

Financial Statements

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2023 (the "Annual Report"), which comprise: the balance sheet as at 31 March 2023; the profit and loss, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope

- As the company is a single entity and not a group with branches or subsidiaries, scoping was done to perform an audit over 100% of the entity. The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

Key audit matters

- Assessment of recoverability of household trade debtors.
- Accuracy of measured income accrual.
- Salary cost capitalisation.

Materiality

- Overall materiality: £600,000 (FY22: £392,500) based on approximately 0.13% of total assets (FY22: 1.7% adjusted profit before tax).
- Performance materiality: £450,000 (FY22: £294,000).

The scope of our audit

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

Key audit matters

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

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

Salary cost capitalisation is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Assessment of recoverability of household trade debtors

- Management apply a number of assumptions involving estimation uncertainty to derive the expected credit loss (ECL) with regards to household trade debtors. The overall ECL provision amounted to £9.1m as at 31 March 2023 (2022: £7.8m) (refer to Note 16 of the financial statements). The provision for household customers is derived by taking an average of four years' of historical cash collection rates. These historical trends are then used as a basis to calculate the expected credit losses in the future by relevant age bucket of debtors at the year end. There is judgement around whether to apply overlays to the calculation; this will be necessary where there is evidence that future cash collections will not be faithfully represented by historic losses per the calculation. For FY23, Management have not considered it necessary to build in any such overlays.
- The assessment of recoverability of household trade debtors is considered a key audit matter given the high level of estimation which could result in a material misstatement to the level of provision.

Accuracy of measured income accrual

Management have recorded a measured income accrual of £8.4m (2022: £7.9m), (refer to Note 3.1 of the financial statements), relating to revenue from the provision of water services to customers on water meters covering the period of the last meter read date and the year-end date. Revenue recognition in respect of the measured income accrual is judgemental as it is based on an average consumption of the last three meter reads, and impacts directly on reported revenue and profit.

This is considered a key audit matter given the assumptions underlying the estimate, meaning that there is a risk that the measured income accrual and associated revenue could be materially misstated.

How our audit addressed the key audit matter

Our procedures included:

- Auditing the model used to calculate the provision by checking the calculation logic and validating that the approach of deriving the ECL was compliant with the Company's accounting policy and FRS 101.
- Obtaining an understanding of the relevant controls over the calculation of the bad debt provision, including the supporting data and assumptions.
- Challenging the approach of deriving the ECL based on cash collection data obtained and checking that the ultimate approach used was mathematically accurate.
- Challenging key assumptions by testing to supporting audit evidence, considering alternative scenarios that could have been applied and the sensitivity of changes in the provision to those alternatives.
- Challenging the appropriateness of not applying overlays to the calculation for FY23.
- Sample testing the underlying data underpinning the historical cash collection rates, and validating the integrity of the aged debt report by sample testing to invoices.
- Checking that the ECL was applied to all relevant household receivable categories, including accrued income.
- Confirming that disclosures over the assumptions and estimates made are clearly disclosed in the financial statements.
- We also considered whether there was any Management bias in how the assumptions and estimates had been derived.
- Our results: We found Management's assessment of recoverability of household trade debtors to be acceptable.

The measured income accrual is an automated calculation performed by the Company's billing system. We tested the mechanics of the formula used to calculate the measured income accrual and tested the inputs to the calculation on a sample basis, which included: (i) agreeing the last meter read date to source data on a customer level; (ii) performing a recalculation of the number of days since the last meter read date to year-end; (iii) recalculating the daily average consumption rate based on the last three meter readings, comparing the recalculated average against the detailed listing; and iv) testing the applicable tariff against the last bill for that customer. For a sample we recalculated the expected accrued income on a customer basis and compared this to what has been recognised at 31 March 2023. In addition, we obtained a look-back assessment from Management, which compares the FY22 accrued income by customer against the amounts subsequently billed for FY22, noting the FY22 accrual to have been materially accurate. We performed sample testing to verify that the inputs to the model (i.e. the subsequent bill and FY22 accrual) agreed to source data. Our results: We found Management's estimation of the measured income accrual to be acceptable.

Financial Statements continued

Key audit matter

Salary cost capitalisation

Management have capitalised £3.6m of salaried staff costs in the year (FY22: £1.9m) (refer to note 6 of the financial statements). Per IAS 16, Property, plant and equipment, costs of employee benefits arising directly from the construction or acquisition of an item of property, plant and equipment may be capitalised. However, there is some judgement in the determination of those employee costs which are directly versus indirectly related to construction. Management perform a quarterly assessment on a role-by-role basis, with input from line managers, to determine the proportion of time each employee has spent on capital projects, as well as which projects they have been working on. This percentage is then applied to the total cost of this employee during the period, to determine the capitalisation value for the quarter. The increase in the year is a result of Management capitalising costs of a broader range of employees and, in some cases, re-evaluating the capitalisation percentages applied to these roles to a higher value.

This area is considered a key audit matter given the significant increase in capitalisation of costs and therefore the heightened risk of material misstatement, as well as the judgement inherent in the estimation.

