in delivering the Frome Valley scheme, where construction has started on time, and in preparing for the Trym scheme where you are selecting contractors. We were impressed by your progress and your forecast to complete the Frome scheme earlier than initially planned. Assuming delivery is completed as planned, we thought the schemes would be good material for an industry paper on good practice in delivering complex schemes.

Resilience assessment: you briefed us on your approach to assessing corporate resilience and, as an example, showed your Engineering (WECS) assessment results. You have reviewed strengths and weaknesses using the six aspects of resilience detailed in BS65000, and have set target ‘scores’ in each aspect for the remainder of AMP6. We consider that the approach is well constructed and has the potential to provide a focused approach to strengthening resilience. Where asset related outcomes result from the resilience studies, they will need to be subjected to the same evidence tests as other investment programmes and this approach should prove beneficial in focusing your research. We also suggested that you further develop the calibration of your assessment in the light of historic incidents or events.

Assurance statement

To: Wessex Water audit committee

I refer to my review of technical aspects of Wessex Water's annual performance report, which have been audited under my direction. We were given free access to people and information as necessary to complete our work.
In my professional opinion, based on and to the extent disclosed by sampling carried out and as described in my report to Wessex Water dated 23 June 2017:

1. The performance commitment data have been compiled appropriately, subject to my comments below.

2. Minor errors and omissions were corrected as a result of our audits.

3. We made recommendations for areas of continuing improvement on aspects of data collection, analysis, and governance.

   Andrew Heather
   Mott MacDonald Ltd
   23 June 2017

Regulatory Accounts Introduction

The Company was appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

Regulation

Under the conditions of its Licence, granted to the Company by the Secretary of State for the Environment the Company is obliged to provide the Water Services Regulation Authority (WSRA) with additional information to that contained in the non-statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 12 to 67.

Ring fencing

Under the conditions of its Licence, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 2017. In the opinion of the Directors:

a. The Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Appointment);

b. the Company will for at least the next 12 months have available management resources which are sufficient to enable it to carry out those functions; and

c. all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In making this statement the Directors made reference to the detailed budget produced for the year to March 2018 and the business plan model through to March 2020. The Directors also made reference to the legal ownership of assets, employment contracts, borrowing facilities, the joint venture billing arrangement and the in-house engineering and construction department set up to deliver the capital programme.

Transactions with associates

In the opinion of the Directors, the Company has complied with the objectives and principles of RAG 5.06, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

Methodology Statement

For the year to March 2017, the methodology statement is available as a separate link on our corporate website.

Directors

The Directors are listed in the Annual Review Summary.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of Company law, the Directors are required to prepare accounting statements that comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This requires the Directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months;
- confirm that, in their opinion, the Company has sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company;
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F and RAG 5.06.

These responsibilities are additional to those already set out in the non-statutory accounts.

Directorships

The following Directors of the Company are also Directors of the following Group companies:

Colin Skellett, Mark Watts and Andy Pymer are Directors of Wessex Water Ltd. Colin Skellett and Mark Watts are directors of YTL Utilities (UK) Ltd and YTL Utilities Holdings Ltd.

Francis Yeoh and Mark Yeoh are Directors of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Utilities Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hong Yeoh is a Director of Wessex Water Ltd, YTL Utilities (UK) Ltd, YTL Utilities Holdings Ltd, YTL Utilities Ltd, YTL Power International Berhad and YTL Corporation Berhad. Hann Yeoh is a Director of YTL Utilities Holdings Ltd.

Long-term viability statement

The Directors' have made a long-term viability statement in the non-statutory Annual Report & Accounts covering the period to 31 March 2020.

The Directors also have a reasonable expectation that the viability of the Company continues to 31 March 2022 by virtue of the appointed Company's 25-year rolling operating licence and the stable regulatory and statutory environment in which it operates.

The Directors consider that in the context of the regulatory accounts a statement that covers five years is appropriate. This is in line with Ofwat's choice of five years for the wholesale regulated price control, the primary mechanism by which it seeks to discharge its legal duty to enable companies to finance their functions.

The Company undertook analysis to 31 March 2022 by reference to a number of scenarios developed from the company corporate risk register, company financial projections and the impact of the regulatory regime. The Company's analysis included scenarios incorporating the published Principle Risks. It also considered the impact of low probability and high impact events as well as the impact of adverse scenarios occurring concurrently.

Having considered this analysis together with a report from an economic consultancy confirming its view that the analysis had been carried out appropriately, and subject to the continuation of the statutory financing duties imposed on the industry regulator, the Directors confirm their reasonable expectation that the viability of the Company continues to 31 March 2022.

Directors' remuneration

Details of the Directors remuneration are included in the Remuneration Committee Report in the Annual Report and Accounts. This includes disclosure of the link between pay and performance.

Disclosure of information to auditor

The Directors who held office at the date of approval of the Annual Performance Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Regulatory Disclosures

1) Accounting policies

These regulatory accounts on pages 22 to 27 do not constitute the Company's statutory accounts for the years ended 31 March 2017 or 2016. 31 March 2017 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2016 and 2015. Both these statutory accounts have been delivered to the registrar of companies. The external auditor has reported on both these statutory accounts; the reports were unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The next statutory accounts of the Company will be prepared for the year ending 30 June 2017.

In accordance with Condition F of the Instrument of Appointment, financial statements have been prepared for the appointed and non-appointed business to show the profit and loss account, balance sheet and cash flow statements. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

The differences between the treatment of items in the statutory accounts and these regulatory accounts are shown in paragraph 7 below.

2) Dividend policy

The dividend policy is to declare dividends consistent with the Company's performance and prudent management of the economic risk of the business. The Company declared and paid dividends of £94.0m (2016 - £84.0m) to its immediate parent company during the year. In April 2017, a final dividend of £8.0m was declared in respect of the financial year just ended.

3) Price control segments

The company has published on our website a statement of the basis of allocation of operating costs and assets to the price control segments (known as the accounting separation methodology).

4) Revenue recognition

Turnover represents income receivable in the ordinary course of business, excluding VAT, for services provided. Turnover is recognised to the extent that the economic benefits will flow to the Company.

There are no differences in turnover recognition between the statutory and regulatory accounts. There are no adjustments between amounts billed (as adjusted by opening and closing accruals) and amounts recorded as turnover.

Income related to water and sewerage services is receivable from occupiers of the premises to which services are supplied except where a third party has agreed liability for the charges. Where premises are unoccupied or where no services are supplied charges are not raised, income is not receivable and no turnover is recognised. Premises that are furnished are considered to be occupied except in exceptional circumstances such as death or long-term hospitalisation of the customer. We consider premises undergoing refurbishment or being used for storage to be occupied by the owners of the premises.

If details of the occupier of the premises are unknown, the premises are considered to be unoccupied, no charges are raised and no turnover is recognised except where a third party has agreed liability for the charges. We do not bill properties speculatively in the name of the occupier. We have processes that seek to determine whether properties are occupied that include, but are not limited to, written correspondence, data matching and visits.

Charges that do not represent income receivable in the ordinary course of business are not recognised as turnover. This includes charges for the recovery of costs related to court action to recover charges overdue.

The principles laid out above apply to both new and existing premises.

A retrospective review of billing suggests that the measured income accrued at March 2016 was marginally higher than that which was actually due. The difference represents less than 0.1% of accounting revenue in the year and is not considered material. No change has been made in the methodology for calculating the measured income accrual.

5) Bad debt policy

Bad debt write-off policy

There have been no changes in bad debt write-off policy. The value of debt written off in the year was £18.7m, compared with £7.0m in the previous year, the increase being a catch up in the administrative procedures to write-off debt, rather than a change in policy.

Debt is written off for one of four reasons;

- It is considered or known to be uncollectible
- It is considered uneconomic to collect
- Older debt is written off by agreement with the customer in return for the receipt of monthly payments to pay-off current year debt as part of our “Restart” and “Restart Plus” policies
- Write off is ordered by the County Court. In these cases the Court may set payment at a proportion of the outstanding debt. When this level of payment is reached the Court will instruct that the rest is to be written off.

Bad and doubtful debt provision policy

There has been no change to the bad and doubtful debt provision policy compared with the previous year. The bad debt provision for tariff income at 31 March 2017 was £39.1m compared with £45.9m the previous year-end, the reduction being due to the high value of debt written off in the year. During the year, £18.7m of debt was written off and the provision was increased by £11.9m.

The policy for calculating the bad debt provision is to analyse the outstanding debt between payment categories and to make provision according to the historic non collection rate for that payment category. The categories selected are direct debit, instalments, standing orders, DSS, bankruptcy and all other. The profile of provision differs between categories, but for all categories debt that is four years old is fully provided.

Trade debtor balance

There has been a decrease in the trade debtor balance from the prior year. The trade debtor at 31 March 2017 was £99.8m, compared with £101.7m the previous year. There was a reduction in debtor balances over four years old due to the higher level of debt written off.

6) Capitalisation policy

Our capitalisation policy is unchanged from previous years. The capitalisation policy document is owned and published internally by the Financial Controller and forms part of our governance process and procedures. It includes a significant level of detail and includes the following principles:
Assets are taken to be fixed assets if they are intended for use on a continuing basis over at least 3 years (or 2 years in the case of internal software developments). Any assets not intended for such use are to be charged to revenue budgets.

Capital expenditure shall be determined as follows:

- The price paid for the asset together with any costs incidental to the acquisition e.g. identification of options and appraisal costs. This may include site preparation, which could encompass demolition work
- The cost of raw materials, consumables, salaries and wages (together with other costs) directly attributable to the creation of that asset
- In addition, the cost of an asset may include a reasonable proportion of costs indirectly attributable to the creation of the asset
- Interest paid, for example on contractors' claims or delayed payment of certificates, may be capitalised. Notional interest on capital expenditure during the course of construction is not charged to capital.

7) **Differences between non-statutory and RAG definitions**

The differences between the non-statutory accounts and the regulatory accounts are detailed below;

Table 1A – Income Statement

Positive numbers represent increased profit in the Regulatory Accounts	£m
Operating costs	
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	(2.2)
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. In the Regulatory Accounts capitalisation of interest is not allowed	0.1
Other operating income shown separately in the Regulatory Accounts	1.6
Rental income shown on a separate line in the Regulatory Accounts	(0.4)
Depreciation arising on conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	6.6
	5.7
Other operating income	
Other operating income shown separately in the Regulatory Accounts	**(1.6)**
Other income	
Rental income shown on a separate line in the Regulatory Accounts	**0.4**
Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	4.9
Capitalisation of interest not allowed in the Regulatory Accounts	(1.4)
	3.5
Other Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	**(4.9)**
Deferred tax	
Rate change from 18% to 17% on the conversion to IFRS on the revaluation of infrastructure assets on the brought-forward balance has been dis-applied in the Regulatory Accounts	(6.9)
Deferred tax at 17% on the current year depreciation for the conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	(0.2)
	(7.1)
Total differences	**(4.0)**

7) Differences between non-statutory and RAG definitions (continued)

Table 1C – Statement of Financial Position

Positive numbers represent increased assets in the Regulatory Accounts	£m
Fixed assets	
Assets, net of depreciation, arising on conversion to IFRS on the revaluation of infrastructure assets have been dis-applied in the Regulatory Accounts	(679.3)
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	(35.0)
Capitalised interest on completed assets is depreciated in the Non-Statutory Accounts. Under Regulatory accounting capitalisation of interest is dis-applied.	(5.9)
	(720.2)
Trade & other payables Shown as capex creditor in the Regulatory Accounts	**37.3**
Capex creditor Shown as trade & other payables creditor in the Non-Statutory Accounts	**(37.3)**
Current tax liabilities Tax adjustment on prior year customer pipe leak repairs	**0.5**
Deferred tax Deferred tax at 18% for the conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	**116.3**
Total differences	**(603.4)**

8) Disclosure of transactions with associates

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2016-17 Value £m
Wessex Water Enterprises Ltd and subsidiaries	Waste treatment, transport, accommodation, insurance, laboratory, central services	33.5	No market	7.9
Wessex Water Enterprises Ltd and subsidiaries	Sale of sewage gas	33.5	No market	1.4
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs, personnel	15.9	No market	1.2
Wessex Water Ltd	Corporate charges	nil	No market	0.9
Bath Hotel and Spa Ltd	Project management	nil	No market	0.2
Gainsborough Hotel (Bath) Ltd	Information systems, equipment maintenance, bottled water	6.3	No market	0.1
Monkey Island Properties Ltd	Project management and engineering support	nil	No market	0.1
Thermae Development Company Ltd	Information systems	10.8	No market	0.1
YTL Property Holdings (UK) Ltd	Project management, environmental investigations, management and engineering and back office support	nil	No market	1.0

8) Disclosure of transactions with associates (continued)

Services provided to appointee by associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2016-17 Value £m
Bristol Wessex Billing Services Ltd	Billing services	15.9	Competitive letting	12.7
Wessex Water Enterprises Ltd	Supply of electricity	28.4	Other market testing	2.8
Xchanging Malaysia Sdn Bhd	IT services from an Offshore Development Centre	6.2	Competitive letting and market testing	2.4
YTL Communications Sdn Bhd	IT services from an Offshore Development Centre	105.2	Competitive letting and market testing	0.4

Financial transactions

Dividends declared by the appointee to Wessex Water Ltd are disclosed in note 8 to the Annual Report and Accounts.

