Independent auditor's report to the members of Sutton and East Surrey Water Plc

Report on the audit of the financial statements

Opinion

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2022 (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2022; the Profit and loss account, Statement of comprehensive income, Statement of changes in equity and Cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity

Key audit matters

- Assessment of recoverability of household trade debtors
- Accuracy of measured income accrual

Materiality

- Overall materiality: £392,500 (2021: £392,500) based on approximately 1.7% of adjusted profit before tax for the year.
- Performance materiality: £294,000 (2021: £294,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19 impact on financial reporting, which was a key audit matter last year, is no longer included because of the impact of COVID-19 not being considered to be an area of most significance to our audit, with the level of audit effort spent considering and responding to this risk on the financial reporting and judgements or estimates having reduced compared to the prior year. Otherwise, the key audit matters below are consistent with last year.

Independent auditor's report continued

Key audit matter	How our audit addressed the key audit matter
Assessment of recoverability of household trade debtors Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £7.9m as at 31 March 2022 (2021: £8.3m) (refer to Note 16 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. Overlay adjustments are then applied, namely: that debtors after a period of three years are unrecoverable and fully provided for; an adjustment is applied for estimated recovery by debt collection agencies based on recent collection trends; and an adjustment to allow for the potential adverse impact on recoverability as a result of the current cost of living crisis caused by challenging economic conditions, specifically inflation, reducing the ability of customers to settle their debts. The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.	Our procedures included: – Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101. – Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions. – Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate. – Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives. – Challenging the nature and basis for the overlay adjustments. – Sample testing the underlying data underpinning the historical cash collection rates and validating the integrity of the aged debt report by sample testing to invoices. – Checking that the ECL was applied to all relevant household receivable categories, including accrued income. – Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements. – We also considered whether there was any Management bias in how the assumptions and estimates had been derived. Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.
Accuracy of measured income accrual Management have recorded a measured income accrual of £7.6m (2021: £7.1m), (see note 3 of the financial statements for management's disclosures of the critical accounting policies, judgments and estimates), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit. This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is an automated calculation performed by the Company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: – Agreeing the last billed date against the last invoice billed on a customer level. – Performing a recalculation of the number of days since the last billed date to year-end. – Recalculating the daily average consumption rate based on the last three meter readings, comparing the recalculated average against the detailed listing. – Testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2022. Our results: We found Management's estimation of the measured income accrual to be acceptable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Our Consideration of Climate-Related Risks

As part of our audit, we have made enquiries of Management to understand its process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the newly-formed Environmental, Social and Governance (ESG) Committee. While Management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements, with the support of our climate change experts. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included, with involvement of our specialists: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£392,500 (2021: £392,500).
How we determined it	Approximately 1.7% of adjusted profit before tax for the year
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by shareholders in assessing the performance of the company and this benchmark was used in determining materiality for the 2021 audit. However, given the recent volatility in this benchmark (due to factors such as the increase in RPI-linked interest), in the interest of eliminating volatility and to preserve the link between materiality and the underlying performance and scale of the business, we have used our professional judgement, in moving to an adjusted profit before tax benchmark. Based on our qualitative and quantitative assessment of the results in the year and balance sheet position at year end, including discussion on the topic with the Audit Committee, which included representatives of the shareholders, for our 2022 audit our materiality is approximately 1.7% of adjusted profit before tax. This equates to the same materiality applied in our 2021 audit.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £294,000 (2021: £294,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £19,625 (2021: £19,625) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Testing the mathematical integrity of the cash flow forecasts and reconciling these to Board approved budgets.
- Identifying the key assumptions applied, which we determined to be revenue, costs and capital expenditure. We evaluated these key assumptions by:
  - Revenue: Considering the feasibility of forecasted revenue to historical performance and allowed revenue under AMP 7.
  - Costs: Comparing the forecasted costs to historical actuals and made enquiries to understand the driver of any significant variations.
  - Capital expenditure: Considering the capital expenditure forecast by reference to the different projects in Management's plan, and also comparing the forecast to prior period expenditure.

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  - Downside scenario: Assessing the severe but plausible downside assumptions to stress test the model and considering the impact on the liquidity headroom and forecast covenant compliance.
  - Mitigating actions: Assessing the reasonableness of Management's planned or potential mitigating actions to reduce capital expenditure or other cash outflows based on historical execution and feasibility.
- Reviewing the debt agreements to confirm the terms and conditions, including the nature of and calculation of the covenants, and checking that the covenants were consistent with those used in Management's going concern assessment.
- Agreeing all borrowings as at 31 March 2022 to third-party confirmations and considering the terms and conditions and amounts available from committed facilities.
- Testing the mathematical accuracy of the covenant calculations based on the Company's forecast. This included checking that the covenant compliance remained throughout the assessment period after considering the mitigating actions under Management's control.

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

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

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Corporate governance statement

ISAs (UK) require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code, which the Listing Rules of the Financial Conduct Authority specify for review by auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditor.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the Company under the Water Industry Act, 1991, and UK Corporation Tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as The Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of Management's controls to prevent and detect irregularities;

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- Challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors and accuracy of the measured income accrual, including the disclosure of such matters in the financial statements;
- Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, journals posted by certain individuals (for example senior management or directors who we wouldn't expect to be posting journals), or journals with certain key unusual words.
- Incorporating elements of unpredictability into the audit procedures performed

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2020 to 31 March 2022.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Directors' remuneration report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' remuneration report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Richard French (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London

8 July 2022

Profit and loss account for year ended 31 March

	Note	2022 £'000	2021 £'000
Revenue	5	**62,953**	65,819
Operating costs	6	**(56,607)**	(54,320)
Other operating income	7	**3,358**	2,202
Net impairment gains/(losses) on financial and contract assets	16	**449**	(2,589)
Operating Profit		**10,153**	11,112
Finance income	9	**368**	706
Finance costs	9	**(15,923)**	(7,950)
Finance costs – net		**(15,555)**	(7,244)
(Loss)/Profit before income tax		**(5,402)**	3,868
Income tax expense	10	**(11,935)**	(236)
(Loss)/profit for the year		**(17,337)**	3,632

Statement of comprehensive income for the year ended 31 March

	Note	2022 £'000	2021 £'000
(Loss)/profit for the year		**(17,337)**	3,632
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Actuarial gain/(loss) on pension scheme	20	**5,658**	(7,184)
Movement on deferred tax relating to pension scheme	19	**(983)**	1,365
Total comprehensive expense for the year		**(12,662)**	(2,187)