How our audit addressed the key audit matter

We have obtained Management's capital salary recharge calculation on an employee-by-employee basis, as well as Management's accounting paper on the matter. This accounting paper provides an explanation for each role capitalised; what the role involves which is deemed to be capital in nature and justification for the proportion applied. We have critically reviewed this paper based on our knowledge of the business and provided challenges for a number of roles, for which we were subsequently provided additional support for the treatment given. We further performed the following procedures over the calculation for a sample of employees: (i) Agreeing payroll costs to audited payroll records (ii) Gaining an understanding for each individual employee of what they have worked on over the year and; (iii) holding interviews with line managers to verify the information given. In addition, we have performed benchmarking procedures to compare the proportion of salary costs capitalised as a proportion of total expenditure against other companies within the industry. Our results: the roles capitalised are sufficiently supported as directly attributable to capital works, and the calculation deemed accurate. Further, the Company benchmarks within the middle range of a sample of water companies assessed in relation to the proportion of salary costs capitalised.

How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The company has one finance function, based in the UK, and no shared service departments.

The impact of climate risk on our audit

As part of our audit, we have made enquiries of Management to understand its process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements. We further obtained Management's climate-related risk assessment and inspected minutes of meetings of the Environmental, Social and Governance (ESG) Committees throughout the year, in addition to attending one such Committee meeting. While Management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2023. We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, testing for impairment of goodwill, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

Materiality

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

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

Overall company materiality	£600,000 (FY22: £392,500).
How we determined it	Approximately 0.13% of total assets (FY22: 1.7% adjusted profit before tax)
Rationale for benchmark applied	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company is primarily an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. Therefore, although Sutton and East Surrey Water Plc is a trading entity, given its revenue and profits are, to a large extent regulated by Ofwat, we determined that the total asset base is the most appropriate benchmark, aligned to the key focus of the Board and its Shareholders on the maintenance and investment in the infrastructure it owns and operates. We also concluded that total assets is a less volatile measure compared to revenue and profit based measures. For FY22 a profit-based measure was used. However, due to this volatility, and for the reasons given above, we have changed to an asset-based benchmark for FY23. For Public Interest Entities (PIEs) a percentage of up to 1% of total assets is typical. However, we have considered other benchmarks (such as revenue and profit before tax) and lowered the percentage down from this typical level of 1% of total company assets to approximately 0.13%, which we deemed to be most appropriate materiality and more suitable for the size and scale of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY22: 75%) of overall materiality, amounting to £450,000 (FY22: £294,000) for the company financial statements.

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

We agreed with the Audit Committee of the company that we would report to them misstatements identified during our audit above £30,000 (FY22: £19,625) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Initial discussions with Management and the Audit Committee to understand the going concern risks facing the company, which predominantly related to uncommitted funding requirements over the going concern assessment period, with such additional funding being required for the purpose of both liquidity and in order to meet debt covenant requirements.
- Review of Management's cash flow and covenant ratio forecasts, which included verifying the mathematical accuracy and performing reasonableness checks of key assumptions (such as capital spend, revenue growth and cost inflation). This allowed for the total uncommitted funding requirement over the 12 month going concern forecast period to be known, both on a base case and on severe but plausible downside scenarios.
- Reviewing the letters of support from the ultimate shareholders to verify that the appropriate level, nature and duration of commitment was included.
- Holding meetings with the ultimate shareholders to verify that; appropriate approvals had been granted for the letters to be signed, the funding requirements of Sutton and East Surrey Water Plc were well understood (both on a base case as well as severe but plausible downside scenarios), that there were no significant conditions associated with the support committed; and, that there were sufficient cash resources available to the shareholders to provide the necessary support.
- Inspection of most recent audited or reviewed financial accounts of the shareholders to verify that sufficient resources exist such that the necessary commitment could be issued.

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.

Financial Statements continued

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

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

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

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

Reporting on other information

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

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

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

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

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Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Corporate governance statement

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

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

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

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and

considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

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

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 these financial statements.

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

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

- enquiries of Management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- evaluation of Management's controls to prevent and detect irregularities;
- challenging assumptions and judgements made by Management in their significant accounting estimates and judgements, in particular in relation to the recoverability of trade debtors, accuracy of the measured income accrual and capitalisation of salary costs, including the disclosure of such matters in the financial statements;
- identifying and testing journal entries, in particular any journal entries with unusual combination of account codes where credits have gone to revenue, or journals with certain key unusual words; and
- incorporating elements of unpredictability into the audit procedures performed.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee of the company, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2020 to 31 March 2023.

Other voluntary reporting

Directors' remuneration

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

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

Richard French (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

14 July 2023

Profit and loss for year ended 31 March

	Notes	2023 £'000	2022 £'000
Revenue	5	67,446	62,953
Operating costs	6	(62,818)	(56,607)
Other operating income	7	1,097	3,358
Net impairment (losses)/write-backs on financial and contract assets	16	(1,458)	449
Operating profit		4,267	10,153
Finance income	9	855	368
Finance costs	9	(30,612)	(15,923)
Finance costs - net		(29,757)	(15,555)
Loss before income tax		(25,490)	(5,402)
Income tax credit/(expense)	10	5,979	(11,935)
Loss for the year		(19,511)	(17,337)

Statement of comprehensive income for the year ended 31 March

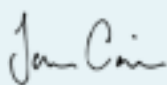
	Notes	2023 £'000	2022 £'000
Loss for the year		(19,511)	(17,337)
Other comprehensive (expense)/income:			
Items that will not be classified to profit or loss			
Actuarial (loss)/gain on pension scheme	20	(17,248)	5,658
Movement on deferred tax relating to pension scheme	19	4,312	(983)
Total comprehensive expense for the year		(32,447)	(12,662)