The appointee paid £65.8m (2016 - £65.4m) of interest to its subsidiary company Wessex Water Services Finance Plc in relation to the proceeds of the Bonds issued by that company, that were lent to the appointee under the same terms as the Bonds. The Bonds are shown in note 14 to the Annual Report and Accounts.

The appointee acquired assets of £1.4m (2016 - £2.4m) on behalf of Wessex Water Enterprises Ltd and transferred those assets to that company.

Independent Auditor's report to the Water Services Regulation Authority (the WSRA) and the Directors of Wessex Water Services Limited.

Opinion on Annual Performance Report

In our opinion, Wessex Water Services Limited's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.09, appendix 3), set out on page 12.

Emphasis of matter - basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.09, appendix 3) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 22 to 36 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The sections of Wessex Water Services Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.09, appendix 3) set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (tables 3A to 3D) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the sections of the Annual Performance Report that we have audited, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

	The risk	Our response
Classification of costs between operating and capital expenditure (£191.5 million; 2016: £210.8 million) *Refer to page 15 (Audit Committee Report), page 55 (accounting policy) and page 65 (financial disclosures) of the annual report and accounts.*	**Accounting treatment** The Company incurs a high level of expenditure on Property, plant and equipment ("PPE"), including repair and maintenance and enhancement costs. There is a high degree of judgement involved in determining whether costs, both initial and subsequent expenditure, including employee and other internal expenditure, on both infrastructure and non-infrastructure assets, meet the relevant criteria for capitalisation or alternatively should be expensed immediately.	Our procedures included: — **Control observation:** For a sample of projects, assessing if the classification of expenditure is subject to review and authorisation by the appropriate level within the business hierarchy; — **Sector experience:** For a sample of projects, challenging the level of capitalisation based on our knowledge of the sector and the underlying nature of the projects; — **Expectation vs outcome:** Comparing the level of employee and other internal expenditure capitalised against prior year balances and current year budget information to identify material variances in the quantum of costs capitalised, with any significant differences corroborated and investigated; — **Assessing transparency:** Assessing the adequacy of the company's disclosures in relation to the classification of expenditures.

	The risk	Our response
Bad debt provision (£39.1 million; 2016: £45.9 million) *Refer to page 15 (Audit Committee Report), page 59 (accounting policy) and page 79 (financial disclosures) of the annual report and accounts*	**Subjective estimate** The provision for doubtful debts is a significant risk area due in part to the statutory requirement to provide water to customers who will be unable to pay, and also as a result of its subjective nature, quantum, and the complex assumptions in relation to the percentage of debtors in each ageing and payment category that require provision. Those assumptions are based upon historical cash collection trends, economic trends and pricing level. An inappropriate choice of percentage could result in a	Our procedures included: — **Controls design:** With assistance from our own IT specialists, critically analysing and evaluating the service auditor report over the controls in place that ensure the appropriate billing and cash collection data are interfaced appropriately into the accounting systems. This data is the basis for developing provision percentages for each ageing and payment category used in calculating the provision;

	material variance in the level of provision required. **Calculation error** Due to complexity of the bad debt provision calculation, there is also a risk of error in the calculation that could result in a material misstatement.	— **Historical comparisons:** Evaluating the provision percentages applied to the different ageing and payment categories by comparison to prior year and to historical write-offs; — **Sensitivity analysis:** Challenging the Directors' percentages applied to each ageing category through performing scenario analysis and altering the percentages applied; — **Benchmarking assumptions:** Comparing the Company's level of provisioning to that evidenced across the industry based on our own industry analysis; — **Independent reperformance:** Using the debtors data extracted from the billing system, we applied the Company's assumptions and recalculated the provision; — **Assessing transparency:** Assessing the adequacy of the Company's disclosures about the degree of estimation uncertainty involved in calculating the provision.

	The risk	Our response
Defined benefit liability *Present value of obligation:* (£788.9 million; 2016: £660.9 million) *Net defined benefit liability:* (£194.7 million; 2016: £141.0 million) *Refer to page 15 (Audit Committee Report), page 57 (accounting policy) and page 69 (financial disclosures) of the annual report and accounts.*	**Subjective estimates** Significant assumptions are made in valuing the Company's defined benefit liability. There is a risk that inappropriate assumptions are made for key areas such as discount rates, retail price index, mortality rates and the expected return on equities, resulting in a material misstatement.	Our procedures included: — **Benchmarking assumptions:** With the assistance of our actuarial specialists, comparing the key assumptions against external market data and a range of similar schemes; — **Assessing transparency:** Assessing the adequacy of the Company's disclosures in respect of the defined benefit liability.

Our application of materiality

Materiality for the Annual Performance Report as a whole was set at £7.1 million, determined with reference to a benchmark of profit before tax, of which it represents 5% (2016: 7%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £357,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

An overview of the scope of our audit

The audit team performed the audit of the Annual Performance Report as if it was a single set of financial information. The audit was performed using the materiality levels set out above, covering 100% (2016: 100%) of the profit before taxation and total assets held.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the Directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.09, appendix 3).

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report as well as the Annual Report and Accounts, to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in note 3 and its accounting methodology statement published on the Company's website on 7 July 2017. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Performance Report is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Performance Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the non-statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 7 July 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Andrew Campbell-Orde
For and on behalf of KPMG LLP
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
7 July 2017

Section 1: Regulatory Financial Reporting

Financial performance for the 12 months ended 31 March 2017

Table 1A Income Statement	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	525.3	-	(8.3)	(8.3)	517.0
Operating costs	(299.0)	5.7	8.3	14.0	(285.0)
Other operating income	-	(1.6)	-	(1.6)	(1.6)
Operating profit	226.3	4.1	-	4.1	230.4
Other income	-	0.4	-	0.4	0.4
Interest income	1.0	-	-	-	1.0
Interest expense	(74.9)	3.5	-	3.5	(71.4)
Other interest expense	-	(4.9)	-	(4.9)	(4.9)
Profit before tax and fair value movements	152.4	3.1	-	3.1	155.5
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	152.4	3.1	-	3.1	155.5
UK Corporation tax	(23.2)	-	-	-	(23.2)
Deferred tax	16.9	(7.1)	-	(7.1)	9.8
Profit for the year	146.1	(4.0)	-	(4.0)	142.1
Dividends	(94.0)	-	-	-	(94.0)

An explanation of the differences column can be found in paragraph 7 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2017

	Current year				
		Adjustments			
Table 1B Statement of Comprehensive Income	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	146.1	(4.0)	-	(4.0)	142.1
Actuarial (losses) on post-employment plans	(53.2)	-	-	-	(53.2)
Other comprehensive income	7.6	-	-	-	7.6
Total Comprehensive Income for the year	100.5	(4.0)	-	(4.0)	96.5

Financial performance for the 12 months ended 31 March 2017

Table 1C Statement of Financial Position	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	3,427.9	(720.2)	-	(720.2)	2,707.7
Investments - other	-	-	-	-	-
Total	3,427.9	(720.2)	-	(720.2)	2,707.7
Current assets					
Inventories	7.2	-	-	-	7.2
Trade & other receivables	175.3	-	-	-	175.3
Cash & cash equivalents	103.5	-	-	-	103.5
Total	286.0	-	-	-	286.0
Current liabilities					
Trade & other payables	(173.1)	37.3	-	37.3	(135.8)
Capex creditor	-	(37.3)	-	(37.3)	(37.3)
Borrowings	(5.1)	-	-	-	(5.1)
Current tax liabilities	(15.1)	0.5	-	0.5	(14.6)
Total	(193.3)	0.5	-	0.5	(192.8)
Net current assets	92.7	0.5	-	0.5	93.2
Non-current liabilities					
Trade & other payables	(0.4)	-	-	-	(0.4)
Borrowings	(2,002.0)	-	-	-	(2,002.0)
Retirement benefit obligations	(194.7)	-	-	-	(194.7)
Provisions	(0.1)	-	-	-	(0.1)
Deferred income - G&C's	(249.7)	-	-	-	(249.7)
Deferred tax	(319.2)	116.3	-	116.3	(202.9)
Total	(2,766.1)	116.3	-	116.3	(2,649.8)
Net assets	754.5	(603.4)	-	(603.4)	151.1
Equity					
Called up share capital	-	-	-	-	-
Retained earnings & other reserves	754.5	(603.4)	-	(603.4)	151.1
Total equity	754.5	(603.4)	-	(603.4)	151.1

An explanation of the differences column can be found in paragraph 7 of the Regulatory Disclosures.

Financial performance for the 12 months ended 31 March 2017

Table 1D Statement of Cash Flows	Current year				
		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating profit	226.3	4.1	-	4.1	230.4
Other income	-	0.4	-	0.4	0.4
Depreciation	103.7	(6.4)	-	(6.4)	97.3
Amortisation - G&C's	-	(2.5)	-	(2.5)	(2.5)
Changes in working capital	(9.4)	7.6	-	7.6	(1.8)
Pension contributions	-	(7.6)	-	(7.6)	(7.6)
Movement in provisions	-	-	-	-	-
Loss on sale of fixed assets	-	1.6	-	1.6	1.6
Cash generated from operations	320.6	(2.8)	-	(2.8)	317.8
Net interest paid	(61.5)	-	-	-	(61.5)
Tax paid	(24.4)	-	-	-	(24.4)
Net cash generated from operating activities	234.7	(2.8)	-	(2.8)	231.9
Investing activities					
Capital expenditure	(192.9)	2.8	-	2.8	(190.1)
Grants & Contributions	8.9	-	-	-	8.9
Disposal of fixed assets	1.5	-	-	-	1.5
Other	1.0	-	-	-	1.0
Net cash used in investing activities	(181.5)	2.8	-	2.8	(178.7)
Net cash generated before financing activities	53.2	-	-	-	53.2
Cashflows from financing activities					
Equity dividends paid	(90.5)	-	-	-	(90.5)
Net loans received	45.5	-	-	-	45.5
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(45.0)	-	-	-	(45.0)
Increase in net cash	8.2	-	-	-	8.2

Net Debt Analysis at 31 March 2017

Table 1E	Interest rate risk profile: Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding preference shares)	947.4	327.0	732.7	2,007.1
Preference share capital				-
Total borrowings				2,007.1
Cash				(103.5)
Short term deposits				-
Net Debt				1,903.6
Gearing				64.7%
Adjusted Gearing				70.4%
Full year equivalent nominal interest cost	45.0	2.9	32.8	80.7
Full year equivalent cash interest payment	45.0	2.9	18.0	65.9
Indicative interest rates				
Indicative weighted average nominal interest rate	4.7%	0.9%	4.5%	4.0%
Indicative weighted average cash interest rate	4.7%	0.9%	2.5%	3.3%
Weighted average years to maturity	10.2	3.7	32.9	17.4

The adjusted gearing is an estimate of the pension-adjusted gearing based on Moody’s methodology.

Narrative

Current tax reconciliation

a) UK corporation tax on Table 1A is £23.2m comprising current year tax of £25.3m less £2.1m of adjustments relating to prior years.

