Annual performance report 2017-18

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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 2017 an information risks, strengths and weaknesses statement, and in June 2018 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 2018 to make these improvements.

In summary, the statement concluded that we have completed the majority of the actions in 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 Ernst and Young, 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 18 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 an updated bill design, improvements to our website and the way we communicate on our performance and our market information. We will be reporting progress on the information assurance plan when we publish our next information assurance statement in the autumn of 2018.

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 checks 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 - 6 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 assurance 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 and 2018 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 audit of the regulatory accounts. This year is the first year that it has been carried out by Ernst and Young 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.

Results of Technical assurance

Mott MacDonald report to Wessex Water

This note summarises our technical review of your performance commitments and some of the costs reported in your Annual Performance Report.
We reviewed your revised method statements during the winter and visited your offices during May to review your reported performance. We reported our findings to your audit and risk committee on 22 June.

1 Scope of audit and tests

1.1 Standard tests

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

Business process and method statement	
1.1	Actions identified during our review of method statements have been addressed.
Data	
2.1	Data collection (data entry) is part of a quality controlled process, subject to regular audit.
2.2	Key data integrity steps are embedded in corporate systems, with adequate change control.
2.3	Data reporting is robust and repeatable (error-free; appropriate confidence grade).
Calculations	
3.1	The calculations can be replicated (error-free; appropriate confidence grade).
3.2	The calculations follow the business process/method statement.
Results	
4.1	PCs - Reported performance has been correctly calculated according to the PR14 FD methodology.
4.2	ODIs - The ODI value has been correctly calculated according to the PR14 FD methodology.
Governance	
5.1	The calculation and results have been checked and authorised/signed off.
5.3	The commentary fully explains the results and has evidence of governance/sign-off.

We applied the standard tests (where relevant) to each performance commitment reported in Table 3A, 3C, and 3D, 3S, 4A, 4B, 4F, 4J – 4W.

1.2 Follow up on recommendations from APR 2017

We followed-up on progress since our 2017 report in which we recommended specific actions on:

- Continuing to improve method statements. We found that reporting was generally to high standard but that method statements would benefit from being more detailed, to assure consistency of reporting.
- Improve the reporting of GSS to ensure year-on-year consistency. Our 2017 audit found that handover of the reporting process had led to uncertainty in the reported result and hence this action was partly related to improving method statements.
- Reviewing the in-field recording of source data for sewer flooding, which is likely to demonstrate significant outperformance. At end-of-year audit we are unable to test the application of procedures for recording flooding events and therefore we recommended that you conduct further assurance to confirm that the data are robust.

1.3 Cost data

We assured technical aspects of the costs of providing services, and the forecast for the remainder of the 2015-2020 price control period, that are reported in Table 4. We did not assure the underlying historic and current cost data, which were assured by your financial auditors.
Our scope for cost data was to assure their allocation to technical activities, and that forecasts were taken from managed budgets and were reasonable for the period in question.

1.4 Company explanation of performance

We read your draft explanation of performance to check that it was consistent with your underlying data.

1.5 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.
- Reports from Pelican (Bristol Wessex Billing Services Limited), were audited by Bristol Water's technical assurer this year, and reported separately to you by them.

2 Findings and recommendations

Our overall conclusions support your reported performance.

Based on and to the extent disclosed by sampling carried out as described in this report:

- **We agreed with your assessment of performance for all the measures reported.**
  Based on the results of the sampling conducted during our audits, we found no significant issues with your reported performance. 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**:
  - **Strengthening the reporting process to improve confidence in reporting sub-categories**
    We found some uncertainty in sub-categories of GSS and **recommend** continuing to improve the classification of events to improve clarity of reporting. We felt that further method statement development should focus on clarity between sub-measures, to improve the consistency of reporting when personnel change roles.
  - **Further develop method statements**.
    Method statements have been improved significantly since APR17. We **recommend** continuing to develop method statements, especially to detail the reporting calculations, improve repeatability, and to improve version control.
  - **Leakage, shadow reporting**.
    The new industry-wide leakage reporting measure, currently 'shadow' reported alongside companies' own measures, has developed well. We **recommend** implementing the remaining technical actions to finalise the measure.
  - **Supply interruptions, shadow reporting**.
    The new industry-wide supply interruptions reporting measure, currently 'shadow' reported alongside companies' own measures, has developed well. We found a lack of detail in the records for some events and **recommend** keeping full records of the decisions made for each event, although we expect the impact on reported numbers would not be material. We also recommend strengthening the checking process applied to the data, from collection through to reporting.

The actions we recommended last year have largely been addressed:

- **Develop method statements**.
  Method statements have been developed for all the APR measures. Whilst progress has been good we found areas for improvement in some method statements and provided a list of those where further development would improve year-on-year confidence in reporting. We **recommend** continuing to improve method statements.
- **GSS reporting**.
  Your method statement has been developed and explains the basis of reporting. We **recommend** further improving the classification of events, to provide maximum confidence in the reporting of sub-categories.

- **Review of in-field collection of source data for outperforming indicators.**
  Your internal audit function conducted a detailed review of the in-field reporting of sewer flooding. Your review was also subject to assessment in the Lloyds Register Quality Assurance audit of your ISO9001:2015 quality management system. We consider the action closed.

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

We read your draft commentary to Table 3A (21 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. Notional penalties are accrued for customer contacts about water quality (commitment G2) and interruptions to supply (commitment D3).

A maximum reward of £5.5m is earned for good performance beyond the reward cap in internal sewer flooding incidents (commitment C1). We recognise that outperformance for the remainder of the AMP is not guaranteed, but based on current performance you are forecasting maximum reward of £27.132m for the full AMP period. A reward of £1.48m was also earned for the length of rivers with improved flows (B7), and you are forecasting a £1.29m reward at the end of the AMP for river quality improved (B3).

Preparations for future performance commitments and resilience

North Bristol Sewer Schemes: you provided a site visit to demonstrate your progress in delivering the Frome Valley scheme, where construction was nearing completion. You provided an update on the Trym scheme where you have let a contract and begun consultation with local stakeholders.

We remain impressed by your progress.
Yours sincerely,

Andrew Heather

Technical assurer

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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. Performance of Pelican, Wessex Water's retail joint venture, has been assured by Bristol Water and reported separately.

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 22 June 2018:

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

22 June 2018

In addition to the above the company received an assurance report for the audit of Pelican (Bristol Wessex Billing Services Ltd) with the following summary:

The methodologies seen at audit are a satisfactory record of the Company's processes. A review of the reported figures and accompanying audit trails for unwanted telephone calls and written complaints was conducted and the findings were satisfactory.

Table 1 Summary of audit findings

PC or line(s)	Overall rating - Methodology	Overall rating - Data	Overall rating - Commentary	Assurance summary
SIM	Green	Green	N/A	We were satisfied that the methodology and data seen at audit was fit for purpose.

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 11 to 68.

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 2018. 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 2019 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 5.07, in that transactions with associated companies are at arms-length and that cross subsidy is not occurring.

Methodology Statement

For the year to March 2018, 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 5.07.

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 parent companies in the Group:

Colin Skellett, Mark Watts and David Barclay are Directors of Wessex Water Ltd. Colin Skellett and Mark Watts are Directors of YTL Utilities (UK) Ltd.

Francis Yeoh, Hong 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. 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 2025.

The Company undertook analysis to 31 March 2025 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.

Following these assessments together with a report from an economic consultancy confirming its view that the analysis had been carried out appropriately, and subject to the appropriate performance of Ofwat's statutory duties, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2025.

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 2018 or 2017. 31 March 2018 is not the accounting reference date for the Company. The latest statutory accounts of the Company were for the years ended 30 June 2017 and 2016. 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 2018.

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 dividends of £92.0m (2017 - £94.0m) to its immediate parent company during the year. In April 2018, a final dividend of £3.0m 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 2017 was marginally lower than that which was actually due. The difference represents less than 0.2% 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 £7.4m (slightly less than a normal year due to technical problems in writing off some debt) compared with £18.7m in the previous year when there was a catch up in the administrative procedures to write-off debt.

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 2018 was £42.4m compared with £39.1m the previous year-end, the increase being due to bill increases and slightly less debt written off in the year. During the year, £7.4m of debt was written off and the provision was increased by £10.7m.

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, normal collection path 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 2018 was £91.1m, compared with £99.8m the previous year.

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) Taxation strategy

Wessex Water Services Limited is one of the leading water and sewerage companies in England and Wales. The company ensures that all its activities are of the highest legal and ethical standards.

Attitude towards UK tax planning

The company's approach to tax is fully aligned with the company's overall objectives. The company seeks to comply with the spirit and letter of UK tax legislation and claims all tax reliefs and allowances to which it is entitled. The company will consider reasonable tax planning opportunities which are in line with its risk appetite. As a general rule, the company does not enter into complicated structures nor engage in any aggressive or artificial tax planning, as it does not believe it is the correct thing to do.

Due to the size and complexity of the UK tax system, tax is a complicated area and uncertainties will arise. Consistent with other business areas, the company will seek external advice when required.