Financial Statements continued

Balance sheet as at 31 March

	Notes	2023 £'000	2022 £'000
ASSETS			
Non-Current Assets			
Goodwill	11	3,087	3,087
Intangible assets	11	9,659	9,721
Property, plant and equipment	12	369,840	358,094
Right-of-use assets	12	816	623
Pension asset	20	9,211	26,265
		392,613	397,790
Current Assets			
Inventories	14	377	286
Trade and other receivables	15	27,758	25,184
Contract assets		5,862	5,594
Cash and cash equivalents	25	38,957	24,102
		72,954	55,166
Total Assets		465,567	452,956
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	(272,853)	(234,304)
Lease liabilities	13	(530)	(412)
Deferred tax liabilities	19	(43,724)	(54,543)
Pension deficit	20	(802)	(972)
		(317,909)	(290,231)
Current Liabilities			
Borrowings	18	(22,000)	-
Trade and other payables	17	(42,710)	(38,968)
Contract liabilities		(5,366)	(5,723)
Lease liabilities	13	(307)	(212)
		(70,383)	(44,903)
Total Liabilities		(388,292)	(335,134)
Net Assets		77,275	117,822
EQUITY			
Called up share capital	21	51,489	51,489
Profit and loss account		25,786	66,333
Total Equity		77,275	117,822

The financial statements on pages 123 to 151 were approved by the Board of Directors on 14 July 2023 and signed on its behalf by



Ian Cain
Chief Executive Officer



Dave Shemmans
Chair

Company registered number: 02447875.

Registered in England and Wales.

Statement of changes in equity for the year ended 31 March 2023

	Notes	Called up share capital £'000	Profit and Loss account £'000	Total Equity £'000
Balance at 1 April 2021		51,489	82,511	134,000
Loss for the year		-	(17,337)	(17,337)
Actuarial gains on pensions scheme	20	-	5,658	5,658
Movement on deferred tax relating to pension scheme	19	-	(983)	(983)
Total comprehensive expense for the year		-	(12,662)	(12,662)
Transactions with owners in their capacity as owners:				
Dividends	22	-	(3,516)	(3,516)
Transactions with owners recognised directly in equity		-	(3,516)	(3,516)
Balance at 31 March 2022		51,489	66,333	117,822
Loss for the year		-	(19,511)	(19,511)
Actuarial loss on pensions scheme	20	-	(17,248)	(17,248)
Movement on deferred tax relating to pension scheme	19	-	4,312	4,312
Total comprehensive expense for the year		-	(32,447)	(32,447)
Transactions with owners in their capacity as owners:				
Dividends paid	22	-	(8,100)	(8,100)
Transactions with owners recognised directly in equity		-	(8,100)	(8,100)
Balance at 31 March 2023		51,489	25,786	77,275

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Cash flow statement

Year ended 31 March	Notes	2023 £'000	2022 £'000
Loss for the year		(19,511)	(17,337)
Adjustments for:			
Finance income	9	(855)	(368)
Finance costs	9	30,612	15,923
Proceeds from insurance claims		-	(1,970)
Net impairment losses on financial and contract assets	16	1,458	-
Depreciation of property, plant and equipment	12	12,497	11,901
Depreciation of right-of-use assets	12	252	149
Amortisation of intangible assets	11	899	660
Gain on disposal of property, plant and equipment		(79)	(1,283)
Loss on disposal of intangible assets		-	76
Section Expenses		365	-
Increase in inventories		(92)	(59)
Increase in trade and other receivables		(5,483)	(4,868)
Increase in trade and other payables		1,554	1,254
Increase in amounts due to related companies		(777)	(451)
Income tax (credit)/ expense	10	(5,979)	11,935
Interest paid		(8,174)	(5,846)
Income taxes refunded		1,512	-
Net cash generated by operating activities		8,199	9,716
Investing activities			
Proceeds from insurance claims		-	2,225
Purchase of property, plant and equipment	12	(22,499)	(23,630)
Principal elements of lease payments	12	(246)	(504)
Purchase of intangible assets	11	(776)	(2,482)
Proceeds from sale of property, plant and equipment		105	1,324
Interest received	9	172	368
Net cash used in investing activities		(23,244)	(22,699)
Financing activities			
Proceeds of RCF	18	20,000	15,000
Proceeds of Shareholders loan	18	7,000	-
Repayment of RCF	18	(4,000)	-
Dividends paid	22	(8,100)	(3,516)
Net cash from Financing activities		14,900	11,484
Net increase/(decrease) in cash and cash equivalents		(145)	(1,499)
Net cash and cash equivalents at the beginning of the year		24,102	25,601
Net cash and cash equivalents net of bank overdraft		23,957	24,102

Notes to the Financial Statements

1 General information

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

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

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

2 Significant accounting policies

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

2.1 Basis of preparation

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

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

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

- Paragraph 38 of IAS 1, 'Presentation of Financial Statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, Plant and Equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of Financial Statements':
 - 16 (statement of compliance with all IFRS);
 - 38B-D (additional comparative information);
 - 40A (requirements for a third balance sheet); and
 - 111 (statement of cash flows information).