Profit before tax was £152.4m, which at the standard tax rate of 20% is £30.5m. The tax charge of £23.2m is £7.3m lower than £30.5m. The main reconciling items are explained as follows:

-£5.2 m capital allowances in excess of depreciation
-£2.1m adjustment in relation to prior years
-£0.6m pension payments in excess of accounting charge
-£0.5m group relief for no consideration
 £1.1m other non tax deductible expenditure

-£7.3m

b) The corporation tax charge of £23.2m comprises a current year current tax charge of £25.3m less a prior year credit of £2.1m. The current year charge of £25.3m is £9.9m higher than the £15.4m tax charge allowed in price limits.

+£8.9m additional profit before tax of £44.6m at 20%
+£0.1m higher add back for depreciation
+£0.6m no debt gearing adjustment
+£0.9m lower capital allowances deduction
-£0.5m deduction for group relief
-£0.1m other adjustments

+£9.9m

Section 2: Price Review and Other Segmental Reporting

Segmental Income Statement for the 12 months ended 31 March 2017

Current year

	Retail		Wholesale						Total
Table 2A	Household	Non-household	Water Resources	Water Networks+	Water Total	Wastewater Networks+	Sludge	Wastewater Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue - price control	35.2	6.5		171.3	171.3	300.9		300.9	513.9
Revenue - non-price control	-	-		1.1	1.1	2.0		2.0	3.1
Operating expenditure	(26.2)	(4.3)	(8.8)	(65.1)	(73.9)	(70.4)	(15.4)	(85.8)	(190.2)
Depreciation - tangible assets	(1.1)	(0.3)	(2.5)	(28.6)	(31.1)	(56.9)	(7.9)	(64.8)	(97.3)
Amortisation - intangible assets	-	-	-	0.6	0.6	1.9	-	1.9	2.5
Other operating income	-	-	-	(1.2)	(1.2)	(0.2)	(0.2)	(0.4)	(1.6)
Operating profit before recharges	7.9	1.9	(11.3)	78.1	66.8	177.3	(23.5)	153.8	230.4
									-
Recharges from other segments	(0.4)	(0.1)	(0.1)	(0.7)	(0.8)	(0.4)	(0.7)	(1.1)	(2.4)
Recharges to other segments	-	-	-	0.8	0.8	1.5	0.1	1.6	2.4
Operating profit	7.5	1.8	(11.4)	78.2	66.8	178.4	(24.1)	154.3	230.4
Surface water drainage rebates									0.2

Totex analysis for the 12 months ended 31 March 2017 – Wholesale Business

Table 2B	Water Resources	Water Networks+	Wastewater Networks+	Sludge	Total
	Current year				
	£m	£m	£m	£m	£m
Operating expenditure					
Power	2.2	6.2	14.4	0.8	23.6
Income treated as negative expenditure	-	-	-	-	-
Service charges/ discharge consents	2.3	0.1	2.8	-	5.2
Bulk supply/ Bulk discharge	-	1.5	0.1	-	1.6
Other operating expenditure	3.0	38.1	44.5	12.7	98.3
Local authority rates	0.8	17.2	8.4	1.9	28.3
Total operating expenditure excluding third party services	8.3	63.1	70.2	15.4	157.0
Third party services	0.5	2.0	0.2	-	2.7
Total operating expenditure	8.8	65.1	70.4	15.4	159.7
Capital expenditure					
Maintaining the long term capability of the assets – infra	0.1	10.0	9.5	-	19.6
Maintaining the long term capability of the assets - non-infra	1.5	27.6	42.3	15.7	87.1
Other capital expenditure - infra	0.1	15.3	22.4	0.1	37.9
Other capital expenditure - non-infra	1.3	25.5	12.3	1.5	40.6
Total gross capital expenditure excluding third party services	3.0	78.4	86.5	17.3	185.2
Third party services	-	-	-	-	-
Total gross capital expenditure	3.0	78.4	86.5	17.3	185.2
Grants and contributions	-	(4.1)	(6.5)	-	(10.6)
Totex	11.8	139.4	150.4	32.7	334.3
Cash expenditure					
Pension deficit recovery payments	0.4	2.4	3.6	0.9	7.3
Other cash items	-	-	-	-	-
Totex including cash items	12.2	141.8	154.0	33.6	341.6

Operating cost analysis for the 12 months ended 31 March 2017 – Retail

Table 2C	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	5.1	0.7	5.8
Debt management	2.2	0.2	2.4
Doubtful debts	10.6	1.3	11.9
Meter reading	1.3	0.4	1.7
Services to developers		0.4	0.4
Other operating expenditure	7.0	1.3	8.3
Total operating expenditure excluding third party services	26.2	4.3	30.5
Third party services operating expenditure	-	-	-
Total operating expenditure	26.2	4.3	30.5
Depreciation - tangible assets	1.1	0.3	1.4
Depreciation - intangible assets	-	-	-
Total operating costs	27.3	4.6	31.9
Debt written off	17.8	0.9	18.7

Historic Cost Analysis of Fixed Assets at 31 March 2017 – Wholesale & Retail

Table 2D	Wholesale				Retail		
	Water Resources	Water Networks+	Wastewater Networks+	Sludge	House-hold	Non-house-hold	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1 April 2016	80.9	1,133.2	2,270.9	209.7	18.2	2.3	3,715.2
Disposals	(0.1)	(3.6)	(6.0)	(1.1)	(0.1)	-	(10.9)
Additions	3.4	84.4	83.3	14.5	0.7	1.3	187.6
Assets adopted at nil cost	-	-	(0.4)	-	-	-	(0.4)
At 31 March 2017	84.2	1,214.0	2,347.8	223.1	18.8	3.6	3,891.5
Depreciation							
At 1 April 2016	(31.6)	(268.7)	(686.1)	(95.9)	(11.8)	(0.2)	(1,094.3)
Disposals	0.1	1.6	5.1	0.9	0.1	-	7.8
Charge for year	(2.5)	(28.6)	(56.9)	(7.9)	(1.1)	(0.3)	(97.3)
At 31 March 2017	(34.0)	(295.7)	(737.9)	(102.9)	(12.8)	(0.5)	(1,183.8)
Net book amount at 31 March 2017	50.2	918.3	1,609.9	120.2	6.0	3.1	2,707.7
Net book amount at 1 April 2016	49.3	864.5	1,584.8	113.8	6.4	2.1	2,620.9

Depreciation charge for year							
Principal services	(2.5)	(28.6)	(56.9)	(7.9)	(1.1)	(0.3)	(97.3)
Third party services	-	-	-	-	-	-	-
Total	(2.5)	(28.6)	(56.9)	(7.9)	(1.1)	(0.3)	(97.3)

The net book value includes £217.0m in respect of assets in the course of construction.

Analysis of Capital Contributions and Land Sales for the 12 Months ended 31 March 2017 – Wholesale

Table 2E	Current year			
	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
Grants and contributions - water	£m	£m	£m	£m
Connection charges (s45)	1.6	-	-	1.6
Infrastructure charge receipts (s146)	-	2.0	-	2.0
Requisitioned mains (s43, s55 & s56)	-	0.5	-	0.5
Diversions (s185)	-	-	-	-
Other Contributions	-	-	-	-
Total	1.6	2.5	-	4.1
Value of adopted assets	-	-	-	-
Grants and contributions - wastewater	£m	£m	£m	£m
Infrastructure charge receipts (s146)	-	3.2	-	3.2
Requisitioned sewers (s100)	-	2.9	-	2.9
Diversions (s185)	0.2	-	-	0.2
Other Contributions	-	0.2	-	0.2
Total	0.2	6.3	-	6.5
Value of adopted assets	-	(0.4)	-	(0.4)

Movements in capitalised grants and contributions	Current year		
	Water £m	Waste water £m	Total £m
Brought forward	58.2	185.6	243.8
Capitalised in year	2.5	6.3	8.8
Amortisation (in income statement)	(0.6)	(1.9)	(2.5)
Carried forward	60.1	190.0	250.1

Land sales - Proceeds from disposals of protected land	0.4	-	0.4

Household – Revenues by Customer Type for the 12 months ended 31 March 2017

Table 2F	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000's	£
Customer Type					
Unmeasured water only customer	5.742	0.413	6.155	21.283	19.418
Unmeasured wastewater only customer	72.099	4.939	77.038	294.864	16.751
Unmeasured water & wastewater customer	95.807	6.741	102.548	189.838	35.511
Measured water only customer	3.506	0.423	3.929	18.732	22.568
Measured wastewater only customer	58.346	7.459	65.805	338.723	22.020
Measured water & wastewater customer	122.120	15.178	137.298	318.510	47.653
Total	357.620	35.153	392.773	1,181.950	29.742

Numbers in the table above may be subject to rounding differences.

Non-household Water – Revenues by Customer Type for the 12 months ended 31 March 2017

Table 2G	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average NHH retail revenue per connection
	£m	£m	£m	'000s	£
Default tariffs					
UM-W	1.674	0.098	1.772	3.636	27
UM-W-MX	0.118	0.007	0.125	0.255	27
M-W-0	11.620	1.302	12.922	32.276	40
M-W-0-MX	2.853	0.320	3.173	7.795	41
M-W-1	10.925	0.392	11.317	2.771	141
M-W-1-MX	2.577	0.092	2.669	0.647	143
M-W-5	6.020	0.168	6.188	0.366	459
M-W-5-MX	2.480	0.069	2.549	0.139	498
M-W-25	2.513	0.041	2.554	0.039	1,060
M-W-50	2.766	0.053	2.819	0.022	2,427
M-W-100	4.238	0.056	4.294	0.018	3,116
M-W-250	0.846	0.008	0.854	0.002	4,055
M-W-500	1.079	0.009	1.088	0.001	8,558
Total default tariffs	49.709	2.615	52.324	47.967	55
Non-Default tariffs					
Total non-default tariffs	0	0	0	0	0
Total	49.709	2.615	52.324	47.967	55

	Number of customers ('000s)	Average NHH revenue per customer (£)
Revenue per Customer	47.967	55

Numbers in the table above may be subject to rounding differences.

Non-household Wastewater – Revenues by Customer Type for the 12 months ended 31 March 2017

Table 2H	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average NHH retail revenue per connection
	£m	£m	£m	'000s	£
Default tariffs					
UM-S	2.266	0.096	2.362	4.640	21
UM-S-MX	0.172	0.007	0.179	0.354	21
M-S-0	11.837	1.594	13.431	34.002	47
M-S-0-MX	6.631	0.893	7.524	16.764	53
M-S-1	10.014	0.379	10.393	2.681	141
M-S-1-MX	5.321	0.201	5.522	1.416	142
M-S-5	5.981	0.194	6.175	0.346	561
M-S-5-MX	3.318	0.108	3.426	0.190	567
M-S-25	2.672	0.049	2.721	0.045	1,082
M-S-50	2.609	0.049	2.658	0.021	2,333
M-S-100	1.220	0.019	1.239	0.013	1,456
M-S-250	0.449	0.005	0.454	0.002	2,629
M-TE-0	0.204	0.018	0.222	0.366	49
M-TE-1	0.830	0.027	0.857	0.226	120
M-TE-5	1.569	0.040	1.609	0.080	502
M-TE-25	1.697	0.038	1.735	0.026	1,452
M-TE-50	2.069	0.049	2.118	0.015	3,251
M-TE-100	3.245	0.052	3.297	0.012	4,344
M-TE-250	0.414	0.008	0.422	0.001	7,666
M-TE-500	0.698	0.005	0.703	0.001	5,178
Total default tariffs	63.216	3.831	67.047	61.201	63
Non-Default tariffs					
Total non-default tariffs	-	-	-	-	-
Total	63.216	3.831	67.047	61.201	63

	Number of customers ('000s)	Average NHH revenue per customer (£)
Revenue per Customer	61.201	63

Numbers in the table above may be subject to rounding differences.