Approach to risk management and governance arrangements in relation to UK tax

The finance director is ultimately responsible for the tax strategy and engages with relevant individuals within the company to ensure the tax strategy is implemented and monitored. The board reviews and approves all significant decisions relating to tax and is regularly updated regarding any significant matters relating to tax. The Audit Committee considers significant tax related matters as part of its review of the financial reports of the company.

As a UK regulated business with a significant capital programme, the company considers obtaining tax relief on capital expenditure as being a key factor affecting its tax liability.

Other factors such as changes in tax legislation or changes in interpretations may also affect the amount of tax due, compared with what has been allowed as part of the regulatory final determination.

The level of risk in relation to UK tax the company is prepared to accept

As documented in the company's finance policy, the company adopts a risk averse and cautious approach to tax. In addition, tax is included as part of the company's risk assessment framework. The overall risk framework is monitored by the company with regular updates provided to the board.

Approach towards its dealing with HMRC

The company has an open, regular and professional dialogue with HMRC. As part of its Business Risk Reviews, HMRC have always regarded the company as being low risk. The company is keen to maintain this low risk status in the long term. The company believes that its approach to tax and early engagement with HMRC on any area of uncertainty are significant factors in maintaining this low risk rating.

The company will also engage with HMRC on industry-wide matters through its membership of Water UK.

This Tax Strategy is provided in compliance with the requirements of paragraphs 16(2) and 19(2), Schedule 19 Finance Act 2016.

The company's tax contribution

The corporation tax charge in relation to the current year was £22.9m. This is lower than the statutory rate of corporation tax of 19% due to the availability of tax relief on capital expenditure. There is also a £0.7m prior year credit for corporation tax.

In addition to corporation tax, the company is also liable to several other taxes which represent a cost to the business. These taxes include, employers National Insurance contributions of £9.2m, business rates of £25.4m, Carbon Reduction Commitment payments of £1.3m, Climate Change Levy costs of £1.2m and Insurance Premium Tax of £0.2m.

8) 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
Revenue	
New Connections income to be re-classified as Other Income in the Regulatory Accounts	(3.2)
	(3.2)
Operating costs	
Customer leakage repairs (net of depreciation) are expenses in the Regulatory Accounts and are capitalised in the Non-Statutory Accounts	(2.4)
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
Other income shown separately in the Regulatory accounts	(4.8)
Depreciation arising on conversion to IFRS on the revaluation of infrastructure assets has been dis-applied in the Regulatory Accounts	6.4
	0.9
Other operating income	
Other operating income shown separately in the Regulatory Accounts	(1.6)
	(1.6)
Other income	
New Connections income to be re-classified as Other Income in the Regulatory Accounts	3.2
Other income shown on a separate line in the Regulatory Accounts	4.8
	8.0
Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	5.1
Capitalisation of interest: excluded from Regulatory accounts	(2.4)
	2.7
Other Interest expense	
IAS19 pension interest cost shown separately in the Regulatory Accounts	(5.1)
	(5.1)
Deferred tax	
Deferred tax at 17% on the net adjustments described above	(0.3)
	(0.3)
Total differences	**1.4**

8) 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	
Infrastructure asset revaluation on adoption of IFRS accounting, after depreciation. This amount is excluded from the Regulatory Accounts.	(672.9)
Customer pipe repairs, after depreciation, are excluded from the Regulatory Accounts	(37.4)
Interest capitalised on asset construction, after depreciation on completed assets. This amount is excluded from the Regulatory accounts.	(8.2)
	(718.5)
Trade & other payables To be shown under capex creditor	**44.9**
Capex creditor From trade and other payables	**(44.9)**
Deferred income – Grants & Contributions Deferred income on adopted assets to be shown separately	**76.6**
Deferred income – adopted assets Deferred income on adopted assets to be shown separately	**(76.6)**
Deferred tax Deferred tax at 17% on fixed asset differences described above	**122.1**
Total differences	**(596.4)**

9) Disclosure of transactions with associates

Services provided by appointee to associated companies

Associate Company	Service Provided	Turnover of Associate £m	Terms of Supply	2017-18 Value £m
Wessex Water Enterprises Ltd	Transport, accommodation, insurance, laboratory, central services (no individual transaction more than 0.5% of turnover)	29.513	No market – actual costs recharged	2.842
Wessex Water Enterprises Ltd	Treatment of imported organic waste	29.513	Negotiated price	4.250
Wessex Water Enterprises Ltd	Sale of sewage gas	29.513	Negotiated price	1.621
GENeco Ltd	Access to sludge digestion process	2.522	Negotiated price	0.180
Bristol Wessex Billing Services Ltd	Information systems, transport, insurance, staff costs, personnel	13.341	No market – actual costs recharged	1.030
Wessex Water Ltd	Corporate charges	1.868	No market – costs allocated by time	2.007

Gainsborough Hotel (Bath) Ltd	Information systems, equipment maintenance, bottled water	7.581	No market – actual costs recharged	0.035
WECSL	Project management and engineering support	1.515	No market – costs allocated by time allocation	0.885
Albion Water Ltd	Accounting, legal and information systems services	0.690	No market – actual costs recharged	0.094
Flipper Ltd	Accounting, legal and information systems services	0.108	No market – actual costs recharged	0.121
Water 2 Business Ltd	Legal, insurance, transport and information systems services	149.800	No market – actual costs recharged	0.310
Thermae Development Company Ltd	Information systems	11.303	No market – actual costs recharged	0.065
YTL Developments (UK) Ltd	Project management, environmental investigations, management and engineering and back office support	0.411	No market – actual costs recharged	0.507

Services provided to appointee by associated companies

Associate Company	**Service Provided**	**Turnover of Associate £m**	**Terms of Supply**	**2017-18 Value £m**
Bristol Wessex Billing Services Ltd	Billing services	13.341	Competitive letting	10.651
Wessex Water Enterprises Ltd	Supply of electricity	29.513	Other market testing	2.928
Xchanging Malaysia Sdn Bhd	IT services from an Offshore Development Centre	7.500	Competitive letting and market testing	1.923
YTL Communications Sdn Bhd	IT services from an Offshore Development Centre	137.200	Competitive letting and market testing	0.353

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 £73.4m (2017 - £65.8m) 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 £0.9m (2017 - £1.4m) 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

We have audited sections 1 and 2 within Wessex Water Services Limited's Annual Performance Report for the year ended 31 March 2018 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) 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), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J) and the related notes.

We have not audited the Outcome performance table (tables 3A to 3S) or the additional regulatory information in tables 4A to 4W.

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 1.08, RAG 2.07, RAG 3.10, RAG 4.07 and RAG 5.07) and the accounting policies (including the company's accounting methodology statement, as defined in RAG 3.10, appendix 2).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory accounting statements within the Annual Performance Report section of our report. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements under the FRC Ethical Standard. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory accounting statements within the Annual Performance Report have been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's accounting methodology statement, as defined in RAG 3.10, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

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 27 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.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the Annual Performance Statement and the audit section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements within the Annual Performance Report and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements within the Annual Performance Report or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement or inconsistency of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities, set out on page 9, 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 accounting methodology statement, as defined in RAG 3.10, appendix 2).

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory accounting statements within the Annual Performance Report

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Company's Annual Performance Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the Directors.

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.

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out in its accounting methodology statement published on the Company's website. 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).

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.

Use of this report

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

Our opinion on the Regulatory Accounting Statements 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 2018 on which we reported on 6 July 2018, which are prepared for a different purpose. Our audit report in relation to the non-statutory financial statements of the Company (our "non-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 non-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 non-statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Paul Mapleston
For and on behalf of
Ernst & Young LLP
Chartered Accountants
The Paragon
Counterslip
Bristol BS1 6BX
6 July 2018

Section 1: Regulatory Financial Reporting

Financial performance for the 12 months ended 31 March 2018

Income statement **Table 1A**	Current year Statutory	Adjustments Differences between statutory and RAG definitions	 Non-appointed	 Total adjustments	 Total appointed activities
	£m	£m	£m	£m	£m
Revenue	540.6	(3.2)	(11.3)	(14.5)	526.1
Operating costs	(273.0)	0.9	11.3	12.2	(260.8)
Other operating income	-	(1.6)	-	(1.6)	(1.6)
Operating profit	267.6	(3.9)	-	(3.9)	263.7
Other income	-	8.0	-	8.0	8.0
Interest income	0.4	-	-	-	0.4
Interest expense	(83.8)	2.7	-	2.7	(81.1)
Other interest expense	-	(5.1)	-	(5.1)	(5.1)
Profit before tax and fair value movements	184.2	1.7	-	1.7	185.9
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	184.2	1.7	-	1.7	185.9
UK Corporation tax	(22.2)	-	-	-	(22.2)
Deferred tax	(28.5)	(0.3)	-	(0.3)	(28.8)
Profit for the year	133.5	1.4	-	1.4	134.9
Dividends	(92.0)	-	-	-	(92.0)

Tax analysis					
Current year	22.9	-	-	-	22.9
Adjustments in respect of prior years	(0.7)	-	-	-	(0.7)
UK Corporation tax	22.2	-	-	-	22.2

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

The statutory accounts profit for the year has been increased by an exceptional item of £27.3m in relation to pension accounting, operating costs reduced by £32.9m and deferred tax increased by £5.6m.

