NORTHUMBRIAN WATER LIMITED ANNUAL PERFORMANCE REPORT

For year ended 31 March 2021

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CONTENTS

BOARD STATEMENT

CHIEF EXECUTIVE OFFICER'S WELCOME

WATER FORUM STATEMENT

WHO WE ARE

VISION AND VALUES

OUR PURPOSE

OUR OUTCOMES

OUR STAKEHOLDERS

ASSURANCE SUMMARY

INTRODUCTION

OUR ANNUAL PERFORMANCE AT A GLANCE – SERVICE

OUR PERFORMANCE AT A GLANCE – ENHANCEMENTS

OUR 2020/21 PERFORMANCE IN DETAIL

UNRIVALLED CUSTOMER EXPERIENCE:

- Our customers tell us we provide excellent customer service and resolve issues quickly
- Our customers say they feel informed about the services we provide and the importance of water
- Our customers say we are a company they trust
- Our finances are sound, stable and achieve a fair balance between customers and investors.

AFFORDABLE AND INCLUSIVE SERVICES:

- Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all

RELIABLE AND RESILIENT SERVICES:

- We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations
- We always provide a reliable supply of water
- Our drinking water is clean, clear and tastes good
- Our sewerage service deals with sewage and heavy rainfall effectively

LEADING IN INNOVATION:

- We are an innovative and efficient company

IMPROVING THE ENVIRONMENT:

- We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife
- We take care to protect and improve the environment in everything we do, leading by example

BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS:

- We are proud to support our communities by giving time and resources to their important causes
- We work in partnership with companies and organisations to achieve the goals that are most important to our customers

BOARD STATEMENT – OUR PURPOSE, VISION AND PERFORMANCE

This statement sets out how we, the Board of Northumbrian Water Limited, set the company's aspirations in respect of the services we provide to our customers and other stakeholders - both now and into the future; how we are performing against our aspirations, and how we structure management rewards to incentivise delivery of these aspirations.

An extensive stakeholder engagement exercise has helped us to clarify our Purpose (the detail of this is on page 14). Set within the context of our Purpose, the Board has a long-term vision for the company, which is to be the national leader in the provision of sustainable water and wastewater services. This will require us to consistently deliver outstanding service to our customers across our water and wastewater businesses, as well as maintaining the highest levels of environmental performance.

We also understand that being the national leader means continuously improving standards further. To achieve this, we encourage a culture of innovation, as demonstrated by our annual Innovation Festivals. Many other examples of our innovative approach to improving our customer service and resilience are set out in this report.

HOW WE SET OUR ASPIRATIONS

The aspirations we set for the current price control period 2020-25 were developed through extensive engagement and consultation with customers and other stakeholders throughout our business planning process. Through this engagement, the company agreed updates to our Outcomes for customer service, the environment, and the way we manage the business. For each Outcome, we agreed challenging Performance Commitments (PCs) which we use to monitor and report on our performance.

In this report, we set out our Outcomes and how we deliver these across our strategic themes, as well as through our corporate Purpose and Values. We report on our performance against our Outcomes and PCs in this report.

However, to drive the year on year performance improvements necessary to deliver our Vision of being national leader, we set ourselves tougher, stretching targets within the business. These targets are reported internally through a balanced scorecard of key performance indicators which cover the full range of strategic themes that support our Vision. We re-set these targets each year, taking account of how other companies in the industry have performed and what our customers have told us about their priorities.

We also work closely with the Water Forum, which brings together expertise from a wide range of stakeholders. The Water Forum's Chair has attended full Board meetings and our Independent Non-Executive Directors, and Executive Directors, regularly attend Forum meetings and workshops. This ensures that the Board directly understands the areas where Forum members are challenging us to improve performance and Outcomes for our customers and stakeholders.

To ensure that the Executive Leadership Team's focus is aligned with the business Outcomes we want to attain, stretching internal targets from across our balanced scorecard of performance measures represent 90% of the potential value of the short-term incentive plan for our Directors, with a further 10% available for the achievement of bespoke personal targets. The Remuneration Committee Report is available within our Annual Report and Financial Statements. A separate report available on our NWG website provides full, transparent detail on our directors' remuneration policy and how remuneration in the year has been calculated.

PERFORMANCE IN 2020/21

This report describes our performance in 2020/21 against our Performance Commitments (PCs) in detail.

We're delighted to be in the top three companies in the new C-MeX measure for customer experience and above average for the new D-MeX measure of developer experience. Our customers continue to be very satisfied with the services we provide and consider those services to be good value for money – something we know to be very important to them, particularly in these uncertain economic times. We are very proud to have been found to be the best performing water company, in the 2020 Water Matters Report carried out by CCW, when it comes to overall satisfaction of water service and reliability of services. We are also pleased to have also scored highly in relation to trust and satisfaction in handling queries.

Our performance against our new series of measures for both affordability, and support for customers in circumstances which could make them vulnerable, also provided a strong starting point to build upon.

We performed well on many customer focused measures of water asset health, such as water supply interruptions, discoloured water contacts, taste and smell contacts, ERI, AIM, risk of severe restrictions in a drought, unplanned outages, water mains repairs and visible leak repairs. We were disappointed not to achieve our leakage targets in both our operating areas this year.

We were also disappointed not to achieve our drinking water quality PC but are confident that improvement activities have been identified to achieve the new Compliance Risk Index measure in future.

Our sewer flooding performance is improving, despite not meeting some of our ambitious targets for this year. Our progress in reducing the risk of sewer flooding in a storm and repeat sewer flooding is very encouraging.

We are also proud of our industry leading performance in pollution, maintaining our strong performance in Bathing Water compliance and delivering the WINEP, while narrowly missing our target for Treatment Works Compliance. We remain strong in Bioresources.

We welcome the key role that the Water Forum play in providing challenge on behalf of our customers. As part of this process we report to and discuss our performance with the Water Forums and they provide their independent commentary on **pages 10 to 11**.

LOOKING TO THE FUTURE

Customer engagement and participation is an ongoing process, not a once every five years exercise for each business plan. We published our approach to customer participation in our report 'From customer consultation to a culture of customer participation' in 2017 and co-creation of our plans with customers is business as usual for us. This is led from the top, with our Independent Non-Executive Directors participating in many customer and stakeholder events. Understanding from our customers what matters most to them about the services we provide shapes both our immediate targets and our long-term plans, which we brought together in our 2020-2025 Business Plan.

We set out our ambitions for customers in our long-term vision 'Shaping our Future,' which we published in 2018 but which looked ahead as far as 2040. This vision focuses on the next five years but is set in the longer-term context of providing affordable and resilient services for today's generations and our future customers. We published more detail on how we will deliver these ambitions in our Business Plan for 2020-2025, which we developed in partnership with our customers.

As a Board, we remain committed to continuing our drive to be the national leader and to deliver outstanding service to our customers and other stakeholders both for now and into the future.

Signed on behalf of the Board of Northumbrian Water Limited:

Andrew J Hunter, Chairman

Heidi Mottram, Chief Executive Officer

Paul Rew, Senior Independent Non-Executive Director

CEO'S WELCOME

Our Vision is to be the national leader in the provision of sustainable water and wastewater services. I am delighted that we have made further progress towards this Vision during 2020/21, under incredibly challenging circumstances, and remain one of the leaders in our industry.

COVID-19 Resilience

This has been a unique year with much of it spent in lockdown and under COVID-19 restrictions. We provide vital services, but the importance of these has never been more apparent than during the pandemic. I am extremely proud of the way our teams have responded to the challenge and kept our essential services running for our customers and the communities we serve. This has been a fantastic effort and shown the resilience of both our people and our operations.

Our first concern has been for the safety of our employees and customers and we have taken every precaution to ensure that we carried out our operations securely. We took appropriate steps to ensure that our operational and field workers could carry on their work in a COVID-safe way with social distancing and protective equipment as required. Around half of our staff, in customer and support roles, have worked from home throughout the year and it has been a testament to our Information Services team that they have been able to continue to work effectively and collaboratively.

I am also proud of how we have worked with the government and local authorities to support testing and vaccine roll out. We were the first water company in the country to launch a rapid testing programme with employees and piloted a scheme for asymptomatic testing to be carried out across our workforce. Working with Newcastle University, we played a leading role in analysing wastewater to track the presence of COVID-19 in localities. We supported the set up of the Nightingale Hospital in Sunderland, which is now being used as a vaccination centre, and even gave our head office over to the NHS for use as a vaccination centre for Durham.

Our Performance in 2020/21

We set out our ambitious goals for the 2020-2025 period in Our Plan, reflecting the feedback from our customers. This has been the first year of delivering against those goals and the tough performance commitments we have made. Overall, I am pleased with our performance: we have exceeded our targets in many areas and remain one of the top companies for customer service. However, we are always striving to do better and were disappointed to fall short on leakage and water quality.

Customer

Ofwat introduced a new Customer Measure of Experience (C-MeX) in the year to measure customer service performance. This is a more representative measure of customers with experience of our performance and it was a good performance to come in the top three for C-MeX, though our ambition is to provide unrivalled customer service.

We have set an ambitious goal to eradicate water poverty in the regions we serve by 2030, and the importance of this was brought into even more focus during the pandemic as many of our customers faced financial uncertainty. We took an early decision to offer payment breaks to many of our customers to give them breathing space and have been able to extend the scope of our social tariffs to allow us to make support available to more of our customers who need it.

Water

In our water business we remain industry leading on minimising interruptions to supply and have made great progress on the taste and appearance of water delivered to our customers' taps. We have also continued to focus on ways to reduce leakage from our networks and were on track to achieve our targets until we experienced some extreme cold weather over the winter which pushed our results above target.

The water we deliver to our customers is of high quality and this is always one of our top priorities. The Drinking Water Inspectorate (DWI) rightly sets extremely high standards and a small number of issues in the year caused us to miss our target on their Compliance Risk Index measure. We're working actively with DWI to identify ways we can improve across the whole end-to-end water process, from source to tap.

Environment

Our environmental performance has remained strong this year and I was delighted to achieve a 4* Environmental Performance Assessment from the Environment Agency (EA). We continued to be at the forefront of the industry in minimising pollution incidents, an area of public interest at present. Sewer flooding remains one of the worst service failures our customers can experience, and we have made significant progress in tackling this through both investment in our assets and education of customers through our Bin the Wipe campaign. I was pleased that we have shown further reductions in both internal and repeat sewer flooding incidents and we are committed to our ambitious goal of eradicating sewer flooding in the home as a result of our assets and operations.

Another of our ambitious goals is to achieve net zero carbon emissions by 2027 and it was a great achievement to reduce emissions by more than double our target in the year. We are continuing to invest in renewable generation as well as seeking to reduce emissions further through transforming our vehicle fleet.

Our People and the Communities we serve

While our focus is to deliver unrivalled service to our customers and benefit the communities we serve, it is always heartening to gain external recognition. I was delighted that we were named Water Company of the Year at the 2020 Water Industry Awards, which recognised all-round excellence in customer service, innovation, operational resilience, and workforce best practice.

In addition, we were named on the World's Most Ethical Companies list, compiled by the Ethisphere Institute, for the tenth time, and were the only water company recognised. This reflected our work in our communities, supporting our people and embedding an ethical approach and a strong sense of purpose in our culture.

These achievements are the result of the hard work that our people put in every day, even under the most difficult of circumstances we've experienced this year. That's why I was so pleased that the feedback from our employees through our Great Place To Work (GPTW) survey showed an increase in trust and engagement which brought us into the top 25 of best workplaces in the UK, for 'super large' companies.

Financial Performance

In Our Plan for 2020-2025 we committed to significant reductions in customer bills and, following the Ofwat FD, our customers in the North East received an average reduction in their combined bill of around 20%, while our customers in Essex & Suffolk received a 12% reduction on their water-only bills. As the Chairman has said in his statement, we asked Ofwat to refer its FD to the CMA as we didn't think it adequately reflected what our customers said were their priorities. We were pleased to receive additional funding for some activities, including a scheme to improve the resilience of water supplies in Essex for the long term.

The COVID-19 pandemic has also created some financial pressures, with reduced activity from many business customers and increased costs to ensure that we continued our operations safely. However, our financial position remains robust and we were reassured that we retained our independent credit ratings following the outcome of the CMA process.

Looking Forward

We have taken the first steps towards the ambitious goals we set ourselves in Our Plan and will continue to drive these forward over the coming year. I know we are building on strong foundations in areas such as customer service and environmental performance and in many aspects of our water business. Equally we know we have to improve our performance across areas such as leakage and water quality and must continue to address sewer flooding, in order to meet our stretching Performance Commitments (PCs) and achieve our Vision to be the national leader in our industry. We will also progress our longer-term goals, investing in the resilience of our assets and pursuing our goals to reduce carbon emissions and waste.

As the world hopefully moves on from the global pandemic, we are committed to building back better. We are conscious of the financial consequences that some of our customers will face and will continue to provide support to all with affordability challenges. I also believe that the way we have managed through the restrictions, and the resilience we have shown, has created some new opportunities and we will embrace the prospect of a more flexible and adaptable business and workforce in the future.

We are proud of our achievements to date, but we are never complacent and will continue to make further service improvements in 2021/22 and beyond. I hope you find our Annual Report and Financial Statements helpful and informative.

H Mottram CBE

CEO

HOW WE'VE RESPONDED TO THE COVID-19 PANDEMIC

The COVID-19 pandemic and associated lockdowns and restrictions created unprecedented challenges for the whole world. As a provider of essential services, we needed to adapt rapidly to make sure we continued to deliver clean water and take wastewater away safely. We pledged to support our people, customers, and communities throughout the difficult circumstances of the past year.

Our key workers showed great dedication to keep the water flowing for our customers. This was particularly important for the NHS, so we provided extra support to deliver network connections to new facilities, including the Nightingale Hospital set up in the North East, and carried out extra checks to ensure resilient supplies to existing NHS sites. We also provided 20,000 litres of emergency water to keep NHS workers hydrated.

It was critical we did this in a way that kept our employees safe. We carried out site assessments, issued new bespoke guidance, and created a new app to help our employees make effective judgments on how to work in a COVID-secure way. In January 2021, we became the first water company in England and Wales to launch a COVID-19 rapid testing programme with employees. Working closely with NHS Test and Trace, Defra, and Water UK, we piloted a scheme for asymptomatic testing to be carried out on a voluntary basis for around 600 employees. This has now been made available to the whole workforce. Up to the end of March 2021, 5,596 tests were carried out.

More than 1,500 of our employees moved to home working and were shown how to carry out assessments to make sure they had set up the appropriate equipment to do so safely and effectively. In addition, we stepped up our support for colleagues' wellbeing, which contributed to us being named a Centre of Excellence for Wellbeing 2020/21 by the Great Place to Work Institute, and awarded Ambassador Status for wellbeing as part of the 2020 Better Health at Work Award assessment.

Many of our customers faced additional challenges due to COVID. In response to this, we initiated new support including payment breaks for people facing financial difficulty. To the end of March 2021, 8,015 customers benefited from a payment break. In addition, 9,779 extra customers have received additional support through our social tariff and WaterSure schemes.

We created content on our websites to give our customers a one-stop-shop for everything they needed to know about COVID-19 and detailing how we'd continue to operate safely in the communities we serve. This new hub was signposted from all our other operational communication channels, as well as in our marketing and corporate communications. We put robust processes in place to keep information updated and relevant, so that it added value and helped customers to help themselves.

Our contribution to tackling the pandemic included supporting Newcastle University with research to test wastewater for traces of COVID-19 to help identify future disease hotspots. We also provided our Boldon House office to be used as the Arnison Vaccination Centre for Durham. In addition, more than 50 of our colleagues volunteered to help clinical staff run this centre, along with other vaccination sites in the North East.

We are committed to caring for our communities, and we took several opportunities to do so during the pandemic. We provided IT equipment and connectivity for students who were home schooling during lockdown. On the back of individual donations for schools in our operating area, we led the establishment of the wider Laptops for Kids campaign run in partnership with Northern Powerhouse Partnership and The Evening Chronicle newspaper in our Northern operating area. We also committed that no colleagues would be furloughed if they were unable to carry out their normal job, and instead identified opportunities for both secondments elsewhere in the business and volunteering in the community.

WATER FORUM STATEMENT

Ordinarily, at this point in the year the members of the Water Forum review NWL's performance from the customer perspective and comment on: the extent to which the company has risen to the challenges we raised 12 months prior; on the successes or improvements achieved; and on what the data is telling us about the areas that need additional focus in the coming year.

It will come as no surprise to readers of this report that we have found that more difficult this time around – as with seemingly every aspect of life at the moment, the COVID-19 pandemic has had an effect. Consumption patterns have changed, customers have had different reasons to contact their water company and the need for social distancing changed aspects of customer service delivery.

In last year's Annual Performance Report, for example, we noted that we would like to see a continued focus on getting to the root cause of the issues at Cullercoats Bay, which had not met the minimum bathing water quality standard. As explained elsewhere in this report, the lack of sampling in 2020/21 means that we must wait until next year to see whether our expectations of improvement have been met. For all elements of performance, tracking progress and issues over time is key, and we will of course review them all again in 2022 year to see whether trends are moving in the right direction.

That said, there are clearly areas of positive progress and some areas that require attention.

Customer Service: Throughout the pandemic, NWL has done lots to encourage customers to contact them, and the satisfaction data (C-Mex) shows that when they do, the company handles their queries and problems well – this is to be commended. On the other hand, complaints data reveals that customers are having to wait too long for their calls to be answered, which would seem to indicate a need to review the contact centre's resource provision.

Drinking Water Quality: The 'Compliance Risk Index' (CRI) stands out as an area of poor performance for the company. Through the many conversations and challenges made in the Water Forum's drinking water quality sub-group, we are reassured about the current process, engagement and focus being put on this area in conjunction with the Drinking Water Inspectorate.

Sewer Flooding: The 'repeat sewer flooding' performance measure is one that was included because of challenge from the Water Forum, so we are particularly pleased to see the step change that the company has achieved for its customers here.

The company just missed its targets on sewer flooding, and we know that vital, preventative customer behaviour campaigns such as *Bin The Wipe* have been affected by the pandemic. Now that this work has been able to re-start, we expect the teams will get to grips with this issue in the next 12 months. We have challenged NWL to use its positive reputation for partnership working to take a lead in a national campaign to prevent the sewer misuse that leads to blockages and flooding for customers.

Water Poverty and Customers in Vulnerable Circumstances: We're pleased to note that the company is doing well on all measures in this area; and particularly the levels of awareness about support available and the customer satisfaction achieved by those who receive such support.

With ongoing uncertainty about the post-furlough economy and the medium- and long-term effects on customers' ability to pay their bills, this is an area that the Water Forum will stay very close to throughout the year ahead.

Environment: It is clear through our numerous conversations and working groups with the company that it takes its environmental performance seriously, and this can be seen in the 2020/21 performance figures for pollution incidents, greenhouse gas emissions and water environment improvements.

Leakage: As the company details later in this report, over the past year there have been many factors affecting the various leakage measures. Our challenge to the NWL team has been to consider the results of its response to the freeze/thaw event in March 2021 in comparison to its widely commended approach to the severe *Beast from the East* weather event in February 2018 – we believe that doing so would yield some useful lessons learned.

The pandemic has tested all organisations in many different ways – for NWL to deliver its customer promises through the performance commitments and improvement plans outlined in this report, we encourage the team to assure itself that its management systems are resilient to any future pandemic or major emergency. Certainly, from our interactions with the Leadership Team, we are confident that the all-important culture of responding to and learning from problems is in place. We therefore look forward to seeing what the company can deliver for its customers in 2021-22; and between now and then we will continue to fulfil our role of providing independent challenge, insights and expertise.

Melanie Laws

Water Forum Chair

WHO WE ARE

Northumbrian Water Limited provides:

- Water and wastewater services to 2.7 million people in North East England, trading as Northumbrian Water, and
- Water services to 1.5 million people in Essex and 0.3 million people in Suffolk, trading as Essex & Suffolk Water.

OUR PURPOSE

Our Purpose is caring for the essential needs of our communities and environment, now and for generations to come.

We do this by providing reliable and affordable water and wastewater services for our customers.

We make a positive difference by operating efficiently and investing prudently, to maintain a sustainable and resilient business.

OUR VISION

Our Vision is to be the national leader in the provision of sustainable water and wastewater services.

OUR VALUES

As important as what we do is how we do it. Our Values define how we work to deliver our Outcomes and achieve our Vision.

CUSTOMER FOCUSED

We aim to exceed the expectations of our external and internal customers.

RESULTS-DRIVEN

We take personal responsibility for achieving excellent business results.

ETHICAL

We are open and honest in meeting our commitments, with a responsible approach to the environment and our communities.

INNOVATIVE

We continuously strive for innovation and better ways to deliver our business.

ONE TEAM

We work together consistently, promoting co-operation, to achieve our corporate objectives.

DEVELOPING OUR PURPOSE AND VALUES

We decided last year to develop our purpose further by revising our Purpose statement. Our aim was to re-define it to powerfully communicate our ethos and generate a deeper understanding and sense of ownership among our people and stakeholders.

To do this, we engaged with Business in the Community (BITC), the Prince's responsible business network, who've supported hundreds of businesses in the last five years to create and embed their purpose. BITC worked alongside us to co-create a process which would investigate how our Purpose statement should be developed.

Our process involved desktop research to look at our own activity and best practice; interviews with senior leaders; a business-wide employee survey; engagement through our Have Your Say customer forum; workshops with both employees and customers, and discussions with our Water Forum.

Through this, we identified a set of principles that were valued by our stakeholders, including the importance of demonstrating our place within our community and environment, and providing reassurance as a provider of an essential service relied on by our customers. We also tested the language we could use and identified the key concepts that resonate with our stakeholders.

Our new Purpose statement gives us a powerful, relevant and shared understanding of why our company exists. This sits alongside our Vision – setting out what we want to achieve – and our Values – setting out how we will behave to deliver this – as part of a comprehensive business model.

Next, we will embed our Purpose in the business, ensuring it is reflected in decision making through processes including our service value framework. We will effectively measure and transparently communicate how well we implement our Purpose. Within our annual corporate reports, we'll publish a report on Our Purpose, describing our progress. In future, this will contain a consistent set of measures, enabling stakeholders to understand how we live out our Purpose.

Alongside this, we've started refreshing our Values. These are well recognised and understood across the business, but we want to make sure they take account of the insights gathered while developing our new Purpose statement and fit with wider societal changes.

As a first step, we've changed the previous 'Creative' value to 'Innovative'. This is more in keeping with the language we use around the business, particularly since the growth of our Innovation Festivals. Innovation has come to represent something more people can relate to and identify with.

In the months ahead, we'll refresh and simplify the definition and behavioural framework sitting behind all our Values, using insight from our people to make these inclusive, current and memorable to colleagues at all levels.

OUR OUTCOMES FOR 2020-25

UNRIVALLED CUSTOMER EXPERIENCE:

- Our customers tell us we provide excellent customer service and resolve issues quickly.
- Our customers say they feel informed about the services we provide and the importance of water.
- Our customers say we are a company they trust.
- Our finances are sound, stable and achieve a fair balance between customers and investors.

AFFORDABLE AND INCLUSIVE SERVICES:

- Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all.

RELIABLE AND RESILIENT SERVICES:

- We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations.
- We always provide a reliable supply of water.
- Our drinking water is clean, clear and tastes good.
- Our sewerage service deals with sewage and heavy rainfall effectively.

LEADING IN INNOVATION:

- We are an innovative and efficient company.

IMPROVING THE ENVIRONMENT:

- We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife.
- We take care to protect and improve the environment in everything we do, leading by example.

BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS:

- We are proud to support our communities by giving time and resources to their important causes
- We work in partnership with companies and organisations to achieve the goals that are most important to our customers

OUR STAKEHOLDERS

We provide an essential service that is relied on by our customers and communities. Understanding their experiences, needs and expectations is therefore vital to our business success. It's also critical for us to engage with the many organisations who share and help to advance their interests.

We engage proactively and constructively with a range of stakeholders to understand their views, and work with them to provide an unrivalled customer experience and deliver our business Outcomes.

STAKEHOLDERS / WHY WE ENGAGE WITH THEM	HOW WE ENGAGE	KEY ISSUES COVERED
Customers Understanding customer priorities and preferences, as well as their experiences, is vital to delivering world class services today and preparing for the future.	• Focus groups / deliberative workshop groups, including via digital platforms • Co-creation workshops • Email surveys • SMS surveys • Social media • Community Portal • Online community groups – Have Your Say • Customer Zone at Innovation Festival	• Drainage and Wastewater Management Plan • Water Resource Management Plan • Complaints and compensation • Water environment improvements • Water use behaviours • Digitalisation • Overall service versus expectations • Campaigns feedback • Our Purpose
Colleagues Our colleagues deliver daily the activities and services that enable us to achieve our ambitious goals. Our success is dependent upon their engagement, collaboration and innovation. Therefore, it's essential to understand their needs and invest in them.	• Weekly 'Heidi Live' question and answer broadcast • Face-to-face TeamTalk events with senior managers • Internal communication channels – intranet, weekly newsletter, Yammer • Company-wide employee surveys • Internal networks and forums • Negotiation and Consultation Group, including trade unions	• COVID-19 response and future planning • Company performance • Defining our company Purpose and Values • Health, safety and wellbeing campaigns • Diversity and inclusion strategy • Innovation projects and ideas • Survey feedback and resulting focus areas • Employee satisfaction surveys • Pay and conditions
Ofwat As our economic regulator, Ofwat plays a key role in setting the conditions for us to fulfil our statutory duties and meet customers' expectations.	• Responding to consultations • CEO level one-to-ones • Peer to peer contact and meetings • Proactive briefings • Annual Performance Report (APR)	• Primary activity in 2020/21 has been the CMA review of Ofwat's Final Determination of our PR19 Business Plan • Engagement with Ofwat's innovation competition • COVID-19 response • Water poverty • Environmental performance
Environment Agency We are committed to delivering excellent environmental outcomes and work closely with the Environment Agency to ensure we consistently achieve high standards.	• Responding to consultations • Annual and monthly performance reviews • Management reviews • National strategy and practitioner networks • Industry task and finish groups • Joint working group on pollution incidents and monthly pollution challenge group meetings • Regional and local partnerships and groups, including North East Water Leaders Group, Regional Flood and Coastal Committee, Northumbria Integrated Drainage Partnership (NIDP) and Catchment Partnerships • National Advisory Panel on Citizen Juries • Water Resources East	• Compliance and performance, including pollution and bio-resources • Event duration monitoring • WINEP delivery • Drainage and Wastewater Management Plan • Howdon Sewage Treatment Works expansion

Drinking Water Inspectorate Our commitment to providing clean, clear, great tasting water requires us to understand and meet the DWI's expectations for best practice.	• Responding to consultations • Quarterly operational liaison meetings • Transformational design • Senior leadership strategy meetings • Chief Inspector's report launch meetings • Consultation and negotiation via Water UK groups at board, strategic and policy levels • Reviews of regulatory commitments • Industry task and finish groups • On site collaborative investigations and audits	• Company compliance assessments • Dissemination of company incidents and agreed learning points • Technical audit feedback • Progress with agreed programmes of work • Internal water quality communication strategy • Collaboration opportunities • National legislation changes • Research outputs
Water Forum Our Water Forum play a critical role in challenging us on how we listen to and act upon the customer voice, as well as our performance across a range of focus areas.	• Formal meetings and sub-groups • Meetings with senior managers, Executive Leadership Team, and Board members • Consultation processes	• Company performance • Reviewing ambitious goals • Drinking water quality improvements • Customer engagement activity and performance • Supporting customers through COVID-19 • Our Purpose
CCW CCW help us understand how we can continue to develop world class customer service and deliver against increasing customer expectations.	• Proactive project briefings • Sharing material for review • Responding to consultations • Quarterly liaison meetings • Attendance at regional public meetings • Bespoke engagement sessions • Industry working groups and best practice forums • Customer Service Network	• Innovation Festival outcomes • Complaints management and best practice • Water Matters tracking research • Tariffs, including social tariffs • New complaints definition and roll out • Tone of Voice and customer engagement • Future service provision • Improving customer- centricity in complaints management
Supply chain partners Our supply chain is vital in enabling us to deliver our services. It is also a significant part of the economic impact we deliver in our regions, through our goal of spending 60p in every £1 with suppliers in our operating areas.	• Joint Framework Governance Groups • Safety, Health and Environment Forum • Integrated programme delivery teams • Joint conferences and workshops • Joint recruitment and development of employees • Leading and participating in industry bodies • Partner participation in our Innovation Festivals	• Innovation and best practice solutions • Sustainable operations including environmental challenges • Stakeholder engagement and customer service improvement • Capex programme delivery • Leaving a positive legacy from our investment projects • Support in identifying opportunities and effective tendering
Government and policy makers Politicians, civil servants, and policy makers have a significant influence on the conditions within which we operate. They also have an interest in understanding how we serve our customers and communities.	• Briefings • Site visits • Face to face meetings • Attendance at key forums • Speeches and events • Responding to consultations	• Environmental performance and net zero commitment • Environment Bill, including water efficiency measures • Storm Overflows and river water quality • Eradicating water poverty • Innovation activity • Key investments • Water resources • Our Purpose
Local authorities Local authorities are important partners in delivering services within their areas. They also have a deep understanding of the communities we operate in.	• Regular meetings with senior officials and lead councillors • Technical input and support on planning matters • Participation in consultations and steering groups relating to environment or economic development issues	• COVID-19 response • Asset investment schemes • Environmental performance • Regional plans and economic development • Eradicating water poverty • Water resources • Essex Climate Action Commission
NGOs and charities We're committed to positive outcomes in our communities and environment. Working with organisations that share this passion and have deep knowledge and expertise enables us to deliver more effectively.	• Sponsorship and donations • Just an Hour volunteering programme • Policy input • Governance support • Meetings and forums • Partnership schemes and collaboration	• Environmental activities and investments • Water for health campaigns • Eradicating water poverty • Education initiatives • Regional policy support • Our Purpose

Media and opinion formers Media and other influential voices in our regions and industry help us to communicate important messages about our services and understand the impact they have on our audiences.	• News releases • Briefings • Events	• Critical incidents • COVID-19 response • Key campaigns, including Bin The Wipe • Environmental initiatives • Water saving / usage advice • Water safety advice • Customer service support •
Investors Our investors ensure we have access to the funding we need to deliver services and invest for the future. They also provide important feedback and insight to inform our business practices.	• Shareholder directors • Periodic reporting • Investor update on new issuance • Credit investors portal • Credit agency meetings and publications • Engagement with banks	• Financial results • Regulatory and operational performance • Funding, hedging and liquidity • Regulatory environment • Capital programme update • Our Purpose

ASSURANCE SUMMARY

Within this Annual Performance Report, we publish a range of information about our services and performance, including how we're performing against the commitments we made in our 2020-25 Business Plan. This helps to provide our customers and stakeholders with assurance that we're delivering what they've told us they need and want from us.

It's important that we have robust assurance arrangements to make sure this information is accurate, clear and transparent. This is essential to building and maintaining a high level of trust and confidence with our customers and stakeholders.

In March 2021, following consultation with customers and stakeholders, we published our **Assurance Plan for 2021/22**. Consistent with guidance from our economic regulator (Ofwat), this document firstly assessed any strengths, risks and weaknesses associated with either meeting our obligations and commitments or providing information of appropriate quality. It then detailed the checks and balances (assurance) we planned to carry out to address these risks and make sure we remain on track.

A significant proportion of our assurance is targeted at making sure that the information we publish in our Annual Performance Report is of appropriate quality. We've published a **Data Assurance Summary** alongside this Annual Performance Report. This details how we decide what level of assurance should be applied to our data (i.e. who should provide the assurance), and whether this has been completed during the year. It also details key findings and, in conclusion, confirms that there were no significant issues to report.

INTRODUCTION

This report summarises our performance against our Outcomes during the regulatory year ending 31 March 2021. This is the first year of us delivering our 2020-25 Business Plan.

Our drive to be the best is supported by six strategic themes: Unrivalled customer experience; affordable and inclusive services; leading in innovation; reliable and resilient services; improving the environment and building successful economies in our regions. Our Outcomes are aligned to these themes and set out what we aim to achieve. They represent what our customers have told us they value in the long-term. They are our commitments, or promises, to our customers.

Our 14 Outcomes were developed with our customers and stakeholders. Everything we do is driven by an Outcome for our customers.

To track performance against our Outcomes we have clear metrics with associated targets – our Performance Commitments (PCs). For delivering better performance in certain measures, we could earn a financial reward. Conversely, poor performance in certain measures could incur a financial penalty. These rewards and penalties are called Outcome Delivery Incentives (ODIs). Some of our performance measures are simply reputational, which means that they do not incur financial penalties or rewards.

This performance report sets out the work that we are doing to deliver our 2020-25 PCs along with our progress towards the longer-term goals which we've set.

The report provides extended commentary for **tables 3A to 3I**, which is a summary of our performance against our PCs that we must provide for our regulator (Ofwat) every year.

We measure our performance and calculate any penalties or rewards using the methodology in our **PR19 Final Determination,** along with any subsequent amends set out in the CMA's recent redetermination.

This reporting process is subject to robust assurance, as set out in the **Data Assurance Summary**. Further information about our performance is available on our website **www.nwg.co.uk.** For information about how we are performing in comparison to other water and sewerage companies, visit **www.discoverwater.co.uk.**

OUR ANNUAL PERFORMANCE AT A GLANCE

We show figures in green where we've met our performance against our promise this year, amber where we have not met our performance but not incurred a penalty, and red where we have not met our performance and have incurred a penalty.

For further details about reasons for performance and our plans for improving, please see the detailed section for each PC later in this document.

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2020/21	OUR PERFORMANCE		
			2019/20 OR SHADOW YEAR	2020/21 ACHIEVED	REWARD / PENALTY (£)
Ofwat's Customer Measure of Experience (C-MeX)	C	Top 2	5th	3rd (85.76)	£tbc
Response time to written complaints	B	2 days	6.35	7.10	Reputational
Ofwat's Developer Services Measure of Experience (D-MeX)	C	Top 2	3rd (86.64)	7th (86.94)	(tbc by Ofwat)
Customers' perception of trust (independent survey)	B	8.8	n/a	8.8	Reputational
NWL independent value for money survey	B	8.2	8.1	8.3	Reputational
Percentage of households in water poverty	B	12.52%	N/A	10.38%	Reputational
Awareness of additional financial support	B	39%	N/A	41%	Reputational
Satisfaction of customers who receive additional financial support	B	8.7	N/A	9.3	Reputational
Awareness of additional non-financial support	B	39%	N/A	50%	Reputational
Satisfaction of customers who receive additional non-financial support	B	8.7	N/A	8.7	Reputational
Priority services for customers in vulnerable circumstances – Reach/ Actual contact/ Attempted contact	C	7.6% / 17.5% / 45%	N/A	2.3% / 40.0% / 57.3%	Reputational
British Standards Institute Award for Inclusive Services	B	maintain	N/A	Maintained	Reputational
Voids	B	4.40%	N/A	3.74%	£1.33m
Gap sites	B	84.40%	N/A	67.5%	Reputational
Risk of severe restrictions in a drought	C	0%	0%	0%	Penalty only
Per Capita Consumption (PCC)	C	0.8%	150.6 l/p/d 3 yr avg	-3.8%[1] (156.3 l/p/d 3 yr avg)	£1.366m
Unplanned outages at Water Treatment Works	C	6.37%	9.82%	5.69%	Penalty only

[1] 2020/21 3 year average 156.3 l/p/d, annual 165.7 l/p/d

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2020/21	OUR PERFORMANCE		
			2019/20 OR SHADOW YEAR	2020/21 ACHIEVED	REWARD / PENALTY (£)
Interruptions to supply between one and three hours (mm:ss)	B	N/A	N/A	0%[2]	From next year
Water supply interruptions greater than three hours (mm:ss)	C	06:30	05:37	04:04	£2.500m
Interruptions to supply greater than 12 hours (properties)	B	500	n/a	143	£1.182m
Leakage (ESW)*	C	1.3%	65.2 MLD (3 yr avg)	0.5%[3] (64.9 MLD 3 yr avg)	£0.090m
Leakage (NW)*	C	1.0%	134.8 MLD (3 yr avg)	-1.0%[4] (136.2 MLD 3 yr avg)	£0.473m
Visible Leak repair time (average days)	B	10.0	N/A	9.7	£78,000
Mains repairs (per 1,000km main)	C	141.9	107.5	127.0	£1.450m
Abstraction Incentive Mechanism (AIM)	B	0	N/A	N/A	No reward/ penalty due
Water quality compliance (CRI)	C	0.00	3.20	7.11	£7.123m
Event Risk Index (ERI)	B	295.070	N/A	197.592	Penalty only
Discoloured water contacts (per 10,000 population)	B	10.51 (4,839)	N/A	8.22 (3,761)	£2.011m
Taste and smell contacts (per 10,000 population)	B	2.08 (952)	n/a	1.75 (800)	£350,000
Internal sewer flooding (per 10,000 connections)	C	1.68	3.68	1.89	£530,000
Repeat sewer flooding	B	46 (in last 5 years)	N/A	25	£882,000
External sewer flooding	B	3,372	4,697	3,862	£3.072m
Risk of sewer flooding in a storm	C	32.30%	35.17%	16.11%	Reputational
Sewer blockages	B	11,594	11,875	12,023	£619,000
Sewer collapses (per 1,000km of sewers)	C	10.69	9.8	9.82	Penalty only
Treatment works discharge compliance	C	100.00%	n/a	99.51%[5]	Underperformance deadband
Bathing water compliance	B	97.06%	97.06%	n/a – see text	No reward/ penalty due
Pollution incidents (per 10,000km of sewers)	C	24.51	n/a	14.61	£2.960m
Water Industry National Environment Programme (WINEP)	B	0	N/A	0	Reputational
Delivery of WINEP requirements	B	Met	N/A	Met	Reputational

[2] 08:17 3 year average; actual annual 2020/21 09:17
[3] 64.9 MLD 3 year average, 66 MLD annual
[4] 136.2 MLD 3 year average, 140.0 MLD annual
[5] Underperformance deadband is 99%

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2020/21	OUR PERFORMANCE		
			2019/20 OR SHADOW YEAR	2020/21 ACHIEVED	REWARD / PENALTY (£)
Water environment improvements	B	10.0km	N/A	30.2km	£155,055
Greenhouse gas emissions (tCO2e from 2019/20 baseline)	B	-4,433 tCO2e	N/A	-15,235	£2.020m
Bioresources	B	100%	100%	100%	Reputational

We have strived to deliver our PCs in what has been a challenging year due to the impacts of Covid-19 and the constraints imposed by Ofwat's Final Determination for 2020-25.

We're pleased to have achieved or beaten 34 out of our 47 PCs in 2020/21. This excludes the final assessment of C-MEX and D-MEX, AIM which was not activated in 2020-21 and interruptions one hour to three hours which was being assessed as part of the baseline performance. The number of PCs has nearly doubled from 26 in 2019/20.

We earned rewards for 11 of these achievements, excluding the final confirmation of C-MEX and D-MEX rewards. 14 were reputational only, eight were penalty only.

We accrued penalties for not meeting seven of our PCs this year and did not achieve three of our reputational only PCs.

While there have been some setbacks this year regarding progress towards our longer-term ambitious goals, we're committed to continuing to strive to achieve them.

Headlines include:

- Our customers continue to be satisfied with the services we provide and consider those services to be good value for money. Our performance in response time to written complaints, Per Capita Consumption, gap sites, and voids was particularly impacted by the pandemic, yet we continued to perform very strongly relative to the industry on the new D-MeX and C-MeX measures of customer satisfaction, and out-perform our voids PC.

- We're disappointed not to achieve our water quality compliance (CRI) PC. We're committed to achieving industry-leading levels of CRI and are delivering our long-term plans to reach this. We are also working closely with the Drinking Water Inspectorate (DWI) on a transformation plan which includes accelerating and increasing funding in our base capital programme.

- Our taste and odour and interruptions to supply performance have also improved since 2019/20, with the former achieving its target for 2020/21. Discoloured water contacts increased slightly, but we still met our PC. These aspects of performance continue to compare favourably to the rest of the industry.

- We're disappointed not to achieve our leakage targets in both of our operating areas but expect operational improvements and investments in pressure management to deliver improvements for 2021/22. We have met our PC for the number of mains repairs despite an increase. We've also performed well on the new Event Risk Index, Abstraction Incentive Mechanism, risk of severe restrictions in a drought and unplanned outage PCs, as well as our new bespoke visible leak repair time PC.

Abstraction Incentive Mechanism, risk of severe restrictions in a drought and unplanned outage PCs, as well as our new bespoke visible leak repair time PC.

- Our sewer flooding performance has improved. While blockages increased, the quantity remained within our target range, and we beat our target for repeat flooding. However, we didn't manage to achieve some of our very stretching PCs for flooding, including for internal and external flooding. We will continue to focus on our flooding tactical plan for 2020-25 to deliver further improvements.
- We continue to be delighted with our industry leading performance on customer service, pollution (for which we earned our highest reward), achieving our new PCs for Sewer collapses and Bioresources. We were disappointed not to achieve our new PC for Treatment Works Compliance, due to some technical issues.
- We beat our targets of delivering improvements to 10km of water environments this year and reduce sewer flooding risk to deliver 30.2km against our unique new PC and halve our sewer flooding risk. For greenhouse gas emissions, we delivered more than triple the required reduction.
- We've made a good start on our new PCs around inclusivity and affordability, exceeding some of our PCs for reducing water poverty, maintaining our inclusivity standard, and satisfaction with our support packages and awareness of the support we offer by some margin. We still need to improve our reach for Priority Services but surpassed our PCs for reviewing the register.

In addition to the commitments outlined in the table above, we have PCs to ensure that we deliver additional investments for customers by 2025 including:

- Smart metering
- Lead Pipe Replacement
- Delivery of our water and wastewater resilience programmes
- Howdon Sewage Treatment Works Expansion
- Cyber Resilience
- Drainage & Wastewater Management Plans

While progress has been slower than expected during 2020/21 because of the pandemic (especially for Smart Metering and Lead pipe replacement, which require access to customer properties), we remain confident of delivering our commitments by 2025.

The following pages describe each aspect of our performance in more detail.

OUR 2020/21 PERFORMANCE IN DETAIL

Some of the measures are 'common' across the water industry and some are 'bespoke' to us. This is flagged next to each measure.

THEME ONE: UNRIVALLED CUSTOMER EXPERIENCE

OUTCOME 1: our customers tell us we provide excellent customer service and resolve issues quickly

AMBITIOUS GOAL: Deliver world class customer service

- Ofwat's Customer Measure of Experience (C-MeX) – common
- Response time to written complaints – bespoke
- Ofwat's Developer Services Measure of Experience (D-MeX) – common

Delivering world class customer service continues to be something we strive for every day – getting things right first time, fast time, every time. We know our customers really value this and we're always working hard to achieve this and 'wow' our customers.

During the COVID-19 pandemic, this focus on customer service has been more important than ever. Customers have looked to key workers in the water sector to keep essential services flowing, to keep them safe and protected, and to make things easier for them during these difficult times.

We created a website, giving our customers a one-stop-shop for everything they needed to know about how we would continue to operate safely across the communities we serve. This new hub was signposted from all our other operational communication channels, as well as in our marketing and corporate communications. We put robust processes in place to keep information updated and relevant, so that it added value and helped customers to help themselves.

Knowing that many customers' financial circumstances were affected by furlough, redundancy, or illness, we provided payment breaks to help them. We also wrote to customers to show them other ways they could pay when they normally did so in person or through PayPoint in local shops.

We used our data, insights, and experience to build new customer journeys that helped customers to engage with us in new and easy ways. We used those same information sources to write to customers to share what we were doing to help and how we were there to support them.

Customer Measure of Experience (C-MeX)

C-MeX is the new, common measure for 2020-25 that all companies will be assessed against. It's an evolution of the Service Incentive Mechanism (SIM) measure and provides a much more holistic review of a company's customer satisfaction performance. This is because it looks not only at the operational (transactional) contacts, as SIM did, but also includes experiential views and perceptions. These are the much broader, reputational and brand awareness elements of customer experience, when people may not have had an actual transaction with the company in recent times, but can recall and recognise its brand, and are comfortable with sharing their views on it.

Our ambition is to be in the top two companies for C-MeX across the 2020-25 Business Plan period. In the first year of the measure, we've consistently been in the top quartile companies for both headline measures, and we finished the year ranked second overall for customer experience and third for customer satisfaction, meaning we were third overall for the year.

We can earn a reward for high performance if we meet each of the following three criteria:

- We're one of the top three performers by C-MeX score;
- We're at or above a cross-sector threshold of customer satisfaction performance based on the all-sector upper quartile (ASUQ) of the UK Customer Satisfaction Index (UKCSI); and
- We have lower than the industry average number of household complaints (per 10,000 connections).

In 2020-21 we had 26,781 total complaints from household customers (132.562 per 10,000 connections).

We await Ofwat's confirmation on the level of our C-MEX reward factoring in the three criteria above.

In line with the guidance provided by Ofwat, we've offered at least five contact channels throughout the year, and at least three of them were digital. Examples of our channels include: Voice, automated IVR, email, webform, website, app, social media and messaging.