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2017

Table 2I	**Current year**		
	Household	Non-household	Total
	£m	£m	£m
Wholesale charge - water			
Unmeasured	57.0	1.8	58.8
Measured	63.1	47.9	111.0
Third Party Revenue	-	1.5	1.5
Total	120.1	51.2	171.3
Wholesale charge - wastewater			
Unmeasured	116.7	2.4	119.1
Measured	120.9	60.8	181.7
Third Party Revenue	-	0.1	0.1
Total	237.6	63.3	300.9
Wholesale Total	357.7	114.5	472.2
Retail revenue			
Unmeasured	12.1	0.2	12.3
Measured	23.1	6.2	29.3
Other third party revenue	-	0.1	0.1
Retail Total	35.2	6.5	41.7
Third party revenue - non-price control			
Bulk supplies - water			0.4
Bulk supplies - wastewater			0.3
Other third party revenue			2.2
Principle services - non-price control			
Other appointed revenue			0.2
Total appointed revenue			517.0

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2017 *(continued)*

	Current year		
	Water	Waste-water	Total
Wholesale revenue governed by price control	171.3	300.9	472.2
Grants & contributions	4.1	6.1	10.2
Total revenue governed by wholesale price control	175.4	307.0	482.4
Amount assumed in wholesale determination	173.4	303.1	476.5
Adjustment for in-period ODI revenue	-	-	-
Adjustment for WRFIM	-	-	-
Total assumed revenue	173.4	303.1	476.5
Difference	2.0	3.9	5.9

Narrative

Wholesale Revenues reconciliation against Final Determination

The differences above between actual and allowed revenue are +£2.0m (+1.2% vs FD) for water and +£3.9m (+1.3% vs FD) for wastewater.

These variances are explained as follows:

	Water	Wastewater	Note
Variance from table 2i.26	+£2.0m	+£3.9m	
Contribution received from Hinkley Point development	+£0.2m	-	[1]
Remaining variance	**+£1.8m**	**+£3.9m**	
Change in domestic demand	+£1.9m	+£1.3m	[2]
Change in commercial demand	-£0.1m	+£2.7m	[3]
Reduced take up of metering	+£0.4m	+£0.4m	[4]
Other differences	-£0.4m	-£0.5m	

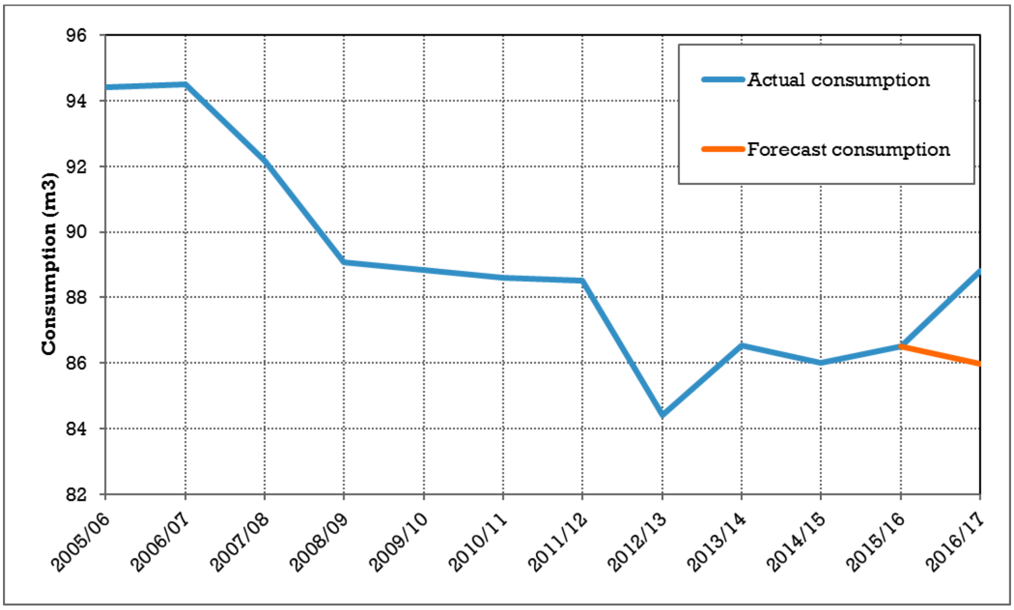
1 – Contributions received from Hinkley Point development

The contribution received for the water infrastructure investment required to service a new nuclear reactor in our region. This was an item noted by Ofwat during PR14 as an allowable additional revenue stream. There is no allowance for the contribution received or the associated cost of the investment in the final determination, the expectation is that this item will be cash neutral for the Company.

Other developer related contributions are broadly in line with expectations.

2 – Domestic demand

We have continued to experience better than average weather, with rainfall in 2016-17 falling to 710mm (from 908mm in 2015-16), the third successive year where rainfall has been below average. Domestic demand has therefore out-turned above the value assumed when we set charges.



The impact of this has been mitigated as we set volumetric prices at a lower level than in 2015-16, and we have held volumetric prices flat in 2017-18 allowing for the fact we expect some of this increase in demand to be maintained.

3 – Commercial demand

Our water supply commercial demand was in line with what we expected, with only a non-material variance.

On wastewater we assumed a reduction in billed volumes in line with our long term trend of reducing commercial demand. This did not materialize; in fact, we saw a slight increase in consumption.

4 – Reduced take up of optional metering

Demand for optional metering continues to fall, for our water supply customers we installed c.8,000 less meters than we assumed when setting charges and for our waste customers we installed c.10,000 less than assumed. This is despite actively promoting optional metering through enhanced publicity campaigns. This year we have also begun fitting meters on a change of occupier, however the slowdown in activity in the housing market has meant that we have not fitted as many meters as we had forecast.

Section 3: Performance Commitments

For the 12 months ended 31 March 2017

Table 3A

				Actuals				Accrued at 31 Mar 2017		31 Mar 2020 forecast	
ID	Performance Commitment	Units	dp	2015-16 performance level	Target	2016-17 performance level	2016-17 target met?	Notional reward / penalty	£m absolute value	Total AMP6 reward / penalty	£m absolute value
F1	Volume of water leaked	Ml/d	1	68.3	68.6	68.3	Yes	Reward deadband	0.000	Reward deadband	0.000
F2	Customer reported leaks fixed within a day	%	0	68	70	70	Yes				
G1	Customer contacts about drinking water quality	nr	0	2431	2072	2172	No	Penalty deadband	0.000	Penalty	-1.200
G2	Compliance with drinking water standards (MZC)	%	2	99.96	99.98	99.95	No	Penalty deadband	0.000	Penalty deadband	0.000
B4	Compliance with abstraction licences	%	1	100	100	100	Yes				
B5	Abstractions at Mere exported (follows principles of the AIM methodology)	Ml/a	0	172	100	341	No	Penalty	-0.006	Penalty	-0.010
B7	Length of rivers with improved flows	km	0	0	0	0	Yes			Reward deadband	0.000
B6	BAP landholding assessed and managed for biodiversity	%	0	63	70	73	Yes				
D2	Restrictions on water use (hosepipe bans)	nr	0	0	0	0	Yes				
D3	Water supply interruptions (> 3 hours including planned, unplanned and third party interruptions)	Min / prop	1	14:30	16:00	12.8	Yes	Reward deadband	0.000	Reward deadband	0.000
D4	Properties supplied by a single source (including the integrated supply grid)	nr	0	78000	78000	48000	Yes				
D5	Water main bursts	nr	0	1663	<1993	1863	Yes				
A1	Agreed schemes delivered (named outputs with bathing water drivers in the NEP)	%	0	100	100	100	Yes				
A2	Beaches passing EU standards	%	0	98	100	98	No				
B1a	The EA's Environmental Performance Assessment (reward mechanism based on pollution incidents)	standing	na	Industry Leading	Industry Leading	Industry Leading	Yes	Reward deadband	0.000	Reward deadband	0.000
B2	Monitoring CSOs	%	0	46	40	50	Yes				
B3	River water quality improved	nr	0	0	0	8	Yes				
C1	Internal flooding incidents	nr / 10k props	2	1.36	1.72	1.2	Yes	Reward	5.508	Reward	16.116
C2	Risk of flooding from public sewers due to hydraulic inadequacy	Risk score	0	51509	50651	51125	No	Penalty deadband	0.000	Reward deadband	0.000
C3a	North Bristol Sewer Scheme - Frome catchment	milestone	na	-	-	-	Yes				
C3b	North Bristol Sewer Scheme - Trym catchment	milestone	na	-	-	-	Yes				
D1	Collapses and bursts on sewer network	nr	0	271	<300	276	Yes				
E1	Greenhouse gas emissions (annual greenhouse gas emissions from operational services)	ktCO2e	0	138	124	123	Yes				
E2	Proportion of energy self-generated	%	0	25	22	29	Yes				

Table 3A (cont)

				Actuals				Accrued at 31 Mar 2017		31 Mar 2020 forecast	
ID	Performance Commitment	Units	dp	2015-16 performance level	Target	2016-17 performance level	2016-17 target met?	Notional reward / penalty	£m absolute value	Total AMP6 reward / penalty	£m absolute value
A1	SIM service score	score	0	87	>86	88	Yes	Reward	tbc	Reward	tbc
A2	Percentage rating service good/very good	%	0	96.3	>95	96	Yes				
A3	Percentage rating good value for money	%	0	78	72	84	yes				
A4	Percentage rating ease of resolution	%	0	81	Improving trend	75	no				
A5	Accessible communications	text	na	BS18477& Customer service exellence award	-	BS18477 & Customer Service Excellence Award	yes				
B1a	Volume of water used per person	l / person / d	1	138	134	141.2	No				
B1b	Volume of water saved by water efficiency promotion	l / person / d	2	0.68	1.25	1.56	yes				
B2	Bill as a proportion of disposable income	%	1	1.5	Reducing trend	1.4	Yes				

Table 3B - Wessex Water has no sub-measures and so this table is deliberately excluded

Table 3C

Abstraction site	dp	2016-17 AIM performance [Ml]	2016-17 normalised AIM performance	Cumulative AIM performance 2016-17 [Ml]	Cumulative normalised AIM performance 2016-17	Contextual information relating to AIM performance
Mere	0	-190	0	-190	0	

Table 3D

Row	Line description	Units	dp	Score
A	**Qualitative performance**			
1	1st survey score	score	2	4.53
2	2nd survey score	score	2	4.58
3	3rd survey score	score	2	4.51
4	4th survey score	score	2	4.57
5	Qualitative SIM score (out of 75)	score	2	66.52
B	**Quantitative performance**			
6	Quantitative composite score	score	2	79.36
7	Quantitative SIM score (out of 25)	calc	2	21.03
C	**SIM score**			
8	Total annual SIM score (out of 100)	calc	0	88

Narrative

Outcomes, Performance Commitments & Delivery Incentives (2015-2020)

As part of our strategic direction statement, Water – the way ahead 2015-2040, published in support of our last business plan we defined nine outcomes derived through our customer engagement. These nine outcomes provide the focus for the activities we do from now to 2019/20. Our recently published strategic direction statement updates our outcomes with some minor changes to the existing outcomes and a new one focused on engaged communities.

We then consulted with our customers and worked with customer stakeholder bodies and our Customer Scrutiny Group to develop specific performance commitments (PCs) focused on areas of activity that are important to our customers. This resulted in 32 performance commitments being agreed with Ofwat in the final determination.

Each of these performance commitments has a target confirmed in Ofwat's final determination. For those performance commitments that were most important to our customers or that could have the biggest impact on the environment a financial incentive was applied. We also included a range of performance commitments that were new and are being trialled up to 2020 and several that are not totally under our control to deliver; in these cases, a reputational incentive was applied.

We are committed to making significant improvements to our services and this section of the document provides the detail describing our progress in the second year of the current five year period.

Where appropriate Ofwat incentivised the companies by applying outcome delivery incentives (ODIs) designed using customer valuations to create financial incentives so that more of the company's returns were based on the service they provided to customers. For those performance commitments with a financial incentive, if the company fails to achieve these targets we refund customers; if we beat these targets where customers' value the services provided, the company will receive an incentive payment. All refunds and incentive payments will be factored into the AMP7 final determination in 2020.

Where there is uncertainty around performance due possibly to third party factors or variations in the weather then a deadband is applied around the target, within which no incentive payments or customer refunds apply.

Performance Commitment narrative (Table 3a)

The following sections support the performance data included in Table 3a and provide an explanation of each performance commitment, an explanation of any over or under performance for the 2016-17 reported year and where appropriate updated our forecast to the end of the 5 year period. This section also explains any financial incentive that applies to each performance commitment.