Financial performance for the 12 months ended 31 March 2018

Table 1A (continued)

Current year

Analysis of non-appointed revenue	**non-appointed**
Imported sludge	-
Tankered waste	-
Other non-appointed income	11.3
Revenue	**11.3**

Current year

Statement of Comprehensive Income Table 1B	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	133.5	1.4	-	1.4	134.9
Actuarial gains/(losses) on post-employment plans	7.0	-	-	-	7.0
Other comprehensive income	(1.2)	-	-	-	(1.2)
Total Comprehensive income for the year	139.3	1.4	-	1.4	140.7

Financial performance for the 12 months ended 31 March 2018

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

Statement of Financial Position Table 1C	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	3,555.5	(718.5)	-	(718.5)	2,837.0
Investments - other	-	-	-	-	-
Total	3,555.5	(718.5)	-	(718.5)	2,837.0
Current assets					
Inventories	5.7	-	-	-	5.7
Trade & other receivables	185.0	-	-	-	185.0
Cash & cash equivalents	35.8	-	-	-	35.8
Total	226.5	-	-	-	226.5
Current liabilities					
Trade & other payables	(179.6)	44.9	-	44.9	(134.7)
Capex creditor	-	(44.9)	-	(44.9)	(44.9)
Borrowings	(145.4)	-	-	-	(145.4)
Current tax liabilities	(16.5)	-	-	-	(16.5)
Total	(341.5)	-	-	-	(341.5)
Net Current assets/(liabilities)	(115.0)	-	-	-	(115.0)
Non-current liabilities					
Trade & other payables	(0.4)	-	-	-	(0.4)
Borrowings	(1,875.9)	-	-	-	(1,875.9)
Retirement benefit obligations	(153.7)	-	-	-	(153.7)
Provisions	(0.1)	-	-	-	(0.1)
Deferred income - G&C's	(259.7)	76.6	-	76.6	(183.1)
Deferred income - adopted assets	-	(76.6)	-	(76.6)	(76.6)
Preference share capital	-	-	-	-	-
Deferred tax	(348.9)	122.1	-	122.1	(226.8)
Total	(2,638.7)	122.1	-	122.1	(2,516.6)
Net assets	801.8	(596.4)	-	(596.4)	205.4
Equity					
Called up share capital	-	-	-	-	-
Retained earnings & other reserves	801.8	(596.4)	-	(596.4)	205.4
Total Equity	801.8	(596.4)	-	(596.4)	205.4

Financial performance for the 12 months ended 31 March 2018

Current Year **Statement of Cash Flows Table 1D**	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating profit	267.6	(3.9)	-	(3.9)	263.7
Other income	-	8.0	-	8.0	8.0
Depreciation	101.2	(5.9)	-	(5.9)	95.3
Amortisation - G&C's	-	(2.9)	-	(2.9)	(2.9)
Changes in working capital	(53.5)	11.0	-	11.0	(42.5)
Pension contributions	-	(11.0)	-	(11.0)	(11.0)
Movement in provisions	-	-	-	-	-
Loss/(Profit) on sale of fixed assets	-	1.6	-	1.6	1.6
Cash generated from operations	315.3	(3.1)	-	(3.1)	312.2
Net interest paid	(61.5)	0.4	-	-	(61.1)
Tax paid	(21.4)	-	-	-	(21.4)
Net cash generated from operating activities	232.4	(2.7)	-	(2.7)	229.7
Investing activities					
Capital expenditure	(220.3)	3.1	-	3.1	(217.2)
Grants & Contributions	9.5	-	-	-	9.5
Disposal of fixed assets	2.9	-	-	-	2.9
Other	4.8	(0.4)	-	(0.4)	4.4
Net cash used in investing activities	(203.1)	2.7	-	2.7	(200.4)
Net cash generated before financing activities	29.3	-	-	-	29.3
Cashflows from financing activities					
Equity dividends paid	(92.0)	-	-	-	(92.0)
Net loans received	(5.0)	-	-	-	(5.0)
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(97.0)	-	-	-	(97.0)
(Decrease) in net cash	(67.7)	-	-	-	(67.7)

Net Debt Analysis at 31 March 2018

Table 1E	Interest rate risk profile			
	Fixed rate	Floating rate	Index linked	Total
	£m	£m	£m	£m
Borrowings (excluding preference shares)	946.9	321.9	752.5	2,021.3
Preference share capital				-
Total borrowings				2,021.3
Cash				(3.8)
Short term deposits				(32.0)
Net Debt				1,985.5
Gearing				63.9%
Adjusted Gearing				63.9%
Full year equivalent nominal interest cost	45.0	3.3	47.2	95.5
Full year equivalent cash interest payment	45.0	3.3	19.2	67.5
Indicative interest rates				
Indicative weighted average nominal interest rate	4.7%	1.0%	6.3%	4.7%
Indicative weighted average cash interest rate	4.7%	1.0%	2.6%	3.3%
Weighted average years to maturity	9.2	2.7	31.9	16.6

Narrative

Current tax reconciliation

a) UK corporation tax on Table 1A is £22.2m comprising current year tax of £22.9m less £0.7m of adjustments relating to prior years.

Profit before tax was £185.9m, which at the standard tax rate of 19% is £35.3m. The tax charge of £22.2m is £13.1m lower than £35.3m. The main reconciling items are explained as follows:

-£5.7 m capital allowances in excess of depreciation
-£0.7m adjustment in relation to prior years
-£7.0m pension deduction in excess of accounting charge
 £0.3m other adjustments

-£13.1m

b) The corporation tax charge of £22.2m comprises a current year current tax charge of £22.9m less a prior year credit of £0.7m. The current year charge of £22.9m is £9.8m higher than the £13.1m tax charge allowed in price limits.

+£9.4m additional profit before tax (excluding exceptional credit) of £49.7m at 19%
-£0.6m lower add back for depreciation
+£0.6m no debt gearing adjustment
-£0.3m higher capital allowances deduction
-£0.7m tax rate reduction of 1%
+£1.4m other adjustments

+£9.8m

Section 2: Price Review and Other Segmental Reporting

Segmental Income Statement for the 12 months ended 31 March 2018

Current year

Table 2A	Retail		Wholesale						Total
	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	36.3	0.3		176.4	176.4	310.1		310.1	523.1
Revenue - non-price control	-	-		1.3	1.3	1.7		1.7	3.0
Operating expenditure	(28.7)	(0.5)	(8.0)	(58.1)	(66.1)	(55.3)	(13.4)	(68.7)	(164.1)
Depreciation - tangible assets	(1.0)	(0.1)	(3.2)	(30.2)	(33.4)	(58.1)	(7.0)	(65.1)	(99.6)
Amortisation - intangible assets	-	-	-	0.7	0.7	2.2	-	2.2	2.9
Other operating income	-	-	-	0.3	0.3	(1.7)	(0.2)	(1.9)	(1.6)
Operating profit before recharges	6.6	(0.3)			79.2			178.3	263.7
Recharges from other segments	(0.9)	-	(0.3)	(0.7)	(1.0)	(0.5)	(0.2)	(0.7)	(2.6)
Recharges to other segments	-	-	0.1	0.9	1.0	1.5	0.1	1.6	2.6
Operating profit	5.7	(0.3)			79.2			179.2	263.7
Surface water drainage rebates									0.2

Totex analysis for the 12 months ended 31 March 2018 – Wholesale Business

Table 2B	Water Resources	Water Networks+	Wastewater Networks+	Sludge	Total
	Current year				
	£m	£m	£m	£m	£m
Operating expenditure					
Power	2.3	6.8	16.4	0.9	26.4
Income treated as negative expenditure	-	-	-	-	-
Service charges/ discharge consents	2.6	0.1	2.9	-	5.6
Bulk supply/ Bulk discharge	-	1.7	0.1	-	1.8
Other operating expenditure					
- Renewals expenditure in year (infrastructure)	0.4	10.3	11.0	-	21.7
- Renewals expenditure in year (non-infrastructure)	-	-	-	-	-
- Other operating expenditure excluding renewals	1.5	23.2	17.3	10.9	52.9
Local authority and Cumulo rates	0.7	15.6	7.1	1.6	25.0
Total operating expenditure excluding third party services	7.5	57.7	54.8	13.4	133.4
Third party services	0.5	0.4	0.5	-	1.4
Total operating expenditure	8.0	58.1	55.3	13.4	134.8
Capital expenditure					
Maintaining the long term capability of the assets - infra	0.4	11.7	12.4	-	24.5
Maintaining the long term capability of the assets - non-infra	1.4	32.1	60.4	15.4	109.3
Other capital expenditure - infra	1.3	13.8	29.4	-	44.5
Other capital expenditure - non-infra	1.2	10.2	33.5	1.9	46.8
Infrastructure network reinforcement	-	0.2	2.1	-	2.3
Total gross capital expenditure (excluding third party)	4.3	68.0	137.8	17.3	227.4
Third Party Services	-	-	-	-	-
Total gross capital expenditure	4.3	68.0	137.8	17.3	227.4
Grants and contributions (price control)	-	(7.3)	(6.1)	-	(13.4)
Totex	12.3	118.8	187.0	30.7	348.8
Cash expenditure					
Pension deficit recovery payments	0.5	3.6	5.0	1.4	10.5
Other cash items	-	-	-	-	-
Totex including cash items	12.8	122.4	192.0	32.1	359.3