- Paragraphs 30 and 31 of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related Party Disclosures' (key management compensation).
- The requirements in IAS 24, 'Related Party Disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from Contracts with Customers':
 - 110 (disclosure requirements);
 - 113(a) (separate sources of revenue);
 - 115 (disaggregated of revenue);
 - 118 (explanation of changes in contract assets and liabilities);
 - 120 to 121 (transaction price allocated to the remaining performance obligations); and
 - 129 (practical expedients).

2.1.1 Going concern

The Company meets its day-to-day working capital requirements through a mix of cash reserves, borrowings and for this going concern period an equity injection of £22m. The current economic conditions continue to create volatility inflation in particular to the increased levels of gearing from the RPI long term index linked bond. The Company's forecasts and projections, taking account of severe but plausible possible changes in trading performance.

The directors' conclusions on the going concern basis reflect the commitment from the ultimate shareholders of the Company (in the form of written letters of support for the next 18 months) which including making available £22m in aggregate in the form of equity injections to the Company over the next 12 months. Such equity injections allows the Company to deliver its capital program of investment for the next 12 months, and meet its liquidity and financial covenant requirements. The directors have assessed – and are satisfied with – the shareholders' ability to make such funds available in the form of equity injections.

The high levels of RPI linked inflation, the cost of living crisis and pressures on gearing continue to challenge the Company however it still remains financially resilient and has enough headroom to be able to meet its cash and debt covenant requirements for at least the next 18 months from the date of approval of these financial statements. Further details of consideration outlined in page 84.

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

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2023 that have a material impact on the Company's financial statements.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

In May 2021, the International Accounting Standards Board ('IASB') published Deferred Tax related to Assets and Liabilities arising from a Single Transaction which clarifies how companies account for deferred taxes on transactions such as leases. Under the new amendment entities should recognise as deferred tax assets (to the extent probable for utilisation) and deferred tax liabilities for all deductible and taxable temporary differences associated with right of use assets and lease liabilities and decommissioning, restoration and similar liabilities. The effective date for application of this amendment is for annual periods beginning on or after 1 January 2023 and early adoption is permitted. The guidance is to be applied retrospectively at the point of adoption.

The Company has evaluated the impact of the new guidance on the financial statements and do not expect these to have a material impact.

2.2 Consolidation

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

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

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

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

2.3.2 Transactions and balances

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

2.4 Property, plant and equipment

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

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

- Land

- Collections reservoir

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

- Buildings, including treatment works, service reservoirs and boreholes

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

- Mains network

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

The maintenance of a mains pipe often entails an element of replacement or additional mains to the network. Providing the mending of a burst main is limited to the replacement of no more than one length of pipe then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced or in most cases a new main is laid in addition to the original, it is considered replacement work and associated costs are capitalised. Given the historic aging of the network, it is not always possible to identify the pipe on the fixed asset register as an individual element and therefore is not individually written off.

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

- Plant and machinery (heavy)

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

- Motor vehicles

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

- Sundry plant

Sundry plant consists of small tools used in construction as well as the Company's IT equipment.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company and capitalisation of employee time and other expenses incurred by central functions working on the capital programme where a management judgement is applied relating to the estimation of time spent on the capital programme to derive an estimated percentage recharge to capital. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

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

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

All other borrowing costs are included as finance expenses within the profit and loss account. During the year no interest was capitalised by the company (2022: £nil)

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in IAS 23, 'Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs are capitalised:

- The project needs to go on for longer than a year

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

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

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

- Must not include developer services capital expenditure as that is separately funded.

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

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

	Years
- Land	n/a
- Collections reservoirs	140-150
- Buildings including boreholes and service reservoirs	50-100
- Mains network	100
- Plant and machinery (heavy)	10-25
- Motor vehicles	5
- Sundry plant	3-10

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

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

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

2.5 Intangible assets and goodwill

2.5.1 Software costs

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

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

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

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

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

2.5.2 Internally generated intangible assets - Research and development

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

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

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

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

2.5.3 Goodwill

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

2.5.4 Impairment of goodwill

The recoverable amount of the cash-generating unit has been calculated using the fair value less disposal cost (FVLDC) method, using a discounted cash flow calculation based on the most recent financial projections available for the business. As customary practice for the UK water industry, management has used a forecast period of 25 years, in line with the notice period a water company has to be given before it can stop providing the regulated service. An exit multiple is then applied to the regulatory capital value at that time to determine the terminal value. Both elements are then discounted based on a pre-tax nominal rate to derive the estimated fair value, from which an estimated disposal cost is deducted to derive fair value less disposal cost.

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

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

Key assumptions	2023	2022
Exit regulatory capital value multiples	1.20	1.15
Discount rate	6.1%	4.7%
Inflation RPI	3%	3%
Inflation CPI	2%	2%

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

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

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

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

2.8 Financial assets

Financial assets can be classified as all being held at:

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

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

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

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

2.8.1 Financial assets at amortised cost

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

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

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

2.9 Impairment of financial assets

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

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

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

2.10 Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Management recognises a provision for obsolete stock as follows:

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

2.11 Trade and other receivables

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

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

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

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

The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Contract assets have increased to £5.9m (2022: £5.6m) as a result of unbilled measured household income.

2.12 Cash and cash equivalents

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

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

The cash and cash equivalents line on the cashflow statement is presented net of overdrafts.

2.13 Payables

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

2.14 Borrowings

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

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

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

During the year ended 31 March 2022, the Company agreed an amendment to certain terms within its £100m collateral bond deed.