Whilst these performance commitments focus on Wessex Water's performance, it is important to understand them in a wider context. In our separately published Sustainability Indicators and Accounting report we show how we have performed in our key performance measures over a number of years.

All financial values are stated at 2012-13 prices and will be indexed to outturn prices using RPI by Ofwat when they are applied to our bills in 2020-21. The calculations themselves can be reasonably complex. For clarity in this document we have stated the most likely impact of differing performance levels. However, nothing in this document supersedes the more detailed calculation that was part of our 2014 price determination.

The final section provides a description of the governance and assurance that the company has in place to provide trust and confidence that the performance that is reported is accurate and consistently reported year by year.

Performance of individual measures has been subject to external audit as has the compilation of Table 3a, prior to review by the Audit Committee and the WWSL Board, this is explained further in the governance and assurance section at the end of this narrative.

Water Performance Commitments

Rivers, Lakes and Estuaries

Compliance with abstraction licences – All our abstractions of water from the environment are covered by EA permits which specify the maximum volume we are allowed to take in a given day and in the year – some licences can be very complex. This measure records the percentage of total days which are in breach of a licence at any source.

We are targeting 100% compliance in every year.

There is no financial incentive associated with this measure.

In 2016/17 we achieved the 100% target and we forecast that we will continue to do so in the future.

Abstractions at Mere – There are local concerns about the impact of our abstractions at Mere during periods when groundwater levels are low. This performance commitment measures the total amount of water we abstract from the source in a year when groundwater levels are below an agreed trigger level (AIM period).

We have set ourselves a challenging target to significantly reduce our abstraction to a minimal level of 100 Ml or less from Mere during the AIM period. This is a significant reduction from the volume that we have historically abstracted over the same period (447 Ml).

There is a financial incentive attached to this measure, although rather than a penalty it represents the extra cost of using water abstracted from elsewhere. We will refund customers £25 for each Ml we abstract over the target during periods of low groundwater.

In 2016-17 while we were able to reduce the volume of water abstracted from Mere from our long-term average, we exceeded the target by 241 Ml resulting in a refund to customers of £6,025. The target was exceeded as a result of unplanned outages at other sources due to plant failure and pre-emptive water quality shutdowns.

The dry weather experienced since June 2016 means that we are likely to enter the AIM period earlier in 2017 than normal, and remain in it for longer. We also have some key commissioning activities for our water supply grid. On this basis, there is a risk that we will exceed the target in 2017-18 and we have included an estimated refund value for this year in the table (the actual performance will be reported next year). The implementation of the grid will improve the resilience of our integrated network and should mitigate the risk of needing to use Mere after 2017-18.

Landholding assessed and managed for biodiversity – The percentage of landholding we own that we have assessed and are undertaking the appropriate management actions. This links into Defra's England biodiversity strategy.

The target for AMP6 is to increase this from 63% in 2015-16 to 100% for sites larger than 5,000m^2, adding an additional 10% assessed each year.

If we miss the target, we will refund customers £4k per percentage point.

In 2016-17, our performance of 73% achieved the target of 70% and we are currently reviewing the work necessary to achieve the tightening target up to 2020. We continue to forecast that with our processes in place we will achieve the target for each year of biuodthis price control period.

Improving flows in rivers – This measures the length of river with improved flows as a result of changes in abstraction licences.

The target is 99km in 2018-19 with no improvements due in other years. This is because these improvements relate to specific changes in licence conditions which are due that year.

If we do not deliver these planned changes we will refund customers £19k for each km we miss the target by. If we manage to deliver more changes to abstraction licences that improve additional km of river, we can receive an incentive payment of £19k per additional km.

We are on programme to deliver the improvements through our water supply grid in 2018-19.

Resilient Services

Water restrictions – The number of temporary use bans (TUB) imposed (i.e. hosepipe bans).

We have not had to impose a TUB for 40 years, and target none up to 2020. If we have to impose a TUB we will refund customers £10.1m for each TUB imposed.

We did not have to impose a TUB in 2016-17 and do not expect to have to do so in the current AMP.

Interruptions to supply – The average minutes of supply lost per property from interruptions that are longer than three hours.

Ofwat has set an industry wide target representing upper quartile performance. In 2015-16, the target was 21.3, it then tightens to the upper quartile of 12 minutes by 2017-18.

A deadband applies to this performance commitment such that in any year we exceed the deadband we will refund customers £41.9k per additional minute per property; and if in any year we beat the upper quartile performance of 12 minutes we receive an incentive payment of £6.4k for every additional minute per property.

In 2016-17 we achieved 12.8 minutes, a significant improvement on our past performance. This has largely been achieved by process improvements in the delivery of our planned work to minimise the actual shut period. However, the tighter target for 2018-19 onward is much more challenging to be certain of meeting it consistently, particularly as the measure is very sensitive to significant unplanned events.

Properties supplied by a single source – This is a continuation of a measure included in the previous final determination (PR09) relating to delivery of the water supply grid; it measures the number of properties that are solely supplied by one source of drinking water and cannot be fed from an alternative one.

We are targeted with reducing the number of these properties to 78,000 in 2015-16 with a further reduction to 42,000 in 2018-19.

If we fail to meet the target in any given year due to delays in delivery of the grid we will refund customer £76.60 per property above target per year. If we de-scope the integrated supply grid and fail to deliver these improvements, we will refund customers £2,445 per property – there is no risk of this as all associated schemes are currently under construction.

The implementation of the water supply grid is on course and the activities necessary to achieve the target in 2016-17 have all been completed. Detailed planning of the transition to operational control are now in progress.

Water main bursts – The number of water main bursts in the year.

The target is set at less than 1,993 in each year up to 2020. This represents the level at which, had we exceeded it, we could have incurred a penalty during the period 2010 to 2015, from Ofwat.

For every burst above 1,993 in a given year we will refund customers £4.9k.

In 2016-17 our performance was 1,863 bursts. It is difficult to forecast the future position but overall, assuming a range of weather conditions, we still anticipate achieving this target each year.

Reduced Leakage

Volume of leakage – The total daily volume of water we lose from our distribution system.

We have targeted a 5% reduction from our 2014-15 performance of 70 Ml/day, applied as a tightening of the target by 0.7 Ml/day each year up to 2020.

This performance commitment has the potential for both customer refunds and incentive payments. If we miss the target we are penalised by £305k for every Ml/day we are over, but if we beat the target by over 1 Ml/day, we can receive an incentive payment of £110k for every additional Ml/day.

In 2016-17, we achieved 68.3 Ml/d, which is under the target, although the weather conditions were mild. This figure is within the deadband so no financial incentive applies. This year we have initiated our enhanced metering strategy and pressure management optimisation project, both of which should result in further leakage reduction in following years and help in delivering the tightening target up to 2020.

Significant leaks fixed with a day – The number of significant leaks reported by customers that we fix within a day.

This is a new measure and by the end of the AMP we have targeted to fix 90% of the significant leaks reported by customers by the end of the next working day following report to us. The target gradually increases through the AMP from 66% in 2015-16.

Due to limited historic data to support setting an incentive, this PC has no financial impact associated with it.

In 2016-17 we achieved 70% performance, achieving the target for the year. Successful achievement relies on good collaboration between teams in the business and continuous improvement of our processes. Under normal conditions we are confident we can achieve the target for 2017-18. We are currently assessing the options for meeting the challenging 2018-19 and 2019-20 targets.

Highest Quality Drinking Water

Customer contacts about drinking water – The Drinking Water Inspectorate (DWI) annually report the number of contacts a company received about discolouration and taste and odour of drinking water.

In our business plan, we proposed a reduction in 10% over AMP6 from our 2014-15 performance; this was one of the measures where Ofwat set an industry wide target representing its view of the current upper quartile performance. In 2015-16, the target was 2,536 contacts, reducing to 2,072 in 2016/17 then from 2017-18 it reduced to a challenging 1,608 contacts.

In 2016-17 if we had exceeded 2,950 contacts we would have refunded customers £1,000 per contact and if we had less than 1,608 contacts we could receive an incentive payment of £175 per contact; from 2017-18 if we exceed the target we will refund customers and if we beat the target we can claim the incentive payment.

In 2016-17, our contacts reduced to 2,172 contacts, which is within the deadband and reflects a further improvement in performance.

We are implementing a series of customer relationship management initiatives that will help improve performance in future. Continued investment in further mains rehabilitation programmes is also important. However, there are no major hot spots remaining so further work is rarely justified on cost benefit grounds.

At this stage, there are no clear means by which we can achieve the target for 2017-18 onward without investing well above what customers have indicated they are prepared to pay. We are aware that our strategy of making it very easy for customers to contact us does make it more challenging to achieve this measure compared to the rest of the industry. Therefore, we are reporting that, under normal conditions we will miss this target and have included our best estimate of the penalty we will receive. We remain committed to improving our performance for our customers but we always expected that it would take longer than three years to achieve the improvement and this still looks to be the case.

Compliance with drinking water standards – The DWI annually calculate and report mean zonal compliance (MZC) – it measures performance against 39 parameters representing the quality of potable water supplied to customers. This is measured at customer taps; so failures can be caused by customers plumbing issues.

In our business plan we proposed a target of 99.98% throughout representing our highest ever historic performance. The DWI consider anything other than targeting 100% is inappropriate, so Ofwat have set this as the target from 2017-18 onward.

This measure has the potential for a penalty of £770k if in any year performance falls below 99.95%.

In 2016-17 we had 23 sample failures out of the 33,000 tests contributing to mean zonal compliance, giving a MZC of 99.95%. Of these sample failures, 18 were attributable to domestic plumbing and service pipe issues and only 5 were found to be associated with Wessex Water assets.

We are continuing to work with Water Regulations Advisory Scheme (WRAS), the water fittings agency, to influence domestic plumbing to reduce domestic failures. We have also reviewed and modified our company lead pipe replacement strategy. This is a long term issue that is not expected to change headline compliance in the short term. Therefore, we will not achieve 100% compliance in this AMP but we can expect to always be above the Ofwat deadband target of 99.95%.

A new method of measuring compliance with drinking water standards called ‘Compliance Risk Index’ (CRI) is being introduced by the DWI. This will eventually replace MZC. CRI includes sample failures from reservoirs and treatment works as well as customer taps and the scoring takes into account the type of breach as well as the scale of the potential impact.

Sewerage Performance Commitments

Improved Bathing Waters

Bathing water schemes delivered – The national environment programme (NEP) phase 4 included 20 named outputs we have to deliver with regulatory dates to improve the bathing water quality at Burnham Jetty or investigation other bathing waters. Due to a newly designated inland bathing water at Henleaze, Bristol, an additional investigation was added to the phase 5 NEP for year 2 delivery.

There were eight outputs to deliver in 2016-17. The target is to deliver 100% of projects each year, on a cumulative basis. This measure is the percentage of these outputs we have achieved. For each % we are short of 100 we will refund customers £9k.

In 2016-17 we delivered all eight revised bathing waters projects. There were three schemes designed to ensure we achieve 3 spills per bathing season for completion by March 2017. These were at the following sewerage pumping stations (SPS); Blake Gardens SPS, Taunton Road SPS and Sloway Lane SPS. For example, a 1,200 m3 storage tank was built at Sloway Lane to attenuate storm water.

There were also five investigations completed in 2016-17, which will inform future investment programmes.

We are progressing well with the delivery of some complex schemes in tight locations. Due to the importance of delivering the bathing water programmes all these projects have early and tight deadlines for delivery. Nevertheless, our direct management of delivery has meant we are on track to implement all projects.

Beaches achieving EU standards – Under the revised bathing water directive (rBWD) beaches are classified as poor, sufficient, good or excellent; classifications are based on the quality of the water over the previous four bathing seasons. If a beach fails to achieve sufficient it is deemed to have not met EU standards.

We are targeting all bathing waters in the region to meet EU standards.

As there are many factors that affect the bathing water outside of the company's control, such as the impact of agriculture, there is no financial ODI associated to this measure.

We currently have 48 designated bathing waters within our operational region. Compliance is monitored by the Environment Agency, in accordance with the Directive, and audited annually by Defra. This includes the newly designated inland bathing water at Henleaze, Bristol.