Balance Sheet as at 31 March

	Note	**2022 £'000**	2021 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**9,721**	7,204
Property, plant and equipment	12	**358,094**	346,407
Right-of-use assets	12	**623**	268
Pension asset	20	**26,265**	20,476
		397,790	377,442
Current Assets			
Inventories	14	**286**	226
Trade and other receivables	15	**25,184**	21,447
Contract assets		**5,594**	4,696
Cash and cash equivalents	25	**24,102**	25,601
		55,166	51,970
Total Assets		**452,956**	429,412
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(234,304)**	(212,232)
Lease liabilities	13	**(412)**	(192)
Provisions	19	**(54,543)**	(41,561)
Pension deficit	20	**(972)**	(1,006)
		(290,231)	(254,991)
Current Liabilities			
Trade and other payables	17	**(38,968)**	(31,030)
Contract liabilities		**(5,723)**	(9,306)
Lease liabilities	13	**(212)**	(85)
		(44,903)	(40,421)
Total Liabilities		**(335,134)**	(295,412)
Net Assets		**117,822**	134,000
EQUITY			
Called up share capital	21	**51,489**	51,489
Profit and loss account		**66,333**	82,511
Total Equity		**117,822**	134,000

The notes on pages 123 to 149 are an integral part of these financial statements.

The financial statements on pages 119 to 149 were approved by the Board of Directors on 8 July 2022 and signed on its behalf by

Paul Kerr
Chief Financial Officer

Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

Statement of Changes in Equity for the year ended 31 March 2022

	Note	Called up share capital £'000	Profit and Loss account £'000	**Total Equity £'000**
Balance at 1 April 2020		51,489	89,608	141,097
Profit for the year		–	3,632	3,632
Actuarial losses on pensions scheme	20	–	(7,184)	(7,184)
Movement on deferred tax relating to pensions scheme	19	–	1,365	1,365
Total Comprehensive expense for the year		**–**	**(2,187)**	**(2,187)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(4,910)	(4,910)
Transactions with owners recognised directly in equity		**–**	**(4,910)**	**(4,910)**
Balance at 31 March 2021		**51,489**	**82,511**	**134,000**
Loss for the year		–	(17,337)	(17,337)
Actuarial gains on pensions scheme	20	–	5,658	5,658
Movement on deferred tax relating to pension scheme	19	–	(983)	(983)
Total Comprehensive expense for the Year		**–**	**(12,662)**	**(12,662)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(3,516)	(3,516)
Transactions with owners recognised directly in equity		**–**	**(3,516)**	**(3,516)**
Balance at 31 March 2022		**51,489**	**66,333**	**117,822**

Cash Flow Statement

Year ended 31 March	2022 £'000	2021 £'000
(Loss)/Profit for the year	**(17,337)**	3,632
Adjustments for:		
Finance income	**(368)**	(706)
Finance costs	**15,923**	7,950
Proceeds from insurance claims	**(1,970)**	(1,675)
Depreciation of property, plant and equipment	**11,901**	10,877
Depreciation of right-of-use assets	**149**	50
Amortisation of intangible assets	**660**	363
Gain on disposal of property, plant and equipment	**(1,283)**	(527)
Loss on disposal of intangible assets	**76**	–
Decrease in inventories	**(59)**	82
Increase in trade and other receivables	**(4,868)**	(4,137)
Increase in trade and other payables	**1,254**	4,415
Increase in amounts due to related companies	**(451)**	902
Income tax expense	**11,935**	236
Interest paid	**(5,846)**	(5,182)
Income taxes paid	**-**	(1,332)
Net cash generated by operating activities	**9,716**	14,948
Investing activities		
Proceeds from insurance claims	**2,225**	1,675
Purchase of property, plant and equipment	**(23,630)**	(22,547)
Purchase of right-of-use assets	**(504)**	(50)
Purchase of intangible assets	**(2,482)**	(3,405)
Proceeds from sale of property, plant and equipment	**1,324**	554
Interest received	**368**	706
Net cash from investing activities	**(22,699)**	(23,067)
Financing activities		
Net proceeds of loan	**15,000**	13,000
Dividends paid	**(3,516)**	(4,910)
Net cash from Financing activities	**11,484**	8,090
Net (decrease)/increase in cash and cash equivalents	**(1,499)**	29
Net cash and cash equivalents at the beginning of the year	**25,601**	25,630
Net cash and cash equivalents at the end of the year	**24,102**	25,601

Notes to the Financial Statements

1. General information

Sutton and East Surrey Water Plc's (the 'Company') principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its license and to act as a wholesaler to the non-household customer market.

The Company is a privately owned public limited Company and is incorporated and domiciled in the UK. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ, United Kingdom.

According to the licence conditions under which the Company operates as a water only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

2. Significant Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
  - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS);
  - 38B-D (additional comparative information);
  - 40A (requirements for a third balance sheet);
  - 111 (statement of cash flows information); and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements);
  - 113(a) (separate sources of revenue);
  - 115 (disaggregated of revenue);
  - 118 (explanation of changes in contract assets and liabilities);
  - 120 to 121 (Transaction price allocated to the remaining performance obligations);
  - 129 (practical expedients)

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.1.1 Going concern

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create volatility in demand for water. The Company's forecasts and projections, taking account of severe but plausible possible changes in trading performance, show that the Company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have considered the financial position of the Company and concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For going concern the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements. The impact of COVID-19 is still prevalent in lower demand from non-household customers, as well as increased costs through supply chain pressures, despite these challenges the company still remains financially resilient and has enough headroom to be able to meet its cash and debt covenant requirements for at least the next 12 months from the date of approval of these financial statements. Further details of consideration outlined in page 92.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 that have a material impact on the Company's financial statements.

2.2 Consolidation

The Company has no subsidiaries and therefore does not prepare consolidated statements.

The Company is a wholly owned subsidiary of SESW Holding Company Ltd, wholly owned by East Surrey Holdings Ltd, and of its ultimate parent, Sumisho Osaka Gas Water UK Limited. It will be included in the consolidated financial statements of East Surrey Holdings Ltd which will be publicly available from their registered office, 66-74 London Road, Redhill, Surrey, RH1 1LJ. It will also be included in the consolidated financial statements of Sumisho Osaka Gas Water UK Limited which will be publicly available from their registered office, Vinters Place, 68 Upper Thames Street, London, EC4V 3BJ.

2.3. Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 Property, plant and equipment

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

PPE consists of infrastructure, non-infrastructure assets, and plant & equipment:

– **Land**

– **Collections reservoir**

This is the Company's primary reservoir for collecting fresh water.

– **Buildings, including service reservoirs and boreholes**

These are the operational buildings, the service reservoirs which temporarily store treated water in order to meet any volatility in demand, and boreholes for collecting water from underground.

– **Mains network**

These are those assets forming the network which are used to deliver the water to customers.