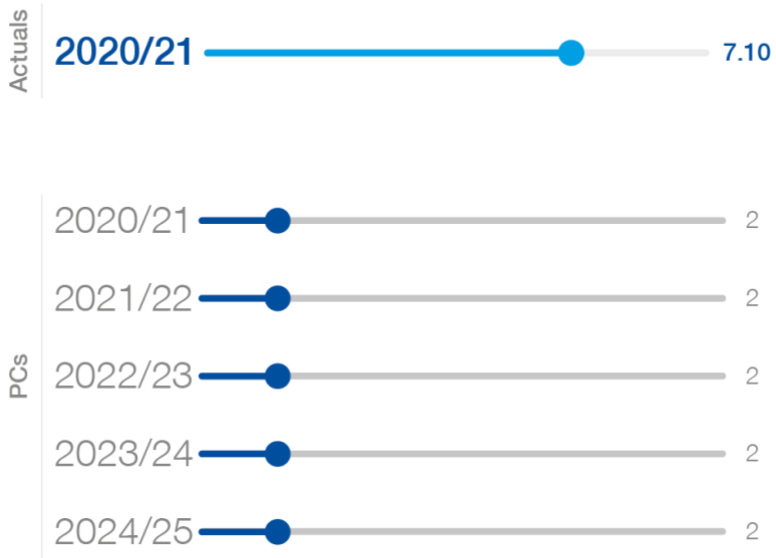
Our Net Promoter Score does not contribute to our overall C-MeX score but is recorded separately as part of our customer satisfaction surveys. We were proud to achieve +48.5, in third position after Welsh Water and Portsmouth Water and significantly higher than the industry average of +34.

To make sure we're best placed to drive forward our efforts to 'wow' all our customers and provide them with unrivalled experiences, we've focused on how we can make things better and simpler for our customers – driving a right first time, fast time, every time approach across all our services. This has seen us reengineer some of our organisation and reshape some roles to make sure our employees are able to use customer insights, learn and take opportunities to 'wow,' consistently. We're confident that our action plans, and the way we work together as one team across the organisation to deliver unrivalled customer experience, will help us perform well.

We're delighted with our position, but there's always more we can do. We're determined to keep making experiences even better for our customers, using their feedback and insights to continuously improve our services.

Early in the year, we discovered an error in our reporting data error for C-Mex, which we self-reported to Ofwat following an internal review. We're confident that this has had no impact on scores and have put extra controls in place.

Response time to written complaints



Our customers tell us that the speed with which we respond to complaints, and the way in which we communicate, are more important to them than minimising incidents. After carrying out a review of best practice for responding to complaints, we introduced a new, bespoke PC in our Business Plan for 2020-25. We're the only water and wastewater company to have a bespoke PC for response time to written complaints.

This measure uses the Consumer Council for Water (CCW) definition of a written complaint, which covers complaints via post, email, web or fax that are responded to within the reporting year.

We're committed to responding to a minimum of 90% of written complaints within one working day. To encompass that level of service, and to maintain appropriate focus on complex complaints which cannot be responded to within one day, we set our PC to two working days for 2020-25. This is a reduction from an annual average of five days - the level we were performing at when we wrote *Living Water - Our Plan* for 2020-25 and beyond. In the last few years our complaints numbers unfortunately increased across all reportable areas. We have not met our PC during 2020/21.

A proportion of the factors contributing to our increase in complaints this year can be directly linked to COVID-19 and the challenges it's brought, including:

- People spending more time at home using more water have then received higher water bills and not understood what's driven them.
- Delays due to changes to operating practices caused by the pandemic and its implications on being able to complete work.
- Changes to customers' circumstances and therefore the affordability of bills.

We've also seen phone calls coming to us in different patterns, at different times, in different volumes, which has led to complaints about call waiting times increasing significantly. Initially, this all took place as we transitioned most of our customer service advisors to working from home, and the collective and individual technology challenges this brought about.

There have been customers using new and different channels – such as digital and online services – and struggling to adapt immediately to these. All these challenges, and those beyond them, have had an impact on complaints numbers overall. There is therefore more work to do to reduce them and further enhance customers' satisfaction levels.

We recently completed some structural changes in our Customer Directorate to make sure we can deliver world class service. Our new structure facilitates even stronger ownership of customers' issues, fewer hand overs and faster resolution. We'll continue to do everything we can to meet our challenging, bespoke written complaints PC, and are confident that we'll see reductions in numbers and handling times as we move forward from this difficult period.

Developer Experience (D-MeX)

The Developer Measure of Experience (D-MeX) is the new financial common PC designed to provide developer services customers in the water sector with excellent levels of service. It's now a broader and more representative measure, looking at a range of Water UK metrics (the 'quantitative' element), as well as feedback from customers (the 'qualitative' element).

We expect to finish in 7th place, with an overall score of 86.94, receiving a small reward. We scored a qualitative score of 80.26 and a quantitative score of 93.62.

This PC is designed to incentivise companies to improve the experience they provide to developer services customers, including property developers, self-lay providers and those with new appointments and variations (NAVs). The PC should increase developer customer satisfaction, by improving the overall customer experience for all developer services customers.

Following the shadow year during 2019/20, where we finished strongly (third place overall in industry for the combined quantitative and qualitative score), we've now moved into the first live year for this measure. This year, there have been several other challenges to overcome too, including changes to metrics and reporting, and implementing new corporate systems.

At the start of the first lockdown, in March 2020, our main priority was to keep our employees and our customers safe. We reviewed the types of work we undertook that involved our employees having face to face contact with customers and consciously took the decision to stop activities that were not emergencies. As a result of this review, we decided to pause site-based developer services activity, including new service connections. This was purely due to safety concerns around the pandemic and was a decision that was taken to protect our employees and our customers. Some companies continued to carry out non-essential site-based developer services activity, whilst other companies took decisions like ours.

Our decision to stop non-essential developer services activity resulted in a backlog of new service connections that subsequently led to increased failure levels. This adversely affected both our quantitative and qualitative performance during the first half of the year, with us finishing in ninth position overall at the end of Q2.

During Q3, as we cleared the backlog in field activities and as our office teams became increasingly competent with working from home and the new systems, we saw our performance recover. We ended Q3 in third place overall for that reporting period. The improved performance during Q3 saw us move to seventh in the industry overall and just into financial reward.

There have been changes to the reporting metrics since the shadow year concluded, including:

- Changes between the draft and final determination calculation methodology;
- The introduction of new metrics part way through the year to include the Sewerage Adoption Code metrics;
- The introduction of metrics for NAV customers, and
- As we move into the 2021/22 reporting year, new metrics related to Water Adoption Codes were introduced.

We're confident that, had it not been for the COVID-19 pandemic and our decision to put the safety of our employees and our customers first, we could have ended the year in a better position.

As the number of metrics almost doubled to 84 compared to the same period last year, these changes have increased the complexity of systems and reporting. This required us to divert resources away from improving our customer experience, which is reflected in the drop in our qualitative performance.

We continue to review our performance, with a focus on both achieving good levels of service and enhancing the customer experience. During 2021, we'll introduce additional channels for customers by implementing a new customer portal and we'll work with our field teams to improve performance. Given our current position and the improvement plan we have in place, we anticipate that our performance will continue to improve throughout 2021/22.

Case study - Customer experience at the heart of everything we do

Ofwat's new customer experience benchmark, C-MeX, was launched in April 2020 to galvanise water companies into action when it came to customer experience – with financial incentives or penalties to match.

As a company who believes every customer should receive an unrivalled customer experience, we challenged ourselves to go beyond industry benchmarking to ensure best-in-class customer experiences.

We worked with KPMG Nunwood, using its **Six Pillars of experience excellence** - an evidence-based method that prioritises actionable results. The six pillars are Personalisation, Integrity, Expectations, Resolution, Time and Effort, and Empathy.

This was no cosmetic, tick-box exercise, but a holistic, root and branch approach to strengthening customer-centricity, finding new ways of working and creating a lasting roadmap for change.

We worked with KPMG to:

- Create maps of the current service states across three priority scenarios - 'Pay your bill,' 'Manage your water,' and 'Priority customers' – flagging gain and pain points and areas of value and waste.
- Identify end customer personas, based on qualitative and quantitative insights and extensive customer interviews.
- Outline service requirements for our future states, drawing on best practice, employee engagement and customer and business insights.

Taking time to engage with customers in end-to-end reviews, to make sure improvements work for them, has been an important element of the process. Digital innovation has also been a cornerstone of our customer experience transformation. We used digital twins (virtual copies of our customer processes and systems to simulate, test, and optimise them without loss to the business) to manipulate customer data in multiple ways to determine customer needs and expectations, including the requirements of vulnerable customers, and our digital channels used these principles to radically enhance and transform our customer service offer.

Our next steps are to adopt the KPMG Nunwood Customer Experience Cloud, which has access to machine learning. This will facilitate a holistic, agile approach to transforming customer insights into better decision making and greater efficiency.

By analysing specific customer touch points, we could understand the journeys customers must take to get the best result. Opening up our processes and systems to scrutiny has achieved some great results.

The project involved everyone from our CEO and leadership team to contact centre employees, operational teams and new recruits.

We've now embedded the Six Pillars into our performance management training across the entire company. Training sessions are also part of new starter inductions, focusing on the soft skills and technical know-how required for every customer journey.

OUTCOME 2: Our customers say they feel informed about the services we provide and the importance of water

AMBITIOUS GOAL: Give every single customer the opportunity to have a strong voice and engage with us, with at least 2m customers participating by 2025

We know that listening to our customers and having a deep understanding of what they expect from us now and in the future is important. We've long been committed to making sure our customers are at the heart of what we do. Always giving them the opportunity to have a strong voice, one that is heard and can shape the services we provide, allows us to do this consistently.

We've worked hard over the years to shape our offerings to reflect customers' needs and wants, incorporating this feedback into our business plans so we're always representing the voice of our customers. This is especially true when we're setting bold, new objectives like the ones included in our Business Plan for 2020-25. We established an engagement steering group in the development of our PR19 business plan, and this group is now developing the metrics to track and drive performance towards our goal to give every customer the opportunity to have a strong voice and engage with us.

When we received Ofwat's Final Determination, the things our customers told us were important to them hadn't been heard as loudly as we'd have liked. We decided – for that reason and others – to refer our case to the Competition and Markets Authority (CMA) for further consideration. This assessment and review process has been ongoing across much of the first year of us delivering our new business plan, so we've continued to focus on the things our customers told us were important to them while this was under review.

As the country has faced the impacts of the global pandemic, it has never been more important for us to remain true to our 'Customer Focused' value. As lockdowns and restrictions have impacted how, when, where and why we engage with our customers, we've made sure the activities we put the most effort into continue to add value and make a positive impact.

Over the last year, while continuing to deliver critical water and wastewater services, we've seen a lot of our customers embrace digital technologies in new and different ways. We've taken opportunities to engage more digitally – using technologies like WhatsApp, Zoom, Teams, Vyn, Facebook and other platforms to talk with customers, and share ideas and thinking.

We hope that there will always be a place for face-to-face customer engagement. However, quickly moving to make sure our customers could reach us in new and emerging ways was key to keeping dialogues going, and ideas flowing as freely as our tap water. We'll use our experiences and new ways of working, as we move through the restrictions and into the future.

Case study – Customer engagement on drainage and wastewater

We're very proud of our track record of creating innovative, robust customer research on complex issues.

It was important to us that our customers were able to make educated contributions to the development of our Drainage and Wastewater Management Plan (DWMP).

We started by educating a diverse group of customers that represented of our customer base in our North East region. We made sure that the group included customers who'd experienced wastewater issues, such as internal flooding, and customers who used the water environment recreationally.

Working with an independent market research agency we designed an online engagement platform that could collect individual customers' views. We then used the results in eight online discussion sessions to obtain consensus on the most important issues. We made sure that customers without digital access could be involved through telephone interviews.

Sixty current and future customers, along with some local businesses, took part in the individual stage of the research. They were taught about:

- The water cycle and how wastewater companies are involved.
- Correct and incorrect usage of sewers.
- Drainage and wastewater problems and their causes.
- Potential solutions to flooding and pollution, and their advantages and disadvantages.

Participants were then asked to prioritise different high-level aims for the DWMP, as well as being able to add any additional aims of their own. They were asked their opinions on how risks could be prioritised in the plan, and how they would like customers to be involved in developing the remainder of the DWMP.

Customers were able to interact directly with our employees to ask questions and clarify issues. Directors, senior managers and Board members also joined in the discussions.

Many have signed up to take part in the subsequent stages of our DWMP research. Here are some customer comments about their involvement in this project:

"I've thoroughly enjoyed it. I've learned a lot. I feel valued as a customer and included in discussions about things that may affect me."

"It makes us feel included, that Northumbrian Water really do care and value us as customers. I'll be interested to see how this research impacts on what Northumbrian Water does going forward."

"When you get into the finer detail, I would imagine you'd want someone who knew what they were talking about."

"It's good to know they have proper scientists and specialists in the field. But I think as paying customers, it's really important our views are included too."

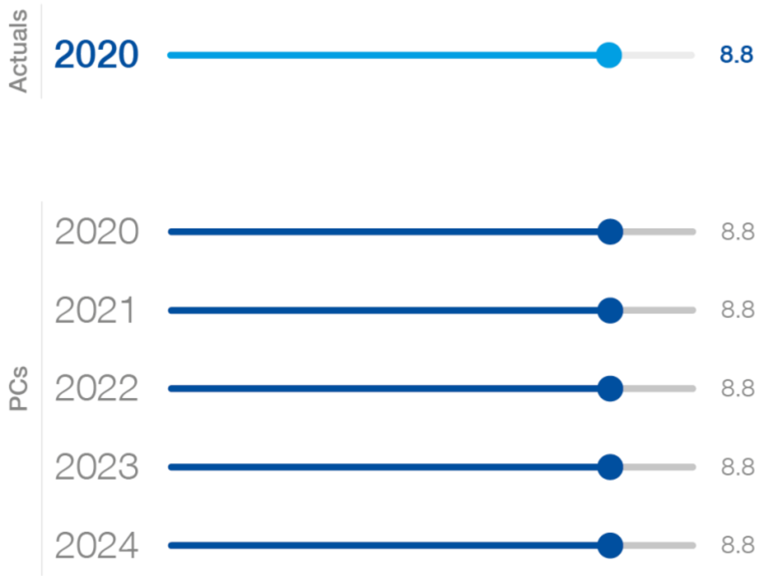
"I think consultation is exceptionally important because it not only consults you, but it also educates. There are bits through this consultation process that we weren't aware of and we can actually change our habits now as well as giving you my views."

"I didn't realise what went on behind the scenes, so getting input from the general public is quite important - to remind us how important it is, and to remind the water company what's important to the customer."

OUTCOME 3: our customers say we are a company they trust

- Customers' perception of trust (independent survey) – bespoke

Customers' perception of trust (independent survey)



This measure is the mean customer satisfaction score out of ten from our quarterly independent customer tracking surveys in the calendar year. The survey covers only household customers and consists of 500 completed interviews each quarter. The surveys are carried out in line with the Market Research Society Code of Conduct.

Trust remains consistent at 8.8 out of 10, which is in line with our PC. In our tracking research customers tell us they trust us because they've never had any problems / reason not to trust us and because they have a reliable water supply. Social media sentiments show other factors that influence trust include our community work, how we supported those who were struggling during the pandemic and how we kept operations running, dealing effectively with interruptions to supply and blockages.

As a provider of essential services, being trusted by our customers really matters. Our 'Just Add Water' campaign - our customer centric, mass market, brand building campaign, built on extensive market and customer insight - focuses on this.

We use segmentation, positioning and targeting to land our communications messages effectively and efficiently. We amplify messaging consistently across all our channels and we have a joined-up approach to campaign delivery. We made a commitment to maintain clear, consistent communication during COVID, reassuring our customers that we are always there for them when they need a helping hand, advice or a solution.

By continuously monitoring and evaluating, we were able to flex dramatically during the pandemic, to make sure our messaging pivoted in line with customer expectations.

There are no financial incentives associated with this PC. We want to maintain our high score of 8.8 out of 10 throughout the 2020-25 period, so that we can be confident that customers trust us. In addition, we score highly for trust in CCW's Water Matters annual tracking survey. In 2020, we achieved a CCW trust score of 8.16 out of 10 for NW – significantly higher than the average for Water and Sewerage Companies (7.86). In ESW, we achieved 8.14 which was up from 7.59 in 2019, a significant change from last year and higher than the industry and Water Only Company average (7.91).

OUTCOME 4: Our finances are sound, stable and achieve a fair balance between customers and investors.

There are no PCs under this Outcome. However, we stated in our Business Plan that we will deliver the following for customers under this Outcome:

- We are financially resilient
- We have a financially stable Business Plan
- We plan our finances for the long-term
- We raise debt finance efficiently
- We share any efficiencies we make with customers
- We pay our taxes
- We procure responsibly

We have longer term plans to allow us to operate our business sustainably and we manage our finances in the same way to make sure they remain sound and stable. It is important that we maintain a fair balance between our customers and investors to keep our customers' bills as low as possible while continuing to attract capital to finance the investment necessary to maintain and enhance our assets. Striking this balance shows our customers they can have trust and confidence in us.

Financial structure and resilience

Like most companies, we are financed through a combination of money from shareholders, profits, and borrowings. NWL is a wholly owned subsidiary of Northumbrian Water Group Limited (NWGL), which is majority owned by companies in the CK Hutchison Holdings Limited (CKHH) group, based in Hong Kong, who are responsible and committed investors in our business.

Like any investors, our shareholders expect a return on the money they invested but these dividends are not guaranteed. We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back into the business.

The Board places a strong focus on maintaining long term financial resilience. We maintain a detailed five-year plan that is updated and reviewed annually. This is underpinned by a commitment to maintaining an investment grade credit rating, as assessed by independent credit rating agencies Moody's and Standard & Poor's.

The Board has assessed our long-term financial resilience over a nine-year period, to the end of the next price review cycle. This included stress testing our plan against our most significant risks and uncertainties. The Board's assessment is set out in our long-term viability statement on **page 119** of this report.

Customer bills

The revenue that we can charge to customers is set every five years through the regulatory price review process. We aim to keep our bills as low as possible while still allowing us to invest in sustainable and resilient services and allowing a reasonable return to our investors. For 2020-25 we proposed a 15% reduction in customer bills, the largest in the sector.

We operate and finance our business as efficiently as we can on behalf of our customers, and we share any efficiencies we make with them. We aim to be at the frontier of cost efficiency which benefits all water and sewerage customers in England because it drives the efficiency frontier, against which all companies are benchmarked, to new levels.

Customers benefit from sharing the cost efficiencies we make in each price review period. Any outperformance of the totex regulatory allowance for 2020-25 will be shared with customers, resulting in lower future bills. They also benefit from efficiencies in financing costs so that customers do not pay any more than is necessary.

Long term borrowings

We invest around £1m each business day in maintaining and enhancing our asset base to improve services for our customers. The scale of this capital expenditure means that we need to supplement the money we receive each year from our customers through their bills by borrowing additional money from banks and debt markets. Our investment grade credit ratings and strong capital structure help us to obtain financing at competitive interest rates, making sure our financing costs stay as efficient as possible for customers.

We borrow in a controlled and sustainable manner to make sure we can deliver substantial investment in our asset base without this leading to a significant increase in customer bills. We spread the financing cost of our investment and manage the borrowings over long periods of time, sometimes more than forty years. This means both current and future customers help to pay for the investment. As a result, bills are more stable and sustainable for customers, with a fair balance of contributions between generations.

Our borrowings range from short term working capital financing to long term bonds, typically listed on the UK Stock Exchange. Our borrowings reflect a mix of fixed rate, providing stable interest costs, and inflation-linked, to match our inflation linked revenues. By maintaining a well-balanced debt portfolio, we can better manage risks of adverse movements in inflation and interest rates and minimise volatility on customer bills.

Our total borrowings at 31 March 2021 amounted to £2.936bn, as reported in **Table 1E** of this report.

Shareholder returns

Our shareholders have provided the necessary capital and financial backing required to run the business and in return they receive a dividend return on the capital they have invested. The dividends we can pay are driven by our financial and operational performance, the level of service provided to our customers and employee's interests. This means that the returns our shareholders receive are not guaranteed from one year to the next, and we paid no dividends in the year 2020/21. There are many significant risks associated with the business and it is the shareholders rather than our customers who carry the weight of these risks.

We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back in the business. Our dividend policy is described on **page 174** along with how the directors have applied the policy in the year.

Taxes

Both NWL and our parent company, NWGL, are based in the UK and pay corporation tax to the UK Government. We are transparent about our tax arrangements and present our Tax Strategy on **page 145** of this report, as well our website. This sets out our responsible approach to tax matters, under the oversight of the Board and its Audit Committees, and our constructive relationship with HMRC.

Our customer bills include an allowance to cover the corporation tax we expect to pay, like other operating costs. This allowance reflects the benefit of tax reliefs that are available to us, such as capital allowances on our investment in our assets, which helps keep customer bills down.

Responsible procurement

Our responsible approach to procurement is described on **page 112** of this report.

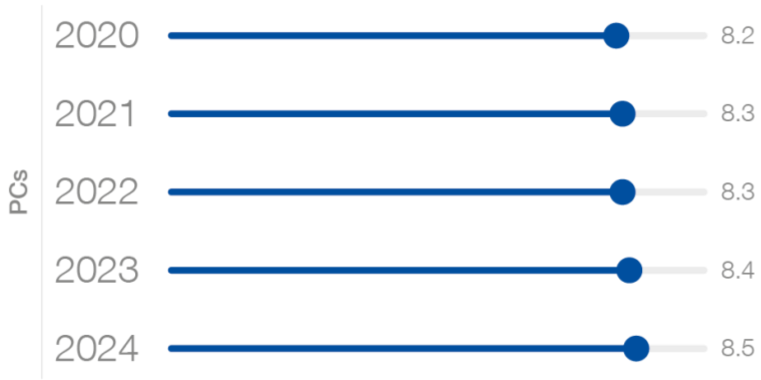
THEME TWO: AFFORDABLE AND INCLUSIVE SERVICES

OUTCOME 5: Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all

AMBITIOUS GOAL: Eradicate water poverty in our operating areas by 2030

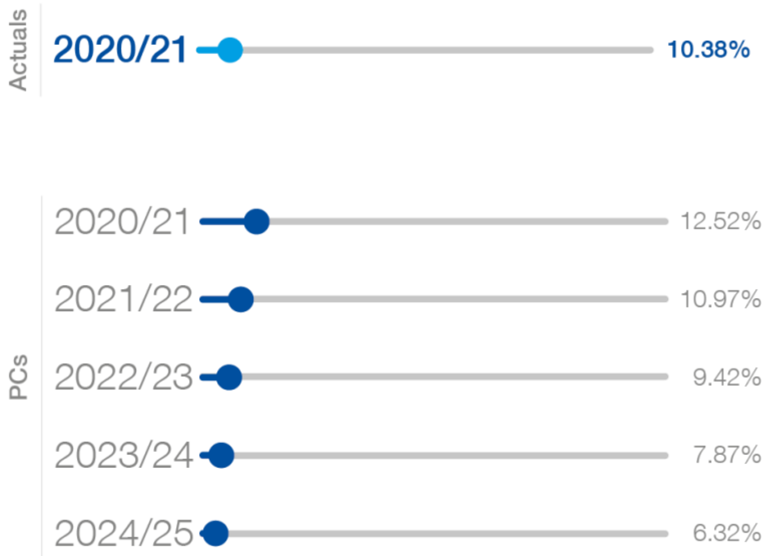
- NWL independent value for money survey – bespoke
- Percentage of households in water poverty – bespoke
- Awareness of additional financial support – bespoke
- Satisfaction of customers who receive additional financial support – bespoke
- Awareness of additional non-financial support – bespoke
- Satisfaction of customers who receive additional non-financial support – bespoke
- Priority services for customers in vulnerable circumstances – common
- Reach of Priority Services Register – common
- Review of Priority Services Register – common
- British Standards Institute Award for Inclusive Services – bespoke
- Percentage of void household properties – bespoke
- Gap sites – bespoke

NWL independent value for money survey



This measure of performance continues from our 2015-20 Business Plan and is reported on a calendar year basis. This year (2020) we saw a 0.2 out of 10 increase in the average satisfaction of customers that the services we provide represent good value for money. The score of 8.3 out of 10 is the highest score we've received in the last six years. This is particularly pleasing, given the affordability challenges many of our customers faced during the pandemic.

Percentage of households in water poverty



We have an ambitious target to eradicate water poverty in our operational areas by 2030. To meet this goal, we've set annual targets to reduce water poverty each year.

Our initial water poverty target for 2020/21 was to reduce water poverty to 12.52% in our areas. As a result of the income impacts of the pandemic - particularly the nature of income support initiatives offered by the government - we feel that calculating a baseline measure how we initially envisaged (by using credit reference data) would not give a realistic estimation at this time. We fully accept that incomes have been dramatically impacted during the year and that as a result underlying water poverty will have worsened. However, any new assessment during this time would provide a skewed and potentially short-term view. The focus we have internally is that getting support to those who need it is more important.

To give consistency to our measurement and targets for the 2021/22 year, we've kept the baseline previously calculated the same, and measured the numbers of customers for whom we've made a positive intervention to assess our impact on water poverty. Using this method, we believe we've reduced water poverty in our areas to 10.38% compared to a target of 12.52% this year.

Our target reduction in 2020/21 was based on three main aspects:

- An underlying price reduction.
- Increasing the numbers of customers benefiting from our financial support schemes.
- Identifying customers who would benefit from a metered bill.

The price reduction in the first year of PR19 was greater than we initially expected, and our estimation of the impact a price reduction would have on water poverty in our Business Plan was very cautious. The price reduction is bigger than in our plan, reflecting Ofwat's FD. We estimate that this price reduction (with external income changes) will have lifted 185,752 customers out of water poverty. We're aware that the recent correction of Ofwat's Final Determination by the Competition and Markets Authority will result in increased prices in future years. However, we will increase support in other areas to compensate for this.

An additional 22,000 customers have been able to access our financial support schemes because we were successful in gaining customer support to extend the funding of our SupportPlus social tariff, funded by cross-subsidy. We were one of only a few water companies who carried out additional customer research in this area. Because of this we were able to apply our maximum cross subsidy to 2021/22 tariffs, which is £3.00 for the Essex & Suffolk region and £3.75 for the Northumbrian region.

During 2020/21, the number of customers benefitting from financial support through our SupportPlus tariff increased by 30.2% to 30,210. Our company-funded tariff also increased by 21.6% this year, which means we now have 8,919 customers benefitting from bill reductions of up to 50%. We've also seen a steady increase in our WaterSure numbers, which increased by 15.2% this year to 9,327.

In March 2021, we were an early adopter of sharing data with the Department for Work and Pensions (DWP), to help us identify customers who would benefit from a metered bill by flagging new eligible customers receiving Pension Credit and customers eligible for WaterSure. We are one of only three water companies currently sharing data with DWP. The project has been delayed by the DWP, but the data matching will be a key driver for us identifying those in need in 2021/22.

We've been heavily involved in the work with Water UK and CEPA (global economic and financial policy consulting business) looking at the measurement and initial assessment of water poverty in the industry. We are pleased that the way water poverty has been defined in this work has aligned closely with our own measure.

As part of our work to assess water poverty and target those needing help, we're working closely with credit reference agencies. Alongside our plans to have a more adaptive measure of water poverty in the future, we hope this will enable us to better target customers and provide a simpler eligibility assessment by automating large parts of the process.

Benefit sharing arrangement

In Our Plan for the 2020-2025 period, we committed to using the interest income earned on unutilised tax funding from the previous price review to support our zero water poverty goal and other targeted customer support arrangements. The value of interest earned has been small this year due to extremely low rates of interest receivable. However, we have used this to explore two opportunities to support customers.

Foodbank partnership trial

During the start of the pandemic around half of the people who used a food bank had never needed one before. With the growing need and demand, our foodbanks are a link to our customers most in need of our help as they are struggling not just with their bills, but the basic need of food. We have been trialling a new approach offering a free month's water to encourage these customers who are traditionally hard to reach engage with us and allow us to assess them for the best tariff.

The approach is being trialled with 250 customers offered free water for a month following a doorstep visit by a food bank representative to include sign up for free month during which time they will take details to assess most suitable tariff for the customer.

Flexible payments

Many customers are increasing their digital engagement with us both when communicating and making payments, but customers have fed back areas where they would benefit from more flexibility.

We have been working with Netcall, who offer a new type of online platform using a Low Code solution. Netcall joined our Virtual Innovation Festival in 2020 where they facilitated a session to explore the current pain points for customers in arrears. Using this insight they went on to create a proof of concept Low Code app in 3 days which looked to create a smoother and more efficient journey for both us and our customers.

Since the festival we have continued to develop this idea using this funding to deliver a 3-month pilot focussing on;

- Providing the ability to allow customers to flex their own payment arrangements within parameters, giving them control of their accounts whilst freeing up our contact centre advisors who would otherwise handle these calls
- The ability for a customer to upload a document straight onto our website (for example to provide evidence regarding their income for a support tariff)
- Allow customers to complete income and expenditure details online and submit them to us.

We have trained some of our internal employees to understand how to use the platform to build the solution which has is ready to go live. The first instance focussed on providing customers with the opportunity to flex their payment plans. Initially this will be for customers who have registered for an online account and who currently have a payment plan with us, allowing them the flexibility and control to change their arrangement.

Case study – Supporting our customers in 2020 and the pandemic

Many people across the country experienced unexpected changes in their circumstances due to the coronavirus pandemic. From the start of the first lockdown, and throughout the year, we provided our customers with guidance on how we can help make sure their water bills are more affordable.

Some customers were facing worrying and uncertain times, and we knew that Government changes to the furlough scheme may bring further change and additional worry.

Through our Water Without the Worry campaign, we offered a wide range of free support, especially for those who were unexpectedly affected by the pandemic and people who were already having financial difficulties.

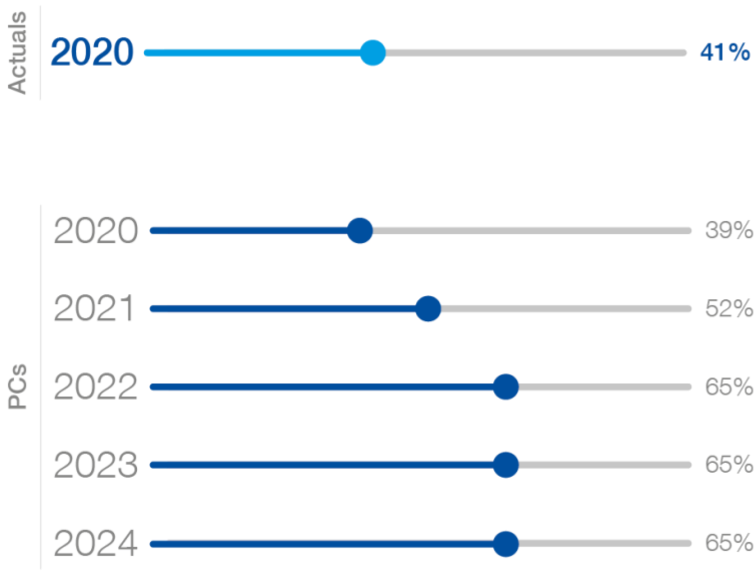
Here are some ways we have supported, and continue to support, our customers:

- Checking they're on the cheapest tariff for their current circumstances. We can offer discounts of up to 50%. These tariffs are perfect if a customer's total household income is less than £16,105, a member of the household receives Pension Credit, or their household income doesn't cover essential bills.
- Supporting switching to a water meter when this can save customers money. Our instant, **online calculator** shows whether a water meter would reduce charges. We install meters for free and allow customers to track their water usage with an online account.
- If anyone has been made redundant or had a sudden change to their income and can't afford to make payments, we can offer payment breaks. Since the first lockdown, we've already helped more than 7,000 customers this way.
- If a customer's income has reduced and they can't afford their normal payment arrangements, we can offer a variety of flexible payment arrangements that are suitable for the individual.
- Working with independent debt charity StepChange, which provides free, expert debt advice and solutions for anyone looking to reduce arrears and re-schedule payments to ease debt problems.

Lisa Connell, Customer Service Manager, said: "We have a fantastic team ready to help our customers and give them the support they need. We've helped many customers reduce their charges and provided many affordable payment plans.

"The worry of unpaid bills and getting into debt can put a strain on people's health. It's important for people to know that they don't have to face their problems alone and that we're here to help - not just during the coronavirus pandemic, but at any time. All they need to do is get in touch to talk about what we can do to support them."

Awareness of additional financial support



This new, bespoke PC measures customers' awareness of the additional financial support we offer. This includes both discounted bills and writing off customer arrears for eligible customers. We measure awareness in quarterly surveys with customers and we've achieved 41% awareness - ahead of our committed PC of 39%.

The pandemic has had a significant impact on our customers - especially on household incomes and their ability to pay bills. Our email communication campaigns included messages about the tariffs and financial support we could offer. Many customers have used our payment breaks service. We provided an easy to use online form for customers to request a payment break of up to three months and received more than 8,200 requests via this form. We also promoted our additional tariffs which could reduce bills as part of processing each request.

We used radio to raise awareness of additional support available in January and February.

Satisfaction of customers who receive additional financial support

This new, bespoke, reputational only PC is designed to make sure we provide high quality financial support to household customers that are signed up to one of our SupportPLUS tariffs or WaterSure. We work hard to make sure customers receiving financial support are satisfied with the services they receive (via a satisfaction score out of 10), indicating that we are delivering a quality approach to supporting these customers. We are pleased to beat our target of 8.7 with a high score of 9.3.

The score is determined as an annual mean from telephone surveys, during which a total of 1,000 customers who are receiving financial support for either water arrears or ongoing charges are asked to rate their overall satisfaction with the services we provide. The research is completed in line with the Market Research Society code of conduct. This year, we completed a one-off survey to cover the whole year. This was due to the impact of the pandemic - with the ever changing situations, we wanted to have an overall view when we were hoping to see more stability and understand how customers had felt about our services particularly through this time. From next year, we will move to quarterly surveys.

Case study: how we are supporting customers financially

Customer A – Stockton-on-Tees

Customer A had been in contact with us regularly in previous years because she'd been struggling to make payments as her daughter had been ill; and requested to restructure her instalments.

In January 2020, when she contacted us again, we discussed the tariffs we had available with her. She wasn't eligible for our tariff aimed at those on low incomes. She was struggling financially, so we suggested she contact StepChange for holistic debt advice. We provided her with their phone number and a link to their online budgeting tool via text message and put her account on hold while she sought debt advice.

She had only made three payments in the previous year and owed us £960.

After contacting StepChange for a full assessment, she provided us with a copy of her income and expenditure. This showed that she had multiple debts with other organisations and owed more £10,000 in total.

We provided her with a 50% discount on her ongoing charges and put her arrears payments on hold. This reduced her payments to just £14 a month, and she is eligible for all her arrears of £960 to be written off, over two years. The first payment will be applied in March 2021. Customer A has been making regular payments to us since she was accepted onto our scheme and will be debt free if she continues these reduced payments in March 2022.

Customer B – Darlington

We were contacted by Customer B's support worker because he was struggling to pay our bill and the support worker was aware of our support schemes. The customer had arrears with us over two accounts - one for a previous address and one for his current address. He owed us a total of £2,447, including charges back to 2008. The support worker provided the necessary supporting income and expenditure assessment, which showed our customer had five other non-priority debts. We agreed to him paying £22 a month to cover reduced payments and put all his payments towards his arrears on hold.

Customer B has been making fortnightly payments ever since, was due to be debt free after the final arrears payment to us in April 2021.

Customer C – Romford

Customer C contacted us because she was previously paying via Water Direct. These payments had stopped, so our customer wanted to set up a new arrangement with us.

When discussing the payments, we became aware that she was claiming Income Support, had three children under 18 in her home, and a medical condition which meant she needed to use more water. We identified she was eligible for the WaterSure tariff. Customer C had an outstanding balance of more than £2,300.

We agreed a reduced payment arrangement based on the WaterSure scheme while she provided proof of eligibility. The WaterSure scheme capped her monthly bill at £34 per month.

Customer C's water consumption was still higher than expected for her family size, and we found out that this was due to a tap in her garden which was accessible to other neighbours. To assist our customer to reduce wastage through neighbours using her tap, we bought a lockable cover for her outside tap so that only her family could use it as needed.

We also registered our customer for Priority Services, as she would need bottled water if there was an extended interruption to supply due to her health condition.

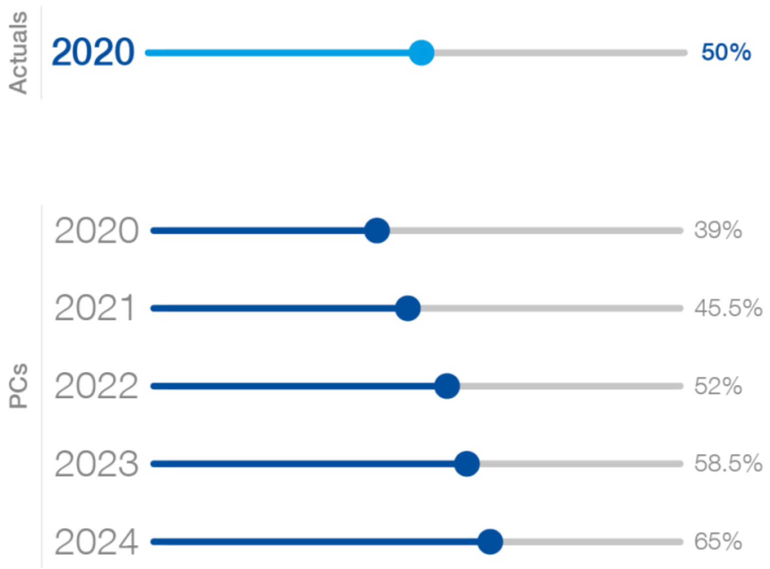
Customer feedback

Two examples of recent feedback we've received from customers who we've supported financially are included below.

"I think because they have done a good option to help other people, they listen to problems of other people, and you feel like you've got help from them as well. They think about you - about people. The fact that they think about doing something good - it's really emotional and very, very important in life."

"When we first set it up, the lady I spoke to was very helpful - showed empathy. It was simple to complete, very helpful. We were struggling and she was incredibly helpful."

Awareness of additional non-financial support



This new, bespoke PC measures customers' awareness of the non-financial services we offer as part of our Priority Services Register. We've achieved 50% awareness, which is ahead of our PC of 39%.

As some of our customers were asked to shield and stay at home, this meant they needed our additional services because their family members couldn't visit them to provide support. This year we've introduced e-learning for our contact teams about identifying signs of vulnerability and how to introduce our Priority Services in a conversational way, which can remove barriers to service.

To raise awareness of the different Priority Services we offer, we've proactively completed contact campaigns with customers using more than 2million targeted email communications as well as social media campaigns. The emails achieved a 65% open rate and generated 81,000 clicks through to the relevant pages of our websites.

Throughout this year, use of our websites has increased, as more customers are looking to self-serve. We designed a landing page to highlight our Priority Services and signpost customers to additional information. Our unmeasured annual bills which were delivered during February and March 2021 promoted Priority Services prominently on the back of the envelope.

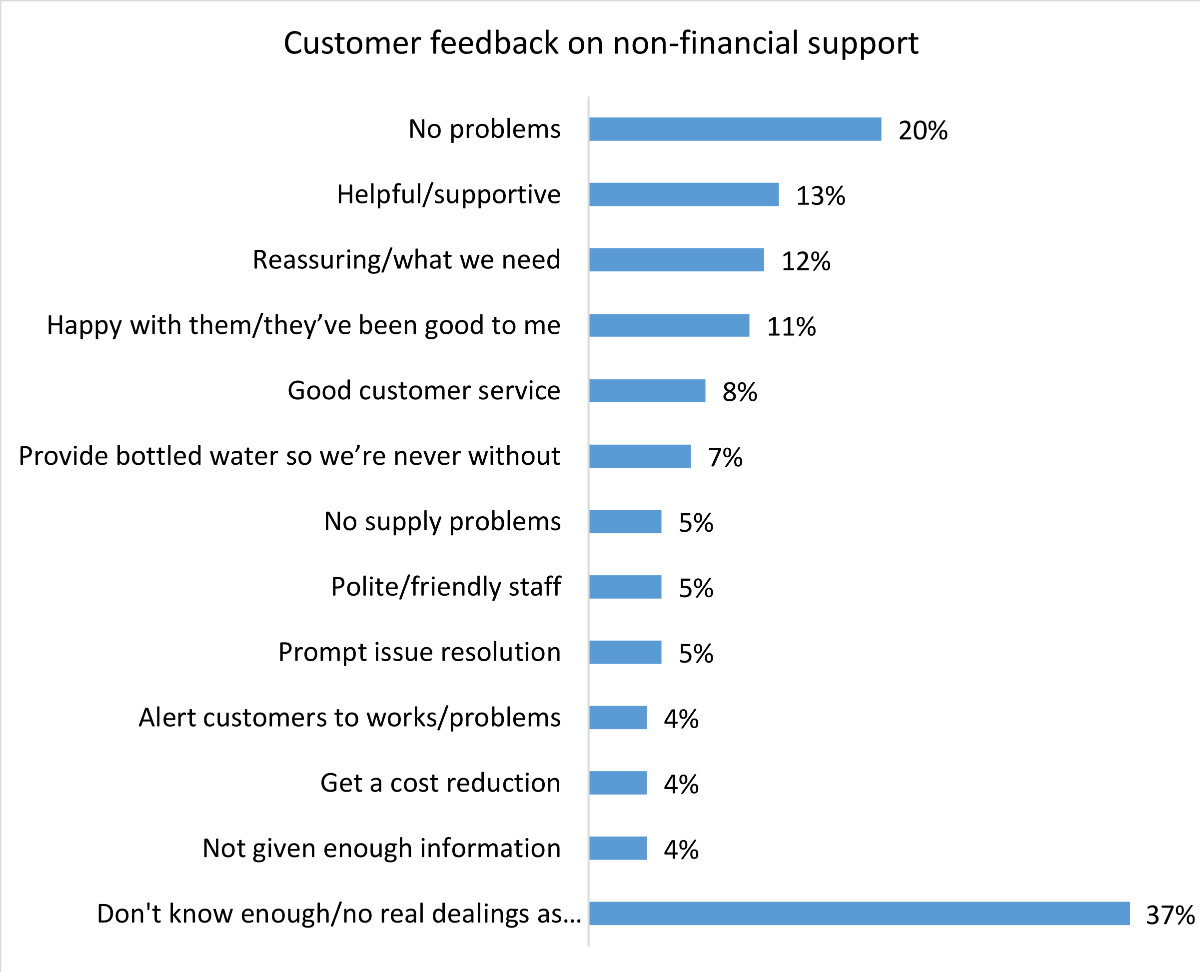
Satisfaction of customers who receive additional non-financial support

This is a new, bespoke PC. Alongside collecting users' satisfaction scores out of 10, we're also asking them for feedback about any additional services or barriers to service they may be experiencing. We were pleased to achieve our PC, which is reputational only.

An independent market research provider has interviewed 1,000 customers and we scored 8.7 out of 10 this year, which is in line with our PC. We completed a one-off survey to cover the whole year rather than smaller quarterly surveys. This was due to the impact of the pandemic - with the ever changing situations, we wanted to have an overall view when we were hoping to see more stability and understand how customers had felt about our services particularly through this time. From next year, we'll move to quarterly surveys.

As part of the BSI Inclusive Services standard assessment, we've reviewed our services and customer engagement tools. We've also increased the training provided to our front-line teams, including a new training session for field-based teams to identify customers in need of additional tailored services and noticing triggers. Alongside this, we've launched an additional British Sign Language translation service.

Feedback from customers about the additional support was as follows:



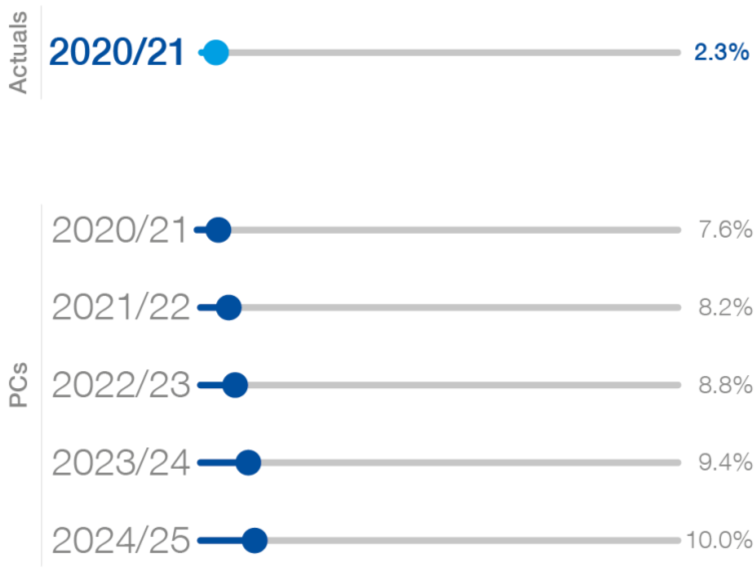
Priority services for customers in vulnerable circumstances

This is a new, common, reputational only measure for 2020-25. Its purpose is to ensure a minimum standard across all companies for the number of households registered on the Priority Service Register (PSR) and for PSR data checking. This PC will help to increase the number of customers in vulnerable circumstances that receive the most appropriate service to their needs. It will also make sure PSRs are kept up to date.

The PC has the following criteria:

- The PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR.
- Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period.
- Actual contact: percentage of distinct households on the PSR that the company has contacted over a two-year period. To achieve compliance with this PC, all the reach, attempted contact and actual contact targets must be achieved.

Reach of Priority Services Register



Our original projections for customers signed up to our Priority Services Register (PSR) included an expectation that we would be data sharing with the energy sector in our areas. Due to delays to this programme, we haven't seen the increases anticipated and did not meet our target. However, we have still seen a significant increase in the number of customers who are benefitting from the service. More than 2.3% (45,427) of our households are now registered against our target of 7.6%.