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

Consistent with IFRS 9, where there is a modification of debt, management performs an assessment to determine whether this is a substantial or non-substantial modification. This is determined by reference to the '10% test' (i.e. whether the present value of new cash flows differ by more than 10% to the original present value of cash flows) as well as qualitative factors.

The modification was deemed to be non-substantial. Therefore 'modification accounting' treatment has been followed, with the liability restated to present value using the original effective interest rate. The difference between the old and new liability recognised as a charge to the Profit & Loss account in year ended 31 March 2022. The liability continues to be held at amortised cost.

2.15 Borrowing costs

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

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

2.16 Taxation

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

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

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

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

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

2.17 Employee benefits

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

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

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

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

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

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

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

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

2.18 Provisions

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

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

No such provision was required in FY23 or FY22. Provisions are not recognised for future operating losses.

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

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

2.19 Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

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

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

2.19.2 Empty properties – household revenue

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

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

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

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

2.19.3 Developer services (appointed income) – other water revenue

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

2.19.3.1 Network extensions

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

2.19.3.2 Service connections

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

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

2.19.3.3 Diversions

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

2.19.3.4 Infrastructure charges

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

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

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

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

2.19.4 Commission income – non-appointed income

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

2.19.5 Garage revenue – non-appointed income

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

2.20 Interest income/expense

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

2.21 Leases

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

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

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

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

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

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

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

Financial Statements – Notes to the Financial Statements continued

2 Significant accounting policies continued

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

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

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

2.22 Dividend distribution

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

2.23 Rounding of amounts

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

2.24 Contract liabilities

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

Contract liabilities have decreased to £5.4m (2022: £5.7m) mainly due to movement in the money received in advance from customers that will be passed to Thames Water upon billing.

Revenue recognised in the current reporting period that relates to carried-forward contract liabilities was £5.7m as all the money received in advance at 31 March 2023 has been billed in the current financial year.

2.25 Insurance receipts

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

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

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

2.26 Managing risk

2.26.1 Credit risk

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

2.26.2 Interest risk

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

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

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

Unamortised issue costs of £3.7m (2022: £4m) are netted against the carrying value of the bond and included within the effective interest charge.

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

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

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the variable rate debt (e.g. revolving credit facility) at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurs at the balance sheet date and has been applied to risk exposures at that date.

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

As at year ended 31 March	2023 £'000	2022 £'000
Equity		
Increase	(681)	(473)
Decrease	681	473
Profit before tax		
Increase	(681)	(473)
Decrease	681	473

2.26.4 Liquidity risk

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

As at year ended 31 March	2023 £'000	2022 £'000
Maturities		
Between one and two years	113,060	59,000
More than five years	159,793	175,304
	272,853	234,304

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

As at year ended 31 March	2023 £'000	2022 £'000
Expiring		
In less than one year	-	1,000
Between one and two years	-	-
More than five years	1,000	16,000
Total	1,000	17,000

2.27 The impact of climate change

The water industry plays a key role on the impact of climate change and management of climate related risks. SESW has identified its key risks impacting the ability to provide clean water to customers. The incremental costs in ensuring our sites are resilient against flooding and ensuring we are resilient against drought are included in our investment appraisals, and also factored into our financial reporting estimates and forecast costs within the good will impairment system. The financial reporting impact from the physical and transitional risks of climate change can be shown on page pages 68 and 69.

Financial Statements – Notes to the Financial Statements continued

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

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

3.1 Estimate – Unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amounts of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. The unbilled measured income accrual was £8.4m (2022: £7.9m)

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £430k (2022: £380k).

3.2 Estimate – Defined benefit pension scheme

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

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

With effect from 31 March 2023, the trustees of the scheme invested in a buy-in policy minimising the risk on any market movements to the Company.

3.3 Estimate – Provision for doubtful debt

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

The COVID-19 pandemic and subsequent cost of living crisis has impacted the ability for customers (both household and non-household) to pay, which put upward pressure on the provision for doubtful debts. Despite increasing its cash collection activities both in house and through external debt collection agencies, the level of debt owed by customers has increased and as a result an increase of £1.5m was applied to the bad debt provision at 31 March 2023.

3.4 Judgement – Capitalisation of expenditure as fixed assets

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

Management is required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised, this includes an element of employee costs where the individuals contributes to the overall capital programme but not specifically on an individual project, an estimation of time spent on capex related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where a new customer has not paid their bills for a period of at least one year, and where an existing customer has not paid their bills for a period of at least three years. This resulted in derecognising £0.3m of revenue in FY23, which is consistent with prior year. Increasing or decreasing the period of non-payment by one year for existing customers only would decrease and increase revenue derecognition by £0.3m and £0.3m respectively.

4 Segmental information

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

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

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

The appointed and non-appointed businesses are reviewed and reported separately; further details are included in our regulatory accounts and Annual Performance Review.

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

5 Revenue

Year ended 31 March	2023 £'000	2022 £'000
Measured water revenue (household)	31,476	28,461
Unmeasured water revenue (household)	20,850	20,562
Total household revenue	52,326	49,023
Wholesale revenue from retailers (non-household)	9,662	7,726
Non-water revenue	778	817
Other water revenue	2,303	3,090
Non-appointed income	2,377	2,297
Total revenue	67,446	62,953

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

During the year ended 31 March 2023 water volumes sold to both household and non-household customers increased, this was partially driven by an increase in wholesale volumes used as business returned back to levels seen prior to the pandemic and a hotter and dryer summer increasing consumption. These increased volumes impact both measured household and non-household revenues. Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue.