In 2016-17, 98% of bathing waters within our region passed the EU 'sufficient' standard or higher under the revised Bathing Water Directive. Burnham Jetty North is the only bathing water within the Wessex Water area to fail the required standards in the year. Despite the on-going delivery of our investment programme, other drivers of poor bathing water remain and it is anticipated that this performance commitment will not be achieved.

Rivers, Lakes and Estuaries

The Environment Agency's (EA's) Environmental Performance Assessment (EPA) – Since 2012 the EA have published a composite measure of environmental performance, including pollution incidents (classified in categories 1 (being the most severe) through to 3), discharge permit compliance, sludge disposal compliance, pollutions self-reported and NEP outputs delivered. They classify each water company as industry leading, above average, below average or poor.

We have targeted maintaining our industry leading position throughout AMP6, which would require having fewer than 50 cat 3 and 1.5 cat 1 or 2 pollution incidents per 10,000km of sewers, achieving more than 99% STW discharge compliance, achieving 100% sludge disposal compliance, self-reporting more than 70% of pollution incidents and achieving 100% of NEP outputs.

This measure has the potential for a customer refund; if our performance drops to below average we would refund customers £5.9m. There is also the potential for incentive payments if we perform well on the pollutions indicator; if in any year we achieve zero category 1 and 2 pollutions we can receive an incentive payment of £190k for each cat 3 pollution incident less than 67.

In 2016-17 we achieved our target of 'industry leading' rating in the Environment Agency's Environmental Performance Assessment. Our pollution performance narrowly fell short of that required to achieve the reward.

Our target is to continue to achieve this rating, however, some of the performance criteria, particularly relating to pollutions, are outside our direct control (e.g. sewer blockages due to wet-wipes, unauthorised discharge to sewer affecting STW compliance), and so, despite our best endeavours, this 'industry leading' rating cannot be guaranteed.

Monitoring combined sewer overflows (CSOs) – The NEP includes 714 named outputs we have to deliver with regulatory dates, so we will have installed monitors at all environmentally sensitive CSOs by the end of the price control period. This measure is the percentage of these outputs we have achieved.

There are 714 outputs required in the NEP by March 2020. There were 62 listed for delivery in 2016-17. We delivered and permitted 67 monitors in 2016/17.

We were targeted with achieving 43% of the total monitored by the end of 2016-17 and 100% by the end of 2019-20. This measure has the potential for a customer refund; for each 1% we miss the target by we will refund £10k.

At the end of 2016-17 we are monitoring 50% of the total overlfows that have an impact on the environment and we anticipate achieving the remaining programme.

River water quality improved – The number of water bodies (designated by the EA) we have made improvements to by increasing the quality of final effluent we discharge into them, or by making other improvements.

From the draft NEP we calculated that we would be making improvements to 70 unique water bodies, assuming that the discharge from a STW affects the water body it discharges into and the next one downstream. This is the target for this price control period and any financial incentive will only be applied in the final year.

This measure has the potential for both customer refunds and incentive payments. If we miss the target we will refund customers £1.674m per waterbody; if we exceed the target we can receive an incentive payment of £1.29m for each additional waterbody.

There was no target for 2016-17, although we were able to deliver projects that improved 8 waterbodies earlier than planned. The remainder of the programme is progressing well to achieve the targets for the rest of the AMP.

Sewage Flooding

Internal flooding incidents – The number of internal sewage flooding incidents per 10,000 properties that are caused by events other than insufficient capacity of our sewerage network (We capture issues around insufficient capacity of our system in the next performance commitment). This measure includes flooding incidents caused by blockages and asset failures.

This was one of the measures for which Ofwat set an industry wide target representing current upper quartile performance. As we were already an upper quartile performer our target was set tighter than this level at 1.66 incidents per 10,000 properties in 2019-20; equates to c205 incidents.

As a high customer priority this measure has the potential for both customer refunds and incentive payments. To account for the impact of weather on this measure we have a deadband around the target. This means that we will refund customers if we miss the target by over 0.2 (c25 incidents), and we can claim incentive payments if we beat the target by more than 0.13 (c16 incidents). We will refund £315k for each 0.01 we are over the deadband and we can claim an incentive payment of £204k for each 0.01 we are below the deadband.

In 2016-17 our performance was 1.20 sewer flooding incidents (c148 incidents) per 10,000 properties which is a significant improvement and this results in an incentive payment of £5.5m. Weather conditions can affect performance, and our forecast position for the period up to 2020 takes account of this by assuming we perform at the average level we have achieved since 2012-13. This forecast would result in a total incentive payment of approximately £16.1m.

Risk of flooding – We measure the total risk of flooding due to lack of capacity by assigning all properties/areas on the flooding risk registers to a risk matrix based on the likelihood of flooding occurring and the impact if it does. We then use this to calculate the aggregate score for the company.

We are targeting a steady risk profile, maintaining an aggregate score of 50,651 despite upwards pressure from climate change and urban creep, over AMP6.

This is another measure that has the potential for both customer refunds and incentive payments, although as it is a new measure with limited historic data to support it there is a large deadband around the target. If we exceed the target by more than 20% we will refund customers £10.4m; if we beat the target by more than 20% we can claim an incentive payment of £7k for each additional point the aggregate score is reduced by.

In 2016-17 we achieved a risk score of 51,125 which is marginally worse than the target but an improvement on last year and well within the uncertainty deadband agreed for this measure. The investment programme is a continuous flow of a large number of separate projects, often with third party constraints. The 2016-17 performance reflects the timing effect of delivery of one larger project at Brent Knowle now set to deliver in early 2017-18.

Our investment programme to address flooding risks is progressing well and we are progressing more schemes through design to improve the chance of achieving the target for the rest of the AMP.

North Bristol Sewer - Frome Valley – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Frome Valley relief sewer.

If the delivery is delayed beyond 2019-20 we will refund customers £1.86m per year. There is a more severe penalty associated with not undertaking the scheme of £24.9m – there is no risk of incurring this as the scheme is underway.

There is no target in 2016-17, the programme is delivering as planned and we anticipate meeting the target a year earlier in 2018/19.

North Bristol Sewer - Trym tunnel – This is a measure required by Ofwat in the final determination to ensure timely delivery of the Trym tunnel.

If we miss the initial milestones due in 2017-18 we refund customers £0.97m per year. There is a more severe penalty associated with not undertaking the scheme of £14.1m – there is no risk of incurring this as the scheme is underway.

There is no target in 2016-17, the programme is delivering as planned and we anticipate meeting the target.

Resilient Services

Sewer collapses – The five-year rolling average of the number of sewer collapses and rising main bursts. The target is set at 300 throughout AMP6. This represents the level that if we exceeded we could have incurred a penalty during the period 2010-15 from Ofwat.

For every collapse/burst over 300 in a given year we will refund customers £8.4k.

In 2016-17 we had achieved 264 collapses and bursts with a five-year rolling average of 276. While weather conditions were favourable in the year we do anticipate achieving the target for the rest of the AMP.

Reduced Carbon Footprint

Greenhouse gas emissions – Our annual net greenhouse gas emissions, in ktCO2e.

We are targeting a reduction from 133 ktCO2e in 2015-16 to 119 ktCO2e in 2019-20 compared to a performance of 148 ktCO2e in 2014-5.

As a large proportion of this is driven by the CO2e emissions from grid electricity a factor that is outside our control there is no financial ODI associated with this measure.

For 2016-17 greenhouse gas emissions were 123 kilotonnes carbon dioxide equivalent, which is within the target. We are constantly looking for ways to reduce our carbon footprint: key examples in recent years include the preventative aspects of catchment management, extensive energy efficiency work, and investment in food waste digestion which provides electricity consumed by regulated activity.

GENeco has contracted with Unilever to sell green gas certificates in association with the export of biomethane. This would mean that WWSL could not net-off from our gross emissions the carbon equivalence of exported biomethane covered by such certificates. Therefore, WWSL has undertaken to buy sufficient certificates from GENeco that we remain within our 2016-17 performance commitment level of 124 kt CO2e.

We are anticipating that we will continue to manage our activities to achieve the future year targets but as our performance will be affected by other influences so cannot guarantee the target will be met.

Energy self-generated – This measures the percentage of our electricity and gas use that is accounted for by our own renewable generation.

We are targeting an increase in the amount we generate over time, although this is mitigated by a heightened demand for power as we deliver other enhancements (e.g. the integrated supply grid). The target profile is 21% in 2015-16 rising to 22% in 2016-17 and 2017-18, before falling to 21% in 2018-19 and rising again to 24% in 2019-20. The profile varies in the AMP period because of the integrated supply grid coming on stream mid AMP and anticipated increases in self-generation from sludge schemes at the end of the price control period.

If we miss the target in any year we will refund customers £99k for every percentage we are below this target.

Our renewable electricity generation came to 29%, better than our performance commitment. The renewable energy in this calculation includes:

a. Electricity from combined heat and power fuelled by sewage sludge biogas

b. Exported biomethane expressed as the electricity that it would have produced if the source biogas had been converted into electricity instead

c. Electricity from hydropower installations

d. Renewable electricity from other on-site generation that is consumed by a regulated activity (i.e. water treatment, distribution, sewerage, sewage treatment or sludge treatment). In our case this includes electrical output of food waste digestion and solar power.

We confirm that the denominator for this performance commitment is total electricity demand. This is the basis of the historical performance and forward projection shown in our 2014 business plan submission. We use electricity as the single common unit and purposefully avoid combining electrical and thermal energy output to avoid confusion and disparities.

Our investment programme is subject to significant third party constraints but at this point we anticipate delivering the target for the remainder of the AMP.

Retail Performance Commitments

Excellent customer service

Service incentive mechanism (SIM) - This is the Ofwat measure of the quality of customer service. There are two elements to the SIM; an independent customer satisfaction survey and a customer contact measure covering written complaints and unwanted contacts. The scores for each of these measures are combined to produce a total score out of 100 following the Ofwat methodology. Companies are compared with each other in an Ofwat league table.

Our target is a SIM score of >86 in each year of the five years. In 2016-17 we achieved a score of 88% and we anticipate achieving the target for the rest of the AMP.

We have not included any valuation of the financial impact for the SIM as this is determined separately by Ofwat.

Percentage rating our service good or very good - This is the percentage of customers who have contacted us with an operational query/complaint that rate our service as ‘very good’ or ‘good’. The percentage is calculated from the answer to one of the questions in the survey used by our customer care team when they contact customers once their operational contact has been resolved. The survey is undertaken by telephone or by text message.

Our target is >95% rating our service as good or very good in each year of the five years. This is a reputational measure only.

In 2016-17 we achieved 95.7% rating following assessment by external auditors. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Percentage rating good value for money - This is the percentage of customers in our region rating our overall service as good value for money. The percentage is calculated from the answer to the relevant question in our image tracking survey. This is a telephone survey of a random sample of 1,000 domestic customers in the Wessex Water region. The survey is carried out by an independent market research agency on our behalf.

The survey questions asked are consistent from year to year. The sample includes both people who have had reason to contact us in the year and those that have not.

We are targeting a 1% increase in value for money each year over AMP6, starting from 71% in 2015-16 to 75% in 2019-20.

This is a reputational measure only.

The result of the independent survey for 2016-17 is 84%, another particularly good performance. Due to the nature of this performance commitment it is difficult to guarantee future performance. However, we continue to implement improvements that should provide the best chance of achieving the target in future.

Customers rating ease of resolution - This is the percentage of customers in our region who said that their contact was easy to resolve. Like value for money, the percentage is taken directly from the answer to the relevant question in our annual image tracking survey. This is a telephone survey of a random sample of 1,000 domestic customers in the Wessex Water region. The survey is carried out by an independent market research agency on our behalf.

The survey questions asked are consistent from year to year. The sample includes both people who have had reason to contact us in the year and those that have not.

This is a new measure for Wessex Water. In 2014-15 79% of customers rated their contact as easy to resolve and we are targeting an improving trend up to 2020.

This is a reputational measure only.