Operating cost analysis for the 12 months ended 31 March 2018 – Retail

Table 2C	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	6.3	-	6.3
Debt management	1.9	-	1.9
Doubtful debts	11.2	-	11.2
Meter reading	1.2	-	1.2
Services to developers		0.5	0.5
Other operating expenditure	8.1	-	8.1
Total operating expenditure excluding third party services	28.7	0.5	29.2
Third party services operating expenditure	-	-	-
Total operating expenditure	28.7	0.5	29.2
Depreciation - tangible assets	1.0	0.1	1.1
Amortisation - intangible assets	-	-	-
Total operating costs	29.7	0.6	30.3
Debt written off	7.4	-	7.4

Historic Cost Analysis of Fixed Assets at 31 March 2018 – 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 2017	84.2	1,214.0	2,347.8	223.1	18.8	3.6	3,891.5
Disposals	(0.4)	(1.7)	(5.6)	(2.9)	-	(1.6)	(12.2)
Additions	5.7	74.7	132.2	16.2	1.4	-	230.2
Adjustments	10.8	(10.8)	-	-	-	-	-
Assets adopted at nil cost	-	-	3.2	-	-	-	3.2
At 31 March 2018	100.3	1,276.2	2,477.6	236.4	20.2	2.0	4,112.7
Depreciation							
At 1 April 2017	(34.0)	(295.7)	(737.9)	(102.9)	(12.8)	(0.5)	(1,183.8)
Disposals	0.3	1.6	2.8	2.6	-	0.4	7.7
Adjustments	(7.5)	7.5	-	-	-	-	-
Charge for year	(3.2)	(30.2)	(58.1)	(7.0)	(1.0)	(0.1)	(99.6)
At 31 March 2018	(44.4)	(316.8)	(793.2)	(107.3)	(13.8)	(0.2)	(1,275.7)
Net book amount at 31 March 2018	55.9	959.4	1,684.4	129.1	6.4	1.8	2,837.0
Net book amount at 1 April 2017	50.2	918.3	1,609.9	120.2	6.0	3.1	2,707.7

Depreciation charge for year							
Principal services	(3.2)	(30.2)	(58.1)	(7.0)	(1.0)	(0.1)	(99.6)
Third party services	-	-	-	-	-	-	-
Total	(3.2)	(30.2)	(58.1)	(7.0)	(1.0)	(0.1)	(99.6)

The net book value includes £373.5m in respect of assets in the course of construction

Analysis of Capital Contributions and Land Sales for the 12 Months ended 31 March 2018 – 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)	3.2	-	-	3.2
Infrastructure charge receipts (s146)	-	2.1	-	2.1
Requisitioned mains (s43, s55 & s56)	-	1.7	-	1.7
Diversions (s185)	0.3	-	-	0.3
Other Contributions (non-price control)	-	-	-	-
Total	3.5	3.8	-	7.3
Value of adopted assets	-	-	-	-
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	3.4	-	3.4
Requisitioned sewers (s100)	-	2.4	-	2.4
Other contributions (price control)	-	-	-	-
Diversions (s185)	0.2	-	-	0.2
Other Contributions	-	0.1	-	0.1
Total	0.2	5.9	-	6.1
Value of adopted assets	-	3.2	-	3.2

Movements in capitalised grants and contributions	Current year		
	Water	Waste water	Total
Brought forward	60.1	115.4	175.5
Capitalised in year	3.8	5.9	9.7
Amortisation (in income statement)	(0.7)	(2.2)	(2.9)
Carried forward	63.2	119.1	182.3

Land sales - Proceeds from disposals of protected land	-	0.1	0.1

Household – Revenues by Customer Type for the 12 months ended 31 March 2018

Table 2F	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000s	£
Customer Type					
Unmeasured water only customer	5.657	0.410	6.067	20.470	20
Unmeasured wastewater customer only	70.101	4.772	74.873	283.628	17
Unmeasured water & wastewater customer	92.792	6.537	99.329	180.163	36
Measured water only customer	3.82	0.458	4.278	19.68	23
Measured wastewater only customer	68.746	8.544	77.290	354.968	24
Measured water & wastewater customer	128.233	15.648	143.881	332.502	47
Total	369.349	36.369	405.718	1,191.411	31

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

Revenue Analysis and Wholesale Control Reconciliation for the 12 Months ended 31 March 2018

Table 2I	**Current year**		
	Household	Non-household	Total
	£m	£m	£m
Wholesale charge - water			
Unmeasured	55.5	1.8	57.3
Measured	68.4	50.7	119.1
Third Party Revenue	-	-	-
Total	123.9	52.5	176.4
Wholesale charge - wastewater			
Unmeasured	113.1	2.4	115.5
Measured	132.5	61.6	194.1
Third Party Revenue	-	0.5	0.5
Total	245.6	64.5	310.1
Wholesale Total	369.5	117.0	486.5
Retail revenue			
Unmeasured	11.7	-	11.7
Measured	24.6	-	24.6
Other third-party revenue	-	0.3	0.3
Retail Total	36.3	0.3	36.6
Third party revenue - non-price control			
Bulk supplies – water			0.3
Bulk supplies - wastewater			0.4
Other third-party revenue			2.1
Principle services - non-price control			
Other appointed revenue			0.2
Total appointed revenue			526.1

March 2018 *(continued)*

	Current year		
	Water	Waste-water	Total
Wholesale revenue governed by price control	176.4	310.1	486.5
Grants & contributions	7.0	5.8	12.8
Total revenue governed by wholesale price control	183.4	315.9	499.3
Amount assumed in wholesale determination	177.8	310.9	488.7
Adjustment for in-period ODI revenue	-	-	-
Adjustment for WRFIM	-2.9	-5.7	-8.6
Total assumed revenue	174.9	305.2	480.1
Difference	8.5	10.7	19.2

Narrative

Wholesale Revenues reconciliation against Final Determination

After the over-recovery of allowed revenues in 2015/16 of £8.6m the Wessex Water Partnership was concerned that returning all over-recovery in 2017/18 and subsequently returning to FD14 allowances in 2018/19 would create a spike in bills. In addition, they were concerned about the impact of significantly higher inflation in 2017 that would feed into customer charges in 2018/19.

Since customers are sensitive to large shifts in bill profiles, and to mitigate the future expects of higher inflation, the Partnership therefore recommended that it was in customers' interests to withhold the majority of the 2015/16 revenue over-recovery and return it in subsequent years of the price control.

The Board agreed and we set charges on the basis of this approach, returning £0.6m to customers in 2017/18 and with an agreement to return the remainder over the rest of the price control period to ensure bills remain as smooth as possible.

The revenue we were therefore aiming to recover through the wholesale price control was the FD14 allowance minus the £0.6m rather than the allowance minus the full £8.6m over-recovery in 2015/16. The income we therefore report in APR18 is £8.0m greater as a starting point due to the approach we agreed with the Wessex Water Partnership.

The table below shows this.

£m	Water	Sewerage	Total
FD allowance	177.8	310.9	488.7
WW Partnership reduction	-0.2	-0.4	-0.6
Agreed revenue to be recovered through 2017/18 charges	**177.6**	**310.5**	**488.1**
Full WRFIM reduction	-2.9	-5.7	-8.6
Revenue to be recovered if full WRFIM reduction applied	174.9	305.2	480.1
Increase in revenues from smoothing approach	**+2.7**	**+5.3**	**+8.0**

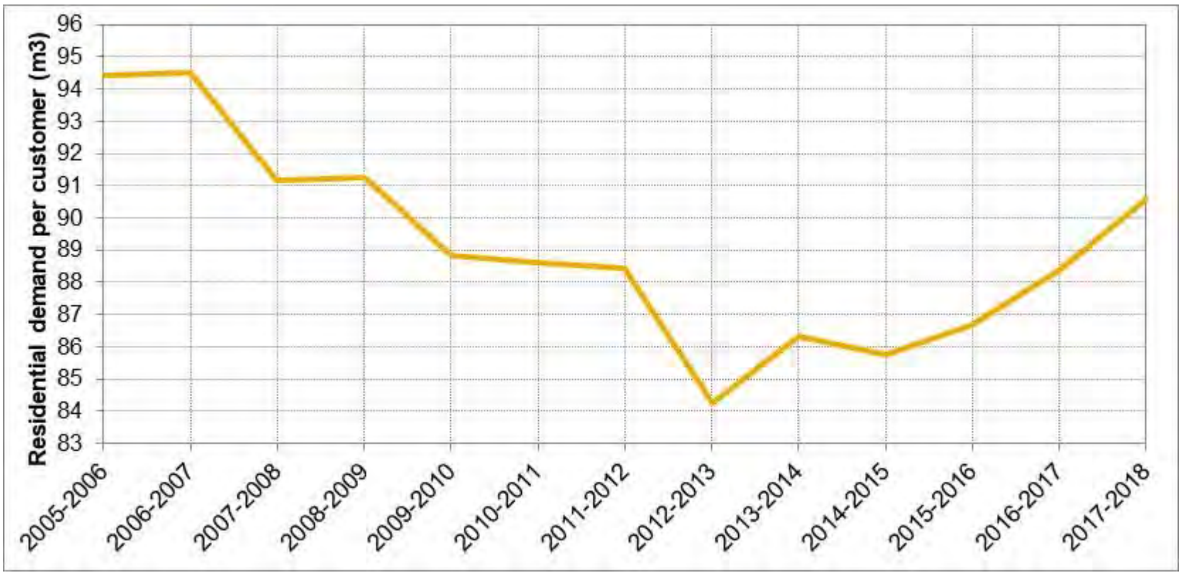
We then subsequently experienced increased consumption against the historical trend of reducing billed volumes. We also experienced greater developer income than budgeted. The variances are showed in the table below.