A 4% tariff increase across both measured and unmeasured increased revenues compared to prior year.

6 Operating costs

Operating profit is stated after charging:

Year ended 31 March	Notes	2023 £'000	2022 £'000
Wages and salaries		11,835	11,960
Social security costs		1,781	1,504
Other pension costs	20	2,006	1,905
Employee costs		15,622	15,369
Power		6,821	6,617
Raw materials and consumables		4,030	3,285
Rates		3,468	3,467
Subcontractors		6,875	6,025
Insurance		1,064	987
Other operating costs		8,388	6,045
Depreciation charge on property, plant and equipment	12	12,497	11,901
Depreciation of right-of-use assets	12	252	149
Amortisation charge on intangible assets	11	899	660
Legal and professional fees (excluding auditor's fees)		2,363	1,639
Fees payable to the Company auditor for the audit of annual financial statements		434	344
Fees payable to the Company's auditors and associates for other services:			
- Audit of regulatory financial statements		55	50
- Other assurance services		50	69
Operating costs		62,818	56,607

The 2022 audit fee has been restated to include an overrun fee following completion of the FY22 financial statements.

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year, wages and salaries of £3,629,472 (2022: £1,915,985) were capitalised to fixed assets.

Net operating costs can be analysed as

	2023 £'000	2022 £'000
Cost of sales	45,709	40,623
Administration expenses	17,109	15,984
	62,818	56,607

Financial Statements – Notes to the Financial Statements continued

7 Other operating income

Year ended 31 March	2023 £'000	2022 £'000
Proceeds from insurance claims	-	1,970
Other operating income	1,018	105
Profit on sale of fixed assets	79	1,283
Other operating income	1,097	3,358

8 Employees and directors

The average number of employees in the year was:

Year ended 31 March	2023 number	2022 number
Operations	177	159
Retail	79	87
Support	89	95
Other	1	1
Total	346	342

Director's emoluments

Directors' emoluments for the year were as follows:

Year ended 31 March	2023 £'000	2022 £'000
Aggregate emoluments	1,092	955
Aggregate amounts receivable under long-term incentive schemes	200	84

Highest paid director

The highest paid directors' emoluments were as follows:

Year ended 31 March	2023 £'000	2022 £'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	544	415

9 Interest income and expense

Year ended 31 March	2023 £'000	2022 £'000
Finance income		
Expected return on pension scheme assets	3,124	2,227
Interest paid on post-retirement liabilities	(2,441)	(1,862)
Other interest receivable	172	3
Total finance income	855	368
Finance expense		
Interest on index-linked bond	5,547	5,005
Indexation of bond	22,111	6,628
Bond fee amortisation	569	444
Other interest expenses	2,385	3,846
Total finance expenses	30,612	15,923
Net finance cost	29,757	15,555

During the year, the Company incurred £30.6m of finance costs (2022: £15.9m), mainly relating to accretion of the index-linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £15.5m increase in indexation costs due to a rise in the current year of the Retail Price Index (RPI) rate. In July 2021, the annual inflation change was 3.84%; in July 2022, it increased to 12.3%. Therefore, inflation increased by 220%, and the indexation charge increased by 234%.

10 Income tax expense

Year ended 31 March	Notes	2023 £'000	2022 £'000
Tax charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		-	-
Adjustments in respect of prior periods		528	(64)
Total current tax		528	(64)
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		69	31
Origination and reversal of temporary differences – other		(2,207)	(1,017)
Tax losses		(2,664)	-
Impact of change in tax rate		(1,495)	13,182
Adjustments in respect of previous years		(210)	(197)
Total deferred tax		(6,507)	11,999
Income tax (credit)/expense		(5,979)	11,935
Tax expense included in other comprehensive income/(expense):			
Deferred tax:			
Movement in relation to pension scheme	19	4,312	(983)
Total tax income/(expense) included in other comprehensive income		4,312	(983)

Tax income/(expense) for the year is higher (2022: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2023 of 19% (2022: 19%). The differences are explained below:

	2023 £'000	2022 £'000
Loss before taxation	(25,489)	(5,402)
Loss multiplied by the standard rate of tax in the UK of 19% (2022: 19%)	(4,843)	(1,026)
Effects of:		
Expenses not deductible for tax purposes	41	41
Income not taxable	-	(374)
Remeasurement of deferred tax – change in UK tax rate	(1,495)	13,182
Adjustments to tax charge in respect of previous years	318	(262)
Rolled over gains	-	374
Tax (credit)/charge	(5,979)	11,935

The standard rate of UK corporation tax for the year ended 31 March 2023 is 19%.

The Finance Act 2021 enacted on 10 June 2021 increased the main rate of UK corporation tax from 19% to 25%, effective from 1 April 2023. Deferred taxes on the balance sheet have been measured at 25% (2022: 25%), which represents the future corporation tax rate that was enacted at the balance sheet date.