The result of the independent survey for 2016-17 is 75% a reduction on the prior year meaning we have not achieved our target. However, the proportion of customers who said it took no effort to resolve their query improved to 59%. We anticipate with the implementation of further improvements in systems and processes currently being designed that we will have a good chance of improving on this year's rating.

Accessible communications - This is a measure of how accessible and inclusive our services are to our customers.

This is measured by the achievement of the BS Standard 18477 for inclusive service provision and the Customer Service Excellence award. Both are external accreditations with an annual external assurance process.

This is a reputational measure only.

In 2016-17, we maintained this British Standard certification and will now focus on maintaining it.

Affordable Bills

Volume of water used per person – The average volume of water used by a person per day. This is also referred to as per capita consumption (PCC).

We are targeting a reduction in PCC over AMP6, from 135 l/p/day in 2015-16 reducing by 1 l/p/day annually to 131 l/p/day in 2019-20. PCC is largely driven by external factors outside of the company's control and so no financial ODI is attached to this PC.

In 2016-17 the PCC was 141 l/p/day, 7 l/p/day higher than the target of 134 l/p/day. We attribute this to the very dry weather experienced from June 2016 onwards and a lower number of water meter installations than forecast. Due to the impact of external factors it is difficult to forecast or manage the delivery of this measure, other than to reflect the actual performance each year

Volume of water saved by water efficiency promotion - We are committed to helping customers reduce their water use as part of our efforts to operate a sustainable water supply and waste water business.

Between 2010 and 2015 we met the target set by Ofwat of achieving savings of 0.55 Ml/d (or ~0.44 l/head/day) each year. We are now committed to achieve a saving of 3.26litres/person/day by 2020.

The savings delivered in both 2015-16 and 2016-17 have exceeded our performance commitment target. We are currently reporting cumulative savings of 1.56l/p/d against a target of 1.25l/p/d. If we miss the target in any given year, we will refund customers £1.89m for each l/p/day.

Although this is a challenging target, we are working hard to ensure we continue to perform well.

Bill as a proportion of disposable income - This compares our average household bill with average household disposable income. To calculate the latter we use the Equivalised disposable income statistics, published by ONS in their report titled “The effects of taxes and benefits on household income”.

This data is published two years in arrears and we uprate it by the most recent forecasts of household disposable income from the OBR, taking into account the overall change in households using the ONS Families and Households publication. This gives us the final denominator to calculate the bill as a proportion of disposable income.

We are targeting a reducing trend over the five years.

Based on the latest ONS and OBR data our 2016-17 bill was 1.4% of disposable income. This compares with the position in 2014-15 when the bill was 1.60% and our 2015-16 bill which was 1.50% of disposable income; this meets the reducing trend target.

Governance and Assurance

It is essential to maintain trust and confidence that we provide accurate and consistent information to our customers about our performance. We have robust governance and assurance processes in place to ensure this is the case and that the information reported internally to Directors and the Board is the same as published on our website and other media to our customers and wider community groups.

As part of the requirements of our published information assurance statement we have prepared a regulatory assurance manual agreed by the Audit Committee which provides the overall process and assurance required and the roles and responsibilities of different bodies and employees.

In summary, specialist staff provide the performance data which is reviewed and approved through signed certificates by managers responsible for each piece of data. The data and processes used to prepare the performance reports are audited periodically by internal audit as well as annually by an external auditor.

The overall performance and the content and messages contained in the Annual Review are all reviewed and challenged by the Audit Committee and the performance information in particular is reviewed and challenged by the Wessex Water Partnership. The Wessex Water Partnership is the independently chaired body representing our customers. The Wessex Water Partnership will advise the Board as well as publishing their report as a separate document on the company website. Finally the Board have overall responsibility for the sign off of the Annual Review, including the Annual Performance Report.

Any improvements identified through this assurance process will be incorporated into the information assurance statement for implementation by the following year’s Annual Review.

Terminology and Acronyms

PC – performance commitment, the level of performance that the company is targeting

CPL – committed performance level, same as PC

MoS – measure of success, the definition of what we will be measuring

ODI – outcome delivery incentive, the incentive attached to a given performance commitment be it reputational or financial

Example – Volume of water leaked is the measure of success, the target of 69.3 in 2015-16 is the performance commitment (or committed performance level) and the financial reward or penalty we will in incur based on actual performance is the outcome delivery incentive.

FBP – final business plan

FD – final determination

ONS – Office of National Statistics

OBR – Office of Budget Responsibility (department within the Treasury)

SIM – service incentive mechanism, composite measure of customer service calculated by Ofwat

CSO – combined sewer overflow

EA – environment agency

DWI – drinking water inspectorate

NEP – national environment programme

rBWD – revised bathing water directive

TUB – temporary use ban

AIM – abstraction incentive mechanism

PCC – per capita consumption

EPA – environmental performance assessment, composite measure of environmental performance calculated by the EA

MZC – mean zonal compliance, composite measure calculated by the DWI of the quality of drinking water supplied to customers

Deadbands – a range around the target within which no financial incentive is applied to account for uncertain factors that can affect performance

Caps/Collars – the performance level beyond which no financial incentive applies

Section 4: Additional Regulatory Information

Non-financial Information for the 12 Months ended 31 March 2017

Table 4A **Retail - household**	Current year Unmeasured	 Measured
Number of void households (‘000s)	13.484	12.207
Per capita consumption (excluding supply pipe leakage) l/h/d	148.17	134.87

Wholesale	Current year Water	 Wastewater
Volume (Ml/d)		
Bulk supply export	1.557	0.577
Bulk supply import	8.977	-
Distribution input	337.031	

Wholesale Totex Analysis for the 12 Months ended 31 March 2017

Table 4B	Current year		Cumulative 2015 – 2020	
	Water	Wastewater	Water	Wastewater
	£m	£m	£m	£m
Actual totex				
Menu totex	154.2	187.7	309.9	357.5
Items excluded from the menu				
Third party costs	2.5	0.2	5.9	0.5
Pension deficit recovery payments	2.8	4.4	5.6	9.2
Other adjustments	-	-	-	-
Total costs excluded from the menu	5.5	4.8	11.7	9.9
Transition expenditure	-	-	0.5	4.8
Actual totex	148.7	182.9	298.7	352.4
Actual totex - base year prices	137.3	168.9	278.8	328.7
Allowed totex - base year prices	153.8	202.1	300.5	392.1

Forecast impact of performance on RCV

Table 4C	Water	Wastewater
	£m	£m
Projected ‘shadow’ RCV	1,045.427	1,853.969
RCV element of Totex	10.474	32.507
Allowance (Rewards/penalties - ODI)	-	-
RCV determined at FD at 31 March	1,055.901	1,886.476

Totex Analysis for the 12 Months ended 31 March 2017 – Wholesale Water

Table 4D	Water resources		Network+				
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	2.2	-	-	4.9	1.2	8.3
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges	2.3	-	-	-	0.1	-	2.4
Bulk supply	-	-	-	-	1.5	-	1.5
Other operating expenditure	-	3.0	-	-	9.8	28.3	41.1
Local authority rates	-	0.8	-	-	1.7	15.5	18.0
Total operating expenditure excluding third party services	2.3	6.0	-	-	18.0	45.0	71.3
Third party services	-	0.6	-	-	-	2.0	2.5
Total operating expenditure	2.3	6.6	-	-	18.0	47.0	73.9
Capital expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	-	10.1	10.1
Maintaining the long term capability of the assets - non-infra	-	1.5	-	-	16.4	11.2	29.1
Other capital expenditure - infra	-	0.1	-	-	-	15.3	15.4
Other capital expenditure - non-infra	-	1.3	-	-	17.3	8.2	26.8
Total gross capital expenditure excluding third party services	-	2.9	-	-	33.7	44.8	81.4
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	-	2.9	-	-	33.7	44.8	81.4
Grants and contributions	-	-	-	-	-	(4.1)	(4.1)
Totex	2.3	9.5	-	-	51.7	87.7	151.2
Cash expenditure							
Pension deficit recovery costs	-	0.4	-	-	0.8	1.6	2.8
Other cash items	-	-	-	-	-	-	-
Totex including cash items	2.3	9.9	-	-	52.5	89.3	154.0

Totex Analysis for the 12 Months ended 31 March 2017 - Wholesale Water (continued)

Unit cost information (operating expenditure) – Wholesale Water

Table 4D (continued)	Water resources		Network+			
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Licenced volume available – Ml	190,822					
Volume abstracted – Ml		121,644				
Volume transported			-			
Average volume stored				-		
Distribution input volume – m3					123,016	
Distribution input volume – m3						123,016
Unit cost - £/Ml	11.844	53.945	-	-	146.467	382.436
Population	1,304.791	1,304.791	-	-	1,304.791	1,304.791
Unit cost - £/pop	1.732	5.030	-	-	13.809	36.056

Numbers in the table above may be subject to rounding differences.

Totex Analysis for the 12 months ended 31 March 2017 - Wholesale Wastewater

Table 4E	Sewage collection			Sewage treatment		Sludge treatment			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating expenditure									
Power	2.1	0.5	0.5	10.4	1.0	-	0.7	-	15.2
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-
Discharge consents	0.5	0.1	0.1	2.0	0.1	-	-	-	2.8
Bulk discharge	-	-	-	0.1	-	-	-	-	0.1
Other operating expenditure	17.8	4.3	4.3	17.8	0.4	4.7	3.5	4.6	57.4
Local authority rates	-	-	-	7.9	0.4	-	1.9	-	10.2
Total operating expenditure excluding third party services	20.4	4.9	4.9	38.2	1.9	4.7	6.1	4.6	85.7
Third party services	0.2	-	-	-	-	-	-	-	0.2
Total operating expenditure	20.5	4.9	4.9	38.2	1.9	4.7	6.1	4.6	85.8
Capital expenditure									
Maintaining long term capability of assets - infra	6.9	2.5	-	0.1	-	0.1	-	-	9.6
Maintaining long term capability of assets - non-infra	10.0	4.1	-	27.1	1.0	5.0	9.9	0.8	57.9
Other capital expenditure - infra	17.2	5.1	-	0.2	-	-	-	-	22.5
Other capital expenditure - non-infra	3.1	1.0	-	8.1	0.1	-	1.5	-	13.8
Total gross capital expenditure excluding third party services	37.2	12.7	-	35.5	1.1	5.1	11.4	0.8	103.8
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	37.2	12.7	-	35.5	1.1	5.1	11.4	0.8	103.8
Grants and contributions	(4.3)	(1.1)	(1.1)	-	-	-	-	-	(6.5)
Totex	53.4	16.5	3.8	73.7	3.0	9.8	17.5	5.4	183.1
Cash expenditure									
Pension deficit recovery costs	1.1	0.3	0.3	1.9	-	0.5	0.3	0.1	4.5
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	54.5	16.8	4.1	75.6	3.0	10.3	17.8	5.5	187.6

Totex Analysis for the 12 months ended 31 March 2017 - Wholesale Wastewater (continued)

Unit cost information (operating expenditure)

	Sewage collection			Sewage treatment		Sludge		
Table 4E (continued)	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatmen	Sludge disposal
Volume collected foul - Ml	120,334.8							
Volume collected surface water drainage - Ml		28,314.1						
Volume collected highway drainage - ML			28,314.1					
Biochemical Oxygen Demand (BOD) sewage - tonnes				71,468.5				
Biochemical Oxygen Demand (BOD) sludge liquor - tonnes					5,156.7.0			
Sludge volume transported – m3						794,637.0		
Sludge treatment dried solid mass treated - ttds							72,300.0	
Sludge treatment dried solid mass disposed - ttds								53,500.0
Unit cost - £/Ml	170.204	174.076	174.076	533.678	369.195	5.939	84.296	85.607
Population	2,778.755	2,778.755	2,778.755	2,778.755	2,778.755	2,778.755	2,778.755	2,778.755
Unit cost - £/pop	7.371	1.774	1.774	13.726	0.685	1.698	2.193	1.648

Numbers in the table above may be subject to rounding differences.