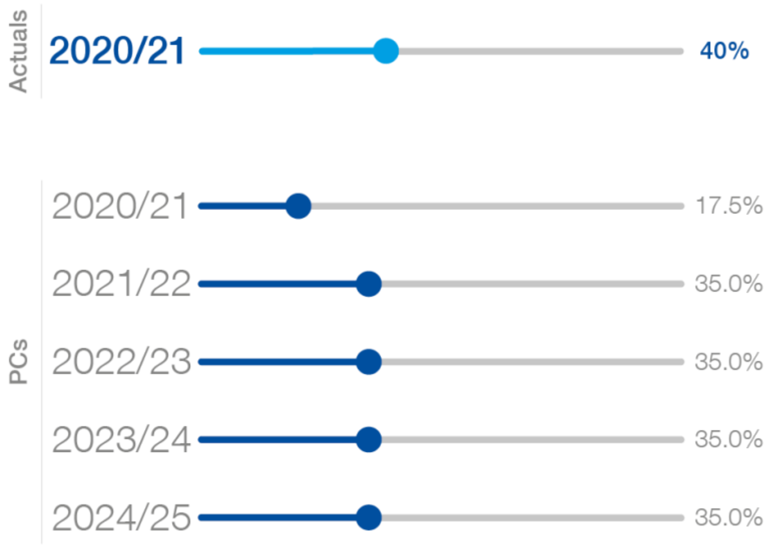
During 2020, the PSR awareness training we delivered to call handlers increased registrations for these free services from an average of 65 per week (June 2019) to more than 500 per week (February 2021). We developed an eLearning training module, in collaboration with Northern Gas Networks, for customer-facing, field-based employees. This was to help them identify and look out for signs that someone may need support and was also successful in raising awareness. The module uses scenario-based learning with follow up questions to test understanding and provides flexibility and easy delivery. This was important because most users work a variety of shift patterns, including evenings and weekends.

We changed our legal basis for collecting data about Priority Services customers from 'explicit consent' to 'substantial public interest' to make it easier and clearer for customers - especially those acting on behalf of someone who would find it difficult to reach out to us. More information about how we use and store this information is available **here**.

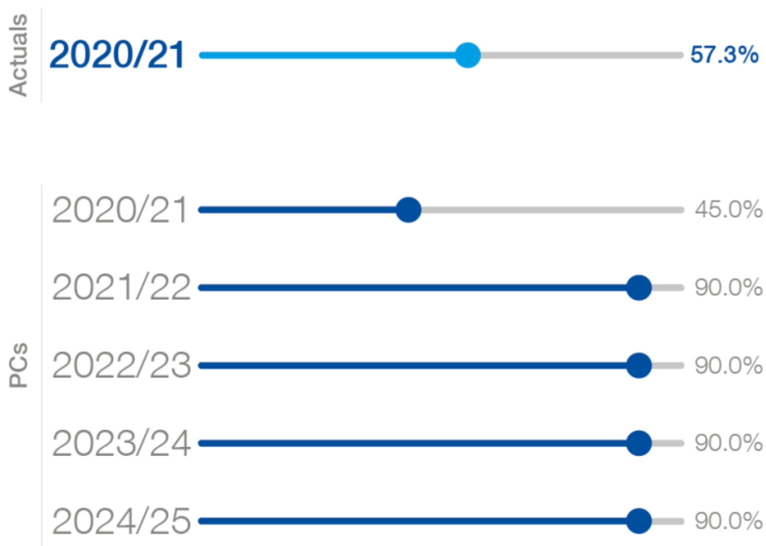
We are working with UK Power Networks and Northern Power Grid on automating direct sharing of PSR data for new customers, in advance of our wider data-sharing programme.

Review of Priority Services Register

Actual contact



Attempted contact



This was the first year of this common PC. We contacted customers who have been registered on our PSR for more than two years, to see whether they would still benefit from the services and whether any additional services were required. The results for our first year have been very positive, and we’ve exceeded our targets for both attempted contacts and actual contacts.

We created a new alert to prompt employees to check PSR requirements on every call. It indicates when a customer is already registered on PSR with us, when they have been registered for more than 18 months and need details to be validated, and when they should be offered Priority Services. As part of our proactive contact with customers when we are completing planned work, we will also review their PSR information.

We developed a new report to demonstrate the measures we take to review contacts, and to identify customers who've been registered for more than 18 months and require validation, this year. This enabled us to deliver a suite of outbound contacts to engage with customers, including outbound texts, email and a letter to customers who were due to have their information validated who hadn't contacted us directly.

We also worked with large housing associations to update social housing properties for tenants living in accommodation reserved for anyone needing support, which has increased the contact rate for this year. For future years, we anticipate the contact rate will be lower when we are not able to validate in bulk.

British Standards Institute Award for Inclusive Services

This is a new, bespoke PC for 2020-25 and is reputational only. Our target is to maintain this award consistently. This PC is designed to make sure we provide a fair, flexible service which can be used by all customers equally, regardless of their health, age or personal circumstances.

We're proud to have achieved BS 19477: Inclusive Service Verification this year. The standard assesses whether inclusive services are fully accessible to all customers and that companies have the right business processes in place.

The rigorous audit for the certificate, which was carried out remotely, reviews our approach to vulnerability and makes sure our services are inclusive for all - whatever a customer's circumstances. During the assessments BSI reviewed our documented policies and procedures, then held 27 sessions with our teams to see how the policies and procedures are brought to life for our customers. These included contact centre call listening, a complaints review, our communications planning, how we manage events, debt recovery and affordability.

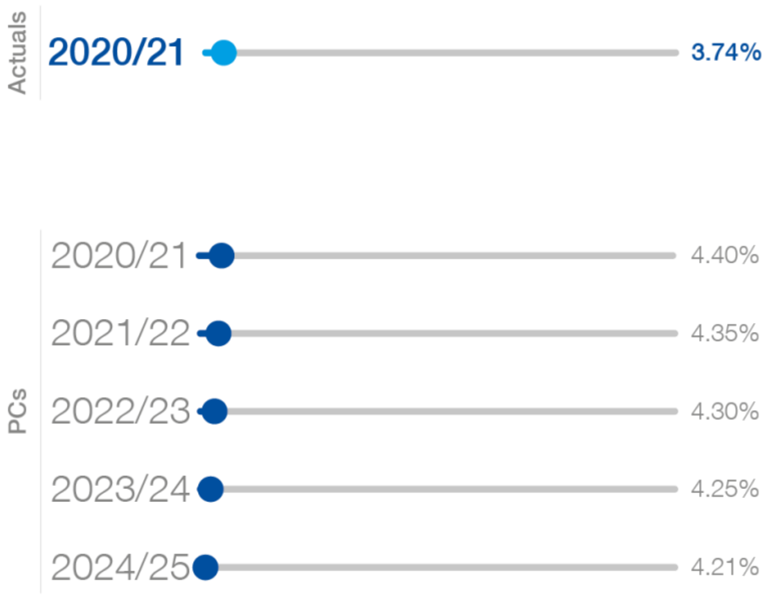
We've successfully been accredited, with only one minor non-conformity and three opportunities for improvement. This was a very good result for a first full assessment; it is common for both minor and major non-conformities to be raised.

We've put an action plan in place to cover the non-conformity and opportunities, which will be completed this year. The actions cover additional training, increased external review of bill re-design, website accessibility enhancements and developing call calibration; a quality monitoring meeting to rate and discuss customer service calls.

We're always reviewing the services we offer, and this expert assessment introduced external scrutiny of our processes, which will help us focus on areas to improve.

We'll now move to an annual assessment, to retain the standard and continue to demonstrate how we are developing and enhancing the service we offer.

Percentage of void household properties



This is a new bespoke measure for 2020-25, with financial incentives for both under and outperformance. Reducing the number of void properties, which are occupied but not billed, leads to fairer charges between customers and lower bills for customers already being billed. This year we've beaten our PC and earned a financial reward for doing so.

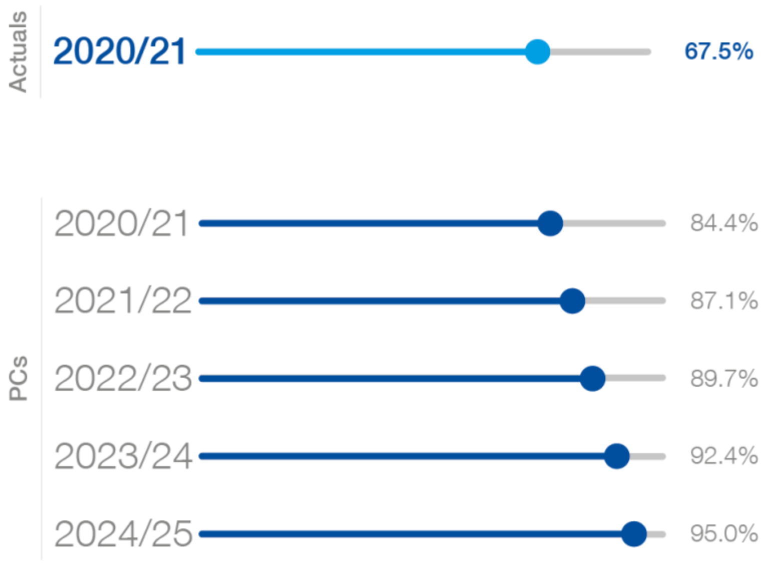
Billing all customers in a timely and accurate way has always been our focus. The introduction of this new measure to incentivise water companies to minimise the number of void properties led us to look closer at our process for identifying 'Occupiers' who have failed to register. We worked closely with TransUnion to consider how we can proactively use credit reference data to identify properties that are occupied yet not billed. While we've always used this data within our void process, we have now set up new contacts and automated processes to make better and more timely use of this data. These changes speed up the identification and billing process and reduce unbilled properties. This year we introduced robotic processing into certain stages of our void process, including the way we manage and automate returned post and some automatic billing of properties when there is a strong data match.

We continue to innovate in this area, and have been trialling external services, such as using a company called Shepper to help us to identify properties that look occupied or empty so that we can better focus our visits, or match with lower certainty credit matching data.

Doorstep visits were put on hold because of social distancing requirements which impacted our void property processes early in the year. Adjusting our billing and debt recovery processes during the initial lockdown period also impacted our voids process because we moved our teams from office working to home working, which temporarily reduced our capacity.

The void property measure is an average measure across the year, so as COVID-19 impacted the early part of the year, this has adversely affected our full year result. However, since September 2020 we've maintained a void property rate ahead of our target performance, and as a result our full year performance will be 3.74%.

Gap sites



The aim of our new, bespoke gap site PC is to reduce the risk of sites or properties receiving water and/or wastewater services that are unknown to us and are not being billed. Reducing the number of these gap sites, which are also potentially occupied, leads to fairer charges between customers and lower bills for customers already paying. This PC is reputational only so no penalty or reward is payable.

The number of gap sites cannot be measured directly as they are unknown to us. The only way to assess gap site risk is by comparing our property data with third party information to look for gaps. We set a PC to match the majority of our Non-Household (NHH) premises database (contained within our corporate Customer Contact and Billing system) with the Government's Valuation Office Agency (VOA) business premises ratings list.

Not all the active premises in our database are eligible to be on the VOA ratings list and those that are, don't always have a VOA reference number. Local Authorities introducing new or revised numbering structures can cause unmatched premises, as can simple transcription errors or mistakes when data was entered into our system.

We've currently matched 73% of our combined HH and NHH premises in our Essex & Suffolk operating area and 81% in our Northumbrian operating area. This project is still in the implementation phase and numbers won't be formalised until next year. However, our planned PC of 84.4% matches has not been met this year. This is primarily because the resources we would usually have had available to complete manual validation work to cross reference and match data wasn't available as these employees were needed elsewhere as a priority to support customers during the pandemic. We have a match level of 83.5% but we only have an adequate confidence level in 67.5% of the matched premises. We remain confident of meeting our five-year target and hope to accelerate our matched rates as we complete our aligned unique property reference number (UPRN) matching processes over the next year.

To gain further confidence in the matched premises, we've used a partial or full postcode to cross reference our premises with the VOA ratings list. This resulted in 104,538 matches (64.2%) using partial postcode and 92,554 (56.9%) using the full postcode, which provides assurance on the accuracy of our match rate of 67.5%.

Our PC is based on the number of premises on the VOA ratings list matched to our NHH premises database. This is now 67.5%, and potentially 83.5%. This year, we report 67.5%, and will validate the other potentially matched premises, alongside matching additional unmatched premises in the next year. This is a conservative approach because the true figure could be closer to the 83.5%. This could be reported but with a lower level of certainty. We have therefore opted to report the lower figure, in which we have a higher degree of confidence.

Work has already begun to enhance our database by matching premises to the Address Base Premium product from Ordnance Survey and including the UPRN for premises in our database. We have made significant progress with this, which is helping us to match premises to the VOA database.

The two exercises to match premises to UPRNs and VOA reference numbers are complimentary to each other and we'll continue to focus on these until 2025.

THEME THREE: RELIABLE AND RESILIENT SERVICES

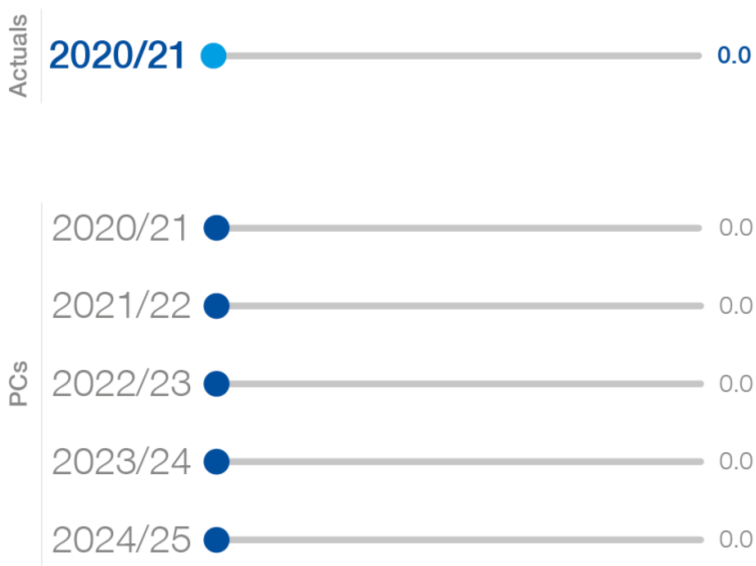
OUTCOME 6: We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations.

- Risk of severe restrictions in a drought – common
- Delivery of our smart water metering enhancement programme – bespoke
- Delivery of our water resilience enhanced programme – bespoke
- Delivery of our lead enhancement programme – bespoke
- Delivery of our wastewater resilience enhanced programme – bespoke
- Delivery of our Howdon Sewage Treatment Works enhancement – bespoke
- Delivery of our cyber resilience enhancement programme – bespoke
- Delivery of our Drainage and Wastewater Management Plan – bespoke

We always consider the longer term in operating our business. We use horizon scanning to look for future challenges. This enables us to adapt our plans today to provide a resilient and sustainable business for future generations. You can see more about our approach in our **Future Horizons** and **Long-Term Strategy documents**.

In an increasingly uncertain world, we need to routinely review and update our strategies and plans to take contemporary understanding of critical uncertainties into account. We're updating our horizon scanning and developing a number of plausible futures that will allow us to develop long term, adaptive strategies to deal with critical uncertainties. We aim to identify shocks and stresses that could have a significant impact on delivering our services. Through this, we can develop strategies that optimise our approach to designing and managing a resilient business.

Risk of severe restrictions in a drought



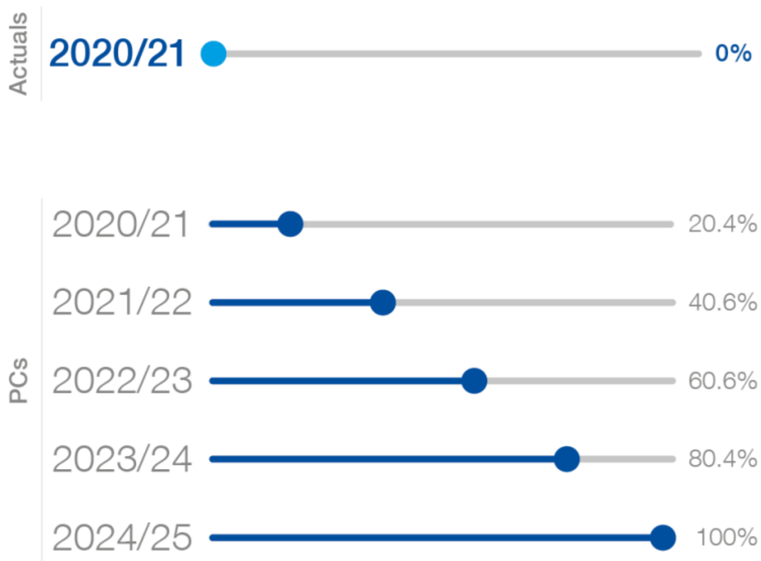
This new, common, reputation-only PC measures our resilience to severe restrictions in a 1-in-200-year drought and incentivises improvement of this level of resilience. We report a result of 0% for this metric, based upon our WRMP19 forecasts, which meets our PC.

The overall metric is the percentage of our populations at risk of experiencing severe restrictions in a 1-in-200-year drought, on average, over 25 years. The metric tracks water company implementation of WRMP19 supply and demand schemes to reduce the percentage of customers at risk, if required.

Our PR19 Water Resources Management Plan (WRMP19) demonstrated that we have 100% security of supply in all our Water Resource Zones, across the full 40-year planning horizon. We also demonstrated resilience to a drought with a return period of 1 in 200 years in all our Water Resource Zones, with 0% of our customers at risk from severe supply restrictions.

In 2020/21, we experienced annual average demands above our WRMP19 dry year demand forecast in all our supply areas, which was exacerbated by the COVID-19 pandemic. In our Hartismere WRZ in Suffolk, annual average demand was 29% higher than forecasted. Testing the drought resilience metric calculation using the actual 2020/21 demand would've resulted in a 25-year average risk of 1.5% of our customers experiencing severe restrictions in a 1 in 200-year drought. We are in the process of carrying out our WRMP24 options appraisal, to address forecasted AMP8 supply deficit in our Hartismere WRZ caused by abstraction sustainability reductions and new non-household demand.

Delivery of our smart water metering enhancement programme



We're committed to rolling out smart water meters for our customers throughout 2020-25 and beyond, with the overall goal that all our meters will be fully smart by 2035.

This programme is supported by a new, bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the programme in full by March 2025, alongside a reputational target in each year of the period which we can track progress against.

We have not achieved our PC for 2020/21.

Our meter installations were impacted by procurement delays, the suspension of metering activity such as fitting and replacing meters in response to government guidance, and a reduction in the number of customers applying for a meter.

There are three possible explanations for the reduction in customer demand for meters: social distancing restrictions meant some customers were reluctant to allow our employees inside their homes, a concern about increased water consumption with more people staying at home, and the reduction in unmeasured bills in our Final Determination from Ofwat, because saving money on water bills is one of the main drivers for our customers to apply for a meter.

However, we remain confident that we will deliver 100% of the programme by March 2025.

The PC specifically measures the percentage delivered of the company's smart metering programme. This is limited to installing new smart meters and replacing existing basic meters with smart meters. Only household meters can be counted for this PC, and only once for each household in the five-year period.

We continue to offer our customers free water meter installations, on request. However, we started introducing smart meters in 2021.

Our first smart meter installations took place in May 2021 in Dagenham, Essex, where commissioning an Arqiva base station enabled us to install approximately 10,000 smart meters connected to the Arqiva Flexnet communications network.

During 2020/21, a total of 8,179 meters were installed across our three operating regions (NW, Essex and Suffolk). These installations were either visual read meters or meters with AMR capability (but unable to connect to a smart point later), so do not satisfy our ODI standard. However, once we've completed the transition to our new meter supplier, all future installations will be smart-ready.

Delivery of our water resilience enhancement programme

Our ambitious 2020-25 water resilience enhancement programme comprises 11 investment schemes which will deliver new assets that will improve overall water supply resilience for our customers, reducing the risk of a prolonged loss of supply. These schemes are spread across our three geographic supply areas of Northumbrian, Essex and Suffolk, so that all customers will benefit.

This programme is supported by a new, bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver any of the schemes.

This PC applies at the end of the 2024/25 period and returns funding to customers based on each percentage point of the programme not delivered.

The 11 schemes are set out in more detail in Table 1 below, along with the criteria which determine whether a scheme has been successfully delivered or not – described in terms of the benefit that each scheme seeks to deliver for customers (successful delivery of each scheme is achieved when at least 90% of the associated customer benefit is achieved), and an initial indication of whether we're on track with delivery.

TABLE 1: WATER RESILIENCE ENHANCEMENT PROGRESS

REGION	SCHEME REFERENCE	DEFINITION OF SUCCESS	% OF PROGRAMME*	TARGET ASSET IN USE DATE	DELIVERING AMP7 COMMITMENT
NW	New trunk main from Springwell to Pikes Hole - 7km of 1,000mm main, plus EOV control	340,450[6] customers have improved security of supply from 12 hours to three days in the event of a failure or restriction at our treatment works or strategic main.	17.2%	31/3/2025	On track
NW	New service reservoir at Springwell SR		15.0%	31/3/2025	On track
NW	New WPS at Shildon SR		3.7%	31/3/2025, but dependent on Scheme 5 and on completion of phase one of Lartington WTW to Whorley SR strategic main renewal project, linked to DWI undertaking NNE ESK 004 Reg 28	On track
NW	New link trunk main from Carr Hill to Springwell SR		3.5%	31/3/2025	On track
NW	New strategic transfer main from Whorley SR to Shildon SR	322,003 customers benefit from a reduced risk of water quality / loss of supply events and can be supplied from two supply sources.	22.2%	31/3/2025	On track
NW	Cross connections into C60/60a for Darlington	98,000 customers also benefit from a secondary point of supply in the event of a strategic main failure.	0.2%	31/3/2028, as dependant on Phase 2 Whorley SR to Longnewton SR main renewal scheme, required by March 2028 as part of our DWI undertaking. This makes the completion of scheme six by March 2025 extremely challenging. We are currently reviewing the situation.	Currently under review
NW	New main to duplicate Chirton SR outlet main	43,116 customers benefit from a secondary source of supply in the event of a strategic main failure.	0.5%	31/3/2025	On track
ESW	New raw water transfer main from Abberton to Hanningfield	531,860 customers benefit from a second raw water supply and a reduced risk of a water quality / loss of supply in the event of water quality changes or resource restrictions. 110,000 customers will also benefit from a secondary source of supply in the event of a strategic main failure.	22.3%	31/3/2025	On track
ESW	New main to duplicate Herongate SR outlet main		0.3%	31/3/2025	On track
ESW	New 20Ml service reservoir and WPS at Barsham WTW	89,373 properties in Great Yarmouth, Lowestoft and North Suffolk have an alternative source of supply in the event of one of the three major treatment works supplying this area fails.	9.7%	31/3/2025, Late release as, rejected at IAP but then included at FD, so March 2025 deadline is challenging. A key enabler for us to provide a resilient water supply to the proposed development of EDF Sizewell C&D in Suffolk. We'll therefore look to	Under review due to delayed start

[6]Nature of adjustment form NES.OC.A59-65, A69-71 in April 2019 defined success as 90% of the customers noted.

				overcome this challenge to deliver the asset in use on time. We're considering options to deliver both by March 2025 by buying additional land. However, there are risks in that we need planning permission and then construction would take at least two years.	
Company wide	Improve site resilience against loss of power and surface flooding at 14 too critical to fail sites	942,000 customers benefit from an increase in current base resilience, measured using a resilience metric against natural and man-made hazards at 14 critical sites.	5.4%	31/3/2025	**On track**

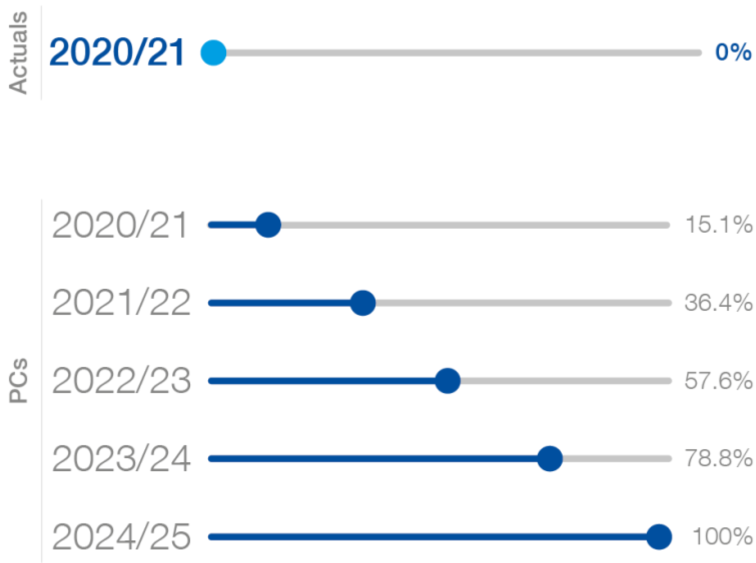
Percentage of programme and forecast ODIs completed using NWL PR19 Appendix 3.2 Enhancement Business Cases, Ofwat PR19 Final Determination, Ofwat FW E W Resilience FD Water Deep Dive and the CMA Final Findings March 2021.

***Schemes are complete when at least 90% of the number of customers shown are delivered the benefit, which was included in the Nature of Adjustment Form NES.OC.A59-65 A69-A71 April 2019 supplied to Ofwat.*

There have been various challenges to our ability to plan and deliver this programme. In Ofwat's Final Determination, we were subject to significant cost challenges on our resilience programme and funding. Many of the schemes we aim to deliver by March 2025 also depend on other investments we have planned, including some within our base capital plan.

This year, we focused on planning and preparation and we don't envisage major construction to commence until mid-2021. This is adopting the leading practice of focussing on the front end – as championed by the National Infrastructure Commission and Infrastructure and Projects Authority. As we progress into detailed design and construction phases during 2021, we anticipate that the 'asset in use' dates will evolve, and we'll provide updates as part of future annual performance reporting. We remain committed to having all assets in use by 31 March 2025.

Delivery of our lead enhancement programme



This programme is supported by a new, bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the programme in full by March 2025, alongside a reputational target in each year of the period against which we can track progress.

We have not achieved our PC for 2021. However, we remain confident that we will deliver 100% of the programme by March 2025.

As a priority, we want to protect those most vulnerable to the effects of lead in drinking water by focusing on lead pipe replacement in buildings frequented by children (our Vulnerable Groups scheme, which covers educational and community establishments).

In addition to protecting our most vulnerable communities, our lead pipe replacement programme prioritises areas at the highest risk to lead exposure (our Hot Spots scheme). These schemes are spread across our three geographic supply areas so all our customers will benefit.

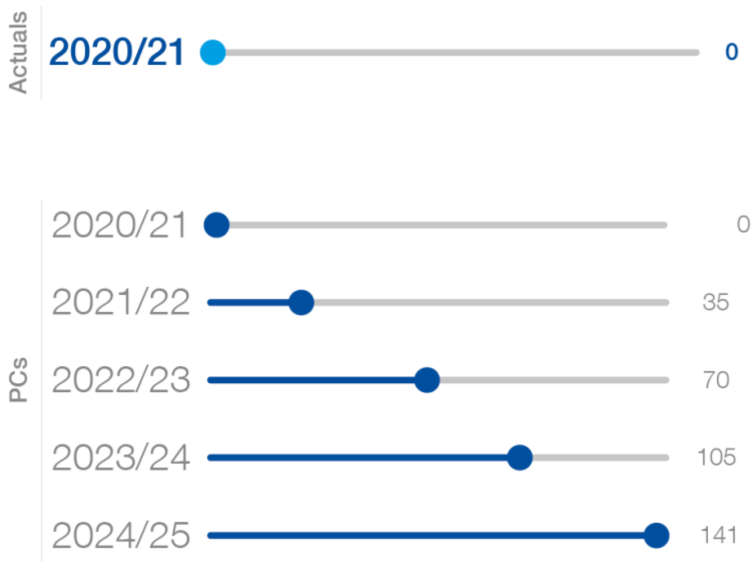
Over the last year, we have focused on developing the delivery strategy, including setting up the commercial framework, and on implementing the model for delivering and reporting on our lead enhancement commitments. Good progress has been made with understanding and benchmarking the costs to ensure efficient delivery.

Our lead replacement programme was impacted throughout 2020/21 by COVID-19. There were two main aspects of this. Firstly, the impact that the government restrictions had on our supply chain and their people being furloughed as a result, and secondly, our awareness that customers would be reluctant to engage in a programme that involved work inside their homes.

We have significant cost challenges on our lead enhancement programme, and these are expected to continue throughout 2020-25. The schedule of rates produced by our contractors has been higher than expected and it has been a process of working through the scope of work, understanding the risks, looking at pipe replacement techniques, and reviewing the procurement and contractual approach to drive the efficiencies required.

Last year was focused on planning and preparation. We've now started customer communications, and lead replacements started in June 2021. We remain confident that we will meet our lead enhancement targets by 31 March 2025.

Delivery of our wastewater resilience enhancement programme



This new, bespoke, penalty-only PC is designed to deliver our wastewater resilience programme. We achieved zero outputs in 2021/22, in line with our PC.

The wastewater resilience enhancement programme is focused on delivering investment to increase the resilience of our wastewater network by reducing the flooding risk at 141 sewage treatment works (STW) and sewage pumping stations (SPS). Reduced flooding risk will mitigate the level of disruption to customers when receiving wastewater services.

In line with our 2020-25 Business Plan, the work in 2020/21 has been focused on developing cost-benefit analysis and a strategy has been selected and approved by key stakeholders and the project sponsor.

Our focus in 2021/22 will be to conduct surveys at each individual site to determine the flood mechanism and appropriate measures to mitigate the flood risk and improve recovery.

Delivery of our Howdon sewage treatment works (STW) enhancement

Howdon STW serves a population equivalent (PE) of just under one million and is the largest wastewater treatment facility on the east coast and has been assessed as too critical to fail.

The facility is nearing capacity because of population growth and climate change impacts and presents a risk of regulatory compliance failure and environmental damage. Howdon STW plays a crucial role in enabling economic and population growth in the North East, and limits to its treatment capacity could impact the long-term economic and commercial development of Tyneside and therefore of the wider region.

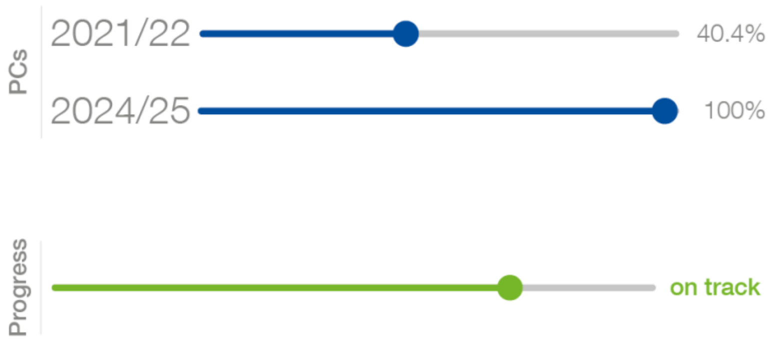
The project has two main aims: To increase the permitted dry weather flow, due to an anticipated increase in the population in the catchment (estimated to be 150,000 population equivalent) in the next 25-30 years, and to increase the overall resilience of the site, because some aspects of the site are single points of failure.

This programme is supported by a new, bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the project by March 2025.

We are currently on target to deliver this project, specifically:

- Our 3D Tyne river modelling has been accepted by the Environment Agency (EA) which has indicated that an ammonia standard will be required to remove any additional ammonia discharged, because it can have an impact on migratory fish if the concentration is too high. This will have an impact on the treatment technology that we install.
- With our lead Technical Consultants, Wood Group, we will develop a conceptual design, including a review of all existing treatment technologies, which is due for completion in June 2021. Work is scheduled to start on site in Q2 in 2023, in line with our original plan.
- We have reviewed the projected population growth which has been revised to 150,000PE. An asset survey will improve our knowledge of our existing infrastructure and the risks associated with its continued use. In addition, a 3D scan of the site is also proving beneficial.

Delivery of our cyber resilience enhancement programme



This new, bespoke, penalty-only PC is to ensure delivery of our cyber resilience enhancement programme which will deliver multiple benefits by enhancing our cyber security function and support compliance with the Network and Information Systems (NIS) Directive. Our PC is to deliver the first 40.4% of the programme during 2021/22 and we're currently on target to achieve this.

We continue to monitor the increasing cyber threat landscape to make sure our investment is focused on the areas that have the greatest impact on protecting our business. Keeping up with advancements in technological and human cyber capability, particularly from well-funded foreign state threat actors is both challenging and expensive so we make sure our investments are allocated to the most appropriate areas. Several procurements have been made in 2020/21 and these solutions are currently being deployed into our live environment.

Delivery of our Drainage and Wastewater Management Plan (DWMP)

For the first time in 2023, companies are required to publish Drainage & Wastewater Management Plans (DWMPs) to identify how they will extend, improve and maintain a robust and resilient drainage and wastewater system in light of the pressures of climate change, population growth and growing customer expectations.

Publication of our DWMP is supported by a new, bespoke, reputational-only PC, performance against which we will be assessed in 2023.

We are currently on track to deliver this.

During 2020/21, we have:

- Continued to attend national DWMP groups to make sure we are up to date with regulator and industry expectations.
- Completed Baseline Risk and Vulnerability Assessments (BRAVA) against 20 indicators for all 483 drainage areas (DAs) in our NW region and submitted our results to the national group. We identified 332 DAs which need more detailed assessments of their vulnerability to flooding.
- Set up a quarterly Strategic Planning Group meeting with relevant external stakeholders and agreed its terms of reference.
- Engaged with customers to inform them about the issues relevant to our DWMP and obtained high-level feedback about their preferred balance of interventions and how we prioritise areas.
- Began co-creating our customer portal for publishing the DWMP with customers, and refined information on our customer websites.
- Developed our Optioneering Development and Appraisal (ODA) methodology and started the ODA process.

The programme we're working towards for publishing our DWMP is:

ODA completed	December 2021
Prioritisation exercise completed	December 2021
Draft DWMP published for consultation (on our cocreated customer portal)	June 2022
Final draft DWMP, incorporating consultation responses	March 2023

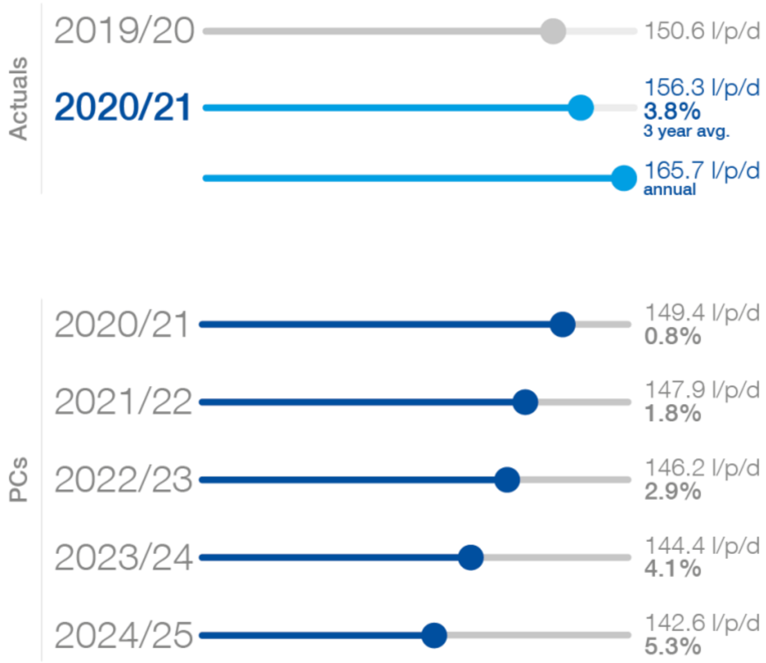
OUTCOME 7: We always provide a reliable supply of water

AMBITIOUS GOAL: Have the lowest levels of leakage in the country in our water-stressed Essex & Suffolk Water (ESW) operating area

AMBITIOUS GOAL: Have a per capita consumption (PCC) for water use of 118 litres per person per day by 2040

- Per Capita Consumption (PCC) – common
- Unplanned outages – common
- Interruptions to supply between one and three hours – bespoke
- Interruptions to supply greater than three hours – common
- Interruptions to supply greater than 12 hours – bespoke
- Leakage (ESW) – common
- Leakage (NW) – common
- Visible leak repair time – bespoke
- Mains repairs (was bursts) – common
- Abstraction Incentive Mechanism (AIM) – bespoke

Per Capita Consumption (PCC)



For this first year of this new PC, we focused on delivering a target reduction of 0.8% from a three-year average of 150.6 litres per person per day. We have not achieved our target for 2020/21.

While our delivery plans for most of the year were not achievable due to the impact of the COVID-19 pandemic, this is a great example of how quickly our people have had to adjust and we reviewed, adapted or completely changed our plans which led to a new strategy for the rest of the 2020-25 period.

Keeping our people and our customers safe has been a priority throughout 2020/21. Face to face visits were considered high risk, so we started engaging with customers about our water efficiency offering via video call. Using a smart phone or tablet, a qualified plumber was able to:

- Survey water use around the customer's home.
- Identify suitable water-saving products for showers, taps, toilets, and gardens.
- Check for tap and toilet leaks.
- Provide hints and tips to challenge and change the household's water use behaviour.

Products were then sent to the customer to fit themselves, with help available via a second video call with a plumber if necessary. Thanks to these virtual visits, customer satisfaction has averaged 4.9 out of five, alongside a Net Promoter Score of +86. We continue to evaluate how virtual audits fit into the delivery plans for next year and onwards.

We've been monitoring the impact of COVID on PCC and looking to understand its immediate and longer-term impact on water use. This included completing the following three key pieces of research.

We've contributed and collaborated with Artesia and the industry on the report: Collaborative Study - The impact of COVID-19 on water consumption, which looked at total demand, household consumption and non-household consumption. This is the impact over and above that we would expect to have seen, given the weather in 2020 under non-COVID conditions. Unsurprisingly there was an increase in household consumption (9%) and a decrease in non-household consumption (25%).

We also commissioned work with the MetOffice to understand the impact of weather and COVID-19 on demand in our regions. This shows that:

- During the period of lockdown, in all three regions, total demand and PCC increased above the normal demand for the expected weather. From this it can be concluded that COVID-19 alone impacted total demand and PCC over and above the effects of the warm weather experienced particularly in the first few months of the lockdown.
- PCC for our operating areas overall increased by 5% between April and August 2020. 63% of this was due to an increase in base demand from normal, and 37% was due to an increase in weather dependant demand from normal.

In addition, we've sent two surveys to our customers to understand changes in work location, water use now and in the future. Customers told us that working from home has increased and they are using more or much more water, which is mainly due to the increase of hand washing and flushing the toilet indoors and increase of hosepipe use and filling watering cans outdoors.

We'll continue to understand the changes next year so that we have a clear picture of what's changing and how it will impact PCC in future.

Case study – The Ripple Effect – Educating youngsters on the value of water

In early 2021, our educational offering to schools was reassessed due to COVID-19 and we changed from the play and workshops delivered in schools, to online learning. We launched this brand-new initiative for educators and parents to supporting home-schooling and educate thousands of primary school pupils about the importance of water.

Working closely with leading education agency Hopscotch Consulting, we developed The Ripple Effect, which is designed to change the way children think and feel about water.

It's a free online programme helping young people become more aware of how precious water is. Through interactive games, videos and activities, it also teaches them how to use water efficiently.

The Ripple Effect was set up to be simple and effective for parents and teachers to use during the pandemic and the period of remote learning due to lockdown.

This is one of the many steps we're taking to future-proof our resources and raise awareness of our ambitious environmental goals.

Tim Wagstaff, Lead Water Efficiency Manager, said: "The Ripple Effect invites school communities to think hard about the way they use water. Children now care more about how they treat the environment - it's the 'Greta (Thunberg) Effect.'

"By making small changes to the way we use water, we can protect our precious water supplies. It's really important that we properly educate the next generation so that we can create positive change for the future.

"We use water for everything - cooking, cleaning, drinking, eating - and it's important that we value it and don't take it for granted. On average, people use around 150 litres of water a day and water use has almost doubled in 60 years. As population and housing numbers are also increasing, this creates even more demand for water.

"We also hope this programme will be of assistance to all of the incredible parents and teachers who are having to adapt to these strange ways of working under the current climate."

Tiff Barwick, Deputy Managing Director at Hopscotch, added: "We're thrilled to be working with Northumbrian Water and Essex & Suffolk Water to create The Ripple Effect.

"Water, after all, is a precious natural resource which warrants effective, focused and impactful learning opportunities from a young age. We feel proud to be supporting the organisation's mission to change people's behaviour surrounding water use."

As part of the exciting new initiative, students train to become 'Water Trackers' - expert protectors of water and guardians of the water cycle.

There are two digital spaces for educators to explore with their students:

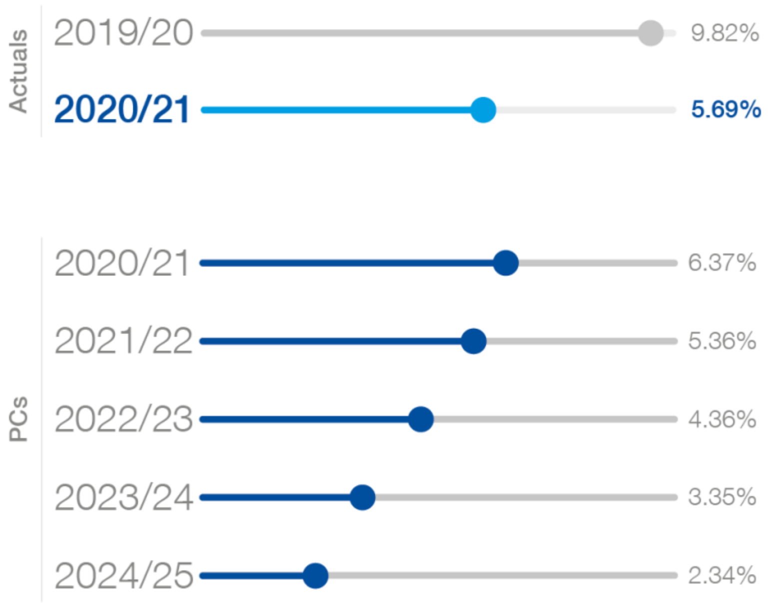
- Water Tracker Training Camp: A rich suite of activities that allow children to collect virtual badges as they complete challenges and gather important facts about water efficiency and the water cycle

- Water Tracker House: Packed full of games, skills tests and challenges related to water-waste scenarios.

Both journeys contain flexible, interactive resources for the classroom and remote learning.

The programme is aimed at seven to 11-year-olds and gives educators the opportunity to sign their class up for free. It is also open to community groups. For more information, **www.nwg.co.uk/ripple**.

Unplanned outage



This is a new, common, penalty-only measure for 2020-25, which is used to assess the health of our assets for our water abstraction and water treatment activities. It is designed to make sure water companies appropriately maintain and improve the asset health of their non-infrastructure or above-ground water assets for the benefit of current and future generations and demonstrate their commitment to asset stewardship responsibilities.

We have improved performance to 5.69% and brought it under our target of 6.37%.

This measure is reported as the temporary loss of peak week production capacity (PWPC) in the reporting year weighted by the duration of the loss (in days). Unplanned outage for each water production site is calculated separately and then summed over the reporting year to give a total actual unplanned outage for the water resource zone.

Ofwat set us the very ambitious target of having only 2.34% of unplanned outages by the end of 2025. Our shadow reporting for 2019/20 was at 9.82% across the company (this was not targeted), and our target for 2020/21 was 6.37%. The penalty for underperformance is £1.72million per % over target.

We have a commitment to Ofwat to prove that we can provide a Peak Week Production Capacity (PWPC) from each of our Water Treatment Works. This is described as the maximum volume put into supply, as a five-year rolling average measured in megalitres per day. The PWPC assessment must be supported by physical testing to demonstrate capability (minimum of once every five years).

We inform Ofwat of any unplanned or planned situations when we're unable to meet PWPC because of any asset failures or the inability to treat water to required standards.

We continue to improve our processes and make amendments to simplify the data entry process for operations. Internal engagement through regular meetings and outage reviews means our people have a clear awareness of the need to accurately record outages.

With proactive maintenance regimes, continued operator asset care and delivery of future investment to our water treatment assets, we arere confident that we will perform well on this new measure.

Interruptions to supply between one and three hours

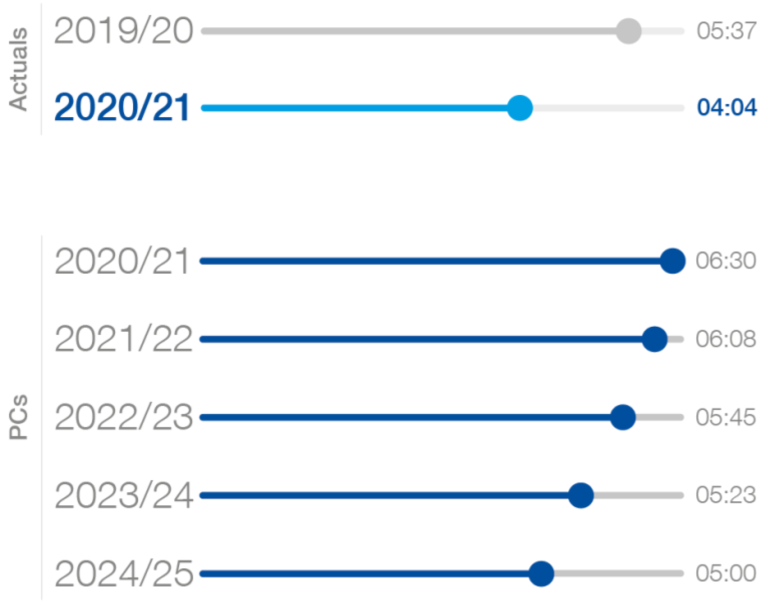
This is a new, bespoke measure for 2021-25. We committed to publishing three years of data from 2018/19 through to 2020/21 to establish a baseline level of performance, from which we could then measure our performance as a percentage change.