The maintenance of a mains pipe often entails an element of replacement. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

The relining of a main is the work needed to keep a main in good condition and is maintenance so associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred.

– **Plant and machinery (heavy)**

Heavy plant and machinery consist of heavy plant used on the course of construction such as excavators, as well as water treatment equipment and water pumps.

– **Motor vehicles**

This balance includes those motor vehicles such as cars and vans.

– **Sundry plant**

Sundry plant consists of small tools used in construction as well as the companies IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Where a qualifying asset takes a substantial period of time to get ready for its intended use it is initially classified as an 'asset under construction' and is transferred to its correct classification when it is in its condition for intended use. Any borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised as property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the profit and loss account.

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in 'IAS23 – Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

– **The project needs to go on for longer than a year**

Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

– **The project must be more than £0.3m of a £30m capital program per year**

For the asset to be significant enough to be considered a qualifying asset it must cost at least £0.3m (c.1% of our capital program). Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were drawdown facilities not available.

– **Ongoing programs in the ordinary course of business are excluded (i.e., metering and directly managed spend such as network maintenance activity)**

Much of the Company's ongoing capital investment programme qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

– **Must not include Developer Services capital expenditure as that is separately funded.**

As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
– Land	**n/a**
– Collections reservoirs	**140 to 150**
– Buildings including boreholes and service reservoirs	**5-100**
– Mains network	**100**
– Plant and machinery (heavy)	**3-100**
– Motor vehicles	**5**
– Sundry plant	**3-50**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other (expense)/income' in the profit and loss account.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.5 Intangible assets and goodwill

2.5.1 Software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between five to fifteen years.

2.5.2 Internally generated intangible assets – Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the CGU that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 Impairment of goodwill

The recoverable amount of the CGU has been calculated using the fair value less disposal cost (FVLDC) method, using a discounted cashflow calculation based on the most recent financial projections available for the business. As customary practice for the UK water industry, Management has used a forecast period of twenty-five years, in line with the notice period a water company has to be given before it can stop providing the regulated service. An exit multiple is then applied to the regulatory capital value at that time to determine the terminal value. Both elements are then discounted based on a pre-tax nominal rate to derive the estimated fair value, from which an estimated disposal cost is deducted to derive fair value less disposal cost.

As a regulated water company, the revenues and costs are significantly influenced by the regulatory settlement for each AMP period. Key assumptions for AMP 7 are consistent with Ofwat's PR19 Final determination.

Cash flows beyond the end of the current AMP period are extrapolated using an assumed growth rate in the Group's regulatory capital base.

Key Assumptions	2022	2021
Exit RCV multiples	**1.15**	1.15
Discount rate	**4.7%**	4.9%
Inflation RPI	**3%**	3%
Inflation CPI	**2%**	2%

These cashflows have included estimated costs of meeting climate change challenges, such as additional capex required to meet net zero carbon targets and related asset enhancements which will be considered in AMP 8 for pricing determination.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 Financial assets

Financial assets can be classified as all being held at:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e., the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

At initial recognition, the Company measures a financial asset at its fair value. The Company does not have any financial assets classified as held at FVTPL or FVTOCI.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 Financial assets at amortised cost

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

2.9 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted, or the cost of recovery is considered to be disproportionate to the value of the debt.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The cost are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Management recognises a provision for obsolete stock as follows:

- Between one and two years – 50%
- Two years and older – 100%

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore recognises them initially as current assets at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets (standard payment terms are 30 days, so this is not applicable in the ordinary course of business). Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due. The contract assets (accrued income) relate to unbilled work in progress and water delivered to customers but not yet invoiced have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £5.6m (2021: £4.7m) as a result of unbilled measured household income.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short term highly liquid investments with maturities of less than three months, and bank overdrafts.

Included in the cash and cash equivalents is a restricted cash balance (note 25) owned by the Company relating to the secured index linked bond.

2.13 Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are recognised initially as current liabilities at fair value, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current liabilities (standard payment terms are 30 days, so this is not applicable in the ordinary course of business).

2.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

During the year, the company agreed an amendment to certain terms within its £100m collateral bond deed. Consistent with IFRS 9, where there is a modification of debt, Management performs an assessment to determine whether this is a substantial or non-substantial modification. This is determined by reference to the "10 per cent test" (i.e. whether the present value of new cash flows differ by more than 10% to the original present value of cash flows) as well as qualitative factors.

The modification in the current year was deemed to be non-substantial. Therefore "modification accounting" treatment has been followed, with the liability restated to present value using the original effective interest rate. The difference between the old and new liability has been recognized as a charge to the P&L. The liability continues to be held at amortised cost.

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries on a triennial basis and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the profit and loss account.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.18 Provisions

A provision for environmental restoration, restructuring costs and legal claims would be recognised where:

- The Company has a present legal or constructive obligation as a result of past events
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- The amount has been reliably estimated.

No such provision was required in FY22 or FY21.

Provisions are not recognised for future operating losses.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations have been satisfied. The Company's activities are described in detail below.

The core principles of IFRS 15 'Revenue from Contracts with Customers' are:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when the entity satisfies a performance obligation

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

If the Company considers that the criteria for revenue recognition is not met for a transaction because the recoverability of the consideration receivable is not reasonably assured, then revenue is not recognised until such time that recoverability is reasonably assured (note 3.5).

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability. All water services would be supplied within one year of that payment, so this is treated as a current liability. If the customer is paying in advance for developer services, then those services are deliverable upon customer demand so these payments in advance are also treated as a current liability. The only significant contract liability relates to the annual water bill raised in advance for unmeasured customers. This is for all water to be delivered over the following 12 months.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset. Invoices will be raised within 12 months of delivery of the service, so it is classified as a current asset. The only significant contract asset relates to water delivered in advance of invoicing for measured water customers who are billed 6 monthly in arrears (see note 3.1).

The Company has applied this framework to its revenue streams as follows:

2.19.1 Water revenue (appointed income) – household and wholesale revenue

The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company's customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company's performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers consumption of water.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services. The billing basis differs depending upon whether a household customer has a water meter (measured supply) or not (unmeasured supply). In certain specific circumstances, usually when the customer has requested a water meter, but we are physically unable to fit one to the customer's property, a customer may be placed on an assessed tariff (unmeasured supply). The process for revenue recognition for customers on an assessed tariff is the same as that for unmeasured customers.

For unmeasured supply of water services, the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.1). Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 Empty properties – household revenue

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

2.19.3 Developer services (appointed income) – other water revenue

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of developer services charges are available on the Company's website and described below:

2.19.3.1 Network extensions

Network extensions relate to the Company laying new mains (and associated infrastructure) to enable a developer to link their new property to the network. Essentially the work is the extending of the water network to serve the new property and is separate from the actual connection of the property to the network itself. Revenue is recognised over time as per IFRS 15:35, measuring revenue by the 'input method'.