Operating Cost Analysis for the 12 Months ended 31 March 2017 - Household Retail

Table 4F (1 of 2)	Household Unmeasured			
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m
Operating expenditure				
Customer services	0.077	1.061	0.683	1.821
Debt management	0.042	0.583	0.375	1.000
Doubtful debts	0.230	3.190	2.053	5.473
Meter reading	-	-	-	-
Other operating expenditure	0.124	1.720	1.107	2.951
Total operating expenditure excluding third party services	0.473	6.554	4.218	11.245
Third party services operating expenditure	-	-	-	-
Total operating expenditure	0.473	6.554	4.218	11.245
Depreciation - tangible fixed assets	0.020	0.274	0.177	0.471
Amortisation - intangible fixed assets	-	-	-	-
Total operating costs	0.493	6.828	4.395	11.716

Operating Cost Analysis for the 12 Months ended 31 March 2017 - Household Retail

Table 4F (2 of 2)	Household Measured				
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m	Total £m
Operating expenditure					
Customer services	0.090	1.636	1.538	3.264	5.085
Debt management	0.034	0.624	0.587	1.245	2.245
Doubtful debts	0.142	2.552	2.400	5.094	10.567
Meter reading	0.036	0.636	0.598	1.270	1.270
Other operating expenditure	0.112	2.033	1.911	4.056	7.007
Total operating expenditure excluding third party services	0.414	7.481	7.034	14.929	26.174
Third party services operating expenditure	-	--	-	-	-
Total operating expenditure	0.414	7.481	7.034	14.929	26.174
Depreciation - tangible fixed assets	0.017	0.315	0.297	0.629	1.100
Amortisation - intangible fixed assets	-	-	-	-	-
Total operating costs excluding third party services	0.431	7.796	7.331	15.558	27.274

Demand-side efficiency and customer-side leaks analysis	£m
Demand-side water efficiency - gross expenditure	0.232
Demand-side water efficiency - expenditure funded by wholesale	-
Demand-side water efficiency - net retail expenditure	0.232
Customer-side leak repairs - gross expenditure	2.635
Customer-side leak repairs - expenditure funded by wholesale	-
Customer-side leak repairs - net retail expenditure	2.635

Wholesale Current Cost Financial Performance for the 12 Months ended 31 March 2017

Table 4G	Water	Wastewater	Total
	£m	£m	£m
Revenue	172.4	302.9	475.3
Operating expenditure	(73.9)	(85.8)	(159.7)
Capital maintenance charges	(51.3)	(96.3)	(147.6)
Other operating income	(1.2)	(0.4)	(1.6)
Current cost operating profit	46.0	120.4	166.4
Other income	0.2	0.2	0.4
Interest income	0.3	0.7	1.0
Interest expense	(22.5)	(48.9)	(71.4)
Other interest expense	(1.8)	(3.1)	(4.9)
Current Profit before tax and fair value movements	22.2	69.3	91.5
Fair value gains/(losses) on financial instruments	-	-	-
Current Profit before tax	22.2	69.3	91.5

Financial Metrics for the 12 Months ended 31 March 2017

Table 4H

Net debt	£1,903.6m
Regulated equity	£1,038.8m
Regulated gearing	64.70%
Post tax return on regulated equity	13.29%
RORE (return on regulated equity)	7.69%
Dividend yield	9.05%
Retail profit margin - Household	2.01%
Retail profit margin - Non household	1.59%
Credit rating	BBB+
Return on RCV	7.22%
Dividend cover	1.51
Funds from operations (FFO)	£233.7m
Interest cover (cash)	4.80%
Adjusted interest cover (cash)	2.80
FFO / Debt	0.12
Effective tax rate	14.92%
Free cash flow (RCF)	£143.2m
RCF / capex	0.75

Revenue and earnings	£m
Revenue (actual)	513.9
EBITDA (actual)	323.7

Borrowings	%
Proportion of borrowings which are fixed rate	47.21
Proportion of borrowings which are floating rate	16.29
Proportion of borrowings which are index linked	36.50
Proportion of borrowings due within 1 year or less	0.25
Proportion of borrowings due in more than 1 year but no more than 2 years	7.25
Proportion of borrowings due in more than 2 years but no more than 5 years	18.90
Proportion of borrowings due in more than 5 years but no more than 20 years	40.84
Proportion of borrowings due in more than 20 years	32.76

Financial Derivatives for the 12 Months ended 31 March 2017

Table 4I	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	
	£m	£m	£m	£m	£m	£m
Interest rate swap (sterling)						
Floating to / from fixed rate	-	-	-	-	-	-
Floating to / from index linked	-	-	-	-	-	-
Fixed to / from index-linked	-	-	-	-	-	-
Total	-	-	-	-	-	-
Foreign Exchange						
Cross currency swap USD	-	-	-	-	-	-
Cross currency swap EUR	-	-	-	-	-	-
Cross currency swap YEN	-	-	-	-	-	-
Cross currency swap Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Currency interest rate						
Currency interest rate swaps USD	-	-	-	-	-	-
Currency interest rate swaps EUR	-	-	-	-	-	-
Currency interest rate swaps YEN	-	-	-	-	-	-
Currency interest rate swaps Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Forward currency contracts						
Forward currency contracts USD	-	-	-	-	-	-
Forward currency contracts EUR	-	-	-	-	-	-
Forward currency contracts YEN	-	-	-	-	-	-
Forward currency contracts Other	-	-	-	-	-	-
Total	-	-	-	-	-	-
Other financial derivatives	-	-	--	-	-	-
Total financial derivatives	-	-	-	-	-	-

The Company has no interest rate or foreign currency swaps.

Financial Derivatives for the 12 Months ended 31 March 2017 (continued)

Table 4I (continued)	Interest rate (weighted average for 12 months to 31 March 2017)	
	Payable	Receivable
	%	%
Interest rate swap (sterling)		
Floating to / from fixed rate	-	-
Floating to / from index linked	-	-
Fixed to / from index-linked	-	-
Foreign Exchange		
Cross currency swap USD	-	-
Cross currency swap EUR	-	-
Cross currency swap YEN	-	-
Cross currency swap Other	-	-
Currency interest rate		
Currency interest rate swaps USD	-	-
Currency interest rate swaps EUR	-	-
Currency interest rate swaps YEN	-	-
Currency interest rate swaps Other	-	-
Forward currency contracts		
Forward currency contracts USD	-	-
Forward currency contracts EUR	-	-
Forward currency contracts YEN	-	-
Forward currency contracts Other	-	-
Other financial derivatives	-	-

The Company has no interest rate or foreign currency swaps.

Narrative

Retail: Actual Expenditure v 2014 Final Determination (FD)

The following table provides a comparison of retail operating costs against those assumed in Ofwat's Final Determination in 2014.

	Actual (2C.9) (£m)	FD Allowance (£m)
Household	27.3	30.4
Non-household (excluding developer services)	4.2	3.1
Total Retail	31.5	33.5

Note – FD excludes net margin

Retail: Household

Our household retail costs have been held below that assumed in the final determination due to continued tight cost control both within our billing provider (Pelican) and within our operational customer services teams.

This has not been at the expense of the service we provide. This efficiency is assisted by the continued reduction in complaints and proportion of complaints resolved first time.

- The Consumer Council for Water (CCWater) published data for 2016-17 to show that we continue to receive the lowest number of complaints of any water & sewerage company
- We remain top of the industry service incentive measure (for water and sewerage companies)
- We have performed well against our suite of retail performance commitments.

Our operations customer service team has recently received the institute for customer service (ICS) service mark with distinction award, one of only 10 companies in the UK to be awarded this.

The number of customers remains broadly in line with what was assumed at the final determination, although the uptake of water meters has been lower than expected, which has assisted in holding retail costs down. Allowed costs would have been £0.3m lower if assessed against our actual charging base.

	Actual ('000)	FD assumption ('000)	Variance
Unmetered	506.0	439.5	+66.5
Metered	676.0	724.7	-48.7

We have commenced our change of occupier metering programme and are continuing with our enhanced promotion of optional meters to address this.

Retail: Non-household

We have continued to see an increase in non-household retail costs and during 2016-17 spent more than the level assessed at the final determination.

This is due to the investments we have made to ensure that we are ready to operate compliantly and effectively in the new retail market.

Wholesale totex: Actual Expenditure v 2014 Final Determination (FD)

The following table provides a comparison of the actual expenditure to FD. The comparison is based on the net PAYG FD value at outturn prices, so excludes any pension deficit repair allowance.

Across the wholesale business the total variance in 2016-17 is £52.3m or 13% of FD for the year.

Totex (for PAYG)	Water (£m)	Sewerage (£m)	Total (£m)
FD Allowance	167.4	219.2	386.6
Actual	151.2	183.1	334.3
Variance	16.2	36.1	52.3

Cumulatively for the first two years of this price control period the variance is £92.7m or 12% of FD.

During this time pension deficit repair payments have totalled £14.9m compared to a FD allowance of £8.6m.

Wholesale: Water

The totex expenditure for Wholesale Water is lower than the allowed FD for the year. As we stated in 2015-16 our representations at the time stressed that the FD allowance was challenging for us with a rural network and a large number of small water resource and production sites. Therefore, we anticipate that our base expenditure will remain close to the FD allowance even after efficiency plans are implemented. This continues to be the case in 2016-17.

The underspend in the year reflects two main components. Firstly and most significantly, our eight year water supply grid is nearing completion and the benign weather conditions during construction and good integrated programme management in delivery have meant risk allowances have not been required and savings of £11m have been realised. In addition, there is a modest underspend of £5m on individual schemes which have been re-profiled into 2017-18 caused by complex and time consuming third party constraints.

All major capital project outputs are on-track for delivery in the AMP and we continue to invest in innovative solutions to deliver our performance commitments where it is cost beneficial to do so.

Wholesale: Sewerage

The totex expenditure for Wholesale Sewerage is somewhat lower than the FD allowance for the following reasons:

Base costs were reduced in part due to a re-organisation of our operational functions in this part of the business saving £11m.

The majority of the schemes in the bathing water improvement programme have been completed. We report elsewhere how technically challenging these schemes were and under worse weather conditions the costs would have been substantially higher. However, the relatively mild conditions and the implementation of some smart solutions on the ground have resulted in a saving of £10m.

The benign weather conditions and resulting improved ground conditions resulted in a significant reduction in larger sewer collapses and also of the volume of smaller reactive repairs on our network. This resulted in a lower than expected reactive maintenance programme on our sewerage network. In addition, delays to the early stages of projects from ever more challenging third party constraints have resulted in £15m re-profiling of expenditure into 2017-18.

All regulatory outputs were delivered in the year and the future programme is on-track to 2020. We continue to seek innovative ways of delivering our performance commitments to customers in the most cost-beneficial ways.

Return on Regulated Equity (RORE)

We are reporting a cumulative RORE of 7.69% compared to a central case in the final determination of 5.6%. This has been delivered predominantly by performing well on the customer service measures that are important to customers and through continued innovation that has kept our expenditure down.

This is made up of:

	RORE	**Note**
Equity return from FD	5.6%	
Totex outperformance (including RCV run off)	+0.95%	[1]
Retail outperformance	+0.16%	[2]
Customer Service (ODI) outperformance	+0.53%	[3]
Financing outperformance	+0.44%	[4]
Reported RORE (2015-16 to 2016-17)	**7.69%**	
Pension Deficit Recovery Payments (PDRC)	-0.25%	
RORE after PDRC	7.44%	[5]

1 – Totex outperformance
We have included only the totex efficiency savings outlined in the investment vs FD narrative above; we have not made any allowance for investment that has been delayed until later within the price control period. We have also included the additional run-off of the RCV that we have been allowed as a result of these savings.

2 – Retail outperformance
We have included the net retail savings (HH + NHH) outlined in the retail vs FD narrative included in our annual performance report.

3 – Customer service (ODI) outperformance
We have included the net reward position notionally accrued to date, we have made no allowance for potential rewards and penalties incurred over the remainder of the price control period. Due to the uncertainty around the exact SIM reward this is also excluded.

4 – Financing outperformance
As inflation has been high this year and a large proportion of our debt is not linked to RPI we have seen outperformance of the notional real cost of debt allowed at PR14 during 2016-17. This was not so in 2015-16 where inflation remained low.

5 – Pension deficit adjustments
In line with Ofwat's guidance payments to repair the deficit in the company pension scheme above the FD allowance are not taken into account. Had we done so this would be equivalent to an -0.25% reduction in RORE.