Financial Statements – Notes to the Financial Statements continued

11 Intangible assets

	Goodwill £'000	Software £'000	Work in Progress £'000	Total Software and Work in Progress £'000
Cost:				
At 1 April 2022	19,454	11,979	1,404	13,383
Additions	-	-	837	837
Transfer	-	1,875	(1,875)	-
As at 31 March 2023:	19,454	13,854	366	14,220
Accumulated amortisation and impairment:				
At 1 April 2022	16,367	3,662	-	3,662
Amortisation	-	899	-	899
As at 31 March 2023:	16,367	4,561	-	4,561
Net book Value 31 March 2023	3,087	9,293	366	9,659
Net book Value 31 March 2022	3,087	8,317	1,404	9,721

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £441k (2022: £505k) and has a remaining amortisation period of six years (2022: seven) on a straight-line basis. Aptumo, our new billing system, went live in October 2021 and is used for all customer service operations and billing management. The asset is carried at £6.9m (2022: £6.5m) and has a remaining amortisation period of 14 years (2022: 15) on a straight-line basis.

12 Property, plant and equipment, and right-of-use assets

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	Land £'000	Collection reservoir £'000	Buildings (inc. boreholes and service reservoirs) £'000	Mains network £'000	Plant and Machinery (heavy) £'000	Motor vehicles £'000	Sundry plant £'000	Assets under construction £'000	Total £'000	Right- of-use assets £'000	Total £'000
Cost:											
At 1 April 2022	5,074	2,533	136,270	260,546	155,907	3,554	7,350	21,624	592,858	849	849
Additions	-	-	-	-	-	-	-	24,269	24,269	445	445
Transfer	23	-	884	17,524	19,077	-	156	(37,664)	-	-	-
Disposals	-	-	-	-	-	(239)	-	-	(239)	-	-
As at 31 March 2023:	5,097	2,533	137,154	278,070	174,984	3,315	7,506	8,229	616,888	1,294	1,294
Accumulated amortisation and impairment:											
At 1 April 2022	-	462	42,234	97,982	86,038	2,837	5,211	-	234,764	226	226
Depreciation charge	-	22	2,698	2,039	6,981	248	509	-	12,497	252	252
Disposals	-	-	-	-	-	(213)	-	-	(213)	-	-
As at 31 March 2023:	-	484	44,932	100,021	93,019	2,872	5,720	-	247,048	478	478
Net book value 31 March 2023	5,097	2,049	92,222	178,049	81,965	443	1,786	8,229	369,840	816	816
Net book value 31 March 2022	5,074	2,071	94,036	162,564	69,869	717	2,139	21,624	358,094	623	623

Land comprises freehold land at £5,056k (2022: £5,033k) and long leasehold land at £41k (2022: £41k).

13 Leases liabilities

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

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

The balance sheet shows the following amounts relating to leases:

As at 31 March	2023 £'000	2022 £'000
Right-of-use assets		
Vehicles	816	623
Total	816	623
Lease Liabilities		
Current	307	212
Non-current	530	412
Total	837	624

Additions to the right-of-use assets during the financial year were £445k (2022: £504k).

Amounts recognised in profit and loss:

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

Year ended 31 March	2023 £'000	2022 £'000
Depreciation charge of right-of-use assets:		
Vehicles	252	149
Interest expense (included in finance cost):		
Vehicles	28	34
Total	280	183

Other lease information

Year ended 31 March	2023 £'000	2022 £'000
The total cash outflow for leases	246	164

14 Inventories

As at 31 March	2023 £'000	2022 £'000
Raw materials and consumables	377	286
Total	377	286

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

15 Trade and other receivables

As at 31 March	Notes	2023 £'000	2022 £'000
Current:			
Gross trade receivables		31,400	26,928
Expected credit loss	16	(9,313)	(7,855)
Net trade receivables		22,087	19,073
Amounts due from group undertakings		1,235	658
Other receivables		2,844	2,240
Current tax asset		-	1,602
Prepayments		1,560	1,361
Group relief receivable		-	111
Other taxes and social security		32	139
		27,758	25,184

Financial Statements – Notes to the Financial Statements continued

16 Expected credit losses on financial assets

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

Movements of expected credit loss provisions were as follows:

	2023 £'000	2022 £'000
At 1 April	7,855	8,304
Charge/(credit) for bad and doubtful debts	1,458	(449)
At 31 March	9,313	7,855

Ageing debt profile and credit loss provisions:

	< 6m £'000	6m-1 year £'000	1-2 years £'000	2-3 years £'000	3 + years £'000	2023 £'000
31 March 2023						
Expected credit loss – Household Metered	13.4%	34.7%	56.1%	71.8%	100.0%	
Outstanding customer debt*	3,307	1,482	1,503	1,154	2,217	9,663
Provision at expected credit loss	(441)	(515)	(843)	(828)	(2,217)	(4,844)
Specific provisions against contract assets	(124)	-	-	-	-	(124)
Loss allowance	(565)	(515)	(843)	(828)	(2,217)	(4,968)
Net outstanding customer debt	2,742	967	660	326	-	4,695
Expected credit loss – Household Non-Metered	2.3%	2.3%	61.1%	76.2%	100.0%	
Outstanding customer debt*	768	1,644	1,358	797	2,667	7,234
Provision at expected credit loss	(18)	(38)	(829)	(607)	(2,667)	(4,159)
Specific provisions against contract assets	-	-	-	-	-	-
Loss allowance	(18)	(38)	(829)	(607)	(2,667)	(4,159)
Net outstanding customer debt	750	1,606	529	190	-	3,075
Expected credit loss – Other Receivables	0.2%	-13.2%	19.7%	49.6%	100.0%	
Carrying amount of trade receivable*	1,135	39	183	78	114	1,549
Provision at expected credit loss	(2)	5	(36)	(39)	(114)	(186)
Loss allowance	(2)	5	(36)	(39)	(114)	(186)
Net outstanding customer debt	1,133	44	147	39	-	1,363
Total loss allowance	(585)	(548)	(1,708)	(1,474)	(4,998)	(9,313)
Net trade receivable	4,625	2,617	1,336	555	-	9,133

* Less credits received on account recorded in contract liabilities.