£m	Water	Sewerage	Total	Note
Agreed revenue to be recovered through 2017/18 charges	177.6	310.5	488.1	
Contributions received from Hinkley Point	+0.4	-		1
Greater than expected residential demand	+1.6	+3.0	+4.5	2
Greater than expected commercial demand	+2.5	+1.9	+4.5	3
Reduced take up of metering	+0.2	+0.3	+0.5	4
Review of developer services projects	+1.4	+0.7	+2.0	5
Other factors	-0.3	-0.4	-0.6	
2017/18 recovered revenue	183.4	315.9	499.3	

Notes

1: Contributions received from Hinkley Point
These are the contributions 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.

2: Greater than expected residential demand
We continued to experience increased residential demand over 2017/18, as our region experienced another above-average weather year. Once again, we experienced higher temperatures and lower rainfall than the historical trend.
Residential demand has therefore out-turned at a level above our forecast when we set charges. The graph below shows the trend of historical annual domestic demand per customer.



3: Greater than expected commercial demand
We also experienced growth in commercial demand over 2017/18. The business retail market opened at the beginning of the year, and since the switch we have experienced greater demand. This is partially explained by the reduction in take-up of leakage allowances. The graph below shows recent historical commercial water demand.

4: Reduced take up of metering
Demand for metering continued to fall over 2017/18 even with significant company effort promoting its availability. We installed 3,100 fewer meters in the supply area than expected and in our waste area 5,900.

5: Review of long-running developer services projects
A one-off review of long-running developer services projects was carried out over the course of the year, which resulted in the closure of a material number of legacy projects. This had the effect of increasing developer income over the forecast values in the following areas:

- Supply new connections income by £1.3m
- Section 41 requisitions by £0.1m
- Section 98 requisitions by £0.6m

Infrastructure network reinforcement costs for the 12 months ended 31 March 2018

Table 2J	Network reinforcement capex	On site / site specific capex (memo only)
	£m	£m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.2	1.6
Pumping and storage facilities	-	-
Other	-	-
Total	0.2	1.6
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	2.0	4.7
Surface water only systems	-	0.2
Pumping and storage facilities	0.1	0.4
Other	-	-
Total	2.1	5.3

Section 3: Performance Commitments

For the 12 months ended 31 March 2018

Table 3A

				Actuals				Accrued at 31 Mar 2018		31 Mar 2020 forecast	
ID	Performance Commitment	Units	dp	2016-17 performance level	Target	2017-18 performance level	2017-18 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	67.9	67.7	Yes	Reward deadband	0.000	Reward deadband	0.000
F2	Customer reported leaks fixed within a day	%	0	70	75	76	Yes				
G1	Customer contacts about drinking water quality	nr	0	2172	1608	2031	No	Penalty	-0.400	Penalty	-1.200
G2	Compliance with drinking water standards (MZC)	%	2	99.95	100.00	99.96	No	Penalty deadband	0.000	Penalty deadband	0.000
B4	Compliance with abstraction licences	%	1	100.0	100.0	100.0	Yes				
B5	Abstractions at Mere exported (follows principles of the AIM methodology)	Ml/a	0	341	100	30	Yes			Penalty	-0.008
B7	Length of rivers with improved flows	km	0	0	0	78	Yes	Reward	1.482	Reward	1.938
B6	BAP landholding assessed and managed for biodiversity	%	0	71	80	90	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	12.8	12.0	12.3	No	Penalty	-0.013	Penalty	-0.013
D4	Properties supplied by a single source (including the integrated supply grid)	nr	0	48000	78000	42000	Yes				
D5	Water main bursts	nr	0	1863	<1993	1920	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	96	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	50	43	60	Yes				
B3	River water quality improved	nr	0	8	8	23	Yes			Reward	1.290
C1	Internal flooding incidents	nr/10kprops	2	1.20	1.70	1.21	Yes	Reward	5.508	Reward	27.132
C2	Risk of flooding from public sewers due to hydraulic inadequacy	Risk score	0	51125	50651	49796	Yes	Reward 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	-	Interim milestone met	Interim milestone met	Yes				
D1	Collapses and bursts on sewer network	nr	0	264	<300	223	Yes				
E1	Greenhouse gas emissions (annual greenhouse gas emissions from operational services)	ktCO2e	0	123	122	122	Yes				
E2	Proportion of energy self-generated	%	0	29	22	26	Yes				

Table 3A (cont)

ID	Performance Commitment	Units	dp	Actuals: 2016-17 performance level	Actuals: Target	Actuals: 2017-18 performance level	2017-18 target met?	Accrued at 31 Mar 2018: Notional reward / penalty	Accrued at 31 Mar 2018: £m absolute value	31 Mar 2020 forecast: Total AMP6 reward / penalty	31 Mar 2020 forecast: £m absolute value
A1	SIM service score	score	0	88	>86	87	Yes	Reward	tbc	Reward	tbc
A2	Percentage rating service good/very good	%	0	96	>95	96	Yes				
A3	Percentage rating good value for money	%	0	84	73	70	No				
A4	Percentage rating ease of resolution	%	0	93	Improving trend	93	No				
A5	Accessible communications	text	na	BS18477 & Customer Service Excellence Award	-	BS18477 & Customer Service Excellence Award	Yes				
B1a	Volume of water used per person	l / person / d	0	141	133	143	No				
B1b	Volume of water saved by water efficiency promotion	l / person / d	2	1.56	1.92	2.48	Yes				
B2	Bill as a proportion of disposable income	%	1	1.4	Reducing trend	1.5	Yes				

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

Table 3C

Abstraction site	dp	2017-18 AIM performance [Ml]	2017-18 normalised AIM performance	Cumulative AIM performance 2017-18 [Ml]	Cumulative normalised AIM performance 2017-18	Contextual information relating to AIM performance
Mere	1	30.2	-0.93	-720.0	-70.3	As per the method statement, the AIM baseline abstraction has changed this year from 380 Ml to 462 Ml, the corresponding average AIM period has changed from 163 to 164 days.