This year, we've achieved 09:17 (mm:ss) and the average of the last three years' performance will make the baseline level 08:17 (mm:ss).

An interruption to the water supply can either occur on a planned basis, when we carry out network maintenance, or unexpectedly when a burst, third party damage, or other failures happen in the network. We recognise that interruptions to the water supply can cause our customers real inconvenience, especially when they're unexpected, and we cannot warn customers in advance. For this measure, all interruptions between one hour and two hours 59 minutes are added up to give the total time that customer supplies were lost across our supply area. We then divide this total time by the total number of connected properties we serve. This gives an average time in minutes and seconds that we've interrupted each customer for between one and three hours.

As we've continued to drive improvements in the >3hours common measure, we've inevitably increased the impact on the 1-3 hours measure. Our performance for this year has been poorer than the first two years of the baseline, so this will make it extremely challenging for the remainder of the 2020-25 period to improve the performance for this measure. We are looking at further initiatives to drive improvements to performance and will continue to share learning and carry out training to increase awareness among our people.

Water supply interruptions (greater than three hours)



This is a continuation of the common measure from 2015-20, but amendments to our methodology have been implemented this year, so it is not comparable with previous years.

This year, we've achieved 04:04 (mm:ss) against our PC of 06:30mm:ss. This is an improvement of 01:33 (mm:ss) from our shadow reporting in 2019/20 of 05:37, which will result in a reward of £2.500million.

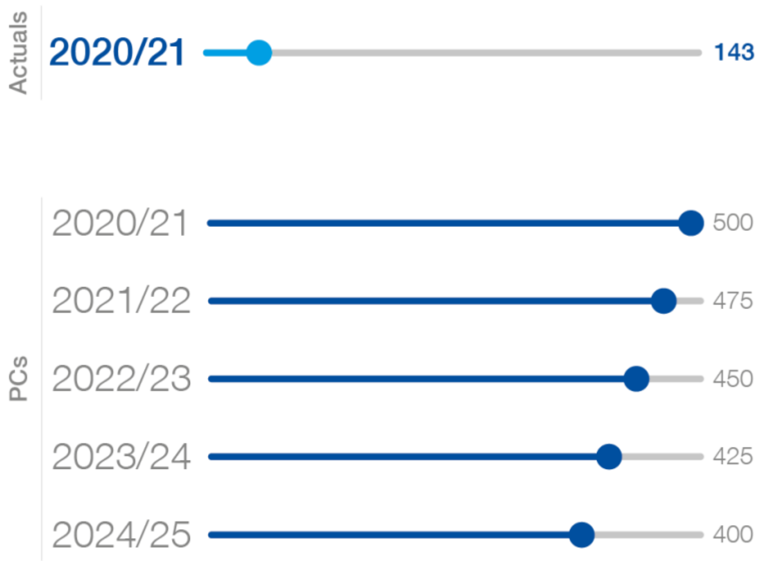
This common PC is designed to incentivise companies to minimise the number and duration of supply interruptions. Reducing the number and duration of interruption events improves the reliability of supply and reduces negative social and public health impacts on customers.

For this measure, all interruptions of three hours or longer are added up to give the total time that customer supplies were lost across our supply area. We then divide this total time by the total number of connected properties we serve. This gives an average time in minutes and seconds that we have interrupted each customer for three hours or longer.

We've improved our level of performance this year, having learned from previous year's events and changed our strategy and processes accordingly. This now includes quicker response times by our technicians when receiving a customer nil supply contact, event escalation, event management and innovative thinking about restoring supplies through alternative methods (before the repair is completed). Our focused approach means that all teams involved know to keep supply interruptions as short as possible. To support this, we introduced digital pressure gauges to our field teams, so they can record an accurate pressure reading in the field.

We continue to carry out post-interruption reviews for events of more than three hours that affect more than 100 properties. These meetings are aimed at understanding and recording what we could do better and share any learning, to reduce the likelihood of a similar event happening again.

Interruptions to supply greater than 12 hours



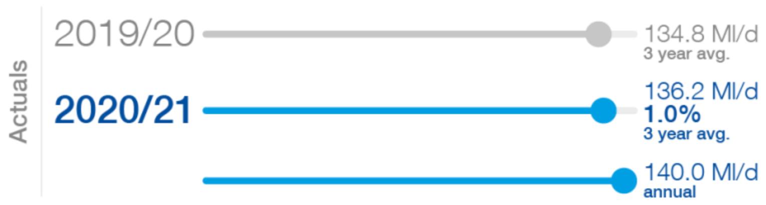
This is a new, bespoke measure for 2020-25, where we record the number of properties affected by a water supply interruption for 12 hours or longer.

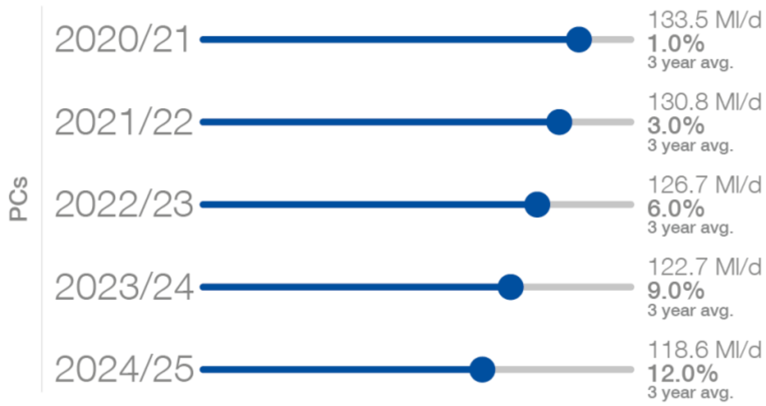
This year, we've achieved 143 properties, against a PC of 500 properties, which will result in a reward of £1.182m.

Like the >3hour measure, we've driven good performance through our focused approach. When interruptions were lengthy or complicated, we emphasised providing alternative supplies such as overland supplies or redirecting water from elsewhere. Good event management and manager escalation have also played their part in this year's success. We used tankers more to supplement the network, to safeguard supplies when the repair was due to be pro-longed. We now also carry out post interruption reviews for events over 12 hours, to understand what we could do better and share any learning, to reduce the likelihood of similar events happening again.

However, we've been fortunate to have not experienced a widespread unplanned interruption in an area of the network with no alternative supply (rezone) options. This target is very stretching for us to meet over the next four years, as one large event could result in us failing to meet our PC.

Leakage Northumbrian Water (NW)





This is a common measure with several industry-wide methodology changes for 2020-25 which aim to help companies calculate leakage more consistently.

Leakage from the water network is measured in Megalitres (millions of litres) lost per day. Leakage levels fluctuate throughout the year as the weather changes, and we report the average daily level at the end of the year. Our PC is the percentage reduction of three-year average leakage against our 2019/20 baseline. For 2020/21, this was 1.0%.

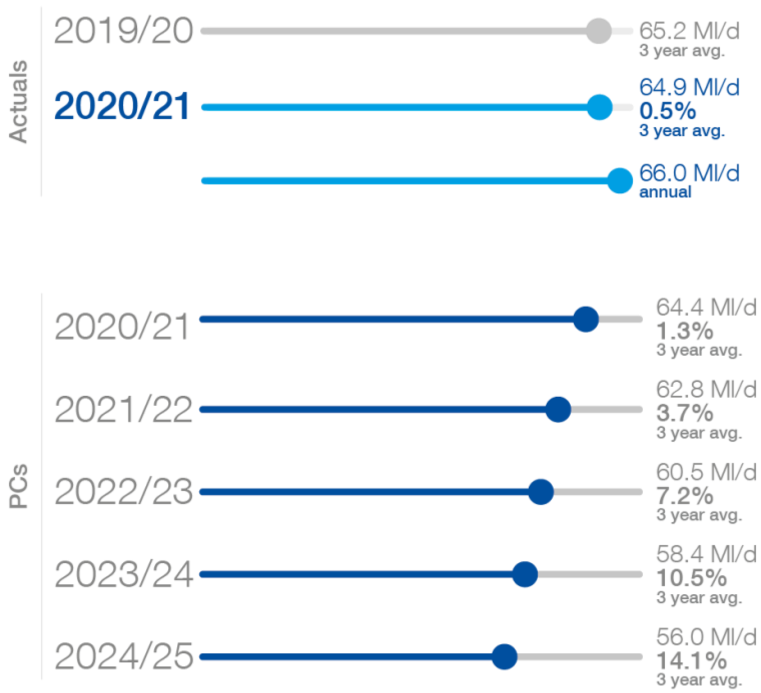
In our NW operating area, leakage averaged 140 megalitres per day (Ml/day) in 2020-2021. This is an underperformance of 8.1Ml/day against our internal target to achieve the three-year average of 133.5Ml/day against the 19/20 baseline. We are now 2.7Ml/day above the rolling three-year average PCL target – a penalty of £0.473m.

Several industry-wide methodology changes come into force throughout 2020-25, with the aim of bringing all companies closer together in how leakage is calculated. The implementation of these changes and the initial understanding of their effects on performance data was severely hampered by COVID-19. Customer-reported leaks were much lower during lockdown, and at certain points in the year it was difficult to differentiate between leakage and genuine usage. The pandemic also disrupted the retail market and the data provision from the Central Market Operating System (CMOS). For example, one retailer made every single non-household property vacant from March 2020 onwards, which impacted the leakage calculation.

We had been on track to deliver against our leakage commitments until we were hit by extreme weather. The winter period saw leakage steadily rise to a peak in late-February, with a significant freeze-thaw event taking place which caused lots of mains bursts. Despite our best efforts, we were unable to bring the winter peak back down as quickly as we'd hoped through our find and fix activities during the typically benign seasons (spring/autumn) to compensate.

We've begun our pressure management programme, which includes installing new pressure-reducing valves in capable areas. Alongside improvements to how repairs are being prioritised, this should bring a noticeable leakage benefit over the next year. Looking forward, we're investing more in district meter maintenance. With an increased focus, leakage has fallen by approximately 30Ml/day since the late-February peak, and we continue to work hard to start 2022 in the best possible position.

Leakage Essex & Suffolk Water (ESW)



Our PC is the percentage reduction of three-year average leakage against our 2019/20 baseline of 65.2Ml/day. For 2020/21, this was 1.3%.

In 2020/21, leakage was 66 Megalitres per day (Ml/day) for Essex & Suffolk Water (ESW). This is an underperformance of 1.6 Ml/day against our target to achieve the three-year average PC of 64.4 Ml/day. We're now 0.5Ml/day above our rolling three-year average PC target – a penalty of £90,000.

Customer-reported leaks were much lower during lockdown. Find and fix performance has also not been to the required standard this year and leakage levels have not been driven down in typically benign seasons (spring/autumn). The warmer months had volatile weather, which indicates that we may not have a complete view of genuine demand within our night use models. In addition, leakage steadily rose during winter to a peak in late February when a significant freeze-thaw event took place, causing lots of mains bursts.

Our pressure management programme and prioritising repairs should bring a noticeable reduction in leakage next year. With our increased focus, leakage has fallen by approximately 25Ml/day since the late-February peak, and we continue to work hard to start AR22 in the best possible position.

Despite the challenges we have faced over the past reporting year, our focus remains on finding new and innovative ways working at each stage of the leakage process. We will invest in proactive leak detection and recruit additional resources. We will also make greater use of correlating noise loggers and data science technology.

Case study – Pressure Management

Our goal is to have the lowest level of leakage in the industry in our Essex & Suffolk Water area, both during and at the end of AMP7 - measured by the number of litres per property per day.

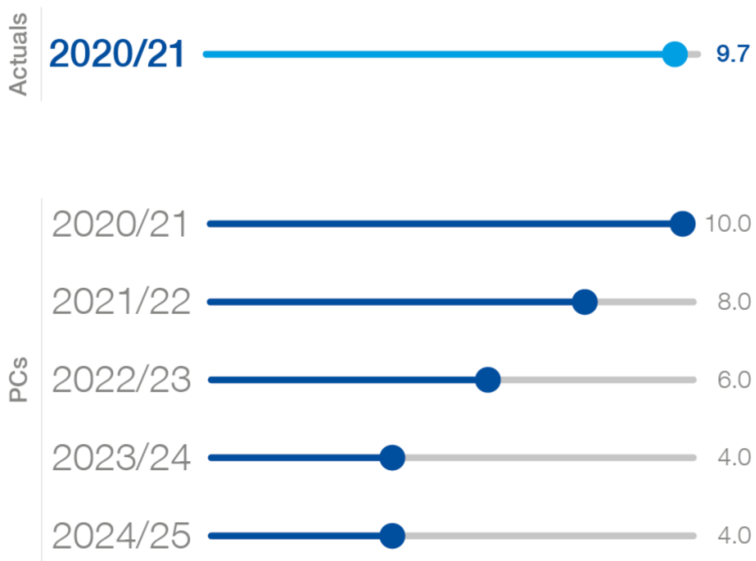
For ESW, our leakage reduction target of 17.5% exceeds Ofwat's requirement for all companies to reduce leakage by a minimum of 15%.

Our plans, for both our supply areas, centre on two main interventions to reduce leakage: Pressure management and finding and fixing more leaks.

If there's more than enough pressure in a water supply network, we can install pressure-reducing valves and controls (PRV's) which reduces leakage and also allows us to minimise the variation in pressure throughout the water network.

While pressure management is the best value way of tackling leakage, it's only feasible in areas with excess pressure. We've determined where pressure management may be feasible. So far, we have installed 49 PRV's across our regions with a further 90 planned and we're currently carrying out more detailed surveys to develop schemes.

Visible leak repair time

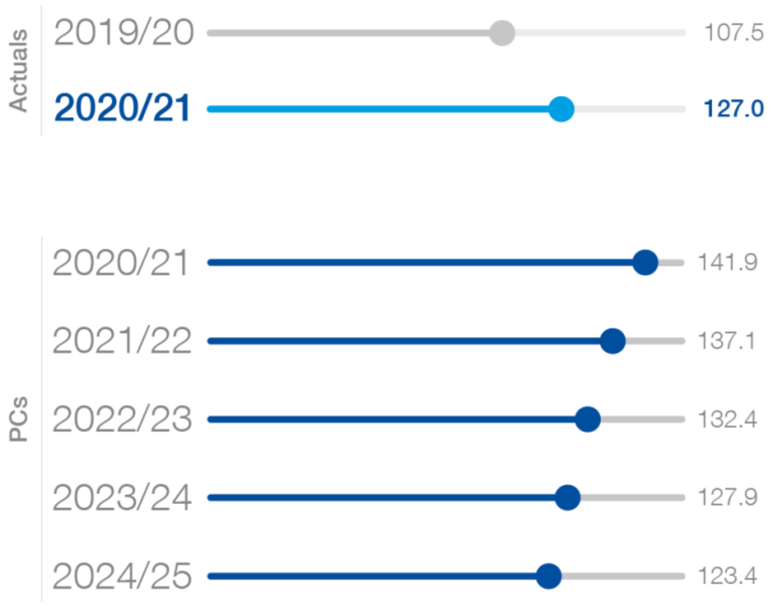


This is a new, bespoke PC for 2020-25 to incentivise us to reduce the time it takes to repair customer-reported visible leaks. This will reduce the amount of water wasted through leaks and demonstrate that we are responding to leaks that customers report.

We've achieved 9.7 against a PC of 10.0 calendar days, earning a small reward. We've worked continuously to strike a balance between repairing reported visible leaks and repairing non-visible mains leaks. Looking forward, we aim to become more sophisticated in this endeavour, by continuing to develop prioritisation tools and dashboards. These will help our planning and operational teams drive efficiency in the end-to-end process. We're also adjusting our systems to make it easier for our technicians to record visible leak information in the field.

All incoming reports of visible leaks through any channel (telephone call, social media, etc) are captured.

Mains repairs (was bursts)



This is a continuation of the mains bursts common PC from 2015-20 and is measured per 1,000km of the entire water main network conveying treated water around the distribution point (excluding communication and supply pipes). Proactive (found because of active leakage control/detection by the company) and reactive (customer reported) repairs are reported separately.

We'll receive a reward of £1.45m this year.

We measure the number of mains bursts by counting the repairs we make to water mains each year. This year we repaired 3,335 mains bursts, which is well below our PC of 3,725. For the first nine months of 2020, our performance was comparable to 2019/20. However, in 2021 we experienced relatively severe conditions in January, February, and March, when we saw extensive failures at weak points in the network. Our burst rate during these months was approximately 50% higher than the corresponding period in 2020. This is the main contributing factor for our overall deterioration in performance from 2,817 in 2019/20 to 3,335 this year. It should be noted that 2019/20 was an exceptional year with burst levels never previously seen, and therefore achieving 3,335 bursts in 2020/21 is still an extremely positive result.

We invest in replacing the most vulnerable sections of our vast network of water pipes each year. We've also taken a holistic approach to managing our networks calmly to reduce bursts, leakage, and interruptions to customers' supplies. This has seen us install 50 pressure-reducing valves - some of which have additional control equipment which allows us to continually optimise the pressure within the areas they serve. We'll continue with mains renewal, our research into pressure changes, and refreshing employee training on calm network operations.

Abstraction Incentive Mechanism (AIM)

AIM is a new, common, financially incentivised measure for 2020-25 and was not triggered this year. It was previously a reputational-only measure and we can now earn either a penalty for underperformance or reward for outperformance for this measure. The scheme parameters (water level trigger point and baseline abstraction year) have also been revised for 2020-25. Our one AIM scheme site at Ormesby Broad, Norfolk, is designed to protect its valuable designated habitats and ecology.

This year's summer (May to September inclusive) rainfall was around the long-term average during 2020. Therefore, our AIM was not triggered this year, as we managed broad water levels to remain well above the AIM trigger point. The only previous year in which our AIM was triggered was 2018, when summer rainfall was around 50% of our long-term average.

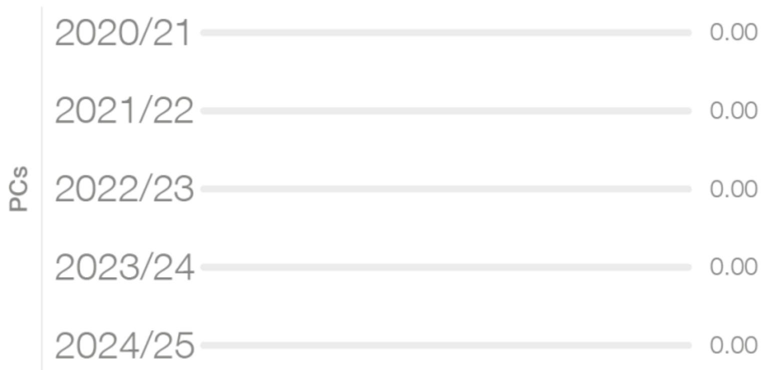
Our performance for this year, i.e. AIM not being triggered, is as expected, given the average rainfall over the summer period. Our PC is zero until 2025.

OUTCOME 8: Our drinking water is clean, clear and tastes good

AMBITIOUS GOAL: Promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water.

- Water quality compliance (CRI) – common
- Event Risk Index (ERI) – bespoke
- Discoloured water contacts – bespoke
- Satisfaction with taste and odour of tap water – bespoke

Water quality Compliance Risk Assessment (CRI)



CRI is a new, common, penalty-only, calendar year PC using a risk-based monitoring methodology, which is used to assess water quality compliance against our statutory obligations. Every compliance failure receives a CRI score based on the cause and significance of the failure, the location within the water supply system, and the quality of our investigation. The annual CRI for a company is the sum of the individual CRI scores for every compliance failure reported during the year.

In 2020, CRI was 7.11 against a PC level of 0, with penalties applying for performance higher than 2.0.

With social distancing restrictions we were unable to sample randomly from our usual customer houses and were limited to COVID-safe commercial properties. The complexities of internal plumbing and pipework at commercial properties, combined with their diverse water usages, can lead to sample failures which aren't always representative of the high-quality water we strive to supply.

However, the biggest impact on CRI for 2020 was from bacteriological fails at three water treatment works, which collectively accounted for 4.95 units – more than 60% of our eventual figure. We're putting together an enhanced programme of treated water storage tank inspections to mitigate some of the risks identified at these sites, alongside a root and branch review of treatment processes.

We're committed to achieving industry-leading levels of CRI and are delivering our long-term plans to reach this, as well as working closely with the Drinking Water Inspectorate (DWI). We've accelerated and increased funding in our base capital programme as part of our transformation plan with the DWI.

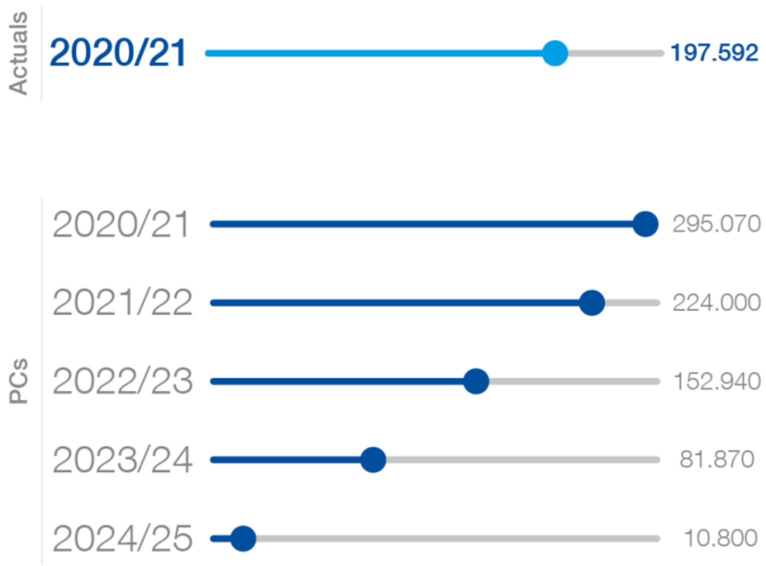
We are prioritising our efforts around water treatment where CRI risk is highest, and areas of focus include filter media refurbishment, carbon regeneration, and water quality minor works activities such as on-line monitoring capability to increase resilience and control of the treatment processes.

In the last 12 months, we have also completed the full replacement of treatment sites in Berwick, Northumberland and Suffolk which will provide more reliable supplies and have an ability to meet current and future drinking water standards. This will be supplemented in the next year with the completion of the new Horsley works feeding large proportions of Tyneside, plus the replacement of four new sites in Northumberland and the installation of UV treatment at two works supplying the Durham and Wearside areas.

The journey of water from treatment through to customer tap is important, and so in our networks we have introduced an enhanced service reservoir maintenance programme which means we will inspect and (where applicable) repair a higher number of tanks per annum in order to maintain the integrity of these assets and minimise any water quality risks. We are achieving this through a combination of physical assessment and technologies such as Remote Operating Vehicles (ROVs).

We are also introducing smart network innovation into the water quality plan to allow real time operational decisions to be made on the quality of water being supplied through our networks and so improve the customer experience. This is a leading approach within the industry.

Event Risk Index (ERI)



This is a new, bespoke, penalty-only, calendar year measure and we have outperformed our PC.

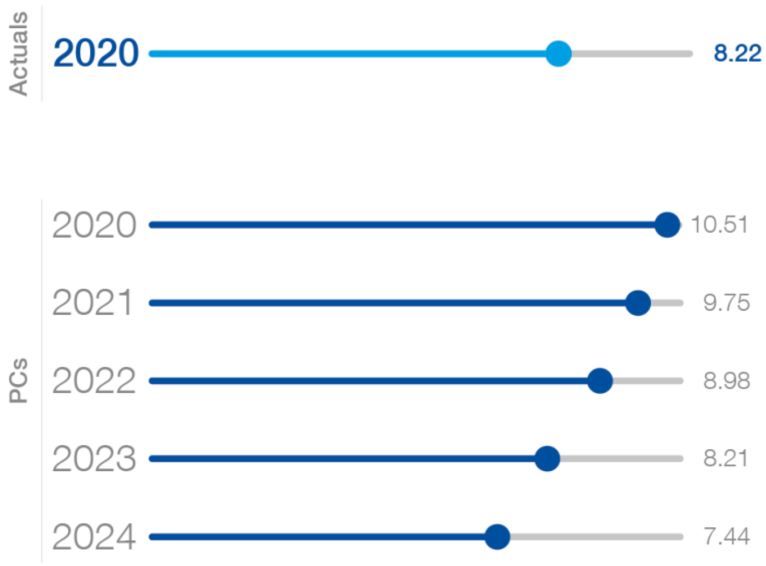
This PC incentivises us to promote a proactive approach to risk mitigation of water quality events, including understanding the impact of events on customers. An improvement in this risk-based index indicates that we're reducing the occurrence and/or impact of water quality events on our customers.

Events are assessed by the DWI and the assessment considers the seriousness of an event, our response, the population impacted, and the duration.

During 2020, we outperformed our target as 33 events were notified to the DWI for assessment, resulting in 197.592 units against a target of 295.070 units. This represents a considerable improvement on 2019, which resulted in 3,821 units. This step change was primarily achieved by increasing our focus on Cryptosporidium management at high risk treatment works, developing better procedures to improve site operation and raw water abstractions.

We're committed to improving on ERI performance and investing in our assets.

Discoloured water contacts



This calendar year measure reflects the number of times we've been contacted by customers due to the appearance of their tap water not being clear, per 10,000 population. Our PC this year was 10.51, which we've achieved.

This appearance measure has superseded reporting of just discolouration – brown-orange-black contacts. The measure covers seven contact types including discolouration (brown orange black and green, blue, pink), aerated water, particles, and general conditions. We've performed better than our PC for the sixth year in a row.

Our plan continues to focus on appearance - discoloured water – brown orange or black, which is our major contributor of contacts to this measure.

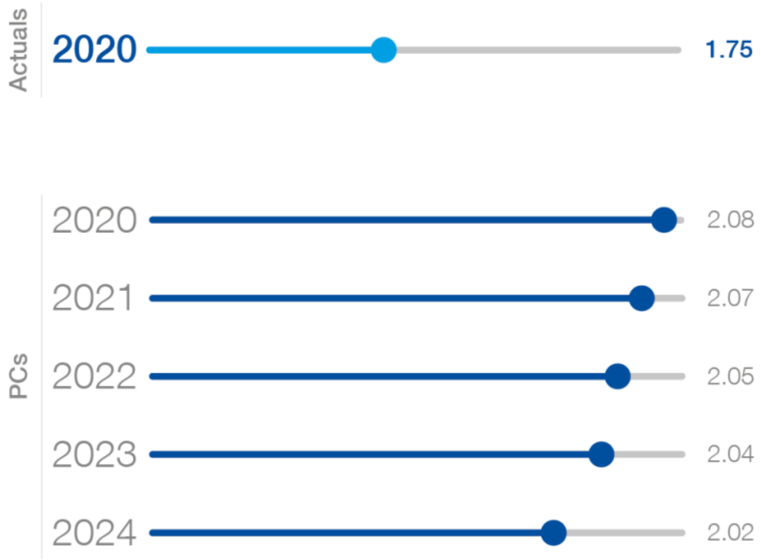
Very occasionally, and for a short time, customers' tap water may appear discoloured. This is caused by the disturbance of harmless material in our water supply network, possibly caused by a burst or a leak.

In previous years we've reported on how we've made improvements at our water treatment works, and in our networks, to tackle this important issue. We are now progressing with further programmes of work agreed with the DWI to improve the number of trunk mains in which flow can be automatically raised with less risk of disturbing mains material and causing discolouration in downstream supply areas. Continuing to flush smaller sized pipes closer to customers is happening on a prioritised basis as well as investigations into how to improve the other contact types such as water coloured white due to aeration. We'll also look for innovations that can cleanse parts of the network which cannot be managed with our current techniques.

Focus is also on the competency of our employees who continue to help reduce the number of complaints we receive.

The reward for this measure for 2020 is £2.011 million.

Taste and smell contacts



This measure reflects the number of times we've been contacted by customers to report perceptive issues with the taste or smell of their tap water. It aims to incentivise water companies to improve the taste and smell of tap water and our PC is 2.08 for 2020/21.

We received 800 taste and smell contacts in 2020. This level of performance is better than the upper quartile (top 25%) threshold, and better than our stringent PC of 952 contacts. An outperformance reward of approximately £290,000 is payable for this measure.

The drinking water we supply is very high quality, but occasionally some of our customers perceive different tastes or odours. This could be due to:

- The use of chlorine to maintain good hygiene in our water supply network.
- A change in where a customer's water comes from, or how it is treated.
- Issues with a customer's own plumbing inside their home.
- A change in a customer's perception.

Around 30% of customer taste and smell contacts are recorded as chlorine based. We have been carefully controlling the level of chlorine in the water, balancing the needs of water safety and water acceptability.

Customer engagement has also identified that change causes concern for customers and can therefore trigger contact. Water supplies for most areas routinely come from the same source. However, to carry out asset maintenance, or in response to reactive issues like a burst pipe, water to an area can be re-zoned through a different route or come from a different source treatment works. It may also be necessary for us to change the source of supply in drier weather to protect resources and preserve stocks.

Case study: “I like mine” campaign

“I like mine” is a new campaign launched in 2020. It promotes the benefits of drinking tap water and is positively received by our customers. The campaign is designed to help customers understand where the water they drink comes from. We want to encourage customers to drink more tap water and we’ve mapped out exactly where customers water comes from, depending on whereabouts in our regions they live.

Alan Brown, Head of Water Quality, said: “People often wonder why their water tastes different to their friends’ or family’s – sometimes even if they live fairly close by.

“This is because each area receives water from different sources across the region, including some well-known beauty spots. Sources can vary from rivers to reservoirs and groundwater.

“We work hard to make sure that our customers get clean, clear and great tasting water straight into their homes, but we also thought it would be useful and interesting to share the journey along the way.”

Examples of where customers’ water comes from include:

Newcastle - People living in areas north of Newcastle, such as Gosforth and Fenham, receive some of their water from the serene reservoir of Kielder, where rainfall is collected under world-famous dark skies.	**Chelmsford, Essex -** Water comes to our treatment works direct from the River Stour, Kings Lynn and our reservoir at Abberton - an internationally recognised top water body, near Colchester. Abberton Reservoir receives water, collected in the autumn and winter, from several Essex rivers and water transferred 140km from Kings Lynn in Norfolk.
Lowestoft, Suffolk – People living in the Lowestoft and Belton areas receive their water from our Lound treatment works that is directly supplied by the Lound Lakes, which include Fritton Lake. They are located on the border between Norfolk and Suffolk, between Great Yarmouth and Lowestoft. The lakes are a linear series of manmade basins, draining west to the River Waveney at St Olaves. The lakes were historically formed from peat diggings and then later utilised for their water storage.	**Redcar and Saltburn -** Water starts its journey in the stunning area of upper Teesdale - home to the impressive High Force. Rainfall collected in open-air reservoirs and water from the River Tees is moved to two water treatment works by a series of pipes and pumps before travelling into customers houses.

Helping our customers understand where their water comes from is essential to achieving our ambition to promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water.

We’ve been asking whether customers choose to drink bottled water or tap water in our quarterly domestic tracking surveys since 2019. Our 2020 results were consistent with 2019, with 75% of customers saying they would choose tap water over bottled water, which is good given the pandemic. But we still have some way to go before we achieve our aspiration of 90%.

The pandemic has meant that the Refill and Bring Your Own Bottle campaigns have not been as active as we anticipated they would be. This had a direct impact on our progress towards achieving our ambitious goal. We'll continue to promote these campaigns as the COVID-19 government restrictions are eased and the "I like mine" campaign will continue throughout the 2020-25 period.

OUTCOME 9: Our sewerage service deals with sewage and heavy rain effectively

AMBITIOUS GOAL: Eradicate sewer flooding in the home as a result of our assets and operations.

- Internal sewer flooding – common
- Repeat sewer flooding – bespoke
- External sewer flooding – bespoke
- Risk of sewer flooding in a storm – common
- Sewer blockages – bespoke
- Sewer collapses – common

The performance measures for 2020-25 use new reporting methodologies agreed across the water and sewerage industry for internal and external flooding, as well as for sewer collapses. For sewer flooding, the main differences in the reporting measures are:

- Reporting of properties (2015-20) changed to the reporting of incidents (2020-2025). For example, five properties that suffered two flooding events during a year would now count as ten flooding incidents in 2020-21, where previously only five properties would have counted against the measure.
- Severe weather is now included.

For sewer collapses, the new definition records a sewer collapse as any failure to a sewer pipe that results in either contact with the company (i.e. a customer contact), or any unplanned escape of wastewater resulting in the need to replace or repair the pipe. Intentionally, the measure does not refer to nor record the magnitude of the sewer collapse.

These new measures will drive continuing improvements in performance across the industry. Early in our preparations for 2020-25 we recognised that a step change was required in our own performance to meet the PCs - particularly for year 1.

As part of our 2020-25 Business Plan, we reported previously that we'd developed a sewer flooding tactical plan to identify and deliver effective near-term interventions to help reduce the risk of flooding.

The tactical plan includes interventions around the following core themes:

- **Customer communication:** Focused interventions to help reduce the risk of sewer blockages as a result of sewer misuse.
- **Focused teams:** Increasing our technical and operational resources to make sure we have the right people available to respond to incidents, investigate root causes and fix problems identified on the network.

- **Operational plan:** Activities identified following a review of our day-to-day activities to improve the way we work to reduce the number of incidents occurring within our control. These include improving training materials and reducing the risk of sewer flooding incidents occurring from jetting.
- **Better use of data:** Using the information we collect every day to help improve efficiency in our operational activities.
- **Enhanced flooding (other causes) CCTV programme:** Increasing CCTV find and fix activities from 70km to 370km.

Since the original tactical plan was developed, additional activities have been agreed and added to the plan this year. The aim of this is to maintain and further improve the performance levels we're currently forecasting, particularly around improving external sewer flooding. These additional activities include:

- **Moment of change/Bin the Wipe full programme:** Following the success of the initial pilot studies, we've scaled this initiative up to focus on 50,000 high risk postcode areas in the North East. This includes eight full time employees working in the field, a team leader, and a data analyst.
- **Additional resources:** We've taken on five additional employees from our supply chain partners for a period of six months. They're helping to reduce the backlog of sewer flooding incidents and reviewing CCTV footage to make sure root cause assessments are right first time. We're also using four shared employees from the pollution team to help with a peak in sewer investigations we're experiencing during recent extended periods of wet weather.
- **External operational plan:** The external plan focuses on operational improvements to help reduce external sewer flooding, through improved processes, training, and investigations. Activities include having technical support assistants attend out of hours flooding events, improving service level agreement response times, and in-house training.

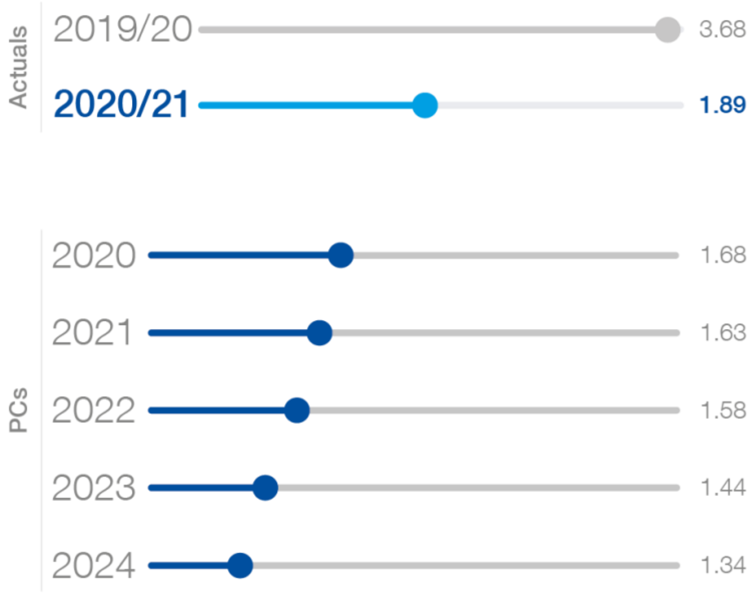
These initiatives have resulted in significant improvement in our sewer flooding performance and will be supported by additional activities we're proposing for year two of our plan.

We're committed to continuing to reduce the number of sewer flooding incidents our customers experience each year. We've made a significant reduction in the number of internal sewer flooding incidents we've reported compared to the previous year.

Our flooding tactical plan, for this year and across 2020-25, includes making further step changes in our performance towards achieving this ambitious goal.

These activities, along with the measures we are taking to manage the misuse of sewers, for example our Bin the Wipe campaign, as well as our continued approach to working in partnership with others to manage the risk of flooding, will help us provide a sewerage service which deals with sewage and heavy rainfall effectively.

Internal sewer flooding

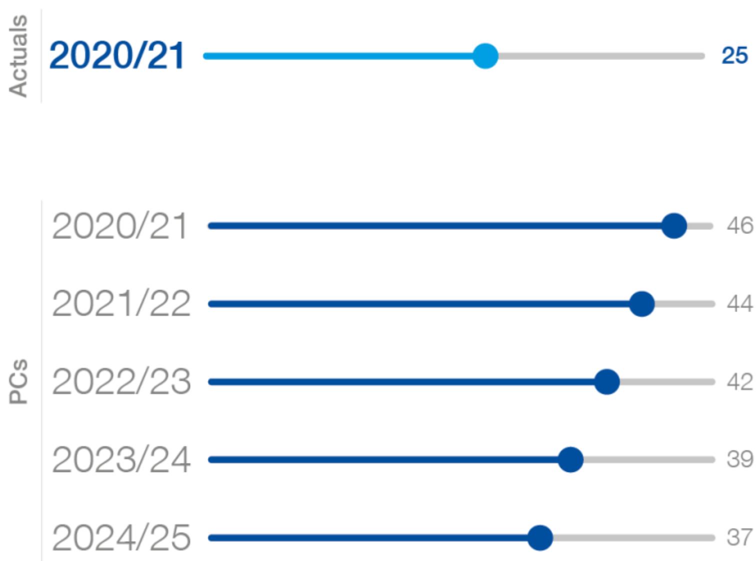


This is a common measure with financial incentives associated with under and out performance

We recognise that internal sewer flooding is one of the worst performance failures our customers may face. Our target was a significant reduction on our reported performance in 2019/20. We've achieved a significant step change in our internal sewer flooding performance to 244, reducing our number of incidents by 48% in comparison to 2019/20 (to 1.89 per 10,000 population). Despite making big progress throughout 2020/21 and overall demonstrating good performance in reducing internal sewer flooding for our customers, we've still underperformed against our stretching PC of 217 (1.68 per 10,000 population). This could be due to the unusually wet winter experienced this year.

In accordance with our incentive structure for this measure, we will pay an underperformance penalty of £530,000.

Repeat sewer flooding



This new, bespoke measure records the number of internal sewer flooding incidents in properties which have flooded internally more than once in the last five years.

As a result of the interventions we've put in place in our sewer flooding tactical plan, we've significantly reduced repeat sewer flooding to 25 incidents, beating our PC of 46.

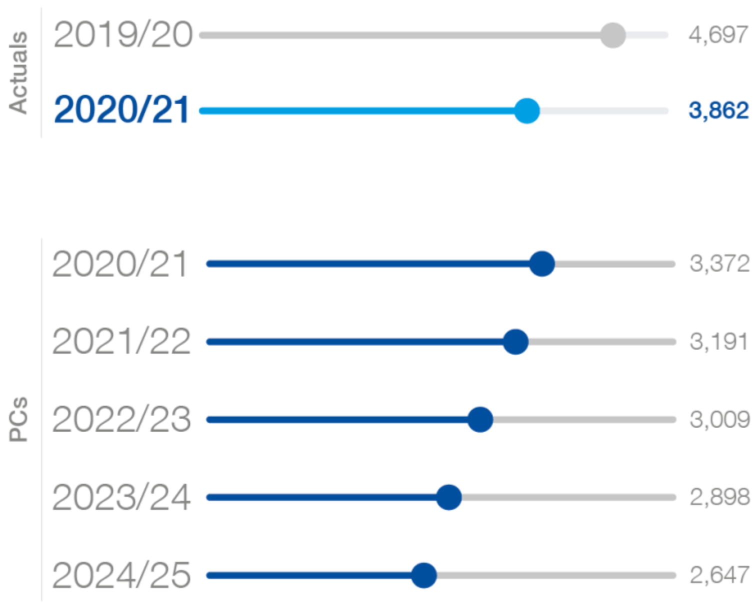
This measure includes flooding from the public and transferred network and includes severe weather events. Any flooding due to the cleansing of sewers from jetting is included, unless the water is fully contained within a toilet bowl and flooding due to third party action is included in all cases.

We recognise that internal sewer flooding is one of the worst performance failures our customers may face, and that repeat internal sewer flooding is even worse.

This is therefore an area we're incredibly proud of. Additional resources, proactive hotspot investigations and our Bin the Wipe campaign all contributed towards this reduction.

In accordance with our incentive structure for this measure, we've earned an outperformance payment of £1.157m.

External sewer flooding



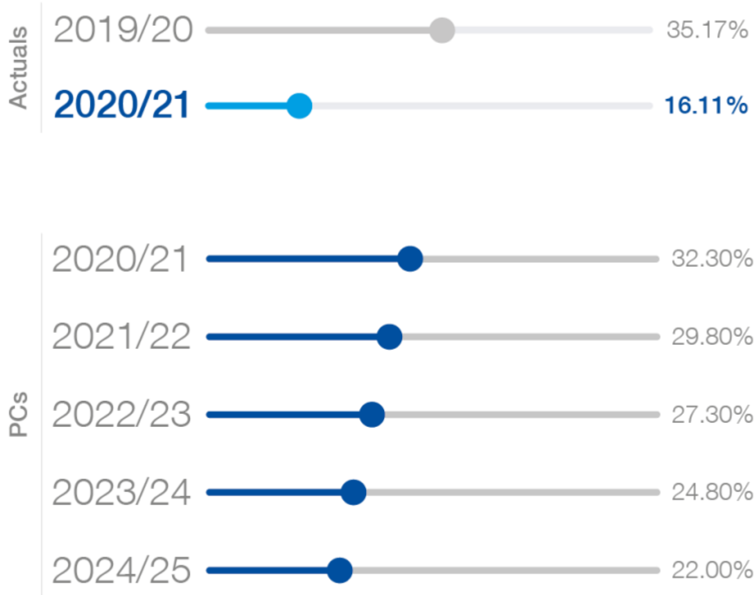
This is a continuation of our measure from 2015-20 and is now a bespoke measure with financial incentives.

We've achieved a good reduction in our external sewer flooding performance, reducing our number of incidents by more than 17% in comparison to 2019/20 to 3,862. However, our performance against our external sewer flooding PC was impacted by an extremely wet winter, when compared with average rainfall across our region for previous years.

In response to these factors, we recognised that we wouldn't achieve our PC for external sewer flooding and put additional measures in place to further reduce this risk, as well as to put us in the best position for the future. We're confident that the measures we've taken, as well as the additional interventions we're planning in year two of our sewer flooding tactical plan, will continue to reduce external sewer flooding, in accordance with our PCs.

In accordance with our incentive structure for this measure, we've incurred an underperformance penalty of £3.072m.

Risk of sewer flooding in a storm



This PC is designed to incentivise companies to better understand flood risk in their region and utilise this knowledge to develop long term strategies and so reduce the risk of sewer flooding over the long term. This measure records the percentage of the region's population at risk from internal hydraulic flooding from a 1 in 50-year storm, based on modelled predictions.

As a result of the work we've completed as part of our DWMP programme, we've significantly outperformed our 2020/21 PC, as well as achieving and outperforming our 2024/2025 PC. This measure is reputational only and therefore we cannot earn an outperformance reward.

Our baseline population at risk of sewer flooding in a one in 50-year rainfall event within the NW operating region was 35.17%. This number was derived from running 124 hydraulic models covering 77% of the population in our northern operating region. This risk was made up of a modelled 'known' risk of 12.55%, and an un-modelled risk of 22.62%.

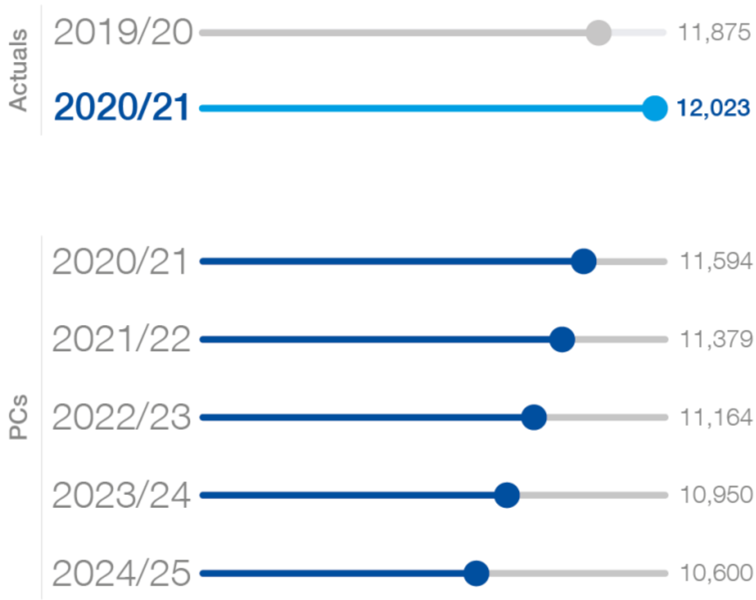
For 2020/21, we've updated and re-run 242 hydraulic models, which now cover 98.5% of the population in our NW operating region, as part of our Drainage and Wastewater Management Plan (DWMP) programme. As a result of this update, the population at risk of sewer flooding in a one in 50-year rainfall event within the NW operating region is now 16.11%. This risk is made up of a modelled 'known' risk of 14.82%, and an un-modelled risk of 1.29%.