2.19.3.2 Service connections

Service connection charges are paid by developers when they want to connect (or re-connect) a property to our network. The charge is an initial application fee for which the customer is provided with a quote taken from a set tariff table for the work to be undertaken. Customers are required to pay in advance for a connection, thus creating a contract liability (see note 2.24) for the Company when payment of the quote is received.

There is a contractual arrangement between the Company and the customer to supply the new connection based on the tariff, with the Company's performance commitment being to connect the property to the Company's network. The ultimate transaction price is the tariff price. The performance obligation is to connect the property to the Company's network and revenue is recognised when this connection is made.

2.19.3.3 Diversions

Diversions are when the Company moves our assets at the request of a developer or another party. These are contractual arrangements with the Company's performance commitment being to complete the diversion. Revenue is therefore recognised based on the agreed price when the diversion work has been completed.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.19.3.4 Infrastructure charges

Infrastructure charges are paid by developers when a new connection is made to our network, based on a tariff. The charges are designed to cover the cost of network reinforcement work to accommodate the additional demand from the new connection, such that this enhancement cost is not borne by existing customers. The charge is due when a new connection is made.

The requirement to pay an infrastructure charge for new connections is in the Water Industry Act and so the arrangement with a developer is considered a contract. The Company considers its performance obligation to be delivered by the connection to the network. Whilst the charge is to cover demand driven enhancements to the network, it does not relate to specific projects or the resultant assets. In addition, the contractual arrangement for the infrastructure charge is between the Company and the developer who is not necessarily the party that will ultimately benefit from the connection through ongoing water service (the occupier of the property).

The transaction price is the amount of consideration the Company expects to receive based on the tariff rate.

It is considered that there is one performance obligation; therefore, there is no splitting of the transaction price into separate elements relating to different obligations. That obligation is considered to have been met when all the new connections are made and so revenue is recognised at that point.

2.19.4 Commission income – non-appointed income

Commission revenue from another regulated water and wastewater companies (providing sewerage services to the majority of our customers) is earned when the Company collects monies from customers on behalf of the other regulated companies. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other Company. The commission is paid based on the amount of debt collected and then transferred, with the Company recognising the revenue when the performance obligation is satisfied (the cash being transferred).

2.19.5 Garage revenue – non-appointed income

The Company receives a revenue for the servicing, repair, and MOT facilities to third parties by the Company's garage. A quote for work to be carried out is provided to the customer and if they agree to this then a contract exists. The performance obligation is to complete the agreed work on the quote. Revenue is recognised when the work has been completed, with the customer settling their bill when they collect their vehicle.

2.20 Interest income/expense

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 Leases

The Company leases various motor vehicles. Rental contracts are typically made for fixed periods of 5 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g., term, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

2.22 Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 Rounding of amounts

All amounts in the financial statements and notes have been rounded off to the nearest thousand Sterling Pound, unless otherwise stated.

2.24 Contract liabilities

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

Contract liabilities have decreased to £5.7m (2021: £9.3m) mainly due to reclassifcation of money received in advance from customers that will be passed to Thames Water upon billing.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £9.3m as all the money received in advance at 31 March 2021 has been billed in the current financial year.

Notes to the Financial Statements continued

2. Significant Accounting policies continued

2.25 Insurance receipts

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cash flow management consider the nature of the transaction:

- Insurance receipts relating to damaged PPE represent 'in substance' a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.26 Managing Risk

2.26.1 Credit Risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only permitted in liquid securities and only with counterparties that have a credit rating equal to or better than the Company. Given their credit rating, management does not expect any counterparty to fail to meet its obligations.

2.26.2 Interest Risk

The Company adopts a policy of reducing its exposure to interest rate changes by having the majority of its borrowings on a fixed rate basis.

The £100.0m long-dated inflation linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure and means that capital sum and interest payment increase with RPI. The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company.

The bond was issued on 21 March 2001, carrying a AAA rating, and is secured upon the shares of Sutton and East Surrey Water PLC. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd. The fees associated with the issue of the bond are recognised over the life of the bond using the effective interest rate method.

Unamortised issue costs of £4.0m (2021: £4.4m) are netted against the carrying value of the bond and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate.

The Company also has access to borrowings in the form of a current account overdraft and access to two revolving credit facilities (RCF). Overdraft interest rates are at a variable rate above base rate, and RCF interest is at a margin above SONIA.

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the bond at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

The analysis assumes that all other variables remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis for the prior year.

As at year ended 31 March	2022 £'000	2021 £'000
Equity		
Increase	**(473)**	(1,139)
Decrease	**473**	1,139
Profit before tax		
Increase	**(473)**	(1,139)
Decrease	**473**	1,139

2.26.4 Liquidity Risk

The Company manages liquidity risk by maintaining a level of committed liquidity facilities. The maturity profile of the interest-bearing borrowings reported as creditors due after more than one year is shown below;

As at year ended 31 March	2022 £'000	2021 £'000
Maturities		
Between one and two years	**59,000**	44,000
Between two and five years	**435**	192
More than five years	**175,304**	168,232
	234,739	212,424

The facilities available at the balance sheet date are unsecured. Current unutilised facilities available to the Company are set out below;

As at year ended 31 March	2022 £'000	2021 £'000
Expiring		
In less than one year	**1,000**	1,000
Between one and two years	**16,000**	6,000
Total	**17,000**	7,000

2.27 The impact of climate change

The water industry plays a key role on the impact of climate change and management of climate related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the good will impairment system. The financial reporting impact from the physical and transitional risks of climate change can be shown on page 52 to 53.

3. Critical judgements and estimates in applying the entity's accounting policies

The preparation of the annual financial statements requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenditure. The key estimates and areas of judgement required in the preparation of these financial statements are:

3.1 Estimate – unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £380k (2021: £363k).

3.2 Judgement – Defined benefit pension scheme

The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in Note 20.

3.3 Estimate – Provision for doubtful debt

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for.

The ongoing COVID-19 pandemic and worsening economic climate has continued to impact on the ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. In the final quarter of the year, the company restarted its debt collection activities, (which had been paused during the pandemic), with additional collection support provided by a new 3rd party debt collection agency. The resulting increased collection performance has been judged to offset the additional risk, and as such no changes to the bad debt provision has been made from the prior year.

Notes to the Financial Statements continued

3. Critical judgements and estimates in applying the entity's accounting policies continued

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects.

Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least 3 years. This resulted in derecognising £0.7m of revenue in FY22, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.4m and £0.3m respectively.