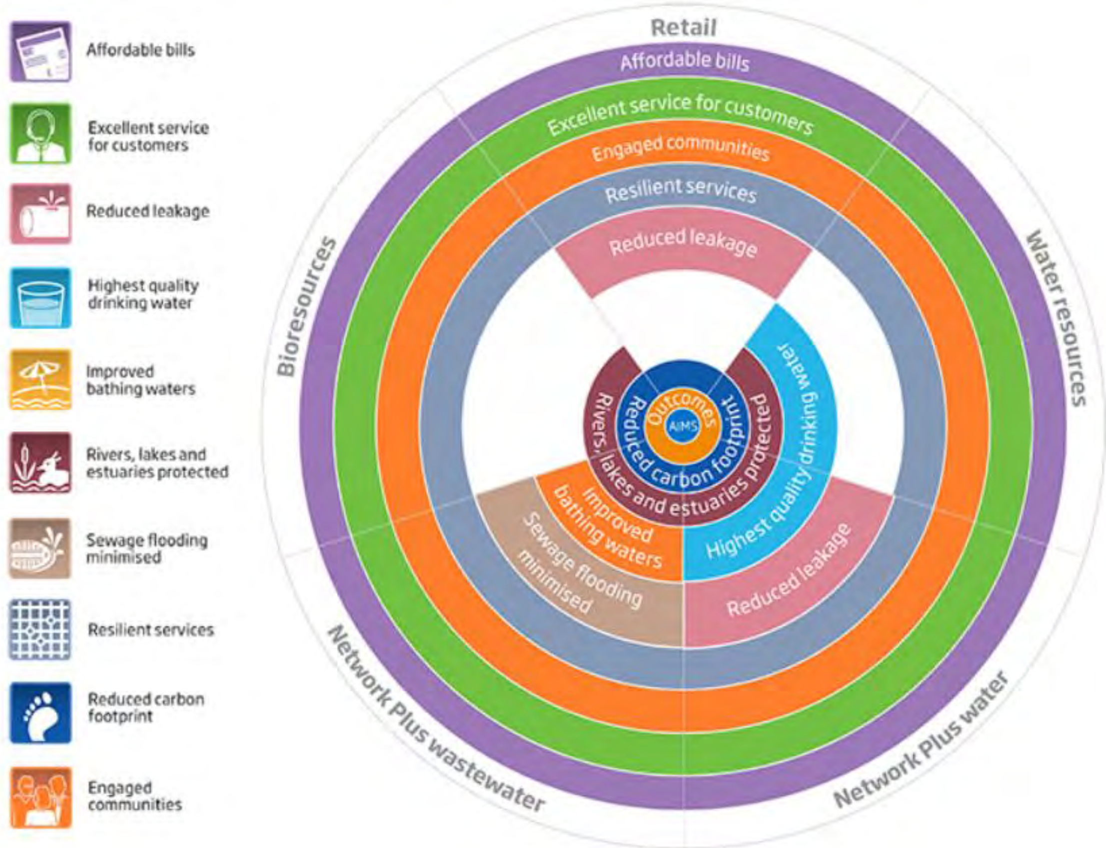
Table 3D

Row	Line description	Units	dp	Score
A	**Qualitative performance**			
1	1st survey score	score	2	4.46
2	2nd survey score	score	2	4.52
3	3rd survey score	score	2	4.60
4	4th survey score	score	2	4.47
5	Qualitative SIM score (out of 75)	score	2	65.86
B	**Quantitative performance**			
6	Quantitative composite score	score	2	79.40
7	Quantitative SIM score (out of 25)	calc	2	21.03
C	**SIM score**			
8	Total annual SIM score (out of 100)	calc	2	86.89

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. We updated our strategic direction statement to reflect a greater focus on how we engage with our communities. This is incorporated within the diagram below.



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 2017-18 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 2017/18 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 (462 Ml).

There is a financial incentive attached to this measure, although rather than an underperformance payment 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 2017-18 we managed the volume of water abstracted from Mere well within the target (30Ml abstracted during the AIM period).

The recent completion of the water supply grid has improved the resilience of our integrated network and should mitigate the risk of needing to use Mere after 2017-18, so we are not forecasting to exceed the target again this AMP.

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 60% in 2015-16 to 100% for sites larger than 5000m2, adding an additional 10% assessed each year.

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

Historically we were reporting against landholdings that were larger than 0.05 hectares. This has been amended to landholdings greater than 0.5 hectares which corresponds with the Ofwat defintion. Our performance of 90% in 2017-18 has exceeded our target of 80%. We continue to forecast that we will achieve the target for each year of this 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.

The completion of the water supply grid means we have been able to make some permanent changes in licence conditions early at Wylye/Bourne and Nadder. In addition we have agreed other licence changes in 2017-18 at Nutscale, improving the Nutscale Water and Horner Water, as well as at Compton Durville, improving the Lam Brook and North Mills Brook. Overall this equates to an outperformance payment of £1.482m. We have already submitted a licence change to the EA for Malmesbury which we expect to be approved in 2018-19. The resultant end of AMP forecast is now £1.938m.

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 2017-18 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 tightened to the upper quartile of 12 minutes in 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 2017-18 we achieved 12.3 minutes, an improvement on our past performance but not quite sufficient to meet the tightened target resulting in an underperformance payment. Despite this, we have made considerable improvements which gives confidence we will meet the target for the rest of the AMP.

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 were to fail to meet the target in any given year due to delays in delivery of the grid we would refund customers £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 in 2017/18 has meant that the PC target has been met.

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 an underperformance payment 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 2017-18 our performance was 1,920 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 2017-18, we achieved 67.7 Ml/d, which is under the target. While the weather conditions were mild for most of the year we had to work hard to manage the impact of two cold spells in the last weeks of the year to achieve the target. This figure is within the outperformance payment deadband so no financial payment applies. We continue to implement innovations and improvements in our leakage management 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 2017-18 we achieved 76% 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 2018-19. We are currently assessing the options for meeting the challenging 2019-20 target.

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.

If we fail to meet the target, we will refund customers £1,000 per contact and if we exceed the target, we could receive an incentive payment of £175 per contact.

In 2017-18, our contacts reduced from 2,172 to 2,031 contacts. Whilst this is an improvement in performance, it is outside the underperformance cap and results in an underperformance payment of £400,000.

We continue to implement 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.

Last year we reported that, there are no clear means by which we can achieve the target for 2017-18 and 2019-20 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 underperformance payment 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. This situation has not changed and therefore as we have always advised, we forecast maximum underperformance payments to the end of the AMP.

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 an underperformance payment of £770k if in any year performance falls below 99.95%.

In 2017-18 we had 8 sample failures out of the 25,000 tests contributing to mean zonal compliance, giving MZC of 99.96%. Of these sample failures, 4 were attributable to domestic plumbing and service pipe issues and 4 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. In 2016-17 we 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 of 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 seven outputs to deliver in 2017-18. 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 2017-18 we delivered all the bathing water outputs. The construction schemes included:
- constructing a 3,000m^3 underground storage tank and a larger pumping station at Bristol Road Bridgwater to achieve 3 spills per bathing season,
- provided a new pumping station and 150m^3 storage to transfer flow from Combwich to Cannington
- construction of a UV disinfection plant to disinfect flows from Combwich and Cannington

We also concluded a three year investigation which proactively identified misconnections of foul flows that could end up in the River Parrett in Bridgwater.

To ensure delivery of next years significant construction schemes in Bridgwater (Colley Lane and West Quay) before May 2018, we have accelerated these schemes which are nearing completion.

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.

In 2017-18, 96% of bathing waters within our region passed the EU 'sufficient' standard or higher under the revised Bathing Water Directive. Burnham Jetty North and Weston-super-mare (WSM) Uphill Slipway were the only two bathing waters within the Wessex Water area to fail the required standards in the year. We expect WSM Uphill Slipway to meet the required standards for the rest of the AMP. However, despite the on-going delivery of our investment programme at Burnham Jetty North, 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 meeting five of the following six parameters: having fewer than or equal to 83 cat 3 pollution incidents per 10,000km of sewers; having fewer than or equal to 1 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 75% 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 2017-18 we achieved our target of 'industry leading' rating in the Environment Agency's Environmental Performance Assessment. However, our pollution performance fell short of that required to achieve the outperformance payment.

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. We met our NEP requirements in 2017-18 by delivering and permitting 178 monitors.

We were targeted with achieving 43% of the total monitored by the end of 2017-18 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 2017-18 we are monitoring 60% 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 £1.290m for each additional waterbody.

There was a target of 8 waterbodies for 2017-18. We improved 8 waterbodies in 2016-17 and have improved a further 15 waterbodies in 2017-18, totaling 23 waterbodies thus far. The remainder of the programme is progressing well to achieve the targets for the rest of the AMP.

This performance commitment was created in recognition of the uncertainty surrounding the development of the NEP for PR14. Our business plan was submitted in December 2013 based on the requirement of the NEP Phase 3 which was issued to us in June 2013. The final NEP (Phase 5) was issued in January 2016 and included a final list of schemes included in the WFD second river basin management plan (RBMP2). The schemes listed in the final NEP included improvements to 71 water bodies, compared to the 70 listed in the earlier NEP(3). This results in an outperformance payment in the last year 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 2017-18 our performance was 1.21 sewer flooding incidents (c151 incidents) per 10,000 properties which is a significant improvement and this results in an incentive payment of £5.5m. Whilst weather conditions have been mild so far this AMP, we recognize that our performance to date is good and we should therefore forecast an outperformance payment to the end of the AMP.

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 2017-18 we achieved a risk score of 49,796 which is better than the target and an improvement on last year. This is above the outperformance deadband so no incentive payment will be claimed.

Our investment programme to address flooding risks is progressing well and we have more schemes being designed 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 underperformance payment 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 2017-18, 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 underperformance payment associated with not undertaking the scheme of £14.1m – there is no risk of incurring this as the scheme is underway.

In 2017/18 we have reached the initial milestone by demonstrating, in line with our delivery plan, that the design, consultation and construction of the Trym scheme has been progressed. This has been independently assured by the auditors, Mott MacDonalds.

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 an underperformance payment during the period 2010-15 from Ofwat.

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

In 2017-18 we had achieved 223 collapses and bursts, and 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 2017-18 greenhouse gas emissions were 122 kilotonnes carbon dioxide equivalent, which is 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 2017-18 performance commitment level of 122 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 26%, 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 2017-18 we achieved a score of 87% 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 2017-18 we achieved 96% 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 2017-18 is 70%, a reduction on the prior year meaning we have not achieved our target. 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 measured through our annual image tracking survey of 1,000 randomly selected customers across our region. Having reviewed the sample sizes achieved for the first 3 years of the AMP they have been found to be too small (around 100 contactors) to demonstrate whether any movement year on year in the effort score is statistically significant or not. As a result we have discussed and agreed with the independent Customer Scrutiny Group, Wessex Water Partnership that ease of resolution should now be measured through our SIM replica surveys. We carry out 8 SIM replica surveys each year achieving a very robust sample size of 2,400 and it is these values that are reported in the table. The 2017-18 performance is 93%, the same as 2015-16 and 2016-17. While the performance has remained excellent and stable, it does not reflect an improving trend meaning that we have not achieved our target.