Through our extensive coverage of sewer level monitoring, we now have more than 98% of our storm overflows monitored - with plans in place to achieve 100% in 2021.

We've published spill and duration data, known as Event Duration Monitoring (EDM), on our website and this has also been made available on gov.uk. Our strategy for storm overflows is to continue our significant investment to improve SOs and reduce spills, while also working with the Defra-led Storm Overflow Task Force towards future plans, increased transparency and policy changes.

The information collected from our EDM monitors helps to inform our risk-based catchment screening which forms part of the early stages of our DWMP to prioritise catchments for further investigation. The data also helps us understand the performance of the network. It helps, in conjunction with other information and stakeholder knowledge, to calibrate hydraulic models to consider wider risks and benefits (for example sewer flooding).

Sewer blockages



Blockages are a significant contributing factor to sewer flooding. To assist in performing against our internal, external and repeat flooding PCs, we have added sewer blockages as a bespoke measure for 2020-2025.

The number of sewer blockages has increased since 2019/20 and we haven't hit our PC. We had a particularly wet winter in 2020/21 and we're still analysing our blockage data to understand the increase. However, we're confident that interventions like extending our Bin the Wipe campaign to more than 50,000 properties, as well as additional dedicated employees for investigating repeat blockages, will enable us to reduce the risk of sewer blockages in future, in accordance with our PCs.

In September, as part of our Innovation Festival we held a week-long design sprint on the topic of "How can we reduce sewer blockages by 50%," in partnership with the University of Sunderland. As part of the outputs from the sprint, we've set aside funding to further develop two ideas, which we hope can further contribute to reducing the risk of sewer blockages in the future.

In accordance with our incentive structure for this measure, we've incurred an underperformance penalty of £619,000.

Case study – Bin the Wipe

Bin the Wipe is a brand-new approach to reducing sewer blockages by focusing on the problem's number one cause...WIPES!

The key aim to generate a step change in the amount of sewer flooding incidents by targeting customer behaviour.

Bin the Wipe was launched in 2020 to replace our 3Ps (only paper, pee and poo should go down the loo) approach, which is commonplace across the industry. It turns the message and focus towards wipes. If we can reduce or even remove wipes from our network, we can massively drive down blockages. In 2019, 64% of the 15,600 blockages we cleared from our network contained wipes, which do not break up and can snag or settle in pipes and cause build-ups.

The Bin the Wipe message is a simple one for customers to understand and needs only an easy change to their behaviour to make a big difference, if enough customers play their part.

The campaign uses innovative tools to track wrongly flushed items back to the homes they came from and helps customers to understand that flushing wipes can cause sewer flooding in homes and damage to the environment, such as rivers and beaches.

Our Bin the Wipe team focuses on hot spot areas and works in an area for three months, clearing blockages and identifying where wipes have been flushed. As the search narrows to streets - and even to individual properties - we continue to encourage people to stop flushing wipes through direct conversations and, where necessary, letters.

Those who continue to flush wipes are warned of our ability to charge them for the cost of clearing blockages - and even, in extreme circumstances, prosecute them for offences under the Water Industry Act 1991.

Bin the Wipe has so far focused on areas of Teesside, where flushing wipes was a known problem. This has reduced the number wipes found in the sewer network by more than 60%, without the need for us to charge or prosecute any customers.

Simon Cyhanko, Head of Wastewater Networks, said: "Wipes that have been flushed down the loo are the biggest cause of blockages in our sewers, which threatens people's homes, businesses and the environment with flooding.

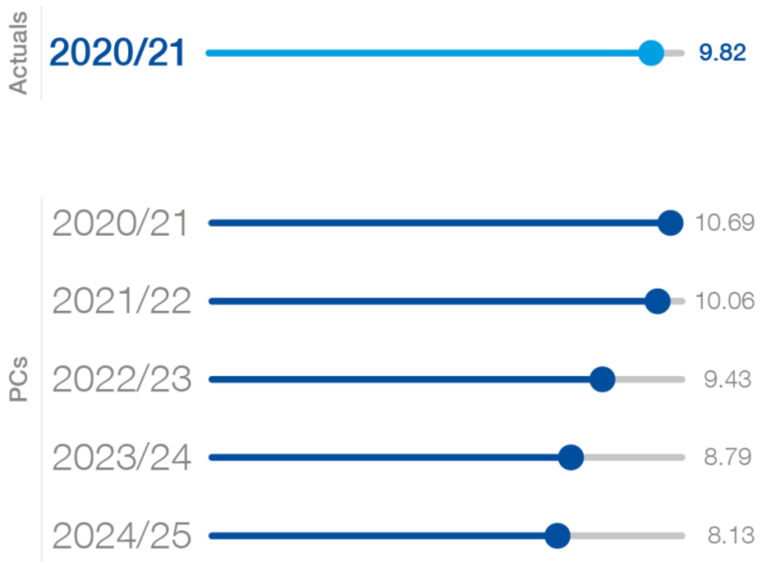
"When a sewer gets blocked, all the waste people flush away is stopped in its tracks and can only go either back to where it came from or out into the environment. That's the worst thing that can happen to a customer in relation to our network, so we want to stop such unnecessary problems at their root cause.

"Even wipes that come in packages claiming they're 'flushable' can cause problems. Because they don't break down like loo roll, they can start or contribute to blockages.

"We can use our team's specially created tools to trace flushed wipes directly back to homes, and we can take action against people who keep flushing them. However, we've found that customers are generally willing to make that simple change in their behaviour once they understand the consequences, in the areas we've taken Bin the Wipe to already.

"It's a simple change to make that costs nothing. All we ask is that people stop using their toilets as bins and Bin the Wipe."

Sewer collapses (per 10,000km sewer)



The methodology for reporting sewer collapses was aligned across the industry and we have adopted this as a common, penalty only measure for 2020-25.

We're continuing to train our teams in accordance with the new reporting measure for sewer collapses, which along with existing sewer maintenance activities has resulted in us outperforming our PC for 2020/21 by 26 collapses.

In accordance with our incentive structure, this measure is penalty-only, and therefore we cannot earn a reward for our outperformance.

THEME FOUR: LEADING IN INNOVATION

OUTCOME 10: We are an innovative and efficient company

AMBITIOUS GOAL: To be leading in innovation within the water sector and beyond

Measuring innovation takes many forms across the business and these are detailed in Table 2.

Table 2

METRIC	DESCRIPTION/ HOW WILL MEASURE	2018/19	2019/20	TARGET	2020/21 ACHIEVED
Reach	Social media reach	4.1M	8.6M	>5M	5m+ on Twitter and 10m+ on Facebook
Culture	Number of innovation ambassadors	14	47	All of NWG	71
Employee participation	Number of employees taking part in Innovation Festivals	328	484	>20%	645 (21% of NWG)
Collaboration	Innovation Festival attendees	2373	3311	>2500	2,730* Digital event
External collaboration	Number of businesses/organisations attending Innovation Festivals	510	734	>140	941
Added value	Training delivered as part of festivals (hours)	23	46	>12	400
Design sprints/hacks	Number of innovation activities	16	23	>20	40
Ideas generated	Ideas unfiltered	334	615	>300	2000
Ideas in the innovation pipeline	Total number of ideas	42	56	>50	70
Success rate (%)	Projects adopted as Business as Usual	-	38%	40%	41%
Potential value (£)	Potential value of the pipeline (£)	£5m	£15m	£20m	Estimate* £27m
Innovation funding secured (£)	External funding secured	-	-	>£500,000	£475,000 for Innovation; £350,000 for Research & Development

We have ambitious plans about our innovative culture and measure growth in the number of innovation ambassadors and the number of our employees that take part in the Innovation Festival each year. Our innovation ambassadors enable and spread an innovative culture across our business and drive the implementation of innovative new ideas so that innovation becomes business as usual.

This group has grown from 14 in 2018 to 71 people in 2021 and continues to grow. It includes those in all functions and levels within the company and seven external businesses and organisations that excel in innovation. Our annual plan for the growth and development of the ambassadors includes external speakers (e.g. Professor Roy Sandbach OBE and Tendayi Viki, who are globally renowned in the field of innovation) and training to build knowledge and capability. In addition, we've set up the NWG Innovation University and offer bite-sized training that will come together as a cohesive programme covering the core elements of innovation. This will be a recognised internal qualification, and there are 14 people taking part in our first cohort.

Innovation is part of all we do across the year, but our Innovation Festivals are an important element, given their outward facing nature. These events are now firmly established industry-wide and attract participants from across the globe. They're widely anticipated within our regions and across our supply chain. We were leading the charge on virtual events and successfully ran our biggest and first virtual festival to date in September 2020.

As well as building the digital collaboration skills of our employees and supply chain, we ran 388 hours of training for innovation festival participants, enabling our collaborative partner organisations too. 2,730 people joined us from 900 organisations in 37 different countries. The digital nature of the event meant it was very inclusive and attracted a broader diversity of audience that we would not be able to tap into in our business as usual activities. The equivalent professional services value of this contribution is estimated to be between five and six million pounds.

The purpose of this year's event was to create new ideas to improve our business, but also accelerate the progress of existing ideas that require collaboration across organisational boundaries, e.g. the common underground map. The festival places us firmly at the epicentre of an innovation ecosystem. There are lots of spin-offs from the event - many of which we get involved in, some of which happen without us. This year saw our innovation festivals placed in the global arena, with events in Australia, India and North America, and with cross sector global sponsors such as Salesforce, Procter & Gamble and Schneider Electric.

Some statistics about our four festivals:

- 150 ideas generated that we've taken back into the business – while we've subsequently dismissed some of these, approximately a third have delivered (or are near to delivering) value.
- 9,300 participants. Approximately 25% of these are our employees helping to spread the method and confidence about being innovative.
- More than £1.5million put back into the local economy demonstrating our convening power in the region to bring others into our regions.
- In 2020 we reached more people than ever across social media channels (Linked In, Twitter and Facebook), building up a strong innovation community with thought leadership and impactful content that reached more than 5million on Twitter and 10million on Facebook.

In September 2019, we held a joint event (Innovate East) with Anglian Water over three days in Ipswich. This was a first of its kind for the industry. We've used 2020 to build upon the six big ideas which sprang from the Innovate East event, which include Wheatley's water trading platform, a cross-sector digital twin group and a water quality sensor business model.

In 2021, we've grown Innovate East to include Yorkshire Water and its focus will be the public interest commitment to achieve carbon neutral operations by 2030 that the three water companies jointly lead. A series of virtual events are planned for 2021, exploring the three themes of nature-based solutions, technology solutions and hydrogen. The events will culminate in a joint exhibition at the UN Climate Change Conference (COP 26) in November 2021.

We've been using our idea management platform (Amplify) to solve our big business challenges. The platform enables us to harness the creativity and expertise of our employees, supply chain, eco-system and beyond. So far, we've run eight challenges and have identified some game-changing solutions. For example, the seed idea for our successful Bin the Wipe campaign, which has significantly reduced the number of wipes being flushed, and therefore reduced sewer blockages.

Ofwat's innovation funding competitions are further encouraging collaboration across the water sector and will enable us to run innovation projects which would normally be out of scope. This change in culture across the water sector will also drive positive change. We're building an exciting pipeline of potential projects with a wide range of different businesses and organisations, within and beyond our current supply chain. For the first Water in Innovation Competition that ran in February, we submitted eight bids for a wide range of innovation projects, and we're collaborating on three other projects with other water companies. We were successful in securing two of the 11 funding opportunities. One is for the UK Water Sector Centre of Excellence, an innovation accelerator hub that will encourage more innovation across the sector and open opportunities to a broader supply chain. (We co-wrote and submitted this bid on behalf of the entire UK water sector). In addition, we secured £225,000 funding for a sector-first project which turns ammonia into green hydrogen fuel, collaborating with Organics, Wood Group, and Warwick and Cranfield universities to create a pilot plant at Howdon. This funding has enabled us to run this innovation project which would otherwise be out of scope.

We're focusing on speeding up the achievement of value from innovation, by supporting the seed of an idea through to its becoming business as usual. We have a very active innovation pipeline with more than 80 ideas being considered across the business. To drive adoption in the operating business, we'll be better supporting the strongest ideas to realise value from innovation.

We continue to use design thinking methods in the business and for our events. Throughout 2020 we ran more than 30 design sprints. As part of the Water Innovation Strategy 2050 (a joint initiative across the UK water sector), we'll collaborate with other water and wastewater companies to set up a new Centre of Excellence for Innovation.

Collaborating on shared challenges will enable a step change on some of the especially tough challenges the sector faces. It will include working in partnership with current supply chains, as well as bringing opportunities to businesses that haven't yet worked with the water sector. The strategy aims to create conversations with experts in innovation, diversity and inclusion, as well as entrepreneurs and small business owners.

Case study – Open Data 'Stream'

We've seen the benefits of giving data scientists the opportunity to derive new insights from our data (data hacks) for the last few years. We've used this approach on projects aimed at addressing leakage, tackling flooding, and reducing spills from storm overflows.

Through our Innovation Festival and partnership event with Anglian Water, Innovate East, we've led various initiatives to share data with other organisations. The clearest example of this success in collaboration is the National Underground Asset Register (NUAR), where this open data approach led to a ground-breaking project now backed by the Government.

We're determined to unlock more value from the data which the industry owns and harness other potential opportunities, by working together with other water and utility companies and innovation partners.

From this, we've developed 'Stream' – a collaborative Open Data initiative to take this forward across the sector.

An initial strategy exercise on behalf of the sector was commissioned and we engaged management consulting firm Sia Partners, who'd already successfully adopted the same principles and approach to creating an open data strategy for the Royal Navy. They helped us learn best practice from other sectors.

Together we:

- Created a cross-industry approach to find where value lies and for who.
- Identified critical and high value opportunities for the water industry and stakeholders.
- Built an end to end model and opportunity roadmap that capitalises on open data by addressing gaps.

This formed the basis of an open data strategy that enables the water industry to collaboratively generate sustainable value. Over four weeks, 40 people from 12 companies collaborated on various workstreams. They tested three Proof of Concepts aligned to strategic goals within the sector:

- inquEIRy: A functional prototype enabling users to query data sets subject to Environment Information Requests (EIRs). Water quality sample data was used (a typical EIR request) at postcode level from six companies with over 156,000 water quality samples. inquEIRy is capable of housing more than ten years of all UK water companies' sample data, and presents a highly investable quick win that can pave the way for more ambitious Open Data projects in the sector.

- Algaerithm: A design sprint for an algorithm that proactively flags the risk of harmful algal blooms in UK fresh water sources. Driven by rising temperatures, these blooms are a significant burden on the UK water industry, and climate change will only exacerbate their increase.

- AssetAlert: A feasibility study for a data system that identifies water asset problems before they occur and improves predictive maintenance processes. Asset data from four companies was analysed, converging on pump data due to high failure rates and associated maintenance costs. The staggering cost burdens associated with unplanned asset failures could potentially be reduced through wide-scale asset data pooling.

By working together to create a shared strategy and approach to open data we're identifying answers to the challenges of what information is shared, how it is shared, and crucially how it is kept safe.

Case study: Detecting COVID-19 in wastewater

We're working with scientists at Newcastle University who are part of a national programme to develop a standardised UK-wide system for detecting COVID-19 in wastewater. By analysing sewage to monitor the prevalence of COVID-19, the project aims to provide an early warning of future outbreaks and reduce reliance on costly testing of large populations.

SARS-CoV-2, the COVID-19 virus, does not readily spread through sewage and wastewater systems. However, non-infectious genetic residues of the virus, in common with other microbes, can remain in wastewater systems in locations where infected people go to the toilet, even if they are asymptomatic, so sewage surveillance is widely seen as a promising way of identifying future disease hotspots.

The new £1m research programme, which lasts until October 2021, will see experts develop sampling, testing and scientific modelling methods that will be adopted by government agencies and scientists across the UK. The work will inform the national surveillance programme recently announced by Defra.

Richard Warneford, Wastewater Director, said: "We're proud to be working with our partners at Newcastle University on this globally significant project. Our wastewater teams are working with their engineers and scientists to safely gather and analyse data and we're hoping that together we can help make a difference in the battle against COVID-19."

Dr Andrew Singer of UKCEH, principal investigator of the new National COVID-19 Wastewater Epidemiology Surveillance Programme (N-WESP), says: "Several studies have shown that the RNA of SARS-CoV-2 - the genetic material of the virus - can be detected in wastewater ahead of local hospital admissions, which means wastewater could effectively become the 'canary in the coalmine' for COVID-19 and other emerging infectious diseases.

"By sampling wastewater at different parts of the sewerage network we can gradually narrow an outbreak down to smaller geographical areas, enabling public health officials to quickly target interventions in those areas at greatest risk of spreading the infection."

THEME FIVE: IMPROVING THE ENVIRONMENT

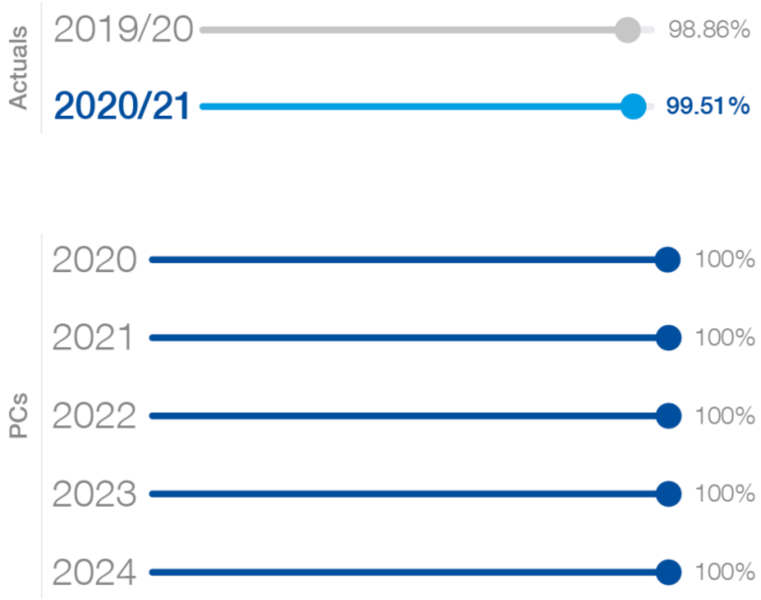
OUTCOME 11: We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife

AMBITIOUS GOAL: Have the best rivers and beaches in the country

AMBITIOUS GOAL: Have zero pollutions as a result of our assets and operations

- Treatment works compliance – common
- Bathing water compliance – bespoke
- Pollution incidents – common
- Water Industry National Environment Programme (WINEP) – bespoke
- Delivery of WINEP requirements – bespoke

Treatment works compliance



For 2020-25, we've adopted Ofwat's new common measure for treatment works discharge compliance. This measure differs slightly from that reported by the Environment Agency (EA) in its annual Environmental Performance Assessment (EPA) of water companies in England. It is reported as the total number of failing sites (rather than the number of failing discharges) where one or more numeric permitted discharges have been confirmed as failing in a calendar year. This is expressed as a percentage of the total number of discharges on the EA register. For both NW and ESW in 2020-25, this measure now includes both STW and WTW discharges and is only subject to penalties for under-performance.(EA reporting does not include ESW sites).

While our performance has improved since last year, we've still not met our PC but are within our deadband so will not pay a penalty.

We've achieved a 4-star company status in the Environmental Performance Assessment from the EA for 2020, with leading environmental performance, such as in pollution management and discharge compliance. We've also committed to challenging bathing water targets to maintain Good or Excellent bathing water quality at 33 of our 34 designated beaches.

During 2020, our permitted concentrations were breached at one STW (out of a total of 160) for an upper tier failure on suspended solids, and one WTW (out of a total of 38 in NW and ESW) failed on pH[7]. These are both disappointing and are undergoing our strict operational scrutiny and cause investigations. There is an ongoing performance investigation at the STW to identify further mitigation measures to avoid future solids failures.

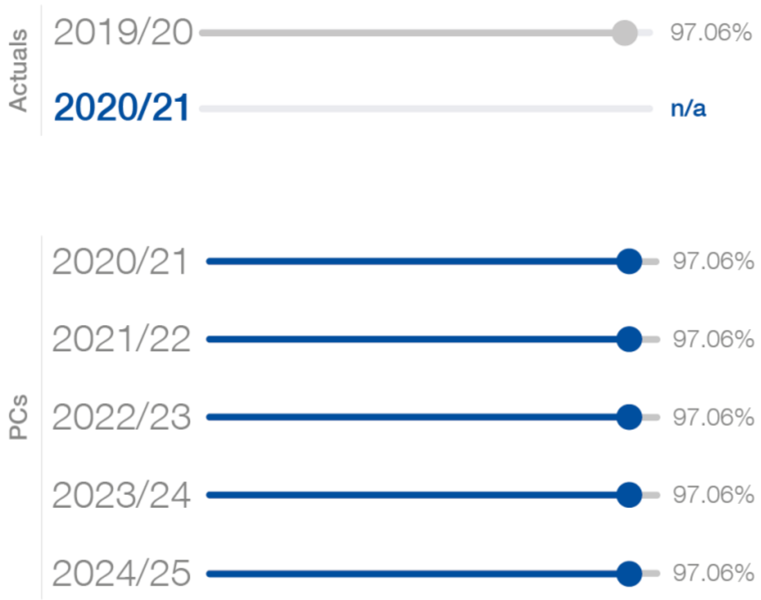
We have a very strong record for meeting numeric discharge compliance limits (reporting at normal frequency until you have reported 12 consecutive months of numeric compliance) at our STWs - an area where we've held an excellent industry position. We've also made considerable performance improvements in our water treatment works discharge compliance.

We make sure that our treatment works meet the required discharge standards by taking regular samples that are analysed for the levels of substances, including phosphorous and ammonia, and specific substances that may accumulate to cause a problem in the water environment. These numeric permits apply to 160 of our largest STWs and 38 WTWs).

Future permits will tighten as legislation changes. This will introduce new challenges and standards over the next five years and beyond, as well as tightening existing permit standards. We will therefore need to adopt new treatment technologies and increase our emphasis on very efficient operational control. The pressures of increasing population, new housing, industrial development, and climate change will also challenge our performance.

We're doing our best to deliver against challenging new standards over 2020-25, whilst also adapting to very challenging circumstances, as well as a very stretching settlement from Ofwat. We must also plan to meet future new and tighter standards and satisfy our obligations in working towards meeting 'Good' Water Framework Directive (WFD) status in our rivers.

Bathing water compliance



[7] EPA 2020

This new, stretching bespoke measure for 2020-25 is to contribute towards all the region's bathing waters being 'Good or Excellent'. Our previous PC for 2015-20 was to contribute to all the region's bathing water being 'sufficient or better.'

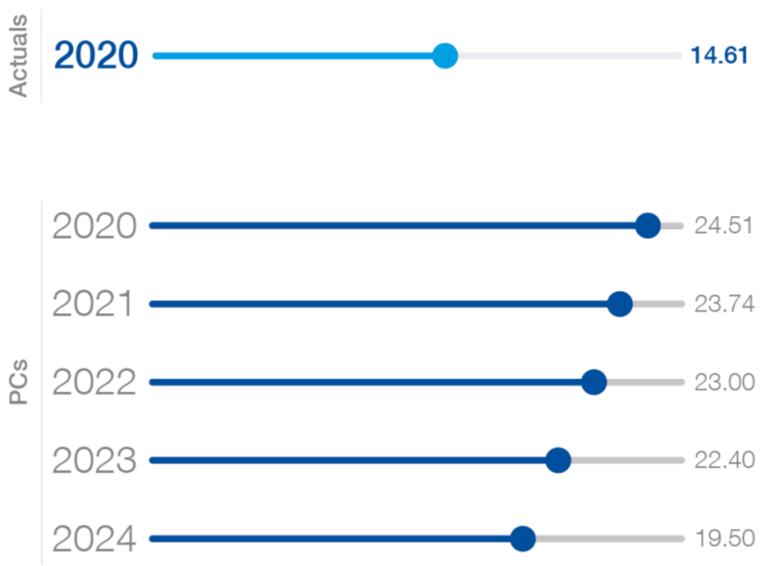
COVID-19 impacted the EA's regulatory bathing water sampling during 2020. As a result, bathing waters in England were not classified for the 2020 bathing season and therefore no official statistic was produced. This means that the bathing waters in our region will display the 2019 classification, with 33 out of 34 bathing waters either Good (8) or Excellent (25) - 97.06%.

Our bathing waters (sea water at the region's beaches) continue to be among the cleanest in the country. As sea water quality can be affected by several influences, such as run-off from agriculture, sea birds and urban pollution, we work in partnership to make improvements and maintain standards.

Cullercoats bathing water in North Tyneside had deteriorated from being classified as Good in 2016, to Sufficient in 2017, then Poor in 2018 and 2019. Due to the break in classifications for 2020, the five-year consecutive count before de-designation for Poor bathing waters, such as Cullercoats, will be reset in 2021. This means that the earliest Cullercoats could be de-designated due to five consecutive Poor classifications will now be 2026.

We continue to work in partnership with the EA and the local authority to understand the reasons for the localised decline in bathing water quality at Cullercoats and to understand all bathing water quality compliance issues and identify priority beaches for closer attention. Working in partnership allows us to share information, plans and best practice. For example, making sure that signage (which we funded) under the EA's pollution risk forecasting system is in place, and understanding ambitions for more Blue Flag award beaches.

Pollution incidents (Category 1-3 Wastewater)



We aim to avoid all pollution and have a PC for all category 1, 2 and 3 incidents for 2020-21. This is a common measure for pollution using the EA EPA methodology.

We've outperformed our 2020 PC for category 1-3 wastewater pollution incidents and have therefore earned a reward of £2.960million.

We are delighted to remain a Frontier Company for pollution incident performance and are determined to maintain this position.

We continuously learn and improve on our pollution performance through our company-wide zero-tolerance approach to it. By constantly examining all aspects of pollution through our pollution best practice group we can target our efforts to effectively reduce the number of incidents. In September 2020, we published our **Pollution Incident Reduction Plan** which outlines initiatives that will further improve performance. Examples of the work we are doing include:

- Deploying further monitoring, early warning capability and increased business intelligence across our wastewater system, with increased coverage of sites on eSCADA telemetry with appropriate alarm generation.
- Developing innovative new sensors and monitors, such as a rising main burst sensor.
- Targeted customer behaviour-change campaigns with the launch of our 'Bin the Wipe' programme, reducing fats, oils and greases getting into sewers with food outlets, and trade effluent response to reduce pollution risk.
- Targeted capital maintenance programmes to maintain asset health, such as refurbishing pumping stations and treatment works, lining sewers, reducing the risks of dual manholes and storm overflow ancillary programmes.

We're pleased that the number of our more serious category 1 and 2 pollution incidents remains low at one in 2018, two in 2019 and one again in 2020. We aim to have zero serious incidents.

While incidents from wastewater continue to be lower than our PC, we've seen an increase in those attributable to our water treatment and supply networks, as we've focused on raising standards in this area. There were 27 such incidents in 2020 mainly attributable to the supply network, which included three serious category 2 incidents. We continue to develop our processes, procedures, and response to these types of incidents, which typically involve a burst water main and chlorinated water impacting a nearby watercourse.

The EA expects us to pro-actively 'self-report' at least 80% of all pollution incidents to them, rather than rely on others to point out any problems. We consistently achieve high levels of self-reporting, meeting the 80% requirement with 81% in 2020, 80% in 2019 and 84% in 2018. For 2020 onwards, the EA also expects 90% or more self-reported pollution incidents for sewage pumping stations (SPSs) and sewage treatment works (STWs). We achieved 100% self-reported pollutions in 2020 against this new metric.

As mentioned in the flooding section, we began extensively monitoring our Storm Overflows more than 15 years ago for operational control, detection and response purposes. We've published Storm Overflow spill and duration data, known as Event Duration Monitoring (EDM), on our website and this has also been made available on gov.uk. Our strategy for storm overflows (SOs) is to continue our significant investment to improve SOs and reduce spills, while also working with the Defra-led Storm Overflow Task Force towards future plans, increased transparency and policy changes. Pollutions associated with network SOs have fallen significantly through our leading monitoring and pollution management approach. Average numbers (for Category 1-3 incidents) have reduced from 28 in 2013-2016 to just 4.5 for years 2018-2020.

Case study – Leading approach to pollution

We work hard to make sure all our assets work as they should, but sometimes things can go wrong. Our aim is to continue to reduce all pollutions associated with our assets. This includes from our wastewater and water assets in our Northumbrian Water operating area, and for water only assets in Essex & Suffolk.

We're maintaining industry leading levels of wastewater pollutions through our transformative pollution management programme and Pollution Incident Reduction Plan (PIRP), which outline what we'll do to reduce the risk of these incidents and what we'll do if an incident occurs.

For water related pollutions, we continue to work hard to reduce pollutions, including serious incidents, through new interventions, improved processes, and procedures.

We're committed to being as ethical, open, and honest as we can with our customers, and we've published our plan for reducing pollutions from 2020-25 to help us meet our ambitious goal to have zero pollutions as a result of our assets and operations. We've developed a culture focused on all aspects of pollution risk, and this approach has resulted in a real transformation in our pollution performance.

Since 2017, we've been at the frontier with industry-leading performance on pollution. In 2018 and 2020, we received a four-star rating in the Environment Agency's Environmental Performance Assessment. In 2019 our pollution performance remained leading, but we were disappointed in our two-star rating, which was due to a compliance issue.

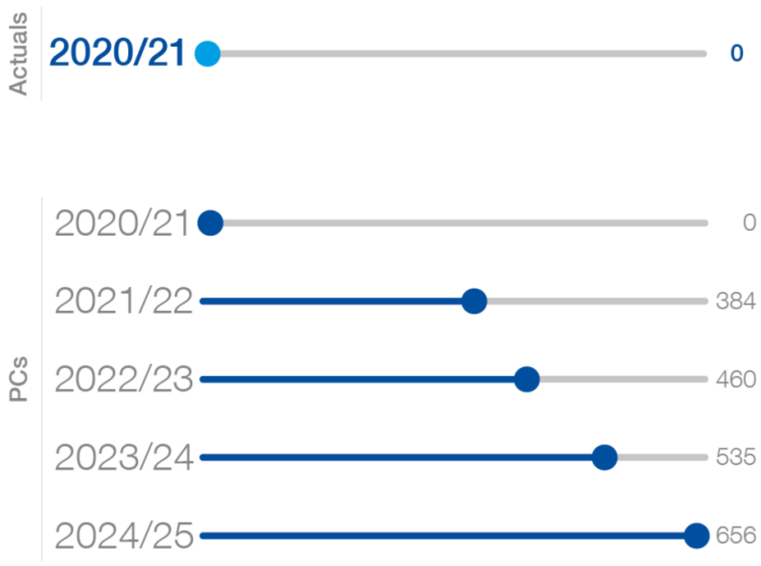
We're focused on continuously improving our performance across our water and wastewater networks and assets, including 25,000km of water mains, 55 water treatment works, 30,000km of sewers, 1,250 storm overflows, 1,000 sewage pumping stations and 430 sewage treatment works.

Richard Warneford, Wastewater Director, said, "It's vital we protect the environment that provides us with the material we use to supply clean, clear and great tasting drinking water. We must return it back to the environment in the best possible condition.

"We have many assets - both in water and wastewater - and it's essential that we maintain and operate them in a way that minimises any negative impact on the environment.

"Our customers have told us that looking after the environment is very important to them and something they expect from us. Through our PIRP, we show our commitment and provide details on how we're minimising risks and how we'll put things right if something does go wrong."

Water Industry National Environment Programme (WINEP)



This is a new, bespoke PC for 2020-25 which is reputational only this year. It's measured by the cumulative number of WINEP schemes completed each year across our operating areas. The WINEP is a key part of the overall programme of measures to meet the requirements of the Environment Agency (EA)'s Water Industry Strategic Environmental Requirements (WISER) document. This includes objectives to meet Water Framework Directive (WFD) 'Good' status in our rivers by 2027 and prevent deterioration in status, together with other international regulatory drivers, including the Urban Wastewater Treatment (UWWT) and Habitats Directives. The EA sets an expectation in its WISER guidance that companies will deliver 100% of the environmental improvement schemes listed in WINEP.

We work very closely with our local EAs to make sure we have a common understanding of the specific requirements of our obligations, and to make sure the mitigation measures we implement will satisfy the WINEP's environmental objectives.

The EA also measure performance in their Environmental Performance Assessment (EPA). In its publication for the EPA 2020 the EA note that we are on track to deliver 100% of our WINEP schemes.

We're required to track our performance against both the EPA and our PCs, and we're required to confirm our annual performance with the EA.

Our targets for the first four years are reputational only, but if we should fail to complete all 656 sites by 31 March 2025, we would pay a financial penalty in 2024/25.

The EA acknowledged anticipated delays in early 2020-25 due to the restrictions on water company and laboratory work and accordingly extended our delivery dates for 203 of our schemes (202 for NW and one for ESW), by either six or 12 months.

Aside from the COVID-19 related changes, the deadline for the single remaining deliverable for ESW in 2020-21 was also extended (via the accepted change protocol procedure and with the agreement of the EA) to Year Two. The revised forecast profile for WINEP is indicated in the infographic above.

Delivery of Water Industry National Environment Programme requirements

For 2020-25, we've adopted a bespoke PC as a measure of success for delivery of the WINEP in addition to our numerical WINEP measure. The measure is reputational only.

This is a new ODI measure, but is like the EPA measure, against which we've consistently delivered 100% of schemes since 2011.

The definition of this measure is the company has either met or not met all its requirements for WINEP in the reporting year. Ofwat specifies that performance for 2020-21 will be reported based on the latest WINEP programme on 31 March 2021 and the schemes which will have been delivered by this date.

Failing to complete the designated WINEP schemes for any given year would result in a 'not met' result. As we have no forecasted deliverables (post accepted changes) for 2020/21, there will be none recorded as 'not met.'

OUTCOME 12: We take care to protect and improve the environment in everything we do, leading by example

AMBITIOUS GOAL: Be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027

Last November Water UK launched the industry's Routemap 2030 – our sector's push to Net Zero. It's the world's first sector wide commitment of its kind and we're proud to be leading the way.

Some of the things we've already achieved include:

- We've reduced operational emissions by 46% since 2009.
- Our Advanced Anaerobic Digestion activities mean we were the first and are the only water company to use 100% of our sewage sludge to create energy (or power from poo), and we've enhanced our activities in energy creation further with the implementation our second Gas to Grid plant at Bran Sands.
- We lead the industry with our offshore wind Power Purchase Agreement (PPA), which was the first of its type in the UK. This 10-year deal has us sourcing approximately 30% of our electricity demand from the Race bank offshore wind farm.
- All 1,858 of our sites are powered using renewable electricity. This means we can achieve 85,000 tonnes of CO2 savings each year - over 400 times the weight of the Angel of the North.
- We have around 10 electric vehicles in our fleet used by colleagues in water and wastewater operations. Every 100 miles in a small diesel van releases 24kg of CO2, while an electric van releases only 0.6kg.

We'll create zero avoidable waste by 2025. This will mean eliminating, re-using or recycling 90% of our waste from operations, and working with partners to contribute to the circular economy in their regions.

We'll also continue our investment in natural solutions like reedbeds which have provided environmental benefits in biodiversity and reduction in CO2 emissions.

We have around 15MW of solar planned for delivery in the next 18 months, with further plans being evaluated for the rest of the AMP. We also plan to deploy onshore wind at sites where suitable and sensitive to the environment and our communities.

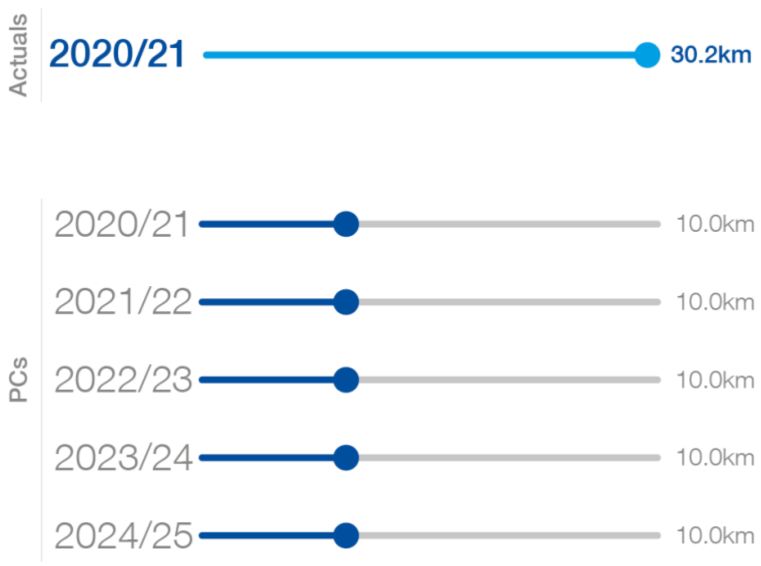
Looking ahead, the use of Digital Twins, pilots of large-scale battery storage and the production of hydrogen in hydropower sites that cannot be connected to the grid demonstrates our continued industry leadership in this area.

Our commitments are ambitious, but we know they'll create positive outcomes for our people, customers and our beautiful environment. By doing all of this, we expect to save the emission of up to 10 million tonnes of greenhouse gas. Our emissions as a result of our operations in 2019/20 (see the section on our greenhouse gas emissions PC) were 61,650 tonnes of CO2 equivalent.

AMBITIOUS GOAL: Demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity

- Water environment improvements – bespoke
- Greenhouse gas emissions – bespoke
- Bioresources – bespoke

Water environment improvements



This is a new, bespoke measure for 2020-25. Our PC is 10km each year against which we've achieved 30.2km through delivery of four projects across our NW and ESW operating areas for the first year of this programme in 2020/21. The full reward due on 20.2km is £155,055.

Our full costs were £232,136 and we committed to reinvest 50% after costs. We aren't claiming our costs for our feasibility study resource or Branch Out fund, so we will only claim £48,856 costs, which means we can reinvest £53,100 in new projects in year two.

Linking improvements to public access is an innovative approach to investing in the environment, and this is a completely new environmental measure for our regions. All water environments within our regions are in scope, including lakes and reservoirs, streams and rivers, canals, wetlands, coasts and beaches. Improvements must cover at least two out of three aspects of access: Facilities and recreation, wildlife and biodiversity, and water quality, and must include elements above our regulatory obligations.

In 2020/21 we carried out a feasibility project to understand external expectations for this new measure and develop our approach. Our work has been led by a small team of three environmental experts, and has included extensive customer research, with 800 customer surveys carried out and nine focus groups held, engagement with more than 100 partners from 63 organisations through nine catchment partnership workshops and individual conversations, and development of candidate projects from a long list of opportunities identified within our regions.

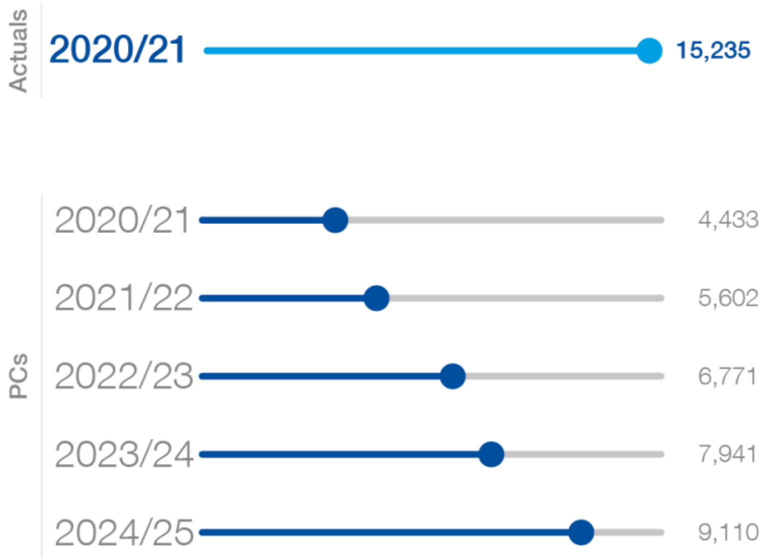
This year we established an external governance group to provide assurance to regulators and high-level steering of our approach. The Water Environment Governance Group (WEGG) is an independent group with informal links to our Water Forum Environment sub-group via shared members and a joint Chair. We've worked closely with the WEGG to put processes in place for formal review and approval of projects and sign-off after project delivery.

Case study: Working in Partnership

We've improved accessible water environments at four locations in our regions as follows:

- Kielder Water (Northumberland): 12km of Lakeside Way improved with Kielder Water & Forest Park Development Trust, Forestry England and Red Squirrels Northern England, including footpath improvements, enhanced signage, protection for red squirrels and ospreys, and a new, fully accessible osprey watch facility.
- Carlton Marshes (Lowestoft, Suffolk): 16km of water environment improved with Suffolk Wildlife Trust, creating a new publicly accessible 405hectare wetland including boardwalks, a visitor centre, wild playscape, viewing hides and linked year-round nature activities and an educational programme.
- Frenze Beck (Diss, Norfolk): 1.5km of water environment at a County Wildlife Site improved with the River Waveney Trust and South Norfolk District Council. New footpaths and boardwalks with disabled access were created, as well as visitor seating, new wetland habitats and facilities to support bird nesting.
- Filby and Ormesby Little Broad (Norfolk Broads): 0.7km of water environment improved with Norfolk Wildlife Trust, at one of only a few publicly accessible sites in the area. The project upgraded boardwalks to enable wheelchair access to viewing points, repaired paths, resurfaced car parks, and restored a dyke adjacent to the path to protect fish habitats.

Greenhouse gas emissions



This new, bespoke PC incentivises us to reduce greenhouse gas emissions arising from our operational activities. Our target for 2020/21 is a reduction of 4,433 tonnes of CO_2e (carbon dioxide equivalent) from our 2019-20 baseline.

We've achieved more than triple our target reduction this year, which equates to a reward of £2.020m (see note below).

Eleven years ago, we committed to a carbon management plan to reduce our greenhouse gas (GHG) emissions by 35% by 2020 against a 2008 baseline. We were delighted to achieve this goal ahead of schedule in 2018/19, through a twin focus on energy efficiency and renewable energy.

This was delivered largely through investing in Advanced Anaerobic Digestion at our major sewage treatment works at Howdon in North Tyneside and Bran Sands on Teesside, making us the first, and still the only, water company to use 100 per cent of our sewage sludge to create energy.

We also signed a ground-breaking offshore wind Power Purchase Agreement, which was the first of its type in the UK. Under this 10-year deal, we source around 30 per cent of our electricity demand from the Race Bank offshore wind farm, which contributes to our wider agreement to be fully powered by renewable energy at all sites across our business.

In our PR19 Business Plan we set an ambitious goal to go much further and achieve net zero carbon by 2027. We're pleased that we are ahead of schedule.

Further plans to continue our progress to net zero include installing renewable generation at a number of sites; low emission vehicles – adding further electric vans and trialling biodiesel tankers; developing our procurement process to give emissions appropriate weighting in contract awards, and adding GHG emissions to our service value framework, ensuring the lowest economic emissions options are chosen for new capital schemes.

We've successfully gained external third-party assurance that all data relating to operational greenhouse gas emissions is compliant with the version of the international carbon reporting standard (ISO 14064, Part 1). The measure, following an audit by an appropriately qualified independent third party, includes all direct emissions, indirect emissions from the generation of purchased energy, and other indirect emissions under the direct control of the company.

More broadly, we're leading the UK water industry's public interest commitment in this area and led a group to launch the industry-wide route map to net carbon zero by 2030, the first time a whole industry has achieved consensus on a stretching target and plan.

In line with the terms of Ofwat's final determination we've calculated our emissions using version 13 of UK Water Industry Research Ltd (UKWIR) Carbon Accounting Workbook published on 8 May 2019, with the amendments required by the ISO 14064, Part 1 auditor to make sure the workbook is compliant with the ISO standard.

However, we believe there are further weaknesses in version 13, which results in this approach overstating the reduction we have delivered. These weaknesses have been corrected in version 15 of the workbook, which gives us a more accurate figure of a reduction of 12,848 tonnes, which in turn would reduce the reward earned to £1,573,605. We are currently seeking agreement from Ofwat for us to report using version 15.

Case study: Water and electricity CAN mix

We're committed to being carbon neutral by 2027 and enhancing our sustainable energy mix by adding electric vehicles to our operational fleet is essential to us meeting this target. We therefore aim for all our new vehicle purchases for our thousand-strong fleet to be zero emissions from 2024.

Introducing the second-generation Nissan ENv200 in 2019 to be used by one of our meter readers started our journey towards that goal. In 2020, a further 12 joined the fleet. They're being used by operational teams in our meter reading, water, and wastewater teams, with more planned over the next few years.

Through our partnership with leasing firm VLS, Nissan showcased the first-generation model at our second Innovation Festival in 2018, and the updated model's extra mileage capability makes it a viable option for meter reading.

Fleet Manager Kate Wilson said: "Electric vehicles and their viability are increasing evolving, to the point where it's now becoming feasible to consider them for our fleet, helping to protect the environment in the communities we serve.