4. Segmental information

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey West Sussex West Kent and South London). Management considers the UK to be the geographical location of business.

5. Revenue

Year ended 31 March	2022 £'000	2021 £'000
Unmeasured water revenue (household)	**20,562**	21,551
Measured water revenue (household)	**28,461**	31,058
Total household revenue	**49,023**	52,609
Wholesale revenue from retailers (non-household)	**7,726**	7,360
Other water revenue	**817**	742
Non-water revenue	**3,090**	2,952
Non-appointed income	**2,297**	2,156
Total revenue	**62,953**	65,819

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale) customers.

During the year ended 31/3/22 the ratio and volume of water sold to household and non-household customers continued to be impacted by the COVID-19 pandemic. Consumption has reduced for household customers as restrictions ease but has not reduced to pre-pandemic consumption levels. Other industries which would drive sales of Wholesale (non-household) Revenue, such as hospitality and corporate buildings continue to not have full occupancy and therefore volumes sold remain lower than pre-pandemic levels. This has meant in the year we have seen a reduction in measured household water revenue against prior year and non-household water revenue remaining at a similar level. Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue. The fall in revenue is driven by households slowly moving from being on an unmeasured tariff to having a water meter.

6. Operating Costs

Operating profit is stated after charging:

Year ended 31 March	Note	2022 £'000	2021 £'000
Wages and Salaries		11,960	11,284
Social Security Costs		1,504	1,443
Other Pension Costs	20	1,905	1,694
Staff costs		15,369	14,421
Power		6,617	7,400
Raw materials and consumables		3,285	2,886
Rates		3,467	3,397
Subcontractors		6,025	5,472
Insurance		987	924
Other operating costs		6,080	6,361
Depreciation charge on property, plant and equipment	12	11,901	10,877
Depreciation of right-of-use assets	12	149	50
Amortisation charge on intangible assets	11	660	363
Legal and professional fees (excluding auditor's fees)		1,639	1,848
Fees payable to the Company's auditor for the audit of annual financial statements		309	250
Fees payable to the Company's auditor and associates for other services:			
– Audit of regulatory financial statements		50	48
– Other assurance services		69	23
Operating costs		56,607	54,320

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £1,915,985 (2021: £2,125,580) were capitalised to fixed assets.

Net Operating Costs can be analysed as

	2022 £'000	2021 £'000
Cost of sales	40,623	36,549
Administration expenses	15,984	17,771
	56,607	54,320

7. Other Operating Income

	2022 £'000	2021 £'000
Proceeds from insurance claim	1,970	1,675
Other operating Income	105	–
Profit on sale of fixed assets	1,283	527
Other Operating Income	3,358	2,202

During the year the Company received £2.0m (2021: £1.7m) in insurance proceeds, relating to damage at one of its water treatment facilities, which occurred in 2017 and £1.2m from the sale of property (2021: nil).

Notes to the Financial Statements continued

8. Employees and Directors

The average number of employees in the year was:

Year ended 31 March	2022 number	2021 number
Operations	**159**	152
Retail	**87**	88
Support	**95**	85
Other	**1**	1
Total	**342**	326

Director Emoluments

Directors' emoluments for the year were as follows:

	2022 £ '000	2021 £ '000
Aggregate Emoluments	**955**	954
Aggregate amounts receivable under long-term incentive schemes	**84**	79

Highest paid director

The highest paid director's emoluments were as follows:

Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**415**	396

9. Interest income and expense

Year ended 31 March	2022 £'000	2021 £'000
Finance income		
Expected return on pension scheme assets	**2,227**	2,772
Interest paid on post retirement liabilities	**(1,862)**	(2,164)
Other interest receivable	**3**	98
Total Finance Income	**368**	706
Finance expense		
Interest on Index Linked Bond	**5,005**	4,700
Indexation of Bond	**6,628**	2,756
Bond Fee amortisation	**444**	435
Other Interest expenses	**3,846**	59
Total Finance Expenses	**15,923**	7,950
Net finance cost	**15,555**	7,244

During the year the Company incurred £16.0m of finance costs (2021: £8.0m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £3.9m increase in indexation costs due to a rise in the current year of the RPI rate. In July 2020, the annual inflation change was 1.62%, in July 2021 it increased to 3.84%. Therefore, inflation increased by 137%, the indexation charge increased by 140%.

Other interest expenses includes a one off charge of £3.5m in financing costs relating to the renegotiation of the terms of the long dated index linked bond which was originally executed in 2001.

10. Income Tax Expense

Year ended 31 March	Note	2022 £'000	2021 £'000
Tax charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**–**	–
Adjustments in respect of prior periods		**(64)**	(97)
Total current tax		**(64)**	(97)
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**31**	55
Origination and reversal of temporary differences – other		**(1,017)**	282
Impact of change in tax rate		**13,182**	–
Adjustments in respect of previous years		**(197)**	(4)
Total deferred tax		**11,999**	333
Income tax expense		**11,935**	236
Tax expense included in other comprehensive income/(expense):			
Deferred tax:			
Movement in relation to pension scheme	19	**(983)**	1,365
Total tax (expense)/income included in other comprehensive income		**(983)**	1,365

Tax expense for the year is higher (2021: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022 £'000	2021 £'000
(Loss)/profit before taxation	**(5,402)**	3,868
(Loss)/profit multiplied by the standard rate of tax in the UK of 19% (2021: 19%)	**(1,026)**	735
Effects of:		
Expenses not deductible for tax purposes	**41**	(485)
Income not taxable	**(374)**	(318)
Remeasurement of deferred tax – change in UK tax rate	**13,182**	–
Adjustments to tax charge in respect of previous years	**(262)**	(101)
Rolled over gains	**374**	405
Tax charge	**11,935**	236

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes have been substantively enacted before the balance sheet date. As a result, the deferred tax balances have been remeasured at 25% which is the tax rate that the temporary differences are expected to reverse at. This has resulted in a £13.2m tax debit to the income statement.

Notes to the Financial Statements continued

11. Intangible Assets

	Goodwill £'000	Software £'000	Work in Progress £'000	**Total – Software and Work in Progress £'000**
Cost:				
At 1 April 2021	19,454	6,804	6,162	**12,966**
Additions	–	–	3,253	**3,253**
Transfer	–	8,011	(8,011)	**-**
Disposals	–	(2,836)	–	**(2,836)**
As at 31 March 2022:	**19,454**	**11,979**	**1,404**	**13,383**
Accumulated amortisation and impairment				
At 1 April 2021	16,367	5,762	–	**5,762**
Amortisation	–	660	–	**660**
Disposals	–	(2,760)	–	**(2,760)**
As at 31 March 2022	**16,367**	**3,662**	**-**	**3,662**
Net book Value 31 March 2022	**3,087**	**8,317**	**1,404**	**9,721**
Net book Value 31 March 2021	3,087	1,042	6,162	**7,204**

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £505k (2021: £363k) and has a remaining amortisation period of 7 years (2021: nil) on a straight line basis. Aptumo our new billing system went live in October 21 and is used for all customer service operations and billing management. The asset is carried at £6.5m (2021: nil) and has a remaining amortisation period of 15 years (2021: nil) on a straight line basis.