For completeness this year we have also reported the performance taken from the answer to the relevant question in our image tracking survey. For 2017-18 the performance is 67% which is lower than the 2014-15 initial service level and therefore also does not equate to the targeted improving trend.

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 2017-18, we maintained this British Standard certification and continue to 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 2017-18 the PCC was 143 l/p/day, 10 l/p/day higher than the target of 133 l/p/day. We attribute this to a dry and warm spring and early summer in 2017 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 cumulatively to 2017-18 have exceeded our performance commitment target. We are currently reporting cumulative savings of 2.48l/p/d against a target of 1.92l/p/d. If we miss the target in any given year, we will refund customers £1.89m for each l/p/day.

This remains a challenging target overall and 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 2017-18 bill was 1.5% of disposable income. This compares with the position in 2014-15 when the bill was 1.6%, our 2015-16 bill which was 1.5% and our 2016-17 bill which was 1.4% 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 outperformance or underperformance payment 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 2018

To make it easier for stakeholders to read this document, our cost assessment data is published on our website in tables 4J to 4W. These tables have been prepared in accordance with the RAGs and we have applied the same high quality assurance.

Table 4A **Retail - household**	Current year Unmeasured	 Measured
Number of void households (‘000s)	11.840	14.410
Per capita consumption (excluding supply pipe leakage) l/h/d	150.46	137.33

Wholesale	Water	Wastewater
Volume (Ml/d)		
Bulk supply export	1.282	0
Bulk supply import	8.588	0.647
Distribution input	340.817	

Wholesale Totex Analysis for the 12 Months ended 31 March 2018

Table 4B	Current year		Cumulative 2015 – 2020	
	Water	Wastewater	Water	Wastewater
	£m	£m	£m	£m
Actual totex				
Menu totex	135.2	224.1	444.9	581.5
Items excluded from the menu				
Third party costs	0.9	0.5	3.3	0.9
Pension deficit recovery payments	4.1	6.4	9.8	15.6
Other 'Rule book' adjustments	(11.8)	(21.1)	(11.8)	(21.1)
Total costs excluded from the menu	(6.8)	(14.2)	1.3	(4.6)
Transition expenditure	-	-	0.5	4.7
Adjusted Actual totex	142.0	238.3	444.1	590.8
Actual totex – base year prices	126.2	212.2	408.4	541.0
Allowed totex based on final menu choice - base year prices	142.5	233.6	443.0	625.7

Impact of AMP performance to date on RCV

Table 4C	Water	Wastewater
	£m	£m
Cumulative totex over/underspend so far in the price control period	(38.9)	(95.1)
Customer share of cumulative totex over/underspend	(19.8)	(48.1)
RCV element of customer share of cumulative totex over/underspend	(17.1)	(44.7)
Adjustment for ODI rewards or penalties	1.2	-
RCV determined at FD at 31 March	1,121.2	1,988.2
Projected 'shadow' RCV	1,105.3	1,943.5

Totex Analysis for the 12 Months ended 31 March 2018 – Wholesale Water

Table 4D	Water resources		Network+				
	Abstract-ion licences	Raw water abstract-ion	Raw water transport	Raw water storage	Water treatment	Treated water distrib-ution	Total
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	2.3	-	-	5.2	1.6	9.1
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges/discharge consents	2.6	-	-	-	0.1	-	2.7
Bulk supply	-	-	-	-	1.7	-	1.7
Other operating expenditure:							
- Renewals expenditure (infrastructure)	-	0.4	-	-	-	10.3	10.7
- Renewals expenditure (non-infrastructure)	-	-	-	-	-	-	-
- Other operating expenditure excluding renewals	-	1.5	-	-	5.9	17.3	24.7
Local authority and cumulo rates	-	0.7	-	-	1.5	14.1	16.3
Total operating expenditure excluding third party services	2.6	4.9	-	-	14.4	43.3	65.2
Third party services	-	0.5	-	-	-	0.4	0.9
Total operating expenditure	2.6	5.4	-	-	14.4	43.7	66.1
Capital expenditure							
Maintaining the long-term capability of the assets – infra	-	0.5	-	-	-	11.6	12.1
Maintaining the long-term capability of the assets - non-infra	-	1.4	-	-	20.2	11.9	33.5
Other capital expenditure - infra	-	1.3	-	-	-	13.8	15.1
Other capital expenditure - non-infra	-	1.2	-	-	6.3	3.9	11.4
Infrastructure network reinforcement	-	-	-	-	-	0.2	0.2
Total gross capital expenditure (excluding third party services)	-	4.4	-	-	26.5	41.4	72.3
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	-	4.4	-	-	26.5	41.4	72.3
Grants and contributions	-	-	-	-	-	(7.3)	(7.3)
Totex	2.6	9.8	-	-	40.9	77.8	131.1
Cash expenditure							
Pension deficit recovery costs	-	0.5	-	-	1.2	2.4	4.1
Other cash items	-	-	-	-	-	-	-
Totex including cash items	2.6	10.3	-	-	42.1	80.2	135.2

Totex Analysis for the 12 Months ended 31 March 2018 - Wholesale Water (continued)

Unit cost information (operating expenditure) – Wholesale Water

	Water resources		Network+			
Table 4D (continued)	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution
Licenced volume available – Ml	248,796					
Volume abstracted – Ml		136,921				
Volume transported			33.269			
Average volume stored				8,343		
Distribution input volume – m3					121,732	
Distribution input volume – m3						124,398
Unit cost - £/Ml	10.316	39.404	57.622	-	117.964	351.785
Population	1,314.810	1,314.810	1,314.810	1,314.810	1,314.810	1,314.810
Unit cost - £/pop	1.952	4.103	0.001	-	10.922	33.283

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

Totex Analysis for the 12 months ended 31 March 2018 - 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	2.0	0.8	0.8	11.8	1.0	-	0.9	-	17.3
Income treated as negative expenditure	-	-	-	-	-	-	-	-	-
Discharge consents	0.4	0.2	0.2	2.1	-	-	-	-	2.9
Bulk discharge	-	-	-	0.1	-	-	-	-	0.1
Other operating expenditure:									
-Renewals expenditure (infrastructure)	6.2	2.4	2.4	-	-	-	-	-	11.0
-Renewals expenditure (non-infrastructure)	-	-	-	-	-	-	-	-	-
-Other operating expenditure excluding renewals	4.6	1.8	1.8	8.7	0.5	2.7	3.4	4.7	28.2
Local authority rates	-	-	-	6.7	0.4	-	1.6	-	8.7
Total operating expenditure excluding third party services	13.2	5.2	5.2	29.4	1.9	2.7	5.9	4.7	68.2
Third party services	0.3	0.1	0.1	-	-	-	-	-	0.5
Total operating expenditure	13.5	5.3	5.3	29.4	1.9	2.7	5.9	4.7	68.7
Capital expenditure									
Maintaining long term capability of assets - infra	11.0	1.4	-	-	-	-	-	-	12.4
Maintaining long term capability of assets - non-infra	9.7	-	-	49.9	0.7	2.6	12.4	0.4	75.7
Other capital expenditure - infra	26.5	0.8	0.1	2.0	-	-	-	-	29.4
Other capital expenditure - non-infra	4.1	0.1	-	28.9	0.5	-	1.9	-	35.5
Infrastructure network reinforcement	2.1	-	-	-	-	-	-	-	2.1
Total gross capital expenditure (excluding third party services)	53.4	2.3	0.1	80.8	1.2	2.6	14.3	0.4	155.1
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	53.4	2.3	0.1	80.8	1.2	2.6	14.3	0.4	155.1
Grants and contributions	(4.1)	(1.0)	(1.0)	-	-	-	-	-	(6.1)
Totex	62.8	6.6	4.4	110.2	3.1	5.3	20.2	5.1	217.7
Cash expenditure									
Pension deficit recovery costs	1.1	0.4	0.4	2.8	0.2	0.8	0.5	0.2	6.4
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	63.9	7.0	4.8	113.0	3.3	6.1	20.7	5.3	224.1

Totex Analysis for the 12 months ended 31 March 2018 - Wholesale Wastewater (continued)

Unit cost information (operating expenditure)

Table 4E (continued)	Sewage collection			Sewage treatment		Sludge		
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal
Volume collected foul – Ml	176,953.0							
Volume collected surface water drainage - Ml		68,380.2						
Volume collected highway drainage - ML			68,380.2					
Biochemical Oxygen Demand (BOD) sewage - tonnes				60,656.9				
Biochemical Oxygen Demand (BOD) sludge liquor - tonnes					5,895.0			
Sludge volume transported – m3						839,255.0		
Sludge treatment dried solid mass treated - ttds							74.9	
Sludge treatment dried solid mass disposed - ttds								54.2
Unit cost - £/Ml	76.365	76.365	76.365	484.373	342.035	3.193	79,367.90	88,169.62
Population (000s)	2,803.505	2,803.505	2,803.505	2,803.505	2,803.505	2,803.505	2,803.505	2,803.505
Unit cost - £/pop	4.820	1.863	1.863	10.480	0.719	0.956	2.120	1.705