"We have strong emissions ambitions, which include being carbon neutral by 2027 – more than 20 years ahead of the target set by Government. Through our relationship with VLS, we've been able to bring these Nissan vehicles into our fleet."

Bioresources

This is a new, bespoke measure for 2020-25 which is reputational only.

Our measure for bioresources is the percentage of sewage sludge (bioresources) treated at one of our Advanced Anaerobic Digestion (AAD) sites and beneficially recycled to land. Our aim is to treat 100% of our bioresources together with any imported organic material through AAD, and for 100% of the resultant biosolids to be safely recycled to agricultural land. This meets our PC to maintain 100% under this measure for 2020-25.

For the period 2020/21, our performance for this measure was 100%, therefore maintaining our committed performance with this bespoke measure since attaining 100% for the first time 2014/15.

Our strategy for wastewater bioresources is industry leading, and an example of dynamic efficiency from innovation (Ofwat, May 2016). It comprises:

- Two centralised AAD sludge treatment centres for all our bioresources and for trading in the bioresources market.
- Upgrading from biogas to biomethane, and injection into the natural gas grid at both sites. We are the only company to have 100% of our energy-rich biogas used through this valuable route.
- A transport strategy based on a network of local dewatering sites at six strategic sludge handling centres and onward transport of sludge cake by truck into AAD.
- Thickened raw sludge transported by road tankers 24/7 into SHCs or direct into AAD.
- Fertiliser biosolids products recycled safely and beneficially to agriculture under the Biosolids Assurance Scheme (BAS).

The EA’s Satisfactory Sludge Use and Disposal metric, that forms part of their annual Environmental Performance Assessment (EPA), has been suspended for 2018, 2019 and 2020, with shadow reporting only. It will remain suspended for the 2021 calendar reporting year. We confirm that all regulations and good practice codes have been complied with under the existing EPA metric.

We're working closely with the EA and industry groups in the development of the EA's National Sludge Strategy.

We demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity

Catchment management covers the whole water cycle and this ambitious goal links across our water, wastewater, and conservation activities. We carry out catchment work both across our own network and assets, and in partnership with others, working to influence and to make shared decisions to improve the environment and showing leadership in integrated catchment management. In contrast to a piecemeal approach of separating land management from water management, approaching our environmental planning from a catchment perspective enables a more sustainable approach to managing resources and having a positive ecological impact.

We deliver on this outcome in various ways:

Catchment Based Approach (CaBA) and Catchment Partnerships – We engage widely across the business on catchment activity and plans, working with ten partnerships across our NW and ESW areas. Following on from our successful launch of the Water UK CaBA network in 2019, which allows all water and wastewater companies to collaborate on catchment approaches and partnership working, we have initiated and now chair the Water UK CaBA Steering Group which has representatives from all WaSCs and key water only companies. This forms a space for discussion of key issues, best practice sharing, and learning and networking between key players across the industry. We have recently held two workshops discussing water companies' approaches to catchment partnerships and our strategies for these, and a further workshop including other key CaBA stakeholders to consider how we can best work together with CaBA as an industry.

Water Environment – Our new bespoke Water Environment Improvements ODI allows us to support, drive and deliver above and beyond activities which focus on wildlife and biodiversity, water quality, and access facilities and recreation, contributing to enhanced natural and social capital and improved catchment management.

Water Resources – We work with farmers, land managers, other stakeholders and partners to protect drinking water in our regions and is leading on two holistic catchment projects in the South Tyne and Blackwater (Essex) to deliver WINEP NERC Outcomes and protect our water resources.

We are also delivering our Capital Grant Scheme called Field to Tap across both our NW and ESW operating regions. This will allow land managers to apply for capital grants for items that will reduce diffuse pollution from their land and help improve water quality in the rivers and reservoirs from which we abstract.

We are also a core member of Water Resources East (WRE) and are part of a sub-group called Systematic Conservation Planning. This group is taking a catchment approach to identify priority areas across the WRE region where measures can be implemented to achieve natural capital objectives.

Our water resources catchment activity also includes work on sustainable abstractions and reservoir release/flow schemes towards Water Framework Directive (WFD) Good ecological status.

Wastewater – We are leading on catchment approaches to deliver regulatory obligations included in the WINEP, focusing on two catchments in the Wear and Tees. We are exploring catchment nutrient balancing, integrated constructed wetlands and other catchment solutions towards delivering catchment Outcomes in partnership. Since September 2020 we have strengthened our strategic catchment expertise and capability through external secondments from key partners into the company (the EA and Durham Wildlife Trust). These roles have strengthened our catchment approach and partner relationships, and we plan to build on this to support our catchment approach to phosphorus removal in 2020-25, catchment planning for 2025-30, and our approach to water environment improvements.

Conservation – We carry out conservation activities, deliver WINEP commitments to increase priority habitat and manage invasive non-native species, and manage our Branch Out scheme to invest in projects to protect and enhance and biodiversity within our operating area. We lead on national groups focusing on biodiversity including the Nature Recovery Network Partnership Management Group.

Innovation – In 2020 we have carried out innovative activities that demonstrate leadership in catchment management, including development of new tools for monitoring (Dragonfly, Passive Samplers for Phosphorus), the *Cool Cool Water Sprint* at Innovation Festival 2020 with the Water Hub focusing on ‘How can we best work together to achieve a shared vision for investment in the North East’s water environment?, and the InvestQuest Wetlands Demonstration Platform project to consider how we can implement trial wetlands for wastewater treatment and contribution to national groups. We also contributed to the planning and delivery of the Ouseburn Citizen Jury on *Rethinking Water*, one of only three in the country.

Collaborative working at regional and landscape scale – We are represented on the board of all three Local Nature Partnerships in the North East and are a member of the North East Natural Environment Leaders Network. We are also engaged in two Landscape Partnership projects of key strategic importance to us as a company. The first, SeaScapes, delivers heritage improvements across the Tyne-Tees coast and coastal streams catchments, has commenced its delivery phase and we now have a Beach Care seconded into NWG for four years from Durham County Council. This role will allow us to focus on key engagement and beach care activities and water environment improvements. We’ve also been involved with Discover Brightwater providing steer and support as a board member since 2019. The partnership is now supporting us in the scoping and development of our catchment project for the River Skerne, and we anticipate shared benefits and efficiencies through working in partnership with the programme over the remainder of the 2020-25 reporting period.

Case study – Creating a buzz with new diverse green spaces

There's literally a buzz in the air, following the creation and enhancement of wildflower areas to help support pollinating insects that are in decline.

The natural environment is essential to the work and services we provide for our customers. So, any opportunity to enhance the environment and increase biodiversity is very important to us.

We've changed how often we cut the grass at some of our operational sites, which will support biodiversity and protect valuable wildlife habitats that are under threat. Some have already shown promising signs of encouraging nature to thrive, with 62 species of plants recorded at one site alone.

We've also created new meadow areas at our head office and implemented changed how we cut the grass at and around our reservoirs, service reservoirs, water and wastewater treatment works.

There are a range of plants blooming across our sites - from beautiful wildflowers to orchids. A variety of bees and other invertebrates like butterflies and day-flying moths are regularly spotted, along with various reptiles like snakes and lizards.

Miranda Cooper, Conservation and Land Manager, said: "We're delighted with the progress of changes to how we manage grassland, and are looking for further opportunities to expand this across more of our sites.

"These small changes are helping to make a big difference by providing important sources of nectar and pollen for insects, which are vital for pollinating many of the crops we eat. It's fantastic that we can contribute towards ensuring connected landscapes for our wildlife and helping reverse declines in biodiversity.

"It's amazing what can be achieved just by simply reducing the amount of times the grass is cut. It not only helps to create a pleasant workplace for our people, but also creates an invaluable habitat for wildlife and builds stronger resilience to climate change."

THEME SIX: BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS

OUTCOME 13: We are proud to support our communities by giving time and resources to their important causes

AMBITIOUS GOAL: Be the most socially responsible water company

We're still developing how we can credibly measure this goal through our work on our Purpose (as detailed below), but we believe we're building from a strong starting point. This includes our long-standing practice of investing more than 1% of our profit in our communities and being the only water company on the Ethisphere Institute's World's Most Ethical Companies list for the eleventh year.

We've also achieved many accreditations recognising our good practice in employment, environment, supply chain and other areas. These include:

- ISO accreditations for Environmental Management, Asset Management and Emissions Reporting.
- BiTC Responsible Business Tracker.
- Great Place to Work Centre of Excellence for Wellbeing.
- Better Health at Work Award Wellbeing Ambassador status.
- Living Wage employer.

Our continuing work in this area includes our Just an Hour scheme, through which employees can volunteer in their communities for 15 hours or more a year; providing community benefits through our asset investment schemes; taking a leadership role in our local communities, through business organisations, education activities and civic roles, and award-winning campaigns in areas such as water efficiency and our volunteer Water Rangers who monitor watercourses in our regions.

We responded to the pandemic by focusing more than £1m of additional support towards our employees, customers, and communities. We demonstrated this commitment publicly by signing the C-19 Business Pledge, developed by the This Is Purpose organisation.

In 2021, we're implementing two projects to deepen our impact within the communities we serve.

The first is updating our corporate Purpose. We've engaged our employees and customers to help us better define the Purpose for our business, which is outlined in this report on page 14. As part of our corporate annual reports, we're publishing our first 'Our Purpose' report, demonstrating how we live up to this. In a further stage to this project, we'll identify how we can more clearly measure the extent to which we live up to our Purpose and embed this within our governance processes to strengthen accountability for doing so.

Secondly, we're launching a new Community Investment Strategy. This is designed to focus our attention on the social and environmental issues which matter most to our customers, that are closely connected to our Purpose and our ambitious goals, and where we believe that we have a responsibility to take a lead role. These include tackling water poverty, water for health, and enhancing the water environment.

Our support for these initiatives will include cash donations, in kind and volunteer resources, and will increasingly involve us taking an activist approach, leading a drive for positive change on these issues in our communities by influencing and involving others.

Case study - Computers for schools

When the UK went into lockdown schools across the country closed and quickly had to adapt their teaching methods and move to digital remote learning.

Many young people in the regions we serve were in danger of being left behind because they lacked access to the internet or the right equipment to take part in online learning.

As part of our community investment work**,** we supported children learning from home throughout the pandemic by donating hundreds of laptops and computers to children in our operating areas. We also donated 100 4G dongles to the Northern Powerhouse Laptops for Kids campaign to help support pupils with home schooling.

The laptops and equipment enabled pupils to continue with online learning, complete assignments and projects and keep in virtual contact with their teachers and fellow classmates.

It followed us expanding our free online educational resources, launched last month to support teachers and families with home schooling. For more detail about these resources, see our case study about PCC on **page 63**.

One school that benefited is Castle View Enterprise Academy, who we also sponsor. They teach 11 to 16-year olds from the Castletown, Town End Farm, Bexhill and Hylton Castle areas of Sunderland.

Janet Bridges OBE, Principal of Castle View Enterprise Academy, said: "We're grateful to Northumbrian Water for their kind generosity and thank them for their ongoing support.

"The laptops will certainly come into good use for some of our pupils, who've had limited or no access to a device to help support with online learning. It's been a challenge at times, but the amazing team of people I work with have really stepped up to ensure all students and families receive the best possible support from us.

"Now we can expand the high standard of education we pride ourselves on delivering to even more pupils, through online classes and teacher interaction."

Nigel Watson, Group Information Services Director at Northumbrian Water, said: "Supporting our local communities is at the heart of what we do and we're delighted to work in partnership with Castle View Enterprise Academy, to help support pupils that don't have access to a device or tablet with home schooling.

"These laptops will support students with online learning and help support their vital learning and development. They also ensure interaction with their teachers during these really challenging times for everyone."

Case study: Helping with THE vaccination rollout

More than 50 employees are volunteering to help the NHS with the COVID-19 vaccination rollout in the North East by helping clinical staff run the Arnison Vaccination Centre in Durham and the Mowden Arena site in Darlington.

They're working alongside NHS staff, people who have been trained to become vaccinators, administrative staff and other volunteers to make sure the service operates smoothly and safely and as many people are able to receive the vaccine as possible.

As well as providing people to support with the vaccination effort, we also provided our Boldon House office building to be used for the Arnison Vaccination Centre for Durham.

Chief Executive Officer Heidi Mottram, said: "We are delighted to play our part in the rollout of the vaccine, as supporting local communities and making a difference is exactly what we're about.

"Whether that's through freeing up our people from their day jobs to enable them to volunteer and support the rollout of this lifesaving programme, or by us working in partnership with the NHS to deliver the transformation of our office into the new vaccination centre.

"It's fantastic that we've been able to help out and I'm immensely proud of our employees for stepping up to volunteer and I'm grateful to everyone helping to fight coronavirus."

Dr Stewart Findlay, Primary Care Clinical Director for the NHS COVID Vaccination Programme for the North East and North Cumbria, said: "We're grateful for the support from Northumbrian Water as a company both for their premises and provision of volunteers who are helping to provide a good experience for patients."

OUTCOME 14: We work in partnership with companies and organisations to achieve the goals that are most important to our customers

AMBITIOUS GOAL: Spend at least 60p in every £1 with suppliers in our regions

As a responsible business with a strong track record, it's important to us that we demonstrate leadership and make a wider contribution to life within our regions.

Our ambitious goal is to spend at least 60p in every £1 with suppliers in our regions.

As can be seen from graph below, the work we started in 2017/18 has had a positive impact on local spend, and the 2020 data indicates that we spend 58% with local suppliers. This puts us in a strong position to achieve our goal of 60% by 2025.

Our Responsible Procurement Strategy includes several additional initiatives:

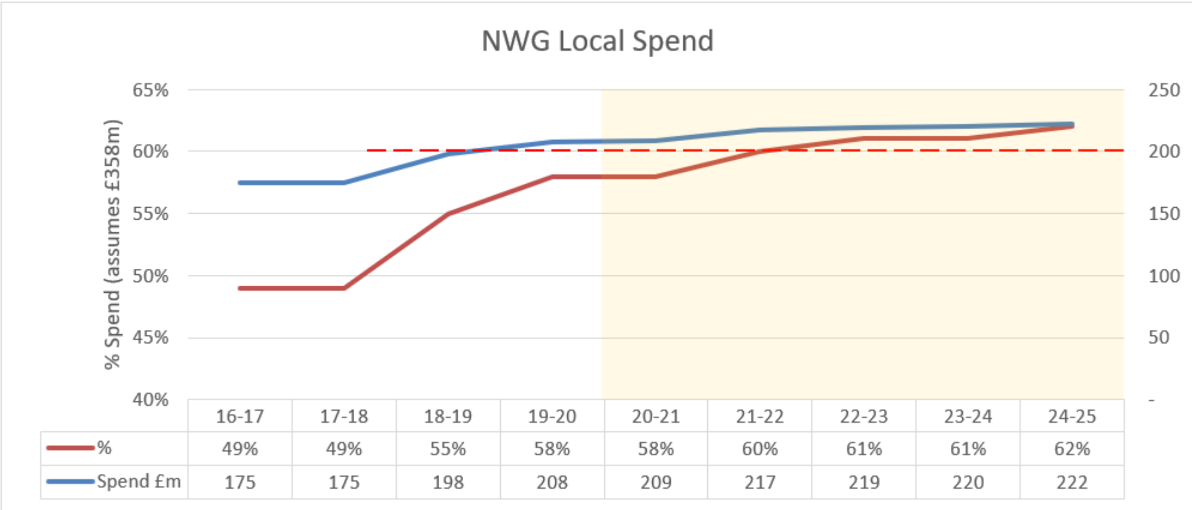
- Targeted local supplier engagement at 'Meet the Buyer' events.
- Mobile supplier engagement using our customer engagement vehicle 'Flo'.
- Producing 'Procurement in the Community' - an educational pack to inform local SMEs about our procurement process and procurement by utilities more widely.
- Launching an internal procurement handbook giving advice on low value procurement, including considering local sourcing.

This approach has achieved industry recognition. We were awarded 'Best Contribution to Corporate Social Responsibility' and 'Overall Winner' at the Chartered Institute of Procurement and Supply 2018.

To establish a baseline in anticipation of the 2020-25 reporting period, we started defining local procurement and mapping suppliers to local and non-local categories. We currently define 'local spend' as spending with suppliers with a postcode that falls within its operating areas. This is based on the 'pay site' defined on the supplier's invoices.

In calculating local procurement expenditure, we include both capex and opex, but exclude certain spend categories, e.g. power, banking payments and inter-company payments. Excluding these items removes approximately 20% of total expenditure.

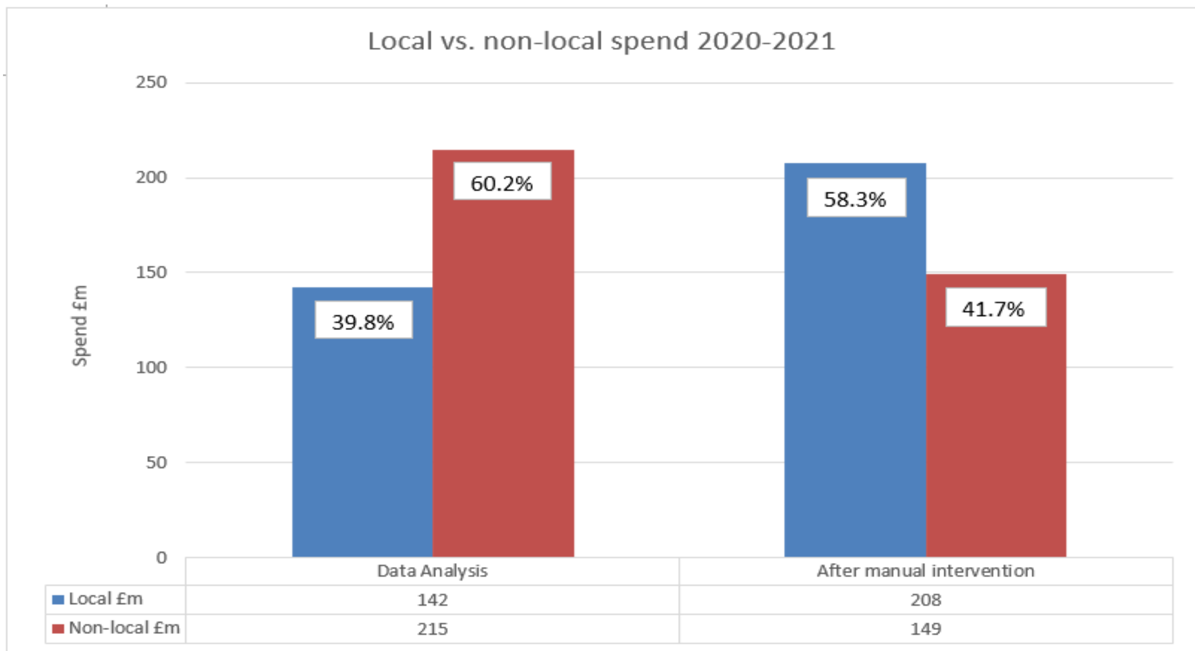
For smaller companies, the invoice location is generally near where the company is based and where their employees work and live. However, for larger companies (operating over larger geographical areas), using invoice postcodes is less effective. Examples include temporary staffing contractors and capital framework partners who have a head office out of our regions but source our requirements from our local areas. To address this, a manual adjustment is made to better reflect where their employees work and live.



Data (16-17 to 19-20) taken from NWL contribution report

Data (20-21) as calculated June 20

Data (21-22 to 24-25) est. / forecast only



** % assumes a spend on £358m (excluding non-attributable e.g. banking fees)*

To make sure we continue to improve on building successful economies in our regions, we have identified the following actions:

- Improve incentivisation and promotion of our approach to local spend to our capital framework partners. Design and implement measures that encourage our directly contracted (Tier 1) suppliers to ‘think local’ as part of their delivery model through their suppliers (our Tier 2 suppliers).

- Make sure our local supply chains are engaged in procurement strategy development. For example, considering whether larger contracts or requirements can be split into lots (where commercially viable), to provide opportunities for local SMEs who may struggle to deliver the full work package. This may also drive innovation.
- Examine the potential to include 'local' criteria within our procurement evaluation process so that local suppliers could be scored more highly for this. Consider the impact on Utilities Contract Regulations. At present the regulations do not allow this but recent changes for spend under a certain threshold has allowed for contracts to be reserved for local companies.
- Update our Supplier Charter to include a commitment on local spend which clearly sets out our expectations for our supply chains.
- Continue to engage with Durham County Family to deliver social value benefits in our regions through our supply chains.

We will also continue to engage with our local supply chains and our wider communities. While our 'Meet the buyer' events may no longer be face to face, we will look at how we can use technology to continue to make ourselves visible.

Case study – COVID work with suppliers

Throughout the COVID-19 pandemic, we've worked with a wide range of suppliers from across our regions to support job retention and bolster businesses' financial health.

Since the first national lockdown was announced in March 2020, many businesses have suffered from uncertainty about their future workloads, while others have seen incomes disappear.

However, our range of joint initiatives, grown from forward thinking ahead of initial Government measures and support for smaller suppliers, is helping to counter that uncertainty and reduce the need to furlough many employees in our regions.

Prior to lockdown, we have been working with suppliers for our investment work - such as water network upgrades and maintenance. As a result, these businesses established working groups to collaborate on issues including ensuring health and safety, maintaining productivity and supplies, and general wellbeing.

In addition, we've worked with many suppliers - largely small and medium sized businesses (SMEs) - to pay them faster to improve cash flow and assure them about future workload volumes. This allowed these businesses to make informed decisions about how much of their active workforce they should retain.

Investment work, mostly delivered by framework partners, has continued to be carried out safely during the pandemic because of its essential nature. However, by working together, the companies have introduced innovative new working methods, such as installing Perspex dividers where single occupancy of vehicles has not been possible.

Tamsin Lishman, Asset Management Director, said: "2020 brought a lot of uncertainty, not only for businesses, but for those they employ, their families and communities. It's important to us that, where we can, we help reduce the stress that comes with this.

"More than half of our spend goes to businesses within our operating areas, and we have an ambition to increase that to 60%. Our decisions have a big effect on our communities, affecting a lot of people across our regions. That's why it's important that we tackle the current COVID situation in partnership with our suppliers, helping them to maintain employment levels and plan workloads.

"The businesses that deliver our investment projects alone employ more than 1,000 people. Any decision on what work we continue has a big impact on these regions, so we feel it's vital that we continue our essential work. Most of our work is essential to keep delivering our services to customers, which is a strong position from which we can continue to support all our partners and suppliers. Working together creatively, we've been able to adapt and drive forward work in a way that not only keeps people in work and cash flowing, but also protects the safety of our own employees and those within our supply chain."

REGULATORY ACCOUNTING STATEMENTS

&

ADDITIONAL REGULATORY INFORMATION

DIRECTORS' RESPONSIBILITIES AND DECLARATIONS
for the year ended 31 March 2021

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible under Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991 for:

- ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F;
- preparing a set of regulatory accounting statements each financial year in accordance with the Regulatory Accounting Guidelines; and
- preparing such other financial and related information as is required by the Regulatory Accounting Guidelines.

RISK AND COMPLIANCE STATEMENT

The Board confirms that:

- it considers the Company has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- it has satisfied itself that the Company has sufficient processes and internal systems of control to fully meet its obligations; and
- the Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each current Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

CONDITION P (Ring-fencing Certificate)

The Directors certify that, in their opinion:

- the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment);
- the Appointee will, for at least the next 12 months, have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out those functions as required by paragraph I13 of the Instrument of Appointment;
- the Appointee has available to it sufficient rights and resources, other than financial resources, to enable a special administrator to manage the affairs, business and property of the Appointee, should a special administration order be made; and
- all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In providing this certificate, the Directors have taken into account:

- the financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2021;
- the key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- the fact that the Company has in place £450m of five year committed bank facilities as back up liquidity, maturing in December 2054, which was undrawn at 31 March 2021;
- the work of the Board and its Committees, including the Remuneration and Nomination Committees, in considering succession planning and senior management performance, reviewing the results of the annual employee engagement survey reports, and the appointment of five new Independent Non-Executive Directors, making them the largest single group on the Board;
- the work of the Board and its Committees to monitor the risk and control systems throughout the year, including conducting a robust assessment of principal risks and an annual review of the effectiveness of the Company's risk management and internal control systems, oversight of the work carried out by external auditor, internal audit and other assurance providers, and monitoring compliance with procedures to prevent bribery and receiving reports on any whistleblowing allegations;
- the work of the Board monitoring the Company's purpose, strategy, values and culture, long term planning and development of major technology transformation programmes;
- the approval by the Board of all significant contracts and full disclosure of all transactions with associated companies, of which no new arrangements were entered into during the year, and the settlement of a legacy intercompany loan arrangement, after 31 March 2021; and
- the monitoring and review throughout the year of the principal risks and uncertainties facing the business by the Risk & Compliance Sub-committee.

Deloitte LLP have carried out assurance on the ring-fencing certificate in accordance with the Company's Instrument of Appointment.

CONDITION P26 (Credit Rating)

The Directors also confirm that throughout 2020/21 the Appointee has ensured that it, and an Associated Company as issuer of debt on its behalf, has maintained at all times an issuer credit rating which is an investment grade rating.

VIABILITY STATEMENT

When considering longer-term viability, the Directors note that, in their opinion, the PR19 FD, as revised by the CMA in March 2021, has resulted in a lower cost of capital, significant totex challenge, stretching PC targets and an asymmetric penalties and incentives mechanism which represents a significant challenge to financeability in AMP7. There is also lower financial headroom available for management of downside shocks and there is likely to be pressure on projected credit ratings, as reflected in the current negative outlook from Standard & Poor's (S&P).

Financial forecasts over longer-term timeframes are inherently subject to more risk that the assumptions adopted will not be realised. As set out in the 'ring-fencing certificate' above, the Directors have confirmed that the business has sufficient resources to carry our its regulated activities. In considering the longer-term viability, the Directors note the challenges inherent in the PR19 FD referred to above and that some of the downside stress test scenarios would place significant pressure on projected credit ratings in the next four years, particularly higher operating and capital costs. The longer-term view beyond four years assumes that the 2024 price review will provide a sufficient rate of return to enable the Company to finance its functions for the period 2025-30.

Additional uncertainty remains over the economic impact of the COVID-19 pandemic, specifically in respect of changes in water demand patterns, pressure on household revenue collection as government support arrangements are phased out and longer-term macro-economic impacts.

The Directors have assessed the future prospects of the Company and consider that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the nine years to March 2030 given the long-term nature of the business.

In arriving at their conclusion, the Directors have taken into account:

- the Licence which is in place on a rolling 25 year basis;
- revenue from wholesale and household retail price controls to March 2025 provided by the PR19 FD, as revised by the CMA in March 2021;
- the financial strength of the Company at the balance sheet date and the fact that the Company has a £450m undrawn committed bank facility as back up liquidity, maturing in December 2025 with the intention of extending until 2030 in due course;
- the key financial ratios over the planning horizon of the Company's financial forecast to March 2026 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- the Board's flexible dividend policy; and

- the principal risks and uncertainties facing the Company and the mitigating controls, as described on pages 57 to 60 of the Annual Report & Financial Statements, which are monitored by the Audit Committee, Risk & Compliance Sub-committee and Board.

The Directors have chosen a period of nine years to March 2030 to assess the viability of the Company to align with the business planning process for the regulatory price review period to March 2025, and the next price review period to March 2030. Whilst the Directors do not believe that it is possible to test financial resilience beyond March 2025 to the same level of robust detail, given uncertainty of revenue and returns past this point, they have performed an assessment of viability beyond five years against an extended plan applying reasonable assumptions for the next price review which includes a sufficient rate of return to enable the Company to finance its functions.

The financial forecast has been stress tested under a number of plausible and severe adverse scenarios. The scenarios were selected by the Board after considering the principal risks and uncertainties facing the Company and the key economic and financial variables which could impact on the forecast. The combined impact of multiple scenarios has also been tested.

The stress tests were assessed in the context of NWL's overarching financial objective of maintaining prudent investment grade credit ratings from S&P and Moody's, and the Board's target of retaining regulatory gearing of around 70%.

The scenarios tested were:

- lower CPIH inflation, leading to reduced allowed revenue and RCV and therefore lower profitability and higher gearing;
- increased future borrowing rates for new and refinanced debt, increasing interest charges and reducing interest cover metrics;
- further increases in tax corporation rates, in addition to the planned increase to 25% in 2023, increasing tax payments and gearing;
- increased defined benefit pension scheme deficit and revised schedule of contributions, resulting in increased contribution payments and higher gearing under rating agency methodologies;
- impact of a credit rating downgrade, causing increased borrowing costs and potentially triggering refinancing of existing debt;
- higher operating and capital investment cost, causing increased net debt and gearing and reduced profitability;
- impact of a major incident crystallising one of the Company's principal risks, causing a significant cash outflow and increased net debt and gearing;
- a sustained deterioration in household revenue collection as a result of the economic impacts of COVID-19, reducing cash receipts leading to i increased net debt and gearing; and
- reduced Outcome Delivery incentive (ODI) rewards or increased ODI penalties as a result of performance not achieving targeted levels of performance, reducing future revenues.

A number of combined scenarios were also tested. These were determined by considering which scenarios were most likely to occur in combination. The combined scenarios tested were:

- adverse economic conditions, comprising reduced indexation, increased borrowing costs and increased tax rate;
- external impacts, comprising increased pension payments and credit rating downgrade; and
- shortfall in operational performance, comprising higher totex, major operational incident and reduced ODI rewards or increased penalties.

To the extent that any of these scenarios, in isolation or combination, would place retention of the Company's investment grade credit rating or liquidity position at risk, the Board would seek to take mitigating actions. This includes actions to support pension deficit repair payments utilising an asset-backed funding arrangement, efficient financing of new debt and application of the Board's flexible dividend policy. While outperformance of the FD cost allowance would also help mitigate such an outcome, the Directors do not consider this to be a key mitigating factor given the level of challenge and stretch implied by the FD.

The Board engaged Deloitte LLP to provide third party assurance, in the form of agreed upon procedures.

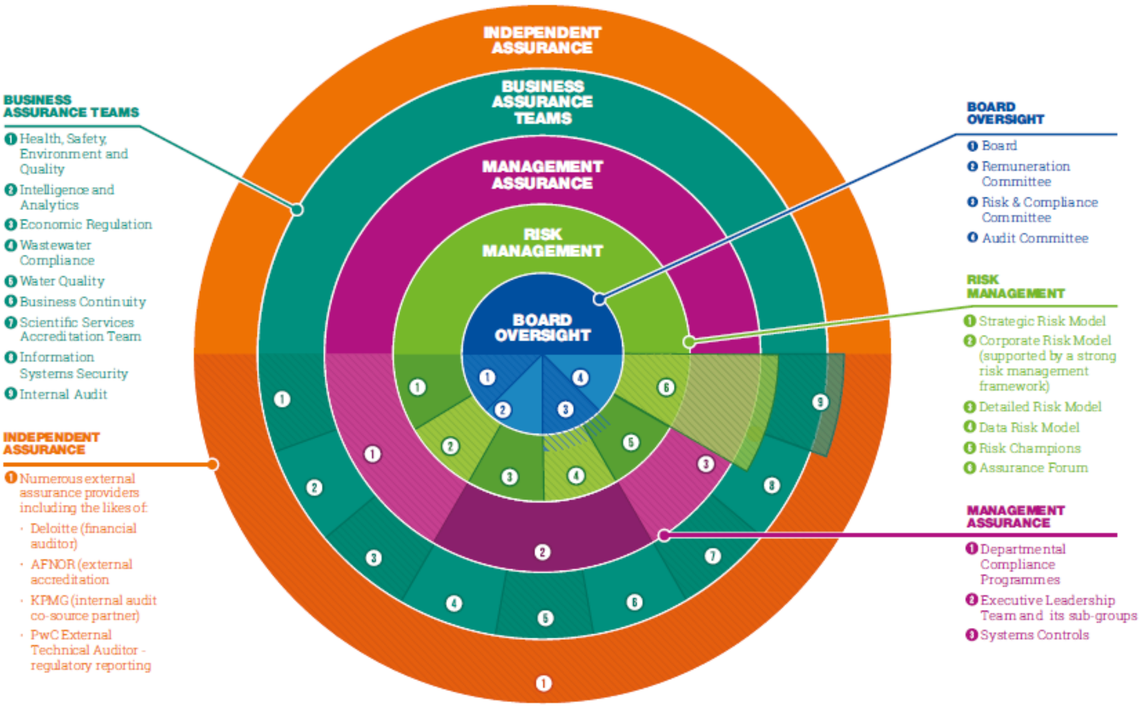
BOARD STATEMENT ON ACCURACY AND COMPLETENESS OF DATA AND INFORMATION

In the opinion of the Board, based on the governance and assurance arrangements in place, the data and information contained in this Annual Performance Report and provided to Ofwat during the year is complete and has a high degree of accuracy. Our Data Assurance Summary provides a detailed review of the assurance work carried out in the year and the findings of our assurance providers, upon which this opinion is based.

Governance Arrangements & Assurance Framework

The Board is committed to providing regulatory data and information that is accurate, clear and transparent in order to maintain the trust of our customers and stakeholders. The Board takes ownership of the arrangements for governance and assurance of regulatory submissions and reporting. This is monitored and controlled through the Board's Audit Committee and Risk & Compliance Sub-committee, which report regularly to the Board.

The Board has put in place a comprehensive assurance framework, shown in the diagram below. This has Board oversight at its core, supported by a risk management framework and multiple layers of internal and external assurance.



The Risk & Compliance Sub-committee, on behalf of the Board, carried out its annual review of the effectiveness of the Company's risk management and internal control systems. This review confirmed that the Company has strong systems of internal control and robust processes in place to enable it to identify, evaluate and manage the risks it faces and to ensure that its obligations are met. These systems and processes are embedded in the organisation and are reviewed regularly by the Board, its Committees and Sub-committee. The annual review confirmed that the risk management and internal control systems have operated effectively through the year and that there have been no significant failings or weaknesses.

Activities in the Year

We published our annual Assurance Plan in March 2021, following consultation with customers and stakeholders, which set out how we intend to meet our obligations and the commitments we made to customers and stakeholders in our Business Plan 2020-25 and how we provide information of appropriate quality.

In developing this Assurance Plan and recognising that this is the first year of a new five-year regulatory period, we thoroughly reviewed our risks, strengths and weaknesses against the stretching commitments in our business plan, identifying which areas required increased focus to ensure quality of reporting.

The Board, through the work of its Audit Committee, has overseen a plan to improve regulatory data through the year. This plan was designed to address areas of risk identified in reports from our assurance providers for the 2019/20 APR, as well as areas where the source of data has changed during the year and where there are new reporting requirements. This included:

- data managed in complex spreadsheets creating a higher risk of error;
- information being drawn from multiple sources; and
- data being sourced from our new Maximo asset data system, which was fully implemented during the year.

As part of the approval process for this APR, the Audit Committee received assurance reports from the Internal Audit manager, the external technical assurer, PricewaterhouseCoopers LLP, and the financial auditor, Deloitte LLP. We have also published a Data Assurance Summary as part of our suite of annual reporting. This describes the assurance activities carried out throughout the year and for data provided in the APR, and reports any key findings of our assurance providers. This confirms there were no significant issues to report.

Conclusion

The Board is satisfied that the governance and assurance arrangements it has put in place are comprehensive and robust and have operated effectively throughout the year. On this basis, the Board is confident that the data reported has a high degree of accuracy. However, no assurance process can give an absolute guarantee of total accuracy, especially given the extremely large volume of data in the APR and the fact that some of the reported information is dependent on expert judgement and assumptions, for example accounting separation data.

By order of the Board

Andrew J Hunter
Chairman

Heidi Mottram
CEO

Paul Rew
Senior Independent
Non-Executive Director

Alan Bryce
Independent Non-Executive Director

Dominic Chan
Non-Executive Director

H L Kam
Non-Executive Director

Duncan Macrae
Non-Executive Director

Jacquie McGlade
Independent Non-Executive Director

Bridget Rosewell
Independent Non-Executive Director

Richard Sexton
Independent Non-Executive Director

Peter Vicary-Smith
Independent Non-Executive Director

15 July 2021

REGULATORY ACCOUNTING POLICIES AND DISCLOSURES
for the year ended 31 March 2021

(a) Regulatory Accounts - Basis of Accounting

The Regulatory Accounting Statement, have been prepared in accordance with the Regulatory Accounting Guidelines (RAGs) issued by Ofwat. They have been prepared on a consistent basis to the Company's Financial Statements, with the following exceptions:

- income relating to energy generation and meter reading, which is recorded as revenue in the statutory accounts, has been recorded as negative operating expenditure;
- rental income and amortisation of deferred capital income, which are recorded as revenue in the statutory accounts, have been recorded as other income below operating profit;
- profit on disposal of fixed assets, which is recorded as operating costs in the statutory accounts, has been recorded as other operating income; and
- borrowing costs that are directly attributable to the acquisition or construction of an asset, which are capitalised in the statutory accounts, are charged to the income statement.

The information reported in the Regulatory Accounting Statements relates to NWL's Appointed business only, except where stated. The Appointed business comprises Regulated Activities, defined in Condition A of the Licence to be 'functions of' and the 'duties imposed on' a water and sewerage undertaker by the Water Industry Act 1991. Such duties are consequently those necessary for the Company to fulfil its duty as a water and sewerage undertaker.

The accounts have been prepared on a going concern basis which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future.

(b) Revenue recognition

The revenue recognition policy is the same in the regulatory and statutory accounts, other than the exceptions related to income from energy generation, meter reading, rental income and deferred capital income, as explained above.

RAG 1.09 requires companies to recognise all revenue billed to properties which receive a service, other than if confirmed as void, and to assume that it is probable that this will be collected, disapplying IFRS 15 in this respect. NWL complies with this requirement.

Revenue from water and sewerage charges billed to customers is recognised pro-rata over the period to which it related. For consumption by measured customers which has not yet been billed, revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer. Invoices raised or payments received where the service has not been provided are not recognised in revenue in the year but are treated as receipts in advance.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors' fees, are recognised as negative operating costs when payment is received in both the statutory and regulatory accounts. They are not recognised in revenue.

Charges for water and sewerage services remain due in full whilst a property contains furnishings and fittings or when a property is unfurnished and water is being used for any purpose including refurbishment. If the Company has turned off the supply of water at the mains to a property at a customer's request, then water supply charges are not payable.

If the supply of water is turned off and the property is unfurnished the property is considered unoccupied and charges are not payable. If, however, the supply of water is turned off and the property remains furnished it is considered ready for occupation and in this case sewerage charges in respect of the drainage of surface water and contribution to highway drainage continue to be payable.

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 not and, if occupied, to identify the chargeable person and raise a bill. No bills are raised in the name of 'the occupier'.

The empty property process comprises a number of steps including an initial letter asking the occupier to either contact the Company or return a completed registration form, a check of the property record against Land Registry information and visits to the property by Company representatives. If these steps confirm that a property appears to be empty, then the supply may be turned off.

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 water is being registered, the developer will be charged. Once the developer is no longer responsible for a property, if no new occupier has been identified the property will be treated as unoccupied and the empty property process followed, as outlined above.

A retrospective review has confirmed that the measured household income accrual at 31 March 2020 of £71.2m was marginally higher than the amounts subsequently billed to customers of £68.8m.

(c) Bad debt policy

The policy for bad and doubtful debts is applied consistently between the statutory and regulatory accounts.

(i) Bad debt write offs

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- where the customer does not have any assets or has insufficient assets on which to levy execution;
- where the value of the debt makes it uneconomic to pursue;
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful; and

- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note.

(ii) Bad debt provisioning

The Company's detailed bad and doubtful debts provision policy has remained unchanged during the year and has been consistently applied in the current and prior periods. The bad debt provision is charged to operating costs to reflect the Company's assessment of the risk of non recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

A comparison of the provision against historical collection rates is carried out at the end of each year. This indicated a slight deterioration in the longer term recovery of debt, which has been impacted by restrictions on certain court enforcement activities in the year as a result of Covid-19. An assessment of the potential impact of Covid-19 on the economic circumstances of our household customers was made at 31 March 2020 and a provision of £6.5m created. Cash collection has remained in line with expectations during the year as the Government has continued to provide support to those affected by Covid restrictions. However, once these arrangements cease then there is a risk that collection performance will deteriorate, therefore the £6.5m provision has been retained.

Accordingly, the provision has increased from £104.4m at 31 March 2020 to £111m at 31 March 2021. This reflects aging of outstanding debt less debt written off.

(d) Capitalisation policy

The policy for the capitalisation of costs as items of property, plant and equipment and intangible assets is applied consistently between the statutory and regulatory accounts, in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.

The application of this policy is summarised below. Further detail is provided in the accounting separation methodology statement published on our websites.

The cost of construction or purchase of new or replacement infrastructure and non-infrastructure assets is capitalised. Cost includes any costs directly attributable to bringing the asset into condition for use in the business, including directly attributable overhead costs but excluding general overhead costs. The costs of infrastructure and non-infrastructure assets are depreciated over their useful economic lives.

On the infrastructure network, capital replacement of assets includes any renewal of a full pipe length of main or sewer and replacement of ancillaries such as stop taps, valves, meter chambers and manhole covers.

Subsequent maintenance expenditure is treated as an operating cost unless it provides an enhancement of economic benefits in excess of the expected standard of performance such as an extension in the estimated useful life or an increase in capacity, in which case it is capitalised. Examples of maintenance costs charged as operating costs include pipe and tank cleaning, inspections, surveys and zonal studies.

(e) Accounting separation policy

Cost allocations have been prepared in accordance with RAG 2.08 and RAG 4.09 for the definitions for the regulatory accounting tables. All costs are recorded in the accounting records by cost centre. Cost centres are defined either as a direct department, comprising operational and customer functions, or a support department. Direct departments are mostly directly allocated to service activities based on the nature of the function, although some costs require apportionment on an appropriate basis. Support departments are apportioned across the price controls either based upon a specific analysis of the costs or by apportionment by an appropriate cost driver. Once allocated to the appropriate price control the costs are then allocated to service activities pro-rata to full time equivalent staff numbers of the direct departments.

Fixed assets directly involved in the activities within each business unit are recorded against that business unit using direct allocation per the location or asset type. Where an asset is utilised in more than one business unit, the asset is allocated to the business unit of principal use and costs are recharged to other different business units on the same basis used to allocate operating expenditure.

Further detail is provided in the accounting separation methodology statement published on our website.

(f) Statement of Directors' remuneration and standards of performance

Directors' remuneration is fully disclosed in the NWL Annual Report and Financial Statements for the year ended 31 March 2021, in the Remuneration Committee Report on pages 87 to 99. This is published on our website. To avoid duplication, this information has not been replicated within the APR.

The Remuneration Committee Report has been produced in accordance with section 35A of the Water Industry Act 1991. It also has regard to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of Directors' remuneration reporting for quoted companies, albeit in the context of a company which is not a listed public limited company.

1.A Income Statement

for the year ended 31 March 2021

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Revenue	758.4	(33.6)	(29.1)	(62.7)	695.7
Operating costs	(563.4)	14.4	23.3	37.7	(525.7)
Other operating income	-	1.3	(0.2)	1.1	1.1
Operating profit	**195.0**	**(17.9)**	**(6.0)**	**(23.9)**	**171.1**
Other income	-	20.1	(5.2)	14.9	14.9
Interest income	2.1	0.3	(2.0)	(1.7)	0.4
Interest expense	(100.3)	(11.1)	0.3	(10.8)	(111.1)
Other interest expense	(1.7)	-	0.1	0.1	(1.6)
Profit before tax and fair value movements	**95.1**	**(8.6)**	**(12.8)**	**(21.4)**	**73.7**
Fair value gains/(losses) on financial instruments	(11.1)	-	-	-	(11.1)
Profit before tax	**84.0**	**(8.6)**	**(12.8)**	**(21.4)**	**62.6**
UK Corporation tax	(12.0)	-	0.5	0.5	(11.5)
Deferred tax	(1.9)	1.7	0.7	2.4	0.5
Profit for the year	**70.1**	**(6.9)**	**(11.6)**	**(18.5)**	**51.6**

1.A Income Statement (continued)

for the year ended 31 March 2021

	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Tax analysis					
Current year	12.1	-	(0.5)	(0.5)	11.6
Adjustments in respect of prior years	(0.1)	-	-	-	(0.1)
UK Corporation tax	**12.0**	**-**	**(0.5)**	**(0.5)**	**11.5**

Analysis of non-appointed revenue	
Imported sludge	-
Tankered waste	1.7
Other non-appointed revenue	27.4
Revenue	**29.1**

Differences between statutory and RAG definitions are explained in note (a) of the Regulatory Accounting Policies and Disclosures.

The change to profit for the year reflects the different treatment of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the Income Statement in the Regulatory Accounting Statements, and the associated depreciation and deferred tax. Other changes are presentational in nature:

- income relating to energy generation and meter reading has been reclassified from revenue in the statutory accounts to negative operating costs;
- rental income, amortisation of deferred income and other contributions to capital investment have been reclassified from revenue in the statutory accounts to other income; and
- profit on disposal of fixed assets has been reclassified from operating costs in the statutory accounts to other operating income.

Interest Analysis

Interest expense comprises:

Bank overdrafts and loans	(5.6)
Loans from financing subsidiary	(85.8)
Amortisation of issuance costs	(2.0)
Accretion on index-linked debt	(15.2)
Obligations under leases	(2.5)
Interest expense	(111.1)

NWL has a financing subsidiary, Northumbrian Water Finance Limited, which raises listed debt on its behalf. The debt is then loaned to NWL at the same terms.