Intangible assets amortisation is recorded in operating expenses in the profit and loss.

12. Property Plant and Equipment & Right-of-use Assets

	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes & service reservoirs) £'000	Mains network £'000	Plant and Machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	**Total £'000**	Right-of-use assets £'000	**Total £'000**
Cost:											
At 1 April 2021	5,087	2,533	131,435	255,383	135,402	3,780	6,844	29,451	**569,915**	345	**345**
Additions	–	–	–	–	–	–	–	23,630	**23,630**	504	**504**
Transfer	–	–	4,835	5,163	20,515	201	743	(31,457)	**-**	–	**-**
Disposals	(13)	–	–	–	(10)	(427)	(237)	–	**(687)**	–	**-**
As at 31 March 2022	**5,074**	**2,533**	**136,270**	**260,546**	**155,907**	**3,554**	**7,350**	**21,624**	**592,858**	**849**	**849**
Accumulated amortisation and impairment											
At 1 April 2021	–	442	39,601	96,080	79,588	2,911	4,886	–	**223,508**	77	**77**
Depreciation charge	–	20	2,633	1,902	6,450	334	562	–	**11,901**	149	**149**
Disposals	–	–	–	–	–	(408)	(237)	–	**(645)**	–	**-**
As at 31 March 2022	**-**	**462**	**42,234**	**97,982**	**86,038**	**2,837**	**5,211**	**-**	**234,764**	**226**	**226**
Net book Value 31 March 2022	**5,074**	**2,071**	**94,036**	**162,564**	**69,869**	**717**	**2,139**	**21,624**	**358,094**	**623**	**623**
Net book Value 31 March 2021	5,087	2,091	91,834	159,303	55,814	869	1,958	29,451	**346,407**	268	**268**

Land comprises freehold land at £5,033k (2021: £5,046k) and long leasehold land at £41k (£2021: £41k).

13. Leases liabilities

The Company has lease contracts for Company vehicles the balances of which are included under 'right-of-use assets' on note 12.

The amounts recognised in the financial statements in relation to the leases are as follows:

The balance sheet shows the following amounts relating to leases:

As at 31 March	2022 £'000	2021 £'000
Right-of-use assets		
Vehicles	623	268
Total	623	268
Lease Liabilities		
Current	212	85
Non-Current	412	192
Total	624	277

Additions to the right-of-use assets during the financial year were £504k (2021: £143k).

Amounts recognised in profit and loss:

The profit and loss account shows the following amounts relating to leases:

Year ended 31 March	2022 £'000	2021 £'000
Depreciation charge of right-of-use assets:		
Vehicles	149	50
Interest expense (included in finance cost):		
Vehicles	34	4
Total	183	54

Other lease information

Year ended 31 March	2022 £'000	2021 £'000
The total cash outflow for leases	164	50

14. Inventories

As at 31 March	2022 £'000	2021 £'000
Raw materials and consumables	286	226
Total	286	226

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

15. Trade and other receivables

As at 31 March	Note	2022 £'000	2021 £'000
Current:			
Gross trade receivables		26,928	24,923
Expected credit loss	16	(7,855)	(8,304)
Net trade receivables		19,073	16,619
Amounts due from group undertakings		658	536
Other receivables		2,240	1,441
Current tax asset		1,602	1,430
Prepayments		1,361	1,334
Group relief receivable		111	–
Other tax and social security		139	87
		25,184	21,447

Notes to the Financial Statements continued

16. Expected Credit losses on financial assets

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100 per cent against all receivables over 3 years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2022 £'000	2021 £'000
At 1 April	**8,304**	5,715
(Credit)/charge for bad and doubtful debts	**(449)**	2,589
At 31 March		
Total	**7,855**	8,304

Ageing debt profile and credit loss provisions:

31 March 2022	< 6m £'000	6m-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	**Total £'000**
Expected credit loss – Household Metered	16.4%	43.2%	64.7%	82.1%	100.0%	
Outstanding customer debt*	3,342	1,446	1,592	851	1,460	**8,691**
Provision at expected credit loss	(549)	(624)	(1,031)	(699)	(1,460)	**(4,363)**
Specific provisions against contract assets	(91)	–	–	214	119	**242**
Loss allowance	(640)	(624)	(1,031)	(485)	(1,341)	**(4,121)**
Net outstanding customer debt	2,702	822	561	366	119	**4,570**
Expected credit loss – Household Non Metered	1.9%	1.9%	66.0%	80.9%	100.0%	
Outstanding customer debt*	511	1,644	908	582	2,538	**6,183**
Provision at expected credit loss	(10)	(32)	(599)	(471)	(2,538)	**(3,650)**
Specific provisions against contract assets	(169)	–	–	195	108	**134**
Loss allowance	(179)	(32)	(599)	(276)	(2,430)	**(3,516)**
Net outstanding customer debt	332	1,612	309	306	108	**2,667**
Expected credit loss – Other Receivables	0.3%	9.4%	12.6%	37.2%	100.0%	
Carrying amount of trade receivable*	924	150	64	53	173	**1,364**
Provision at expected credit loss	(3)	(14)	(8)	(20)	(173)	**(218)**
Net outstanding customer debt	921	136	56	33	–	**1,146**
Total loss allowance	**(822)**	**(670)**	**(1,638)**	**(781)**	**(3,944)**	**(7,855)**
Net outstanding customer debt*	**3,955**	**2,570**	**926**	**705**	**227**	**8,383**

* To calculate the expected credit loss, the gross debt per note 15, £26.9m (2021: £24.9.5m) is adjusted for the calculation. Such adjustments include contract assets which are subject to an expected credit loss and for balances which do not factor in the calculation at all, such as receivables held on behalf of other utility companies where the Company collects debt on their behalf (Note 2.19.4).

If cash collections improved by 5% the bad debt provision driven by the ECL would reduce by £197k, if cash collections worsened by 5% the bad debt provision would need to be increased by £197k. For both scenarios this is an increase or decrease of £55k for unmeasured and £142k for measured debt.