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

Operating Cost Analysis for the 12 Months ended 31 March 2018 - Household Retail

Table 4F (1 of 3)	Household Unmeasured			
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m
Operating expenditure				
Customer services	0.066	1.253	0.832	2.151
Debt management	0.007	0.362	0.469	0.838
Doubtful debts	0.242	3.352	2.129	5.723
Meter reading	-	-	-	-
Other operating expenditure	0.139	1.927	1.224	3.290
Total operating expenditure excluding third party services	0.454	6.894	4.654	12.002
Third party services operating expenditure	-	-	-	-
Total operating expenditure	0.454	6.894	4.654	12.002
Depreciation - tangible fixed assets				
-On assets existing at 31 March 2015	0.010	0.139	0.088	0.237
-On assets acquired since 1 April 2015	0.005	0.063	0.040	0.108
Amortisation - intangible fixed assets				
-On assets existing at 31 March 2015	-	-	-	-
-On assets acquired since 1 April 2015	-	-	-	-
Total operating costs	0.469	7.096	4.782	12.347
Capital expenditure	0.021	0.293	0.186	0.501

Operating Cost Analysis for the 12 Months ended 31 March 2018 - Household Retail

Table 4F (2 of 3)	Household Measured			
	Water only £m	Waste-water only £m	Water and sewerage £m	Total £m
Operating expenditure				
Customer services	0.082	2.095	2.002	4.179
Debt management	0.006	0.417	0.693	1.116
Doubtful debts	0.152	2.737	2.564	5.453
Meter reading	0.028	0.309	0.869	1.206
Other operating expenditure	0.133	2.398	2.246	4.777
Total operating expenditure excluding third party services	0.401	7.956	8.374	16.731
Third party services operating expenditure	-	-	-	-
Total operating expenditure	0.401	7.956	8.374	16.731
Depreciation - tangible fixed assets				
-On assets existing at 31 March 2015	0.013	0.239	0.224	0.476
-On assets acquired since 1 April 2015	0.006	0.109	0.102	0.217
Amortisation - intangible fixed assets				
-On assets existing at 31 March 2015	-	-	-	-
-On assets acquired since 1 April 2015	-	-	-	-
Total operating costs	**0.420**	**8.304**	**8.700**	**17.424**
Capital expenditure	**0.025**	**0.458**	**0.429**	**0.912**

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale

Table 4F (3 of 3)

Household	£m
Demand-side water efficiency - gross expenditure	0.228
Demand-side water efficiency - expenditure funded by wholesale	-
Demand-side water efficiency - net retail expenditure	0.228
Customer-side leak repairs - gross expenditure	3.088
Customer-side leak repairs - expenditure funded by wholesale	(3.088)
Customer-side leak repairs - net retail expenditure	-

Wholesale Current Cost Financial Performance for the 12 Months ended 31 March 2018

Table 4G	Water	Wastewater	Total
	£m	£m	£m
Revenue	177.7	311.8	489.5
Operating expenditure	(66.1)	(68.7)	(134.8)
Capital maintenance charges	(52.0)	(96.5)	(148.5)
Other operating income	0.3	(1.9)	(1.6)
Current cost operating profit	59.9	144.7	204.6
Other income	5.3	2.7	8.0
Interest income	0.1	0.3	0.4
Interest expense	(25.6)	(55.5)	(81.1)
Other interest expense	(2.0)	(3.1)	(5.1)
Current Profit before tax and fair value movements	37.7	89.1	126.8
Fair value gains/(losses) on financial instruments	-	-	-
Current Profit before tax	37.7	89.1	126.8

Financial Metrics for the 12 Months ended 31 March 2018

Table 4H

Net debt	£1,985.5m
Regulated equity	£1,124.0m
Regulated gearing	63.85%
Post tax return on regulated equity	15.14%
RORE (return on regulated equity)	8.55%
Dividend yield	8.19%
Retail profit margin - Household	1.61%
Retail profit margin - Non-household	-0.28%
Credit rating	BBB+
Return on RCV	8.25%
Dividend cover	1.47
Funds from operations (FFO)	£272.2m
Interest cover (cash)	5.42
Adjusted interest cover (cash)	3.26
FFO / Debt	0.14
Effective tax rate	12.32%
Free cash flow (RCF)	£180.2m
RCF / capex	0.83

Revenue and earnings	£m
Revenue (actual)	523.1
EBITDA (actual)	359.0

Borrowings	%
Proportion of borrowings which are fixed rate	46.85
Proportion of borrowings which are floating rate	15.93
Proportion of borrowings which are index linked	37.22
Proportion of borrowings due within 1 year or less	7.19
Proportion of borrowings due in more than 1 year but no more than 2 years	0.07
Proportion of borrowings due in more than 2 years but no more than 5 years	18.67
Proportion of borrowings due in more than 5 years but no more than 20 years	40.65
Proportion of borrowings due in more than 20 years	33.42

Financial Derivatives for the 12 Months ended 31 March 2018

Table 4l	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 2018 (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.12) (£m)	FD Allowance (£m)
Household	29.7	31.6

Note – FD excludes net margin
Note – Non-household is zero as we have exited the non-household retail market

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 in September 2017 for the 2016-17 reporting year to show that we continue to receive the lowest number of complaints of any water & sewerage company
- We remain one of the best performers in 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 retained 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 less than £50k lower if assessed against our actual charging base.

	Actual ('000)	FD assumption ('000)	Variance
Unmetered	484.3	393.9	+90.4
Metered	707.2	780.9	-73.7

We are continuing our enhanced promotion of optional meters to address this.

Retail: Non-household

We no longer operate in the retail non-household market.

Wholesale: Actual Expenditure v 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 is £42.0m or 10% of FD for the year.

Variance between FD and Actual	£m	£m	£m
@17/18 Prices	Water	Sewerage	Total
Totex FD	160.9	262.8	423.7
Actual Totex	142.8	238.9	381.7
PAYG Variance	18.1	23.9	42.0

Wholesale: Water

The totex expenditure for Wholesale Water if you exclude the impact of the pension credit shows an £18.1m underspend against the FD in 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 2017-18.

The underspend in the year reflects three main factors. Firstly, and most significantly, all construction work on our eight-year programme for our water supply grid has completed earlier than planned. This is due to a combination of benign weather conditions and good integrated programme management in delivery resulting in risk allowances not being required and some savings have been realised of £7m. Secondly, the earlier than expected delivery of the Grid meant that several other projects did not progress as planned resulting in slippage of £5m. Finally, work early in the year to reduce leakage has resulted in a lower than expected spend on reactive work despite the impact of the late cold snap in the year.

All major capital project outputs are on-track for delivery in the AMP.

Wholesale: Sewerage

The totex expenditure for Wholesale Wastewater if you exclude the impact of the pension credit shows a £23.9m underspend against the FD in the year.

Another year of better than expected weather conditions has resulted in the early delivery of bathing water projects as well as the North Bristol sewer project at Frome Valley progressing faster and at lower cost, with a total saving of £9m. The benign weather conditions for the third year in a row have resulted in lower than expected asset failures and reduced reactive maintenance costs of £7m.

The remaining underspend relates to, lower than expected housing market activity, progression of new catchment management programmes at lower than expected costs and minor deferrals on capacity projects which will be caught up in 2018-19.

All regulatory outputs were delivered in the year and the future programme is on-track to 2020.

Cumulatively in the AMP the variance is £134.7m on an outturn basis excluding the one-off impact of the pension credit, or 12% of the FD.

Exceptional item: Pension credit

This year there was a one-off change regarding the pension saving cost not included in the variance reported above due to its exceptional nature, which is explained in the accounts as follows:

Following the latest actuarial valuation of the Wessex pension scheme a consultation was held with members to discuss the future funding of the scheme. As part of that consultation the Company, trustees and members agreed that the measurement of inflation for future pension increases would change. From 2010 pension increases will be measured using Consumer Price Index (CPI) rather than Retail Price Index (RPI) which is currently used. The impact of that change is a £32.9m reduction in the IAS19 measurement of retirement benefit obligations, which has been shown as a reduction in staff expenses within operating costs.

Return on Regulated Equity (RORE)

We are reporting a cumulative RORE of 8.55% 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, through higher inflation leading to a decrease in the real cost of our fixed-rate debt, 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)	+1.05%	[1]
Retail outperformance	+0.12%	[2]
Customer Service (ODI) outperformance	+0.58%	[3]
Financing outperformance	+1.20%	[4]
Reported RORE (2015-16 to 2017-18)	**8.55%**	

1 – Totex outperformance
See narrative on previous page.

2 – Retail outperformance
We have included the net retail savings (HH + NHH up to March 2017) 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 2017-18. This was not so in 2015-16 where inflation remained low.