Other interest expenses represents interest cost on pension plan obligations.

1.B Statement of Comprehensive Income

financial performance for the 12 months ended 31 March 2021

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Profit for the year	70.1	(6.9)	(11.6)	(18.5)	51.6
Actuarial gains/(losses) on post employment plans	(43.9)	-	0.3	0.3	(43.6)
Other comprehensive income	2.2	-	-	-	2.2
Total Comprehensive income for the year	**28.4**	**(6.9)**	**(11.3)**	**(18.2)**	**10.2**

1.C Statement of Financial Position

financial performance for the 12 months ended 31 March 2021 (Registered number 02366703)

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£'m	£'m	£'m	£'m	£'m
Non-current assets					
Fixed assets	4,690.1	(55.0)	(105.6)	(160.6)	4,529.5
Intangible assets	90.5	(5.0)	(0.1)	(5.1)	85.4
Investments - loans to group companies	160.9	-	(160.9)	(160.9)	-
Investments - other	-	-	-	-	-
Total non-current assets	**4,941.5**	**(60.0)**	**(266.6)**	**(326.6)**	**4,614.9**
Current assets					
Inventories	4.6	-	(0.4)	(0.4)	4.2
Trade & other receivables	221.7	1.9	(14.4)	(12.5)	209.2
Cash & cash equivalents	28.6	-	(9.7)	(9.7)	18.9
Total current assets	**254.9**	**1.9**	**(24.5)**	**(22.6)**	**232.3**
Current liabilities					
Trade & other payables	(134.7)	(27.1)	28.8	1.7	(133.0)
Capex creditor	(28.7)	-	0.9	0.9	(27.8)
Borrowings	(66.1)	25.2	-	25.2	(40.9)
Current tax liabilities	-	-	-	-	-
Provisions	(1.1)	-	-	-	(1.1)
Total current liabilities	**(230.6)**	**(1.9)**	**29.7**	**27.8**	**(202.8)**
Net current assets / (liabilities)	**24.3**	**-**	**5.2**	**5.2**	**29.5**

1.C Statement of Financial Position (continued)

financial performance for the 12 months ended 31 March 2021 (Registered number 02366703)

	Statutory	Adjustments			Total appointed activities
		Differences between statutory and RAG definitions	Non-appointed	Total adjustments	
	£'m	£'m	£'m	£'m	£'m
Non-current liabilities					
Trade & other payables	-	-	-	-	-
Borrowings	(2,895.6)	-	-	-	(2,895.6)
Financial instruments	(52.5)	-	-	-	(52.5)
Retirement benefit obligations	(127.6)	-	2.2	2.2	(125.4)
Provisions	(4.9)	-	1.5	1.5	(3.4)
Deferred income - G&C's	(391.1)	-	93.0	93.0	(298.1)
Deferred income - adopted assets	(131.0)	-	-	-	(131.0)
Deferred tax	(459.1)	11.4	3.9	15.3	(443.8)
Total non-current liabilities	**(4,061.8)**	**11.4**	**100.6**	**112.0**	**(3,949.8)**
Net assets	**904.0**	**(48.6)**	**(160.8)**	**(209.4)**	**694.6**
Equity					
Called up share capital	122.7	-	(30.6)	(30.6)	92.1
Retained earnings & other reserves	781.3	(48.6)	(130.2)	(178.8)	602.5
Total Equity	**904.0**	**(48.6)**	**(160.8)**	**(209.4)**	**694.6**

Approved by the Board of Directors on 15 July 2021 and signed on their behalf by:

H Mottram

The change in net assets and total equity reflects the different treatment of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the income statement in the Regulatory Accounting Statements, and the associated depreciation and deferred tax. Other changes reflect the disaggregation of cash balances and trading balances between the appointed and non-appointed businesses.

1.D Statement of Cash Flows

financial performance for the 12 months ended 31 March 2021

	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Operating profit	195.0	(17.9)	(6.0)	(23.9)	171.1
Other income	-	20.1	(5.2)	14.9	14.9
Depreciation	147.8	(2.2)	(2.3)	(4.5)	143.3
Amortisation - G&C's	-	-	-	-	-
Changes in working capital	13.0	-	(5.4)	(5.4)	7.6
Pension contributions	(12.4)	-	(0.2)	(0.2)	(12.6)
Movement in provisions	(9.1)	1.3	5.6	6.9	(2.2)
Profit on sale of fixed assets	-	(1.3)	0.2	(1.1)	(1.1)
Cash generated from operations	**334.3**	**-**	**(13.3)**	**(13.3)**	**321.0**
Net interest paid	(93.5)	-	(1.7)	(1.7)	(95.2)
Tax paid	(11.7)	-	0.5	0.5	(11.2)
Net cash generated from operating activities	**229.1**	**-**	**(14.5)**	**(14.5)**	**214.6**
Investing activities					
Capital expenditure	(231.5)	-	3.1	3.1	(228.4)
Grants & Contributions	12.9	-	-	-	12.9
Disposal of fixed assets	1.5	-	(0.2)	(0.2)	1.3
Other	27.0	-	-	-	27.0
Net cash used in investing activities	**(190.1)**	**-**	**2.9**	**2.9**	**(187.2)**
Net cash generated before financing activities	**39.0**	**-**	**(11.6)**	**(11.6)**	**27.4**

1.D Statement of Cash Flows (continued)

financial performance for the 12 months ended 31 March 2021

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Cashflows from financing activities					
Equity dividends paid	-	-	-	-	-
Net loans received	(45.5)	-	5.2	5.2	(40.3)
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	**(45.5)**	**-**	**5.2**	**5.2**	**(40.3)**
Increase / (decrease) in net cash	**(6.5)**	**-**	**(6.4)**	**(6.4)**	**(12.9)**

1.E Net Debt Analysis

as at 31 March 2021

	Interest rate risk profile				
			Index linked		
	Fixed rate	Floating rate	RPI	CPI/CPIH	Total
	£'m	£'m	£'m	£'m	£'m
Borrowings (excluding preference shares)	1,767.6	26.3	1,041.9	100.7	2,936.5
Preference share capital					-
Total borrowings					**2,936.5**
Cash					(18.9)
Short term deposits					-
Net Debt					**2,917.6**
Gearing					69.5%
Adjusted Gearing					**69.5%**
Interest					
Full year equivalent nominal interest cost	79.4	0.5	30.0	1.3	111.2
Full year equivalent cash interest payment	79.4	0.5	14.4	0.2	94.5
Indicative interest rates					
Indicative weighted average nominal interest rate	4.44%	1.88%	2.87%	1.26%	3.75%
Indicative weighted average cash interest rate	4.44%	1.88%	1.38%	0.24%	3.19%
Time to maturity					-
Weighted average years to maturity	8.9	7.0	16.8	18.0	12.0

1.F Financial Flows

for the 12 months ended 31 March 2021 and for the price review to date

	12 months ended 31 March 2021						Average 2020-25					
	%			£'m			%			£'m		
	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity												
Return on regulatory equity	4.34	3.28	4.34	69.1	52.2	52.2	4.34	3.28	4.34	69.1	52.2	52.2
Regulatory equity (£m)	1,591.7	1,591.7	1,202.4	-	-	-	1,591.7	1,591.7	1,202.4	-	-	-
Financing												
Gearing	-	1.06	1.39	-	16.8	16.8	-	1.06	1.39	-	16.8	6.8
Gearing benefits sharing	-	-	-	-	-	-	-	-	-	-	-	-
Variance in corporation tax	-	0.44	0.58	-	6.9	6.9	-	0.44	0.58	-	6.9	6.9
Group relief	-	-	-	-	-	-	-	-	-	-	-	-
Cost of debt	-	(0.77)	(1.19)	-	(12.3)	(14.3)	-	(0.77)	(1.19)	-	(12.3)	(14.3)
Hedging instruments	-	(0.57)	(0.88)	-	(9.1)	(10.6)	-	(0.57)	(0.88)	-	(9.1)	(10.6)

1.F Financial Flows (continued)

for the 12 months ended 31 March 2021 and for the price review to date

	12 months ended 31 March 2021						Average 2020-25					
	%			£'m			%			£'m		
	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity including Financing adjustments	**4.34**	**3.44**	**4.24**	**69.1**	**54.5**	**51.0**	**4.34**	**3.44**	**4.24**	**69.1**	**54.5**	**51.0**
Operational Performance												
Totex out / (under) performance		0.44	0.59	-	7.1	7.1	-	0.44	0.59	-	7.1	7.1
ODI out / (under) performance		0.12	0.15	-	1.9	1.9	-	0.12	0.15	-	1.9	1.9
C-Mex out / (under) performance		-	-	-	-	-	-	-	-	-	-	-
D-Mex out / (under) performance		-	-	-	-	-	-	-	-	-	-	-
Retail out / (under) performance		(1.22)	(1.61)	-	(19.4)	(19.4)	-	(1.22)	(1.61)	-	(19.4)	(19.4)
Other exceptional items		0.03	0.04	-	0.4	0.4	-	0.03	0.04	-	0.4	0.4
Operational performance total		**(0.63)**	**(0.83)**	**-**	**(10.0)**	**(10.0)**	**-**	**(0.63)**	**(0.83)**	**-**	**(10.0)**	**(10.0)**

1.F Financial Flows (continued)

for the 12 months ended 31 March 2021 and for the price review to date

	12 months ended 31 March 2021						Average 2020-25					
	%			£'m			%			£'m		
	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
RoRE	4.34	2.81	3.41	69.1	44.5	41.0	4.34	2.81	3.41	69.1	44.5	41.0
Actual performance adjustment 2015-20	(0.05)	-	-	(0.6)	-	-	(0.05)	-	-	(0.6)	-	-
Total earnings	4.29	2.81	3.41	68.5	44.5	41.0	4.29	2.81	3.41	68.5	44.5	41.0
RCV growth from inflation	1.01	1.01	1.01	16.1	16.1	12.2	1.01	1.01	1.01	16.1	16.1	12.2
Voluntary sharing arrangements	-	-	-	-	-	-	-	-	-	-	-	-
Total shareholder return	5.30	3.82	4.42	84.6	60.6	53.2	5.30	3.82	4.42	84.6	60.6	53.2
Dividends												
Gross Dividend	4.00	-	-	63.7	-	-	4.00	-	-	63.7	-	-
Interest Received on Intercompany loans	-	-	-	-	-	-	-	-	-	-	-	-
Retained Value	**1.30**	**3.82**	**4.42**	**20.9**	**60.6**	**53.2**	**1.30**	**3.82**	**4.42**	**20.9**	**60.6**	**53.2**

The purpose of this table is to provide transparency of financial flows to investors, comparing actual flows, and the main elements of performance which contribute to these flows, against the financial flows assumed by Ofwat under the notional structure at the last price review.

As this is the first year of the 2020-2025 price control period, this commentary only reflects 2020/21 performance. Note, all of the financial values are expressed in the same 2017/18 price base as the PR19 price review.

Return on regulatory equity (RORE)

At PR19, the base notional RORE was set at 4.34% for the year. The regulatory equity base represents the proportion of RCV funded as equity rather than debt. Ofwat's notional structure for PR19 assumed net debt at 60% of RCV, equating to base regulatory equity of 40%, or £1,592m at March 2021. NWL's average gearing in 2020/21, after taking account of PR19 midnight adjustments to RCV, was 69.8%, resulting in actual regulatory equity of 30.2% of RCV, or £1,202m.

Financing

This section of the report relates to performance from financing, excluding tax.

Gearing is calculated as net debt divided by RCV. NWL's average gearing was 69.8%, remaining above Ofwat's notional structure assumption of 60% but below our target level of around 70%. This has generated a financing benefit of £16.8m. The CMA redetermination removed the gearing sharing mechanism for NWL, though it would not have come into effect during the year if it had been applied.

Corporation tax reports the difference current tax funded in the FD and the actual tax rate applied to profit before fair value, adjusted for capital allowances. This has shown an outperformance of £7m in 2020/21. A reconciliation of our current tax to FD allowance is provided on page 142. All tax losses acquired from related parties in the year were paid for in full.

Cost of debt performance is reported in real terms, rather than nominal. As reported in table 4H, 60% of the Company's debt is at fixed rate and not impacted by indexation. In 2020/21, the real cost of debt was higher than allowed in the FD due to relatively low CPIH inflation, generating a £14.3m underperformance on cost of debt.

Hedging instruments shows the impact of interest rate swaps on the cost of debt reported in the year, and equated to a cost of benefit of £10.6m in the year.

The net effect of financing and tax in the year was an undererformance of FD allowance by £1.2m, or 0.1% of actual regulatory equity.

Operational Performance

This section of the report explains the impact of operational performance on wholesale totex, ODIs and retail costs, each of which is explained elsewhere in this report.

Wholesale totex performance reflects the performance presented in table 4C, and excludes variations due to timing of expenditure. The outperformance of £7.1m reflects our leading position on bioresources costs, including generation of renewable energy.

ODI performance against our PCs is reported in tables 3A amd 3B, with a net reward of £1.9m in the year. The rewards reflect outperformance on a number of measures including water supply interruptions, discoloured water contacts, pollution incidents and greenhouse gas emissions, partially offset by a penalties on drinking water compliance and external sewer flooding. Our performance against each of these is explained earlier in this report. Performance rewards on C-MeX and D-Mex have not been finalised for 2020/21 so are reported at zero, though we expect our strong 3rd place on C-MeX to generate a reward.

Retail costs were significantly higher than PR19 allowance, as explained in the narrative to table 2C. This gave rise to an underperformance of £19.4m, 1.6% of regulatory equity.

Exceptional items reflects the company’s share of benefits from the disposal of surplus land and properties.

The net effect of operational performance in the year was an underperformance of FD allowance by £10m, baseor -0.83%.

Total Shareholder Return

The total shareholder return comprises base RORE, financing performance, operational performance and growth in the RCV as allowed in the FD. Our performance generated a total shareholder return of £53.2m in 2020/21, a 4.43% return on regulatory equity. This was fully retained within the business, as no dividend was paid during the year.

Our dividend policy is set out on page 174 and we explain how this dividend policy is applied on page 174.

Return on Regulatory Equity

This commentary explains the differences between the base return at PR19 and actual return.

The FD RORE for 2020/21 was 4.34%. Actual returns on actual regulatory equity for 202/21 was 3.41%, an underperformance of 0.93%. The reasons of this variance have been explained in the commentary above, but are summarized below.

Financing underperformance was 0.1%. This was largely due to underperformance on cost of debt (-1.19%) as a result of number being calculated in real terms, adjusting for CPIH, whereas 60% of our debt is fixed rate and does not vary with inflation. As a result when inflation is comparatively low, the real cost of debt appears higher. This was exacerbated by adverse mark to market impovements on hedging instruments (-0.88%) reflecting market rates. These underperformances were partially offset by the benefit of gearing above the notional level in the FD (1.39%) and lower corporation tax (0.58%).

Operational underperformance was 0.83%. Thi was mainly due to higher retail costs causing a retail underperformance of -1.61%, explained in the commentary to table 2C, partially offset by totex outperformance on bioresources (0.59%), ODI performance (0.15%) and proceeds from land sales (0.04%).

APPOINTED BUSINESS TAXATION

The rate of UK corporation tax for the current year was 19%. Current and deferred tax have both been provided at this rate. Changes to the rate of tax announced by the government on 3 March 2021 do not affect these financial statements but are referred to below.

The current tax charge for the Appointed business is derived by reducing the Company's statutory charge (£12.0m) by the amount relating to the activities of the Non-appointed business (£0.5m). The Appointed business charge of £11.5m includes £1.1m payable to fellow group companies in respect of their current year tax losses that will be surrendered to the Appointed business. The surrenders have not required the disclaimer of any capital allowances by the Appointed Business and payment for the losses to group companies is made at the full rate of corporation tax.

The prior years' corporation tax credit of £0.1m reflects revisions to capital allowances claims (£1.6m charge) offset by the release of a related provision (£1.8m credit) and other small adjustments (£0.1m charge).

The current year corporation tax charge for the Appointed business has reduced by £29.4m compared to 2019/20, of which £28.3m relates to the decrease in profit before tax and fair value movements. The remaining £1.1m is mainly explained by relatively small changes in capital allowances, non-allowable depreciation, allowable pension contributions and income which relates to capital projects that is taxed via the capital allowances system.

The deferred tax charge for the Appointed business is derived by adjusting the Company's statutory charge (£1.9m) by amounts relating to accounting differences (i.e. capitalised interest: charge of £1.6m) and the activities of the Non-appointed business (charge of £0.8m). The Appointed business credit of £0.5m includes a credit of £1.6m for prior years related to the prior year matters referred to above. Deferred tax in the year and at the balance sheet date is all provided at 19%, being the rate at which temporary differences are expected to reverse.

An explanation of why the current tax charge for the Appointed business is lower than the result of applying the standard rate of corporation tax to profit before tax is provided in the table opposite:

CURRENT TAX RECONCILIATION for the 12 months ended 31 March 2021

	Total appointed activities
	£'m
Profit before tax and fair value movements	73.7
Profit before tax and fair value movements multiplied by standard rate of corporation tax of 19%	14.0
EFFECTS OF:	
Expenses incurred that are not deductible for tax purposes	0.2
Non-taxable income and other tax reliefs	(0.2)
Depreciation in respect of non-qualifying items	0.9
Tax reliefs claimed for capital expenditure in excess of accounts depreciation	(7.0)
Grants and contributions received in excess of accounts amortisation	4.4
Pension contributions paid in excess of accounts service and finance costs	(2.1)
Other temporary differences	1.4
Adjustments in respect of prior periods	(0.1)

UK:UK transfer pricing adjustments	(0.8)
Balancing payment payable	0.8
Appointed business current tax charge	11.5

Factors affecting future tax charges and other significant matters

Future tax charges will be affected by the following matters:

In its Budget Statement on 3 March 2021, the UK government announced an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023. The increase is included in Finance Act 2021 which received Royal Assent on 10 June 2021. These financial statements are unaffected by the change as the legislation was neither enacted nor 'substantively enacted' by the balance sheet date.

In accordance with IAS 12, it will be necessary to restate the Company's deferred tax liabilities with effect from 1 April 2021 to take account of the higher tax rate that will apply to the reversal of temporary differences after 31 March 2023. The Company estimates this will result in its total deferred tax liabilities at 31 March 2021 of £459.1m rising to £606.0m, recognising that some temporary differences will reverse at 19% in the next two years before the rate increase comes into force. The balances relating to the Appointed business are £443.8m and £586.3m respectively (after eliminating amounts relating to capitalised interest and the Non-appointed business). The restatement will be reflected in the financial statements for the year ended 31 March 2022.

The Company expects to continue to incur high levels of capital expenditure during the remainder of the 2020-25 regulatory review period which should result in claims for tax reliefs in excess of depreciation.

A temporary increase in the rate of capital allowances was announced by the UK government on 3 March 2021 which is now included in Finance Act 2021. Qualifying expenditure incurred in the two years ended 31 March 2023 will attract allowances of 130% (compared to the normal 18%) in the case of assets with an economic life of less than 25 years, and 50% (compared to the normal 6%) in the case of assets with an economic life of 25 years or more. The Company is considering the application of the rules governing these higher allowances, in particular the requirement that they only apply to expenditure contracted for on or after 3 March 2021.

CURRENT TAX RECONCILIATION TO FD

An allowance for corporation tax was made in the Final Determination (FD) at PR19. Actual performance differs to the FD for a number of reasons. As far as current tax is concerned, the charge for the year is reconciled to the FD allowance as follows:

	Total appointed activities
	£'m
Current tax charge (at 19%) allowed in price limits	15.0
Remove Non-Household included above following exit from market	(1.2)
	13.8
Adjustment for actual indexation	(1.0)
	12.8
Net increase in profit before tax and depreciation	2.5
Increase in allowable pension contributions	(1.9)
Increase in tax reliefs for capital expenditure	(1.0)
Increase in amortisation of grants and contributions	(1.1)
Increase in provisions	1.3
Increase in contributions to capital investment	(1.5)
Other	0.5
Adjustment in respect of prior years	(0.1)
Appointed business current tax charge	11.5

APPOINTED BUSINESS TAX STRATEGY

Scope

The Company is required, by section 3.30 of RAG 3.12, to publish details of its Tax Strategy relating to the Appointed business within the Annual Performance Report. For the avoidance of doubt, the Company has a single Tax Strategy which applies to its Appointed and Non-appointed businesses, as well as to its subsidiaries.

The Tax Strategy set out below is for the Company's financial year ended 31 March 2021 in order to satisfy the requirements of Schedule 19, Finance Act 2016.

Aim

The Company is committed to fully complying with all its statutory tax obligations, including the payment and recovery of taxes at the right time and the provision of all relevant information to HM Revenue and Customs (HMRC) to support the amounts of tax concerned.

The Company's Board owns and approves the Tax Strategy which comprises the following four components:

a) Tax governance arrangements

The Board reviews and approves all significant investment and business operating decisions directly or delegates the appropriate authority. The Company's Audit Committee considers significant tax related matters as part of its monitoring of internal controls and financial reporting arrangements.

Day-to-day management of the Company's tax affairs is delegated to the Tax Manager and to other appropriately qualified staff who have responsibility for specific taxes. All staff with responsibility for tax report to members of the Company's senior management team which, in turn, reports to the Board.

The Company's tax affairs are conducted in a business-like manner in accordance with the Company's commitment to corporate responsibility.

b) Tax risk management framework

The Company's Risk Committee oversees the risk assessment process applied by the business which includes an assessment of tax risks. Significant risks identified by the business are escalated for the Committee to consider.

As far as possible, through the activities of its Board, Committees and personnel responsible for tax matters, the Company seeks to reduce or eliminate the level of tax risk arising from its operations by ensuring appropriate processes and controls are in place.

The Company only takes tax positions which are justifiable and based on law, with advice taken from reputable professional firms where necessary. In accordance with internal governance procedures, any transaction that is likely to have material tax consequences must be referred to the Board.

To help manage tax risk, the Company's taxation affairs are only handled by appropriately qualified and experienced staff and, where necessary, training is given to non-tax staff who are involved in processes which have tax implications.

The Company does not tolerate or condone any form of tax evasion, whether committed or facilitated by its own staff or any associated persons (e.g. agents and other persons who perform services for or on behalf of the Company) and manages this risk by the use of appropriate processes.

c) Approach to tax planning

The Company considers tax as part of its business decision making process. When entering into commercial transactions, the Company seeks to obtain the benefit of tax incentives, reliefs and exemptions available under UK tax legislation, consistent with the purpose and the letter of the law.

The tax affairs of the Company are arranged and managed in response to, and in support of, its business or commercial activities. Related party transactions are managed and documented to ensure they are in compliance with local tax law and practice.

d) Relationship with HMRC

The Company seeks to have a transparent and constructive relationship with HMRC on all taxation matters and keeps HMRC aware of significant transactions and business developments. All contact with HMRC is conducted in a professional and courteous manner.

The Company seeks to obtain certainty from HMRC at the earliest opportunity on the tax treatment of complex or uncertain issues. Discussions with HMRC are held at least annually to review past and present tax risks and agree on the steps required to take matters forward. Resolution of any disputed matters will be sought through open discussion and negotiation with HMRC, but the Company is prepared to litigate in cases where it believes the technical basis of a decision is incorrect.

The Company takes an active role in the development of the UK's legislative framework through participation at company or industry level in Government consultations on significant new tax laws.

Publication date: 15 July 2021.

2.A Segmental Income Statement

for the 12 months ended 31 March 2021

	Retail Household	Retail non-household	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue - price control	55.8	-	77.2	314.2	219.0	23.4	689.6
Revenue - non price control	-	0.2	-	5.9	-	-	6.1
Operating expenditure - excluding PU recharge impact	(56.1)	(0.3)					
PU opex recharge	(4.4)	-					
Operating expenditure - including PU recharge impact	**(60.5)**	**(0.3)**	**(72.4)**	**(161.3)**	**(90.7)**	**(1.4)**	**(386.6)**
Depreciation - tangible fixed assets	(2.0)	-	(5.4)	(66.0)	(50.7)	(8.0)	(132.1)
Amortisation - intangible fixed assets	(1.3)	-	-	(9.8)	(0.2)	-	(11.3)
PU recharge impact	-	-	(0.5)	11.0	(5.2)	(0.9)	4.4
Depreciation &amortisation - including PU recharge impact	**(3.3)**	**-**	**(5.9)**	**(64.8)**	**(56.1)**	**(8.9)**	**(139.0)**
Other operating income	**-**	**-**	**-**	**1.0**	**-**	**0.1**	**1.1**
Operating profit	**(8.0)**	**(0.1)**	**(1.1)**	**95.0**	**72.2**	**13.2**	**171.2**
Surface water drainage rebates							**0.1**

2.B Totex Analysis: Wholesale

as at 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Base operating expenditure					
Power	7.5	20.5	22.1	(1.5)	48.6
Income treated as negative expenditure	(0.3)	-	-	(12.0)	(12.3)
Abstraction charges/ discharge consents	43.5	0.3	3.7	-	47.5
Bulk Supply/Bulk discharge	1.1	-	-	-	1.1
Renewals expensed in year (Infrastructure)	0.4	0.5	0.3	-	1.2
Renewals expensed in year (Non-Infrastructure)	-	2.2	0.3	0.1	2.6
Other operating expenditure	6.4	107.9	55.9	13.4	183.6
Local authority and Cumulo rates	4.2	26.7	7.0	1.4	39.3
Total base operating expenditure	**62.8**	**158.1**	**89.3**	**1.4**	**311.6**
Other operating expenditure					
Enhancement operating expenditure	0.7	-	1.2	-	1.9
Developer services operating expenditure	-	-	-	-	-
Total operating expenditure excluding third party services	**63.5**	**158.1**	**90.5**	**1.4**	**313.5**
Third party services	8.9	3.2	0.2	-	12.3
Total operating expenditure	**72.4**	**161.3**	**90.7**	**1.4**	**325.8**

2.B Totex Analysis: Wholesale (continued)

as at 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Grants and contributions - operating expenditure	-	-	-	-	-
Capital expenditure					
Base capital expenditure	13.9	97.4	56.7	2.7	170.7
Enhancement capital expenditure	3.3	13.3	22.1	-	38.7
Developer services capital expenditure	-	14.7	7.0	-	21.7
Total gross capital expenditure (excluding third party)	17.2	125.4	85.8	2.7	231.1
Third party services	-	-	-	-	-
Total gross capital expenditure	**17.2**	**125.4**	**85.8**	**2.7**	**231.1**
Grants and contributions - capital expenditure	**-**	**16.1**	**3.1**	**-**	**19.2**
Net totex	**89.6**	**270.6**	**173.4**	**4.1**	**537.7**
Cash expenditure					
Pension deficit recovery payments	0.3	6.5	3.2	0.2	10.2
Other cash items	-	-	-	-	-
Totex including cash items	**89.9**	**277.1**	**176.6**	**4.3**	**547.9**

2.C Cost Analysis: Retail

for the 12 months ended 31 March 2021

	Household - total	Non-household - total	Total
	£'m	£'m	£'m
Operating expenditure			
Customer services	14.3	-	14.3
Debt management	4.5	-	4.5
Doubtful debts	23.4	-	23.4
Meter reading	2.1	-	2.1
Services to developers	-	0.3	0.3
Other operating expenditure	11.6	-	11.6
Local authority and Cumulo rates	0.2	-	0.2
Total operating expenditure excluding third party services	**56.1**	**0.3**	**56.4**
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	1.5	-	1.5
Depreciation on tangible fixed assets acquired after 1 April 2015	0.5	-	0.5
Amortisation on intangible fixed assets existing at 31 March 2015	1.3	-	1.3
Amortisation on intangible fixed assets acquired after 1 April 2015	-	-	-
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	1.6	-	1.6
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	(0.1)	-	(0.1)
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	3.0	-	3.0
Income from wholesale assets acquired after 1 April 2015 principally used by retail	(0.1)	-	(0.1)
Net recharges costs	**4.4**	**-**	**4.4**

2.C Cost Analysis: Retail (continued)

for the 12 months ended 31 March 2021

	Household - total	Non-household - total	Total
	£'m	£'m	£'m
Total retail costs excluding third party and pension deficit repair costs	**63.8**	**0.3**	**64.1**
Third party services operating expenditure	-	-	-
Pension deficit repair costs	2.3	-	2.3
Total retail costs including third party and pension deficit repair costs	**66.1**	**0.3**	**66.4**
Debt written off	9.7	-	9.7
Capital expenditure	3.4	-	3.4
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale:			
Demand-side water efficiency - gross expenditure	0.5		
Demand-side water efficiency - expenditure funded by wholesale	0.5		
Demand-side water efficiency - net retail expenditure	**-**		
Customer-side leak repairs - gross expenditure	0.7		
Customer-side leak repairs - expenditure funded by wholesale	0.7		
Customer-side leak repairs - net retail expenditure	**-**		

Retail revenue and cost reconciliation to FD

Household retail revenue, reported in table 2I, was £55.8m, which was £0.5m higher than allowed in the FD. Household retail costs excluding pension deficit repair costs, in table 2C above, were £63.8m, which was £17.1m higher than allowed in the FD, giving rise to a negative margin of 14%.

The operating costs are at a level consistent with the prior year and do not contain any exceptional items of expenditure. The retail cost base is higher than the allowance made in the FD, reflecting inflationary pressures on staff and other costs which were not allowed in the FD.

The operating costs reported in the NHH column relate to activities retained by the wholesale business after NWL's exit from the NHH retail market, for services to developers. NWL has no allowance for NHH costs.

2.D Historic Cost Analysis of Tangible Fixed Assets

for the 12 months ended 31 March 2021

	Retail Household	Retail non-household	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2020	28.7	-	102.8	3,405.6	2,854.2	198.5	6,589.8
Disposals	(0.2)	-	(0.1)	(1.1)	(4.0)	(0.5)	(5.9)
Additions	1.4	-	17.2	116.6	85.8	2.7	223.7
Adjustments	-	-	192.4	(192.4)	-	-	-
Assets adopted at nil cost	-	-	-	0.3	15.6	-	15.9
At 31 March 2021	**29.9**	**-**	**312.3**	**3,329.0**	**2951.6**	**200.7**	**6,823.5**
Depreciation							
At 1 April 2020	(21.2)	-	(26.6)	(1,206.7)	(786.4)	(126.8)	(2,167.7)
Disposals	0.1	-	0.1	4.2	0.9	0.5	5.8
Adjustments	-	-	(37.6)	37.6	-	-	-
Charge for year	(2.0)	-	(5.4)	(66.0)	(50.7)	(8.0)	(132.1)

2.D Historic Cost Analysis of Tangible Fixed Assets (continued)

for the 12 months ended 31 March 2021

	Retail Household	Retail non-household	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
At 31 March 2021	**(23.1)**	**-**	**(69.5)**	**(1,230.9)**	**(836.2)**	**(134.3)**	**(2,294.0)**
Net book amount at 31 March 2021	**6.8**	**-**	**242.8**	**2,098.1**	**2,115.4**	**66.4**	**4,529.5**
Net book amount at 1 April 2020	**7.5**	**-**	**76.2**	**2,198.9**	**2,067.8**	**71.7**	**4,422.1**
Depreciation charge for year							
Principal services	(2.0)	-	(5.1)	(66.0)	(50.7)	(8.0)	(131.8)
Third party services	-	-	(0.3)	-	-	-	(0.3)
Total	**(2.0)**	**-**	**(5.4)**	**(66.0)**	**(50.7)**	**(8.0)**	**(132.1)**

The net book value includes £218.2m in respect of assets in the course of construction.

2.E Analysis Of 'Grants And Contributions': Water Resources, Water Network+ and Wastewater Network+

for the 12 months ended 31 March 2021

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£'m	£'m	£'m	£'m
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total	**-**	**-**	**-**	**-**
Value of adopted assets	**-**	**-**		**-**
Grants and contributions - water network+				
Connection charges	-	9.3	-	9.3
Infrastructure charge receipts	-	1.8	-	1.8
Requisitioned mains	-	6.3	-	6.3
Diversions - s185	1.0	-	-	1.0
Other contributions (price control)	-	-	-	-
Price control grants and contributions before deduction of income offset	**1.0**	**17.4**	**-**	**18.4**
Income offset	-	4.7	-	4.7
Price control grants and contributions after deduction of income offset	**1.0**	**12.7**	**-**	**13.7**
Diversions - NRSWA	1.9	-	-	1.9
Diversions - other non-price control	-	-	-	-

2.E Analysis Of 'Grants And Contributions': Water Resources, Water Network+ And Wastewater Network+ (continued)

for the 12 months ended 31 March 2021

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£'m	£'m	£'m	£'m
Other contributions (non-price control)	0.5	-	-	0.5
Total	**3.4**	**12.7**	**-**	**16.1**
Value of adopted assets	**-**	**0.3**		**0.3**
Grants and contributions - wastewater network+				
Receipts for on-site work	-	0.1	-	0.1
Infrastructure charge receipts	-	1.3	-	1.3
Diversions - s185	0.1	-	-	0.1
Other contributions (price control)	0.8	-	-	0.8
Price control grants and contributions before deduction of income offset	**0.9**	**1.4**	**-**	**2.3**
Income offset	-	-	-	-
Price control grants and contributions after deduction of income offset	**0.9**	**1.4**	**-**	**2.3**
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other Contributions (non-price control)	0.8	-	-	0.8
Total	**1.7**	**1.4**	**-**	**3.1**
Value of adopted assets	**-**	**15.6**		**15.6**

2.E Analysis Of ‘Grants And Contributions’: Water Resources, Water Network+ And Wastewater Network+ (continued)

for the 12 months ended 31 March 2021

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£’m	£’m	£’m	£’m
Movements in capitalised grants and contributions				
Brought forward	0.6	242.2	163.2	406.0
Received in year (above)	-	12.7	1.4	14.1
Adopted assets	-	0.3	15.6	15.9
Transferred from receipts in advance	-	(2.0)	0.8	(1.2)
Amortisation (in income statement)	-	(3.6)	(2.1)	(5.7)
Carried forward	**0.6**	**249.6**	**178.9**	**429.1**

Grants and contributions falling within the wholesale price control, and therefore also reported on table 2B, comprise connection charges, infrastructure charge receipts and requisitioned mains and sewers.

2.F Residential Retail

for the 12 months ended 31 March 2021

	Revenue	Number of customers	Average residential revenues
	£'m	000s	£
Residential revenue			
Wholesale charges	498.8		
Retail revenue	55.8		
Total residential revenue	**554.6**		
Retail revenue			
Revenue Recovered ("RR")	55.8		
Revenue sacrifice	-		
Actual revenue (net)	**55.8**		
Adjustment			
Allowed revenue ("R")	55.2		
Net adjustment	**(0.6)**		
Customer information			
Actual customers ("AC")		1,935.7	
Reforecast customers		1,954.1	
Other residential information			
Average residential retail revenue per customer			**28.8**

2G & 2H NON-HOUSEHOLD WATER AND WASTEWATER REVENUES BY TARIFF TYPE

NWL exited the NHH retail market at 1 April 2017 and transferred its NHH retail business to an acquiring licenced retailer, NWGB, another subsidiary of NWGL.

In accordance with RAG 4.09, as NWL has exited all NHH market activities, we are no longer required to publish tables 2G and 2H.

NWL still provides wholesale water and wastewater services to NHH properties in our areas of supply. The NHH wholesale revenue for the year ended 31 March 2021 was £135.0m, as reported in table 2I.

2.I Revenue Analysis

for the 12 months ended 31 March 2021

	Household	Non-household	Total	Water resources	Water Network+	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - water						
Unmeasured	169.5	1.1	170.6	31.6	138.9	170.5
Measured	144.8	68.3	213.1	45.6	167.5	213.1
Third party revenue	1.1	6.6	7.7	-	7.8	7.8
Total wholesale water revenue	**315.4**	**76.0**	**391.4**	**77.2**	**314.2**	**391.4**
	Household	**Non-household**	**Total**	**Wastewater network+**	**Bioresources**	**Total**
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - wastewater						
Unmeasured - foul charges	119.4	0.5	119.9	107.1	12.8	119.9
Unmeasured - surface water charges	-	1.5	1.5	1.3	0.2	1.5
Unmeasured - highway drainage charges	-	0.7	0.7	0.6	0.1	0.7
Measured - foul charges	63.8	27.8	91.6	84.7	6.9	91.6
Measured - surface water charges	-	19.7	19.7	17.6	2.1	19.7
Measured - highway drainage charges	-	8.8	8.8	7.5	1.3	8.8
Third party revenue	0.2	-	0.2	0.2	-	0.2
Total wholesale wastewater revenue	**183.4**	**59.0**	**242.4**	**219.0**	**23.4**	**242.4**
Wholesale charge - Additional Control						
Unmeasured	-	-	-			
Measured	-	-	-			
Total wholesale additional control revenue	**-**	**-**	**-**			

2.I Revenue Analysis (continued)

for the 12 months ended 31 March 2021

	Household	Non-household	Total	Water resources	Water Network+	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale Total	**498.8**	**135.0**	**633.8**			
Retail revenue						
Unmeasured	26.0	-	26.0			
Measured	29.8	-	29.8			
Other third party revenue	-	-	-			
Retail Total	**55.8**	**-**	**55.8**			
Third party revenue - non-price control						
Bulk supplies - water			3.3			
Bulk supplies - wastewater			-			
Other third party revenue			2.6			
Principal services - non-price control						
Other appointed revenue			0.2			
Total appointed revenue			**695.7**			

2I REVENUE ANALYSIS for the 12 months ended 31 March 2021 (continued)

Wholesale revenue control reconciliation to FD

Charges for 2020/21 were set in accordance with the price controls set by Ofwat in its PR19 Final Determination.

During the COVID-19 pandemic we have seen an increase in household consumption due to the impact of various lockdown periods and customers working from home. There have also been fewer than anticipated switches from unmeasured to measured billing as a result of this change in working patterns A number of initiatives have been carried out during the year which have led to a reduction in the number of household voids to a void rate of 3.74% at the year end.

For our non-household charging base, early in the COVID-19 pandemic there was a period when many properties were made vacant in the market charging system. This was a temporary arrangement that has now been unwound. However, this did affect non-household revenue. Non-household voids have remained relatively stable, excluding the temporary closure period. Overall, non-household consumption has seen a significant reduction over the course of the pandemic.

Wholesale water revenue in 2020/21 was £1.5m (0.4%) lower than the revenue cap income allowance. This is split between the resources and network+ price controls which were £5.1m (6.2%) lower and £3.6m (1.1%) higher than revenue cap respectively. Within the network+ price control, grants and contributions income was £6.9m (34%) lower than the allowed revenue for the period, this is partly due to the impact of COVID-19 pandemic which halted construction for a number of weeks at the start of the period. Developer activity has subsequently restarted.

Wholesale wastewater revenue in 2020/21 was £8.0m (3.2%) lower than the revenue cap income allowance. This is split between the network+ and bioresources price controls which were £9.5m (4.1%) lower and £1.5m (6.7%) higher respectively. Within the network+ price control, grants and contributions income is £1.5m (40.5%) lower than the allowed revenue for the period, this is partly due to the impact of COVID-19 pandemic which halted construction for a number of weeks at the start of the period. Developer activity has subsequently restarted.

The revenue imbalances in the table above (for water resources and the network+ controls) will be incorporated into the Revenue Forecasting Incentive model and will be corrected within charges for 2022/23 against the relevant price controls.

2.J Infrastructure Network Reinforcement Costs

for the 12 months ended 31 March 2021

	Network reinforcement capex	On site / site specific capex (memo only)
	£'m	£'m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.3	-
Pumping and storage facilities	-	-
Other	-	-
Total	**0.3**	**-**
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	1.5	-
Surface water only systems	3.5	-
Pumping and storage facilities	0.7	-
Other	-	-
Total	**5.7**	**-**

2.K Infrastructure Charges Reconciliation

for the 12 months ended 31 March 2021

	Water	Wastewater	Total
	£'m	£'m	£'m
Impact of infrastructure charge discounts			
Infrastructure charges	1.8	1.3	3.1
Discounts applied to infrastructure charges	-	0.5	0.5
Gross infrastructure charges	**1.8**	**1.8**	**3.6**
Comparison of revenue and costs			
Variance brought forward	3.7	3.2	6.9
Revenue	1.8	1.3	3.1
Costs	(0.3)	(5.7)	(6.0)
Variance carried forward	**5.2**	**(1.2)**	**4.0**

Reconciliation of infrastructure charges and network reinforcement costs

Infrastructure charges are set at a level to fund investment in reinforcement of our networks, to meet the demand arising from new development of household properties. We are required to ensure that revenue from infrastructure charges broadly matches network reinforcement expenditure over a five year rolling period.

We review infrastructure charges annually, taking account of extra capacity expected to be required as a result of new developments in the following five years. Our forecast reflects applications received for the provision of new infrastructure, pre-development enquiries and a longer term view of local authority plans and strategic studies.

Water

In 2020/21, there was a relatively low level of spending on network reinforcement projects compared to infrastructure charges received. After three years of the rolling five year review period, the cumulative expenditure on water network reinforcement is £5.2m less than the infrastructure charge income received. We have reduced our water infrastructure charges in 2020/21 and 2021/22 to reflect the lower level of network reinforcement investment than previously forecast. The projected expenditure over the next two years is greater than the expected infrastructure charge income which will reduce the cumulative difference.

Wastewater

In 2020/21 there were two large network reinforcement projects which totalled spend of £5.7m. As a result, the cumulative expenditure on wastewater network reinforcement after three years of the rolling five year review period is £1.3m more than the infrastructure charge income received. This demonstrates the uneven phasing of network reinforcement investment. Expenditure for the next two years is projected to be lower than the expected infrastructure charge income.

2.L Land Sales

for the 12 months ended 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Total
	£'m	£'m	£'m	£'m
Proceeds from disposals of protected land	0.1	0.8	-	0.9

2.M Revenue Reconciliation: Wholesale

for the 12 months ended 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Revenue recognised					
Wholesale revenue governed by price control	77.2	314.2	219.0	23.4	633.8
Grants & contributions (price control)	-	13.7	2.3		16.0
Total revenue governed by wholesale price control	**77.2**	**327.9**	**221.3**	**23.4**	**649.8**
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	82.3	303.6	227.0	21.9	634.8
Allowed grants & contributions before adjustments (or modified by CMA)	-	20.7	3.8	-	24.5
Revenue adjustment	-	-	-	-	-
Other adjustments	-	-	-	-	-
Revenue cap	**82.3**	**324.3**	**230.8**	**21.9**	**659.3**
Calculation of the revenue imbalance					
Revenue cap	82.3	324.3	230.8	21.9	659.3
Revenue Recovered	77.2	327.9	221.3	23.4	649.8
Revenue imbalance	**(5.1)**	**3.6**	**(9.5)**	**1.5**	**(9.3)**

2.N Residential Retail Social Tariffs

for the 12 months ended 31 March 2021

	Revenue	Number of customers	Average residential revenues
	£'m	000s	£
Number of residential customers on social tariffs			
Residential water only social tariffs		5.2	-
Residential wastewater only social tariffs		0.6	-
Residential dual service social tariffs		25.1	-
Number of residential customers not on social tariffs			
Residential water only no social tariffs		758.8	-
Residential wastewater only no social tariffs		66.4	-
Residential dual service no social tariffs		1,079.6	-
Social tariff discount			
Average discount per water only social tariffs customer			222.1
Average discount per wastewater only social tariffs customer			120.0
Average discount per dual service social tariffs customer			88.0
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	1.2		
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.1		
Total customer funded cross-subsidies for dual service social tariffs customers	2.2		
Average customer funded cross-subsidy per water only social tariffs customer			1.5
Average customer funded cross-subsidy per wastewater only social tariffs customer			1.1
Average customer funded cross-subsidy per dual service social tariffs customer			2.0

2.N Residential Retail Social Tariffs (continued)

for the 12 months ended 31 March 2021

	Revenue	Number of customers	Average residential revenues
	£'m	000s	£
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	-		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			-
Social tariff support - willingness to pay			
Level of support for social tariff customers reflected in business plan			2.1
Maximum contribution to social tariffs supported by customer engagement			2.9

2.O Historic Cost Analysis of Intangible Fixed Assets

for the 12 months ended 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Bioresources	Retail Household	Retail non-household	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2020	-	111.9	0.9	-	33.7	-	146.5
Disposals	-	-	-	-	-	-	-
Additions	-	8.8	-	-	2.0	-	10.8
Adjustments	-	-	-	-	-	-	-
Assets adopted at nil cost	-	-	-	-	-	-	-
At 31 March 2021	**-**	**120.7**	**0.9**	**-**	**35.7**	**-**	**157.3**
Amortisation							
At 1 April 2020	-	(52.6)	(0.5)	-	(7.5)	-	(60.6)
Disposals	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
Charge for year	-	(9.8)	(0.2)	-	(1.3)	-	(11.3)

2.O Historic Cost Analysis of Intangible Fixed Assets (continued)

for the 12 months ended 31 March 2021

	Water resources	Water Network+	Wastewater Network+	Bioresources	Retail Household	Retail non-household	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
At 31 March 2021	-	(62.4)	(0.7)	-	(8.8)	-	(71.9)
Net book amount at 31 March 2021	**-**	**58.3**	**0.2**	**-**	**26.9**	**-**	**85.4**
Net book amount at 1 April 2020	**-**	**59.3**	**0.4**	**-**	**26.2**	**-**	**85.9**
Amortisation for year							
Principal services	-	(9.8)	(0.2)	-	(1.3)	-	(11.3)
Third party services	-	-	-	-	-	-	-
Total	**-**	**(9.8)**	**(0.2)**	**-**	**(1.3)**	**-**	**(11.3)**

The net book value includes £5.5m in respect of assets in the course of construction.