17. Trade and other payables

As at 31 March	**2022 £'000**	2021 £'000
Trade payables	**1,924**	1,630
Amounts owed to group undertakings	**1,181**	1,344
Other creditors	**24,936**	16,974
Deposits from developers	**344**	322
Accruals	**10,583**	10,705
Current tax and group relief payable	**–**	55
Total Current Liabilities	**38,968**	31,030

The other creditors balance includes the cash collected on behalf of Thames Water for waste services and the provision for the commercial renegotiation of the index linked £100m bond.

18. Borrowings

As at 31 March	2022 £'000	2021 £'000
Non-Current:		
2.874% secured index-linked bond 2027-2031	**175,202**	168,130
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long term bank loans	**59,000**	44,000
Total Non-Current Liabilities	**234,304**	212,232

Amounts falling due after more than 5 years	2022 £'000	2021 £'000
Bank loans and borrowings	**175,304**	168,232
Total Non-Current Liabilities	**175,304**	168,232

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk, since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

The long dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI.

The indexation charge is treated as an interest cost but does not have any immediate cash flow impact on the Company. The bond was issues on 21 March 2001 and is secured upon the shares of the Company. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

The bond and debentures are at fixed rates of interest. Borrowings made under the RCF facility will be at a variable rate with a margin above SONIA.

On 16 March 2022, the Company secured an additional 3 year RCF facility totalling £25m from Royal Bank of Scotland which hold a variable rate of interest at a margin above SONIA. On 29 March 2022, £9m was drawndown to meet the financial covenants at the year end date.

Loan Covenants

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants:

1. As per the agreement of £100m index linked bond, the issuer shall maintain at each calculation date 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an interest cover ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.

2. Under the same agreement the issuer shall submit a business plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; an adjusted interest cover ratio including indexation of 1.0:1 and a Regulated Asset Ratio of less than or equal to 0.80.

The Company has complied with these covenants throughout the current and prior reporting period.

Fair values

The fair values together with their carrying amounts are shown in the balance as follows. The fair value is derived from taking the current trading balance of the bond at the balance sheet date from Bloomberg to represent a current value of the bond if it were to be traded.

	2022		2021	
	Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
2.874% secured index-linked bond 2027-2031	**175,202**	**241,379**	168,130	230,808

Notes to the Financial Statements continued

19. Provisions

	Corporation tax £'000	Total £'000
At 1 April 2021	–	–
Current tax asset	1,601	1,601
At 31 March 2022	1,601	1,601

	Deferred tax £'000	Total £'000
At 1 April 2021	41,561	41,561
Adjustment in respect of prior years	(197)	(197)
Deferred tax charge to profit and loss for the period	12,196	12,196
Charge to the statement of other comprehensive income	983	983
At 31 March 2022	54,543	54,543

Deferred tax

As at 31 March	2022 £'000	2021 £'000
Current deferred tax assets	–	–
	–	–
Carrying amount at year end	–	–
Non-current deferred tax assets	–	–
Non-current deferred tax liabilities	54,543	41,561
Carrying amount at year end	54,543	41,561
Total carrying amount at year end	54,543	41,561

Deferred tax liabilities	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other £'000	Total £'000
At 1 April 2020	37,622	4,971	0	42,593
Charged to the profit and loss	280	93	(40)	333
Charged directly to other comprehensive income	–	(1,365)	–	(1,365)
At 31 March 2021	37,902	3,699	(40)	41,561
Charged/(credited) to the profit and loss	10,501	1,640	(142)	11,999
Credited directly to other comprehensive income	–	983	–	983
At 31 March 2022	48,403	6,322	(182)	54,543

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20. Post employment benefits

The Company participates in both a defined contribution scheme 'Group Personal Pension Plan' (GPPP) which is available for all employees and a defined benefit scheme 'the Water Companies Pension Scheme' (WCPS) for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 Defined Benefit scheme

WCPS is a sectionalised scheme and the Company participates in the Sutton & East Surrey Water Section of the Scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the Company and the board of trustees of the fund.

The Company's own section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their final salary until 1 April 2013 when it switched to a career average basis.

The risks of the scheme are as follows:

(a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield this will create a deficit. The plan holds the majority of its assets in instruments quoted in an active financial market. The strategy is to invest in a combination of lower risk assets (e.g., liability driven investments) which respond to factors such as changes in the interest rates.

(b) Changes in Bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member so increases in life expectancy will result in an increase in the plan's liabilities.

(d) Inflation risk

The pension obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation meaning that an increase in inflation will also increase the deficit.

Guaranteed Minimum Pension (GMP)

On 26 October 2018 a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2021 £425k); this was consulted with the scheme actuary.

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2020 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

Deficit contributions

The entity didn't make any deficit contributions as the scheme is in surplus.

Notes to the Financial Statements continued

20. Post employment benefits continued

As at 31 March	2022	2021
Retail price inflation	**4.00%**	3.50%
Consumer price inflation	**3.50%**	3.00%
Discount rate	**2.70%**	1.90%
Life expectancy of male aged 60 in 2022	**26.4**	26.7
Life expectancy of a male aged 60 in 2047	**28.3**	28.6
Weighted average duration	**14.0**	15.0

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Carrying Amount £'000
At 1 April 2021	119,642	(99,166)	20,476
Interest on benefit obligations	–	(1,843)	(1,843)
Actuarial gains/(losses) due to:			
– changes in financial assumptions	–	5,356	5,356
– changes in demographic assumptions	–	665	665
– experience adjustments on obligation	–	(1,207)	(1,207)
Past service	–	–	–
Benefits paid	(4,663)	4,663	–
Interest on section assets	2,227	–	2,227
Actual return less interest on plan assets	835	–	835
Expenses	(244)	–	(244)
At 31 March 2022	117,797	(91,532)	**26,265**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is

As at 31 March	2022 £'000	2021 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	**1,100**	1,300
Change in inflation rate (-0.1%)	**(1,100)**	(1,300)
Change in discount rate (-0.1%)	**(1,300)**	(1,500)
Change in discount rate (-0.1%)	**1,400**	1,600
Change in life expectancy (+1 year)	**4,600**	4,700
Change in life expectancy (-1 year)	**(4,600)**	(4,700)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

Total cost recognised as an expense in the Profit and Loss

Year ended 31 March	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total	2021 £'000 WCPS	2021 £'000 Unfunded	2021 £'000 Total
Employer's part of current service cost						
Section expenses	(244)	–	**(244)**	(335)	–	**(335)**
Past service cost	–	–	**–**	(25)	–	**(25)**
Net interest credit/(charge)	384	(19)	**365**	630	(22)	**608**
Net credit/(expense) recognised in profit and loss account for pensions schemes	140	(19)	**121**	270	(22)	**248**