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services supplied by the appointee to associated companies:

Associate	Service	Turnover	Terms of Supply	Value
		£'m		£'m
AquaGib Limited	Sale of materials	14.8	Negotiated	0.107
Anglian Water Business (National) Limited (AWB)	Water and sewerage supplies	391.0	Competitive letting	111.707
Eastern Power Networks	Rental income	670.0	No market	0.003
Northern Gas Networks Limited (NGN)	Mains repairs and trade effluent charges	439.3	No market	0.031
Vehicle Lease and Service Limited (VLS)	Rental of garage and service charges	18.1	Negotiated	0.099
UK Power Networks	Rental income	1,760.0	No market	0.002

Services supplied to the appointee by associated companies:

Associate	Service	Turnover	Terms of Supply	Value
		£'m		£'m
CKI	Software licensing agreements	6,719	Negotiated	1.953
NGN	Gas main diversions	439.3	No market	0.002
NWGL	Holding company charges	7.0	No market	1.629
Three Rivers Insurance Company Limited (TRICL)	Public liability insurance (deductible infill policy)	0.4	No market	0.404
VLS	Vehicle maintenance and capital finance charge	18.1	Competitive letting	9.646
UK Power Networks	Cost of damages	1,760.0	No market	0.075

Corporation tax group relief received by the appointee from associated companies:

Associate	Service	Turnover	Terms of Supply	Value
		£'m		£'m
AWB	Transfer of corporation tax group losses	391.0	No market	0.402
Wave Ltd	Transfer of corporation tax group losses	nil	No market	0.248
NWGL	Transfer of corporation tax group losses	7.0	No market	0.318

Turnover data for all companies relates to the year to 31 March 2021, with the exception of data for VLS and CKI which relates to the year to 31 December 2020.

Payment for tax losses transferred between group companies is calculated as the losses transferred multiplied by the corporation tax rate for the year.

Service provided by the non appointed business:

Service	Basis of recharge made by the appointed business	Value £'m
Treatment of imported sludge	The average unit cost per tonne dry solid is calculated using operating costs only and excluding payroll. This gives a unit rate which is more than the incremental cost but less than the income received therefore sharing the benefit of the activity.	0.004
Treatment of tankered waste	The recharge comprises recovery of operating costs of operator time and sampling and analysis and a charge for the use of appointed business assets, calculated using the Biological and Sludge elements of the trade effluent charge set out in the Company's Wholesale Charges Scheme.	0.733
Other	Other assets are specifically identified to the appropriate business.	-

Information in relation to allocations and apportionments

The appointed and non-appointed businesses operate separate accounting records including sales and purchase ledgers. Revenue, operating costs, assets and liabilities are taken directly from these records.

Revenue is separately recorded between wholesale water and wastewater and household and non-household retail services and no apportionment has been necessary. Operating costs have been allocated between wholesale water and wastewater and household and non-household retail services in accordance with the guidance set out in RAG 4.08.

Overhead costs incurred in the appointed business which relate to the non-appointed business have been allocated using an activity based approach to comply with RAG 5.07.

Interest has been allocated between the appointed and non-appointed businesses on the basis of actual cash balances held by these businesses during the year at market rates. Capital costs and the related depreciation charges are specifically identifiable to the appropriate business and service.

Amounts borrowed by the appointee from associated companies

The Company has loans amounting to £2,367.6m due to NWF, a subsidiary company. Details of these loans and the associated guarantees are provided in note 15 of the NWL Annual Report and Financial Statements.

The Company acquires vehicles from VLS, an associated company, on a finance lease basis. During the year, new finance leases of £4.5m were entered into and capital repayments of £3.9m were made. The year end finance lease creditor was £12.2m. All leases have an individual interest rate which is fixed for the term of the lease. In 2020/21 all leases had an interest rate of 5.5%.

Guarantees or other forms of security

There were no guarantees or other forms of security provided by the appointee to any associate during the year, other than those relating to amounts borrowed from NWF, outlined above.

Dividends paid

During the year, the appointed business paid no dividend.

Dividend policy

The Board has a policy which takes into account the principle of incentive based price cap regulation, including operating and investment performance. When declaring dividends, the Directors consider the Company's five-year plan and give due consideration to business performance, the prospects of the Company and the principal risks facing the business.

Specifically, the Board determines the level of dividend declared by reference to:

- the Company's ability to finance its functions;
- the Company's cumulative financial performance and past outperformance; and
- maintaining the Company's investment grade credit ratings.

The Directors have also had regard to:

- how the Company has satisfied its statutory and regulatory obligations, performed against the performance commitments in the final determination and the level of service provided to its customers; and
- employees' interests and, specifically, compliance with the pension deficit repair plan agreed with the Pension Trustee in respect of the NWPS, as submitted to the Pensions Regulator.

Amendment to Dividend Policy

The dividend policy has been updated to reflect the consideration given to the Company's statutory and regulatory obligations and performance commitments in the final determination.

Application of Policy

No dividends were proposed, approved or paid in respect of the year ended 31 March 2020 and no dividends were approved or paid during the year ended 31 March 2021. In deciding this, the Board took into account the impact of the PR19 FD on the financial position of the Company over a five year time horizon, the uncertainty surrounding the CMA redetermination process and the need to retain financial resilience in order to be able to deliver the Company's Business Plan commitments for stakeholders.

After the balance sheet date, the Board approved the payment of a final dividend of £123.3m in respect of the year ended 31 March 2021. In reaching this decision, the Board took account of the Company's financial position at 31 March 2021, cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan which remained compatible with investment grade credit ratings. The Board also took into account the principal risks facing the business, performance against statutory obligations and regulatory commitments, levels of customer service and C-MeX performance, positive ongoing employee engagement and payments made under the agreed schedule of contributions for the NWPS.

After the balance sheet date, the Board also approved the payment of a special dividend of £159m from the Non-appointed business. The purpose of the special dividend was to enable NWGL to use the dividend proceeds to settle a legacy £159m intercompany loan arrangement with the Company (see note 11), following discussions with Ofwat. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company.

Omission of right

There were no omissions by the appointee to exercise any rights which would cause the net assets to decrease.

Waivers

There were no waivers by the appointee of any consideration, remuneration or other payment owed to it by any associated company.

The information in this note has been produced to comply with the requirements of RAG 5.07 Transfer Pricing in the Water Industry and the disclosures required by paragraph 6 of Condition F of the Company's operating licence.

The Directors confirm that, to the best of their knowledge, all transactions with associated companies have been disclosed.

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY ('WSRA') AND DIRECTORS OF NORTHUMBRIAN WATER LIMITED

Opinion

We have audited the sections of NWL's Annual Performance Report for the year ended 31 March 2021 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.6, 1F.8, 1F.12 to 1F.14, 1F.18 and 1F.23 to 1F.24 of the statement of financial flows (table 1F) and the related notes; and

- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.7, 1F.9 to 1F.11, 1F.15 to 1F.17, 1F.19 to 1F.22 and 1F.25 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6D, 7A to 7E, 8A to 8D and 9A.

In our opinion, NWL's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.12, RAG 4.09 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement.

Basis for opinion

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

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of International Accounting Standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.
The Regulatory Accounting Statements on pages 116 to 123 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRSs. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

- assessing financing facilities including availability and access at the balance sheet date, the nature of facilities, repayment and expiration terms and associated covenants;
- evaluating management's going concern assessment and the linkage to the business model and medium-term risks including effects of changes in water availability and usage and potential changes in regulation;

- challenging assumptions used in the forecasts, including the effects of AMP 7 from the Ofwat final determination and the subsequent CMA final decision;
- evaluating the amount of headroom in the forecasts focusing on cash and covenants associated with financing activities;
- performing sensitivity analysis to assess how the headroom within the forecasts is affected by variations within the assumptions; and
- assessing the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and assessing historical accuracy of forecasts prepared by management.

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.

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

Other information

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

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements 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 the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 117, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.12, appendix 2).

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

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

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

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

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

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

• had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation, tax legislation; and

• do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence, regulatory solvency requirements and environmental regulations.

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

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

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

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2021 on which we reported on 15 July 2021, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Dave Johnson (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

15 July 2021

PERFORMANCE SUMMARY

3.A Water performance commitments - financial

	Unit	Performance level		PCL met?	Outperformance / underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment
		Previous	Current		£m	£m
Common PCs - Water (financial)						
Water quality compliance (CRI)	no.	-	**7.11**	No	-7.123	-12.142
Water supply interruptions	hh:mm:ss	00:05:37	**00:04:04**	Yes	2.500	5.808
Leakage NW region	%	-	**-1.0**	No	-0.473	-4.830
Leakage ESW region	%	-	**0.5**	No	-0.090	-1.471
Per capita consumption	%	-	**-3.8**	No	-1.366	-10.217
Mains repairs	no.	107.5	**127.0**	Yes	1.450	3.009
Unplanned outage	%	9.82	**5.69**	Yes	0.000	-1.944
Bespoke PCs - Water and Retail (financial)						
Visible leak repair time	nr	-	**9.73**	Yes	0.078	-6.085
Voids	%	-	**3.74**	Yes	1.333	4.291
Interruptions to supply greater than 12 hours	nr	-	**143**	Yes	1.182	2.181
Discoloured water contacts	nr	-	**8.22**	Yes	2.011	4.458
Taste and smell contacts	nr	-	**1.75**	Yes	0.290	1.528
Event Risk Index	nr	-	**197.592**	Yes	0.000	-0.078
Interruptions to supply between one and three hours	%	-	**0**	-	0.000	-6.817
Abstraction incentive mechanism (AIM)	nr	-	**n/a**	-	0.000	0.000
Water environment improvements	nr	-	**30.2**	Yes	0.155	0.281

3.A Water performance commitments - financial (continued)

	Unit	Performance level		PCL met?	Outperformance / underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment
		Previous	Current		£m	£m
Greenhouse Gas Emissions	tCO_2e	-	**15235**	Yes	2.020	9.783
Delivery of water resilience enhance programme	%	-	**0**	Yes	0.000	-0.074
Delivery of lead enhancement programme	%	-	**0**	No	0.000	0.000
Delivery of smart water enhancement programme	%	-	**0**	No	0.000	0.000
Delivery of cyber resilience enhancement programme	%	-	**0**	Yes	0.000	0.000

Financial water performance achieved	**%**	**68**
Overall performance commitments achieved (excluding C-MEX and D-MEX)	**%**	**72**

3.B Wastewater performance commitments - financial

	Unit	Performance level		PCL met?	Outperformance / underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment
		Previous	Current		£m	£m
Common PCs - Wastewater (financial)						
Internal sewer flooding	No. of internal sewer flooding incidents per 10,000 sewer connection	3.68	**1.89**	No	-0.530	-0.429
Pollution incidents	Pollution incidents per 10,000km of sewer length	-	**14.61**	Yes	2.960	13.533
Sewer collapses	No. of sewer collapses per 1,000km of all sewers	9.80	**9.82**	Yes	0.000	-0.686
Treatment works compliance	%	-	**99.51**	No	0.000	-2.388
Bespoke PCs - Wastewater (financial)						
Sewer blockages	nr	11875	**12023**	No	-0.619	2.361
External sewer flooding	nr	4697	**3862**	No	-3.072	-2.784
Repeat sewer flooding	nr	-	**25**	Yes	1.157	4.849
Bathing water compliance	%	-	**n/a**	-	0.000	0.000
Delivery wastewater resilience enhancement programme	text	-	**0**	Yes	0.000	0.000
Water Industry National Environment Programme	nr	-	**0**	Yes	0.000	0.000
Delivery of Howdon STW enhancement	months	-	**0**	Yes	0.000	0.000

Financial wastewater performance achieved	%	60

3.C Customer measure of experience (C-MeX)

	Unit	Value
Annual customer satisfaction score for the customer service survey	No.	84.39
Annual customer satisfaction score for the customer experience survey	No.	87.13
Annual C-MeX score	No.	85.76
Annual net promoter score	No.	48.50
Total household complaints	No.	26782
Total connected household properties	No.	2,020,339
Total household complaints per 10,000 connections	No.	132.562
Confirmation of communication channels offered	True / False	True

3.D Developer services measure of experience (D-MeX)

	Unit	Value
Qualitative component annual results	No.	80.26
Quantitative component annual results	No.	93.62
D-MeX score	No.	86.94
Developer services revenue (water)	£m	18.461
Developer services revenue (wastewater)	£m	2.857

3.D Developer services measure of experience (D-MeX) (continued)

Calculating the D-MeX quantitative component				
Water UK performance metric	Unit	First reporting period (1 April to 30 September)	Second reporting period (1 October to 31 March)	Quantitative score (annual)
W1.1	%	100.00%	100.00%	
W3.1	%	99.04%	98.80%	
W4.1	%	82.90%	87.58%	
W6.1	%	95.76%	98.09%	
W7.1	%	100.00%	100.00%	
W8.1	%	93.53%	98.53%	
W17.1	%	100.00%	95.45%	
W17.2	%	100.00%	100.00%	
W18.1	%	100.00%	100.00%	
W20.1	%	100.00%	100.00%	
W21.1	%			
W23.1	%	62.50%	92.86%	
W24.1	%	0.00%		
W26.1	%	100.00%	81.25%	
W27.1	%			
W30.1	%	100.00%	100.00%	
S1.1	%	100.00%		
S3.1	%			
S4.1	%			
S7.1	%	100.00%	100.00%	
SN2.2	%		100.00%	
SN4.1	%			
WN1.1	%		100.00%	

3.D Developer services measure of experience (D-MeX) (continued)

Calculating the D-MeX quantitative component				
Water UK performance metric	**Unit**	**First reporting period (1 April to 30 September)**	**Second reporting period (1 October to 31 March)**	**Quantitative score (annual)**
WN2.2	%		100.00%	
WN4.1	%		100.00%	
WN4.2	%		100.00%	
WN4.3	%			
SAM - 3/1	%		100.00%	
SAM - 4/1	%			
D-MeX quantitative score (for the relevant reporting period)	**%**	**89.61%**	**97.63%**	
D-MeX quantitative score (annual)	**No.**			**0.94**

3.E Non financial performance commitments

	Unit	Performance level		PCL met?
		Previous	Current	
Common				
Risk of severe restrictions in a drought	%	0.0	0.0	Yes
Priority services for customers in vulnerable circumstances - PSR reach	%	-	2.3	No
Priority services for customers in vulnerable circumstances - Attempted contacts	%	-	57.3	Yes
Priority services for customers in vulnerable circumstances - Actual contacts	%	-	40.0	Yes
Risk of sewer flooding in a storm	%	35.17	16.11	Yes
Bespoke PCs				
Satisfaction of customers who receive additional non-financial support	nr	-	8.7	Yes
Awareness of additional non-financial support	%	-	50	Yes
Response time to written complaints	nr	-	7.1	No
Customers’ perception of trust	nr	-	8.8	Yes
Percentage of households in water poverty	%	-	10.38	Yes
Gap sites	%	-	67.5	No
Bioresources	%	-	100	Yes
Satisfaction of customers who receive additional financial support	nr	-	9.3	Yes
Awareness of additional financial support	%	-	41	Yes
British Standards Institution Award for Inclusive Services	text	-	maintained	Yes
NWL Independent value for money survey	nr	-	8.3	Yes
WINEP delivery	text	-	met	Yes
Delivery of DWMPs	%	-	0	Yes
Non-financial performance commitments achieved	**%**			**83**

3.H Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding C-MeX and D-MeX)
	£m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	0.24
Water network plus	-0.56
Wastewater network plus	0.64
Bioresources (sludge)	0.06
Residential retail	1.48
Business retail	0.00
Dummy control	0.00
Initial calculation of end of period revenue adjustment by price control	
Water resources	0.00
Water network plus	0.00
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00

3.H Summary information on outcome delivery incentive payments (continued)

	Initial calculation of performance payments (excluding C-MeX and D-MeX)
	£m (2017-18 prices)
Initial calculation of end of period RCV adjustment by price control	
Water resources	0.00
Water network plus	0.00
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00

ADDITIONAL REGULATORY INFORMATION

Additional Regulatory Information

This section contains additional regulatory information required by RAG 3.12.

However, some tables have not been included from this report either because their size or because of the technical nature of their content. These tables, which are listed below, can be found on our website, alongside this report.

4B Analysis of debt

4L Enhancement expenditure – water resources and water network+

4M Enhancement expenditure – wastewater network+ and bioresources

4Q Developer services – Non-financial information

4R Properties, customers and population – non-financial information

5A Water resources – asset and volumes data

5B Water resources - operating cost analysis

6A Raw water transport, raw water storage, and water treatment data

6B Treated water distribution – assets and operations

6C Water network+ – mains, communication pipes and other data

6D Demand management – metering and leakage activities

7A Wastewater network+ – functional expenditure

7B Wastewater network+ – large sewage treatment works

7C Wastewater network+ – sewer and volume data

7D Wastewater network+ – sewage treatment works data

7E Wastewater network+ – energy consumption and other data

8A Bioresources – sludge data

8B Bioresources – operating expenditure analysis

8C Bioresources – energy and liquors analysis

8D Bioresources – sludge treatment and disposal data

4.A Water Bulk Supply Information

for the 12 months ended 31 March 2021

	Volume	Operating costs	Revenue
	Ml	£m	£m
Bulk supply exports			
(NESBWE14) Thames Water	-	-	1.8
(NESBWE11) Anglian Water (Stour - Tiptree)	998.9	0.8	1.1
(NESBWE12) Leep Utilities - Barking	272.9	0.2	0.3
(NESBWE9) United Utilities Water	220.3	0.2	0.2
(NESBWE17) Anglian Water (2 Sisters Buxted Chickens)	90.6	0.1	0.1
(NESBWE15) Albion Water (Five Oaks)	45.0	-	0.1
(NESBWE13) Anglian Water - Woods Meadow Oulton	39.7	-	0.1
(NESBWE5) Anglian Water (Layer)	36.3	-	0.1
(NESBWE6) Anglian Water (Maldon)	64.2	0.1	0.1
(NESBWE1) Affinity Water (Three Valleys)	21.8	-	-
(NESBWE2) Anglian Water (Fairstead)	16.5	-	-
(NESBWE20) IWNL (Limebrook Way)	10.4	-	-
(NESBWE3) Anglian Water (Fuller Street)	8.9	-	-
(NESBWE18) IWNL - Throckley	8.5	-	-
(NESBWE4) Anglian Water (Hogwells)	6.3	-	-
(NESBWE19) IWNL (Malyon's Lane)	2.5	-	-
Total bulk supply exports	**1,842.8**	**1.4**	**3.9**

4.A Water Bulk Supply Information (continued)

for the 12 months ended 31 March 2021

	Volume	Operating costs	Revenue
	Ml	£m	£m
Bulk supply imports			
(NESBWI2) Anglian Water (Cressing)	336.1	0.4	-
(NESBWE14) Thames Water	31,000.0	1.7	-
(NESVW13) - UUW	0.7	-	
Total bulk supply imports	**31,336.8**	**2.1**	**-**

4.C Impact of Price Control Performance to Date on RCV

for the 12 months ended 31 March 2021

	12 months ended 31 March 2021				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Totex (net of business rates, abstraction licence fees and grants and contributions)								
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	24.6	249.5	153.2	16.2	24.6	249.5	153.2	16.2
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	32.9	234.5	166.0	2.8	32.9	234.5	166.0	2.8
Transition expenditure	-	-	-	-	-	-	-	-
Disallowable costs	0.2	5.1	3.1	0.2	0.2	5.1	3.1	0.2
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	**32.7**	**229.4**	**162.9**	**2.6**	**32.7**	**229.4**	**162.9**	**2.6**
Variance	8.1	(20.1)	9.7	(13.6)	8.1	(20.1)	9.7	(13.6)
Variance due to timing of expenditure	8.1	(20.1)	9.7	-	8.1	(20.1)	9.7	-
Variance due to efficiency	-	-	-	(13.6)	-	-	-	(13.6)

4.C Impact of Price Control Performance to Date on RCV (continued)

for the 12 months ended 31 March 2021

	12 months ended 31 March 2021				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Customer cost sharing rate	45%	55%	45%	0%	45%	55%	45%	0%
Customer share of totex over/underspend	-	-	-	-	-	-	-	-
Company share of totex over/underspend	-	-	-	(13.6)	-	-	-	(13.6)
Totex - business rates and abstraction licence fees								
Final determination allowed totex - business rates and abstraction licence fees	45.5	26.6	7.0	1.4	45.5	26.6	7.0	1.4
Actual totex - business rates and abstraction licence fees	47.7	27.0	7.0	1.4	47.7	27.0	7.0	1.4
Variance - business rates and abstraction licence fees	2.2	0.4	-	-	2.2	0.4	-	-
Customer cost sharing rate - business rates and abstraction licence fees	83%	90%	90%	0%	83%	90%	90%	0%
Customer share of totex over/underspend - business rates and abstraction licence fees	1.8	0.4	-	-	1.8	0.4	-	-

4.C Impact of Price Control Performance to Date on RCV (continued)
for the 12 months ended 31 March 2021

	12 months ended 31 March 2021				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Company share of totex over/underspend - business rates and abstraction licence fees	0.4	-	-	-	0.4	-	-	-
Totex not subject to cost sharing								
Final determination allowed totex - not subject to cost sharing	5.4	4.1	0.6	-	5.4	4.1	0.6	-
Actual totex - not subject to cost sharing	8.9	7.5	(0.5)	-	8.9	7.5	(0.5)	-
Variance - 100% company allocation	3.5	3.4	(1.1)	-	3.5	3.4	(1.1)	-
Total company share of totex over/under spend	3.9	3.4	(1.1)	(13.6)	3.9	3.4	(1.1)	(13.6)
RCV								
Total company share of totex over/under spend	3.9	3.4	(1.1)	(13.6)	3.9	3.4	(1.1)	(13.6)
PAYG rate	89%	56%	49%	41%	89%	56%	49%	41%

4.C Impact of Price Control Performance to Date on RCV (continued)

for the 12 months ended 31 March 2021

	12 months ended 31 March 2021				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
RCV element of totex over/underspend	0.4	1.5	(0.6)	(8.0)	0.4	1.5	(0.6)	(8.0)
Adjustment for ODI outperformance payment or underperformance payment					-	-	-	-
RCV determined at FD at 31 March					306.0	1,826.3	1,920.1	144.0
Projected 'shadow' RCV					**306.4**	**1,827.8**	**1,919.5**	**136.0**

Wholesale Reconciliation to FD

Water Resources

Totex excluding business rates and abstraction is £8.2m more than the FD allowance in 20-21 due to the timing of capital expenditure. The capital expenditure in the year includes £6.4m at Grassholme reservoir for spillway improvements and embankment stabilisation/improvements as recommended by the most recent s10 inspection report.

Business rates and abstraction licences and totex not subject to cost sharing are both higher than the FD allowance due to increases in the E.A. abstraction charges in the Northumbria region.

Water Network +

Totex excluding business rates and abstraction is £20.1m less than the FD allowance in 20-21. This is mainly due to the timing of capital expenditure. The FD allowances are higher in the early years while our planned expenditure is a more even profile across the AMP in order to optimise delivery.

Totex not subject to cost sharing is £3.4m more than the FD allowance. Although there are no income offsets on new development quotes from April 2020 onwards there were still legacy schemes being delivered in 20-21.

Wastewater Network +

Totex excluding business rates and abstraction is £9.6m more than the FD allowance in 20-21. This is mainly due to the timing of capital expenditure. The FD allowances are higher in the later years while our planned expenditure is a more even profile across the AMP in order to optimise delivery.

Bioresources

Totex excluding business rates and abstraction is £13.7m less than the FD allowance in 20-21. Our sludge strategy which revolves around two strategically placed AAD plants supplemented by satellite dewatering sites had already proved to be very successful. The completion of the Bran Sands gas to grid project late in 2019-20 has helped us deliver a further significant reduction in net operating costs.

Disallowable costs

Costs classified as disallowable are:

- CMA expenditure
- Pollution incidents (EA enforcement undertakings)
- Section 74 fines and fixed penalty notices
- Compensation claims

Recharges in respect of 'principal use' of assets

There are recharges between business units which mainly relate to I.S. assets and a smaller amount of offices/buildings expenditure. The capital is allocated to Water Network+ and recharged to the other business units including retail. The values are reported on table 2A lines 4 and 9.

4.D Totex Analysis: Water Resources and Water Network+

for the 12 months ended 31 March 2021

		Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Base operating expenditure	62.8	4.9	1.6	48.9	102.7	220.9
Enhancement operating expenditure	0.7	-	-	-	-	0.7
Developer services operating expenditure	-	-	-	-	-	-
Total operating expenditure excluding third party services	**63.5**	**4.9**	**1.6**	**48.9**	**102.7**	**221.6**
Third party services	8.9	1.2	-	0.4	1.6	12.1
Total operating expenditure	**72.4**	**6.1**	**1.6**	**49.3**	**104.3**	**233.7**
Grants and contributions - operating expenditure	-	-	-	-	-	-
Capital expenditure						

4.D Totex Analysis:
Water Resources and Water Network+ (continued)

for the 12 months ended 31 March 2021

		Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Base capital expenditure	13.9	0.1	-	43.1	54.2	111.3
Enhancement capital expenditure	3.3	-	-	8.3	5.0	16.6
Developer services capital expenditure	-	-	-	-	14.7	14.7
Total gross capital expenditure (excluding third party)	**17.2**	**0.1**	**-**	**51.4**	**73.9**	**142.6**
Third party services	-	-	-	-	-	-
Total gross capital expenditure	**17.2**	**0.1**	**-**	**51.4**	**73.9**	**142.6**
Grants and contributions - capital expenditure	-	-	-	-	(16.1)	(16.1)
Net totex	89.6	6.2	1.6	100.7	162.1	360.2

4.D Totex Analysis: Water Resources and Water Network+ (continued)

for the 12 months ended 31 March 2021

		Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Cash expenditure						
Pension deficit recovery payments	0.3	-	-	1.7	4.8	6.8
Other cash items	-	-	-	-	-	-
Totex including cash items	89.9	6.2	1.6	102.4	166.9	367.0
Atypical expenditure						
CMA costs	0.2	-	-	0.8	2.3	3.3
Total atypical expenditure	**0.2**	**-**	**-**	**0.8**	**2.3**	**3.3**

4.E Totex Analysis: Wastewater Network+ and Bioresources

for the 12 months ended 31 March 2021

	Network+ Sewage Collection			Network+ Sewage Treatment		Bioresources			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Base operating expenditure	9.6	16.1	8.7	51.2	3.8	3.8	(3.7)	1.3	90.8
Enhancement operating expenditure	0.4	0.4	0.2	0.2	-	-	-	-	1.2
Developer services operating expenditure	-	-	-	-	-	-	-	-	-
Total operating expenditure excluding third party services	**10.0**	**16.5**	**8.9**	**51.4**	**3.8**	**3.8**	**(3.7)**	**1.3**	**92.0**
Third party services	0.1	0.1	-	-	-	-	-	-	0.2
Total operating expenditure	**10.1**	**16.6**	**8.9**	**51.4**	**3.8**	**3.8**	**(3.7)**	**1.3**	**92.2**
Grants and contributions - operating expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure									

4.E Totex Analysis: Wastewater Network+ and Bioresources (continued)

for the 12 months ended 31 March 2021

	Network+ Sewage Collection			Network+ Sewage Treatment		Bioresources			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Base capital expenditure	7.6	12.7	6.8	29.6	-	-	2.7	-	59.4
Enhancement capital expenditure	3.2	5.4	2.9	10.6	-	-	-	-	22.1
Developer services capital expenditure	1.9	3.3	1.8	-	-	-	-	-	7.0
Total gross capital expenditure (excluding third party)	12.7	21.4	11.5	40.2	-	-	2.7	-	88.5
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	12.7	21.4	11.5	40.2	-	-	2.7	-	88.5
Grants and contributions - capital expenditure	(0.9)	(1.4)	(0.8)	-	-	-	-	-	(3.1)
Net totex	21.9	36.6	19.6	91.6	3.8	3.8	(1.0)	1.3	177.6

4.E Totex Analysis: Wastewater Network+ and Bioresources (continued)

for the 12 months ended 31 March 2021

	Network+ Sewage Collection			Network+ Sewage Treatment		Bioresources			Total
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Bioresources
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cash expenditure									
Pension deficit recovery payments	1.3	0.2	-	1.7	-	-	0.2	-	3.4
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	23.2	36.8	19.6	93.3	3.8	3.8	(0.8)	1.3	181.0
Atypical expenditure									
CMA costs	0.7	0.1	-	0.8	-	-	0.2	-	1.8
Total atypical expenditure	**0.7**	**0.1**	**-**	**0.8**	**-**	**-**	**0.2**	**-**	**1.8**

4.F Major Project Expenditure for Wholesale Water by Purpose

for the 12 months ended 31 March 2021

	Expenditure in report year						Cumulative expenditure on schemes completed in the report year					
	Water network+							Water network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Major project capital expenditure by purpose												
Eels Regulations (measures at intakes) - Eel Regs South	-	-	-	1.5	-	1.5	-	-	-	-	-	-
Eels Regulations (measures at intakes) - Eel Regs and NEP North	-	-	-	1.0	-	1.0	-	-	-	-	-	-
Eels Regulations (measures at intakes) - Riding Mill Eel Screens	-	-	-	0.8	-	0.8	-	-	-	2.5	-	2.5
Addressing raw water deterioration- Mosswood UV	-	-	-	1.5	-	1.5	-	-	-	-	-	-
Meeting lead standards - React Net Renewal S 2021	-	-	-	-	1.1	1.1	-	-	-	-	1.1	1.1

4.F Major Project Expenditure for Wholesale Water by Purpose (continued)

for the 12 months ended 31 March 2021

	Expenditure in report year						Cumulative expenditure on schemes completed in the report year					
	Water network+						Water network+					
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Meeting lead standards - React Net Renewal N 2021	-	-	-	-	1.1	1.1	-	-	-	-	1.1	1.1
Ecological improvements at abstractions - Suffolk NEP Flow Monitors	-	-	-	0.2	-	0.2	-	-	-	-	-	-
Ecological improvements at abstractions - Essex NEP Flow Monitors	-	-	-	0.1	-	0.1	-	-	-	-	-	-
Security - SEMD - Water UK SSAOA compliance north & south	-	-	-	6.1	-	6.1	-	-	-	-	-	-
Security - Non-SEMD - Cyber Security	-	-	-	-	0.6	0.6	-	-	-	-	0.3	0.3
Total major project capital expenditure	**-**	**-**	**-**	**11.2**	**2.8**	**14.0**	**-**	**-**	**-**	**2.5**	**2.5**	**5.0**

4.F Major Project Expenditure for Wholesale Water by Purpose (continued)

for the 12 months ended 31 March 2021

	Expenditure in report year						Cumulative expenditure on schemes completed in the report year					
		Water network+						Water network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Major project operating expenditure by purpose												
Invasive Non Native Species - Raw Water WINEP AMP7	0.2	-	-	-	-	0.2	-	-	-	-	-	-
Drinking Water Protected Areas (schemes) - Raw Water WINEP AMP7	0.4	-	-	-	-	0.4	-	-	-	-	-	-
Investigations	0.1	-	-	-	-	0.1	-	-	-	-	-	-
Total major project operating expenditure	**0.7**	**-**	**-**	**-**	**-**	**0.7**	**-**	**-**	**-**	**-**	**-**	**-**

4.G Major Project Expenditure for Wholesale Wastewater by Purpose

for the 12 months ended 31 March 2021

	Expenditure in report year									Cumulative expenditure on schemes completed in the report year								
	Wastewater network+					Bioresources			Total	Wastewater network+					Bioresources			Total
	Sewage collection									Sewage collection								
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Major project capital expenditure by purpose																		
Schemes to increase storm tank capacity - Hepscott STW Storm Tank	-	-	-	0.6	-	-	-	-	0.6	-	-	-	0.6	-	-	-	-	0.6
Schemes to increase storm tank capacity - Lowick STW Reg Storm tank	-	-	-	0.7	-	-	-	-	0.7	-	-	-	0.9	-	-	-	-	0.9
Growth at sewage treatment works (excluding sludge treatment) - Wolsingham Growth	-	-	-	5.0	-	-	-	-	5.0	-	-	-	-	-	-	-	-	-
Phosphorus removal - River Gaunless NEP Scheme	-	-	-	0.4	-	-	-	-	0.4	-	-	-	8.6	-	-	-	-	8.6

4.G Major Project Expenditure for Wholesale Wastewater by Purpose (continued)

for the 12 months ended 31 March 2021

	Expenditure in report year									Cumulative expenditure on schemes completed in the report year								
	Wastewater network+					Bioresources			Total	Wastewater network+					Bioresources			Total
	Sewage collection									Sewage collection								
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Phosphorus removal - Stokesley STW and Great Ayton STW	-	-	-	0.2	-	-	-	-	0.2	-	-	-	3.9	-	-	-	-	3.9
Growth at sewage treatment works (excluding sludge treatment) - Waren Mill STW	-	-	-	0.4	-	-	-	-	0.4	-	-	-	-	-	-	-	-	-
Growth at sewage treatment works (excluding sludge treatment) -Embleton STW Growth	-	-	-	0.5	-	-	-	-	0.5	-	-	-	-	-	-	-	-	-
Reduce flooding risk for properties - Prince of Wales Close	0.2	0.3	0.1	-	-	-	-	-	0.6	0.3	0.6	0.3	-	-	-	-	-	1.2
Reduce flooding risk for properties - Monks Wood Flooding	-	0.1	-	-	-	-	-	-	0.1	0.6	1.0	0.5	-	-	-	-	-	2.1

4.G Major Project Expenditure for Wholesale Wastewater by Purpose (continued)

for the 12 months ended 31 March 2021

	Expenditure in report year									Cumulative expenditure on schemes completed in the report year								
	Wastewater network+					Bioresources			Total	Wastewater network+					Bioresources			Total
	Sewage collection									Sewage collection								
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Reduce flooding risk for properties - FOC Enh Prog 2020/21	2.2	3.6	2.0	-	-	-	-	-	7.8	2.2	3.6	2.0	-	-	-	-	-	7.8
Total major project capital expenditure	**2.4**	**4.0**	**2.1**	**7.8**	**-**	**-**	**-**	**-**	**16.3**	**3.1**	**5.2**	**2.8**	**14.0**	**-**	**-**	**-**	**-**	**25.1**
Major project operating expenditure by purpose																		
Reduce flooding risk for properties - Integrated drainage studies various	0.2	0.4	0.2	-	-	-	-	-	0.8	0.2	0.4	0.2	-	-	-	-	-	0.8
Investigations - WINEP Cullercoats BWStudy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investigations - WINEP Seaton Carew BW Study	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investigations - WINEP SSS BW Studies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total major project operating expenditure	**0.2**	**0.4**	**0.2**	**-**	**-**	**-**	**-**	**-**	**0.8**	**0.2**	**0.4**	**0.2**	**-**	**-**	**-**	**-**	**-**	**0.8**

4.H Financial Metrics

for the 12 months ended 31 March 2021

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	2,917.6	-
Regulatory equity	£m	1,278.8	-
Regulatory gearing	%	69.5%	-
Post tax return on regulatory equity	%	4.9%	-
RORE (return on regulatory equity)	%	2.8%	2.8%
Dividend yield	%	0.0%	-
Retail profit margin - Household	%	(14.3%)	-
Retail profit margin - Non household	%	0.0%	-
Credit rating - Fitch	Text	N/A	-
Credit rating - Moody's	Text	Baa1	-
Credit rating - Standard and Poor's	Text	BBB+	-
Return on RCV	%	4.2%	-
Dividend cover	dec	-	-
Funds from operations (FFO)	£m	207.0	-
Interest cover (cash)	dec	3.2	-
Adjusted interest cover (cash)	dec	1.0	-
FFO/Net debt	dec	0.1	-
Effective tax rate	%	18.5%	-
RCF	£m	207.0	-
RCF/Net debt	dec	0.1	-

4.H Financial Metrics (continued)

for the 12 months ended 31 March 2021

	Units	Current year	AMP to date
Revenue and earnings			
Revenue (actual)	£m	689.6	
EBITDA (actual)	£m	1,076.2	
Borrowings			
Proportion of borrowings which are fixed rate	%	60.2%	
Proportion of borrowings which are floating rate	%	0.9%	
Proportion of borrowings which are index linked	%	38.9%	
Proportion of borrowings due within 1 year or less	%	1.4%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	12.9%	
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	8.5%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	54.7%	
Proportion of borrowings due in more than 20 years	%	22.5%	

An explanation of RORE performance compared to the allowance in the FD is provided in the commentary to table 1F

4.I Financial Derivatives

for the 12 months ended 31 March 2021

	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2021)	
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
	£'m	£'m	£'m	£'m	£'m	£'m	%	%
Interest rate swap (sterling)								
Floating to fixed rate	10.0	150.0	-	160.0	(10.6)	-	2.51%	0.49%
Fixed to index-linked	-	150.0	100.0	250.0	(42.1)	31.1	0.78%	2.17%
Total	**10.0**	**300.0**	**100.0**	**410.0**	**(52.7)**	**31.1**		
Forward currency contracts								
Forward currency contracts USD	1.0	4.1	-	5.1	0.2	-		
Total	**1.0**	**4.1**	**-**	**5.1**	**0.2**	**-**		
Total financial derivatives	**11.0**	**304.1**	**100.0**	**415.1**	**(52.5)**	**31.1**		

For the floating to fixed rate swaps, the interest rate receivable has been calculated using a 3 month sterling LIBOR of 0.088%, being the market rate for the last day of 2020/21.

For the fixed to index-linked swaps, the interest rate payable has been calculated using a reference RPI of 1.47%, being the published RPI for March 2021. Both swaps reported in this line are set at RPI minus a fixed percentage.

4.J Base Expenditure Analysis: Water Resources and Water Network+

for the 12 months ended 31 March 2021

	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
					Water Network+	
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Power	7.5	1.5	-	3.0	16.0	28.0
Income treated as negative expenditure	(0.3)	-	-	-	-	(0.3)
Bulk supply	1.1	-	-	-	-	1.1
Renewals expensed in year (infrastructure)	0.4	-	-	-	0.5	0.9
Renewals expensed in year (non-infrastructure)	-	-	-	1.0	1.2	2.2
Other operating expenditure	6.4	0.4	1.6	40.6	65.0	114.0
Local authority and Cumulo rates	4.2	3.0	-	4.0	19.7	30.9

4.J Base Expenditure Analysis: Water Resources and Water Network+ (continued)

for the 12 months ended 31 March 2021

		Water Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Service Charges						
Canal & River Trust abstraction charges/ discharge consents	0.5	-	-	-	-	0.5
Environment Agency / NRW abstraction charges/ discharge consents	43.0	-	-	0.3	-	43.3
Other abstraction charges/ discharge consents	-	-	-	-	-	-
Other operating expenditure						
Costs associated with Traffic Management Act	-	-	-	-	0.3	0.3
Costs associated with lane rental schemes	-	-	-	-	-	-
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	**62.8**	**4.9**	**1.6**	**48.9**	**102.7**	**220.9**

4.J Base Expenditure Analysis: Water Resources and Water Network+ (continued)

for the 12 months ended 31 March 2021

	Water resources	Water Network+				Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£'m	£'m	£'m	£'m	£'m	£'m
Capital expenditure						
Maintaining the long term capability of the assets - infra	1.0	-	-	-	26.4	27.4
Maintaining the long term capability of the assets - non-infra	12.9	0.1	-	43.1	27.8	83.9
Total base capital expenditure	**13.9**	**0.1**	**-**	**43.1**	**54.2**	**111.3**
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act	-	-	-	-	8,098.0	8,098.0

4.K Base Expenditure Analysis: Wastewater Network+ and Bioresources

for the 12 months ended 31 March 2021

	Wastewater network+					Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£'m	£'m	£'m		£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Power	7.2	-	-	12.6	2.3	1.0	(2.5)	-	20.6
Income treated as negative expenditure	-	-	-	-	-	-	(12.0)	-	(12.0)
Bulk discharge	-	-	-	-	-	-	-	-	-
Renewals expensed in year (infrastructure)	0.1	0.2	0.1	-	-	-	-	-	0.4
Renewals expensed in year (non-infrastructure)	-	0.1	-	0.2	-	-	0.1	-	0.4
Other operating expenditure	0.2	15.8	8.6	29.7	1.5	2.8	9.3	1.3	69.2
Local authority and Cumulo rates	0.3	-	-	6.7	-	-	1.4	-	8.4

4.K Base Expenditure Analysis: Wastewater Network+ and Bioresources (continued)

for the 12 months ended 31 March 2021

	Wastewater network+					Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£’m	£’m	£’m	£’m	£’m	£’m	£’m	£’m	£’m
Service Charges									
Canal & River Trust discharge consents	-	-	-	-	-	-	-	-	-
Environment Agency / NRW discharge consents	1.7	-	-	2.0	-	-	-	-	3.7
Other discharge charges / permits	-	-	-	-	-	-	-	-	-
Other expenditure									
Costs associated with Traffic Management Act	0.1	-	-	-	-	-	-	-	0.1
Costs associated with lane rental schemes	-	-	-	-	-	-	-	-	-
Costs associated with Industrial Emissions Directive	-	-	-	-	-	-	-	-	-
Total base operating expenditure	**9.6**	**16.1**	**8.7**	**51.2**	**3.8**	**3.8**	**(3.7)**	**1.3**	**90.8**

4.K Base Expenditure Analysis: Wastewater Network+ and Bioresources (continued)

for the 12 months ended 31 March 2021

	Wastewater network+					Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
Capital expenditure									
Maintaining the long term capability of the assets - infra	5.7	9.5	5.1	0.1	-	-	-	-	20.4
Maintaining the long term capability of the assets - non-infra	1.9	3.2	1.7	29.5	-	-	2.7	-	39.0
Total base capital expenditure	**7.6**	**12.7**	**6.8**	**29.6**	**-**	**-**	**2.7**	**-**	**59.4**
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act	5,957.0	-	-	-	-	-	-	-	5,957.0

4.N Developer Services Expenditure: Water Resources and Water Network+

for the 12 months ended 31 March 2021

		Expenditure in report year					
			Water network+				
		Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
		£'m	£'m	£'m	£'m	£'m	£'m
New connections	Capex	-	-	-	-	7.0	7.0
Requisition mains	Capex	-	-	-	-	6.4	6.4
Infrastructure network reinforcement	Capex	-	-	-	-	0.3	0.3
s185 diversions	Capex	-	-	-	-	1.0	1.0
Total developer services expenditure - capex	**Capex**	**-**	**-**	**-**	**-**	**14.7**	**14.7**
Total developer services expenditure - opex	**Opex**	**-**	**-**	**-**	**-**	**-**	**-**
Total developer services expenditure	**Totex**	**-**	**-**	**-**	**-**	**14.7**	**14.7**

4.0 Developer Services Expenditure: Wastewater Network+ and Bioresources

for the 12 months ended 31 March 2021

		Expenditure in report year £m								
		Wastewater network+					Bioresources			
		Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
		£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
New connections and requisition sewers	Capex	-	0.1	0.1	-	-	-	-	-	0.2
Infrastructure network reinforcement	Capex	1.6	2.7	1.4	-	-	-	-	-	5.7
s185 diversions	Capex	-	0.1	-	-	-	-	-	-	0.1
Other price controlled activities	Capex	0.3	0.4	0.3	-	-	-	-	-	1.0
Total developer services expenditure	**Capex**	**1.9**	**3.3**	**1.8**	**-**	**-**	**-**	**-**	**-**	**7.0**
Total developer services expenditure	**Opex**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total developer services expenditure	**Totex**	**1.9**	**3.3**	**1.8**	**-**	**-**	**-**	**-**	**-**	**7.0**

4.P Expenditure on Non-Price Control Diversions

for the 12 months ended 31 March 2021

	Water resources	Water network+	Wastewater network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Diversions - NRSWA	-	2.0	0.1	-	2.1
Diversions - other non-price control	-	-	-	-	-
Total expenditure on non-price control	**-**	**2.0**	**0.1**	**-**	**2.1**

9.A Innovation Competition

for the 12 months ended 31 March 2021

	Bids accepted and awarded funding for innovation competition	Forecast expenditure on innovation projects funded through the innovation competition	Actual expenditure on innovation projects funded through the innovation competition in year	Difference between actual and forecast expenditure	Cumulative spend on innovation projects	Allowed future expenditure on innovation projects funded through the innovation competition	Expenditure on innovation projects funded by shareholders
	nr	£'m	£'m	£'m	£'m	£'m	£'m
Innovation project 1	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

9.A Innovation Competition (continued)

for the 12 months ended 31 March 2021

	Current year
	£'m
Allowed	
Allowed innovation competition fund price control revenue	2.5
Revenue collected for the purposes of the innovation competition	
Price control revenue collected from customers	2.5
Non-price control revenue (e.g. royalties)	-
Revenue collected from customers and transferred into the innovation competition fund	2.5
Administration	
Administration charge for innovation partner	-

Innovation Competition
As part of PR19 Ofwat established its Innovation Fund, the purpose of which is to grow the water sector's capacity to innovate enabling it to better meet the evolving needs of customers, society and the environment. Our Final Determination revenue for 2020/21 included an allowance of £2.5m to contribute towards the Innovation Fund. This was recovered from customers in 2020/21 charges.

Funding for the first 'Innovation in Water Challenge' was not awarded until April 2021. As a result, the £2.5m collected in 2020/21 had not been paid out by 31 March 2021 and was included in the cash balance reported in table 1C. We have accrued £2.5m in operating costs, as the cash collected from customers will be paid towards projects as they are awarded through future innovation competitions.

Additional tables can be found on our website: **www.nwg.co.uk**