Total cost recognised as an expense in the Other Comprehensive Income

Year ended 31 March	2022 £'000 WCPS	2022 £'000 Unfunded	**2022 £'000 Total**	2021 £'000 WCPS	2021 £'000 Unfunded	**2021 £'000 Total**
Net actuarial gains/(losses) in the year due to						
Changes in financial assumptions	5,356	33	**5,389**	(14,247)	(153)	**(14,400)**
Changes in demographic assumptions	665	9	**674**	6,412	107	**6,519**
Experience adjustments on benefit obligations	(1,207)	(33)	**(1,240)**	2,054	12	**2,066**
Actual gain/(loss) on Section assets relative to interest on Section assets	835	–	**835**	(1,369)	–	**(1,369)**
Gain/(loss) to recognise outside profit and loss in other comprehensive income	5,649	9	**5,658**	(7,150)	(34)	**(7,184)**

Changes in net liabilities recognised in the balance sheet

	2022 £'000 WCPS	2022 £'000 Unfunded	**2022 £'000 Total**	2021 £'000 WCPS	2021 £'000 Unfunded	**2021 £'000 Total**
Balance sheet asset/(liability) at 1 April 2021	20,476	(1,006)	**19,470**	27,356	(994)	**26,362**
Amount recognised in profit and loss	140	(19)	**121**	270	(22)	**248**
Amount recognised in other comprehensive income	5,649	9	**5,658**	(7,150)	(34)	**(7,184)**
Company contributions paid	–	44	**44**	–	44	**44**
Balance sheet asset/(liability) at 31 March 2022	26,265	(972)	**25,293**	20,476	(1,006)	**19,470**

Fair value of plan assets

As at 31 March	**2022 £'000**	2021 £'000
Liability driven investments	**28,220**	93,837
Liquidity funds	**14,208**	–
BMO Global Absolute Return Bond Fund	**24,317**	25,243
Buy and maintain credit	**50,450**	–
Cash	**602**	562
Total	**117,797**	119,642

The majority of the Section assets are held within instruments with quoted market prices in active market. The Section does not invest in property occupied by the Company or in the financial securities issued by the Company.

20.2 Defined Contribution Scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

Year ended 31 March	**2022 £'000**	2021 £'000
Current year contributions*	**1,905**	1,669

* Charge in the profit and loss account per note 6 is £1,905k (£2021: £1,694k) which includes Nil charge (2021: £25k charge) for GMP uplift regarding the defined benefit plan.

21. Called up Share capital

Ordinary shares of 10p each

Allotted and fully paid

As at 31 March	**2022 £'000**	2021 £'000
514,894,370 (2021:514,894,370) ordinary shares of £0.10 each	**51,489**	51,489

All shares rank pari passu in all respects.

Notes to the Financial Statements continued

22. Dividends

Dividends paid to immediate parent Company

As at 31 March	2022 £'000	2021 £'000
Ordinary dividend paid in June	1,742	3,008
Ordinary dividend paid in November	1,774	–
Ordinary dividend paid in February	–	1,902
Total Dividends paid	3,516	4,910

Dividends can be classified as follows:

As at 31 March	2022 £'000	2021 £'000
Final Dividend for FY20	–	3,008
Interim Dividend for FY21	–	1,902
Final Dividend for FY21	1,742	–
Interim Dividend for FY22	1,774	–
Total Dividends paid	3,516	4,910

23. Commitments

The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements

Year ended 31 March	2022 £'000	2021 £'000
Contracted capital commitments	10,400	7,800

24. Transactions with related parties

Company had the following transactions with related parties

Year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2022 £'000	2021 £'000
Advanced Minerals Ltd	80% owned group Company	Income	Sale of water treatment by-products and management charges	33	31
Advanced Minerals Ltd	80% owned group Company	(Expenditure)	Costs incurred for disposal of certain by products	(29)	(32)
Total				4	(1)

Company had the following balances with related parties

Year ended 31 March

Related party	Relationship	Asset/(liability)	Description	2022 £'000	2021 £'000
Advanced Minerals Ltd	80% owned group Company	Asset	Receivables for sales and management recharges	–	221
Advanced Minerals Ltd	80% owned group Company	(Liability)	Purchase ledger position from trade	–	–
Total				–	221

25. Cash and cash equivalents

Within liquid resources there is £5.8m (2021 £:5.7m) of restricted cash relating to the secured index linked bond.

26. Events after the reporting period

On 26 May 2022 a dividend of £1.94m was declared in respect of FY22 and paid up to the immediate parent Company on 31 May 2022.

27. Controlling parties

The Company is a wholly owned subsidiary of UK SESW Holding Limited which in turn is wholly owned by East Surrey Holdings Limited. The ultimate parent Company and the largest group in which the results of the Company are consolidated is Sumisho Osaka Gas Water UK Ltd and the consolidated financial statements are available at Vintners' Place, 68 Upper Thames Street, London EC4V 3BJ. The intermediate parent Company and the smallest group in which the results of the Company are consolidated is East Surrey Holdings Limited. The consolidated financial statements of East Surrey Holdings Limited is available at 66-74 London Road, Redhill, Surrey, RH1 1LJ.

Glossary

Aims – the six promises that we aimed to deliver for our customers as stated in our five-year Business Plan.

Bad debt – the cost of water charges that we are unlikely to be able to collect.

Bursts – failures of water pipes usually resulting in large losses of water.

C-MeX – The customer measure of experience (C-MeX) is a new mechanism introduced in April 2020 to replace the existing Service Incentive Mechanism (SIM) as a way to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain.

Leaks – water lost from fittings to mains such as stop taps, meters and customers' pipes. Leakage is a measure of the water lost between our treatment works and customers' taps.

Megalitre (Ml) – equal to a million litres.

Ofwat – the economic regulator of the water sector in England and Wales that was established in 1989 when the water and sewerage industry was privatised.

PR19 – the price control review by Ofwat that concluded in December 2019 and set the revenue that companies are allowed to recover, through charges to their customers, for the five years from 1 April 2020.

PR24 – the next price control review by Ofwat that will conclude in 2024 and set the revenue that companies will be allowed to recover, through charges to their customers, for the five years starting on 1 April 2020.

SIM – Service Incentive Mechanism is an industry-wide measure, set by Ofwat, of the quality of each water company's customer service.

Security of supply index – a way of monitoring the resilience of our water resources so that they are able to meet demand.

SES Water – the trading name of Sutton and East Surrey Water Plc.

Supply interruption – where the supply of water to customers is interrupted due to planned (e.g. replacing old pipes) or unplanned (e.g. a burst) activity. Our target is calculated by measuring the length of time that a customer has lost supply (where this has been for more than three hours) and dividing by the total number of properties in our supply area.

Values – define who we are, guide our behaviours and underpin everything we do.

Vision – a brief statement of what we want to be.

Notes

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