17 Trade and other payables

	2023 £'000	2022 £'000
As at 31 March		
Trade payables	4,514	1,924
Amounts owed to group undertakings	999	1,181
Other creditors	24,757	24,936
Deposits from developers	373	344
Accruals	11,641	10,583
Group relief payable	426	-
Total Current Liabilities	42,710	38,968

18 Borrowings

	2023 £'000	2022 £'000
As at 31 March		
Current:		
Short term overdraft	15,000	-
Short term shareholder loan	7,000	-
Total Current Liabilities	22,000	-
Non-Current:		
2.874% secured index-linked bond 2027	38,060	-
2.874% secured index-linked bond 2028-2031	159,691	175,202
3.25% irredeemable debentures	50	50
5.00% irredeemable debentures	52	52
Long-term bank loans (revolving credit facility)	75,000	59,000
Total Non-Current Liabilities	272,853	234,304
	2023 £'000	2022 £'000
Amounts falling due within 5 years		
Short term overdraft and shareholder loan	22,000	-
Bank loans and borrowings (index linked bond)	38,060	-
Long-term bank loans (revolving credit facility) : £25m (2022: £9m) SONIA +0.95% due in March 2025 and £50m (2022: £50m) SONIA +0.95% + CAS 0.0252% due in July 2024	75,000	59,000
	135,060	59,000
	2023 £'000	2022 £'000
Amounts falling due after more than 5 years		
Bank loans and borrowings (index linked bond and debentures)	159,793	175,304
	159,793	175,304

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

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

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

The bond and debentures are at fixed rates of interest. Borrowings made under the RCFs and the short-term bank loan are at a variable rate with a margin above SONIA and the Bank of England base rate and the short-term bank loan is at a fixed rate above Bank of England base rate. The shareholder's loan is at a fixed rate of 6%.

The £100m bond agreement specified that the issuer shall ensure that sufficient cash is available to meet the indexed RPI linked increases in the bond and therefore during the current year, the Company drew down an additional of £16m under the RCF from the Royal Bank of Scotland, a short-term bank loan of £15m from the National Westminster Bank and a shareholder's loan of £7m from its ultimate parent company, Sumisho Osaka Gas Water UK Limited, to meet its operational needs and the financial covenants (including the Adjusted Interest Cover Ratio requirement) at the year-end date. The short-term bank loan of £15m and the shareholder's loan of £7m are repayable in May 2023.

As at 31 March 2023, the £50m and £25m RCFs, and the £15m short-term bank loan facility were fully drawn down by the Company (2022: £59m).

The RCF of £50m is due for repayment in July 2024.

The short term overdraft of £15m and £3m of the shareholder's loan was repaid in May 2023.

Financial Statements – Notes to the Financial Statements continued

18 Borrowings continued

Loan covenants

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

1. As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date of the 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an interest cover ratio of at least 1.10:1, an Adjusted Interest Cover Ratio of at least 1.0:1.0 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement, the issuer shall submit a Business Plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1; and a Regulated Asset Ratio of less than or equal to 0.80.

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

Fair values

The table below analyses financial instruments, into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs)

Determining the fair value of financial liabilities

The fair value of the bond is based on price quotations at the reporting date.

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cash flows. There is no material difference between fair values and carrying amounts within the balance sheet of all other financial assets and liabilities.

The fair values together with their carrying amounts are shown in the balance as follows:

	2023			2022		
	Carrying amount £'000	Fair value £'000	Level 1 £'000	Carrying amount £'000	Fair value £'000	Level 1 £'000
2.874% secured index-linked bond 2027-2031	197,751	227,661	227,661	175,202	241,379	241,379

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19 Deferred tax liabilities

	Deferred tax £'000	Total £'000
At 1 April 2022	54,543	54,543
Adjustment in respect of prior years	(210)	(210)
Deferred tax credit to profit and loss for the period	(6,297)	(6,297)
Credit to the statement of other comprehensive income	(4,312)	(4,312)
At 31 March 2023	43,724	43,724

Deferred tax

	2023 £'000	2022 £'000
As at 31 March		
Current deferred tax assets	-	-
Current deferred tax liabilities	-	-
Carrying amount at year end	-	-
Non-current deferred tax assets	-	-
Non-current deferred tax liabilities	43,724	54,543
Carrying amount at year end	43,724	54,543
Total carrying amount at year end	43,724	54,543

	Accelerated capital allowances £'000	Relating to the pension deficit £'000	Other/ Tax losses £'000	Total £'000
Deferred tax liabilities				
At 1 April 2021	37,902	3,699	(40)	41,561
Charged/(credited) to the profit and loss	10,501	1,640	(142)	11,999
Charged directly to other comprehensive income	-	983	-	983
At 31 March 2022	48,403	6,322	(182)	54,543
(Credited)/Charged to the profit and loss	(3,115)	91	(3,483)	(6,507)
Credited directly to other comprehensive income	-	(4,312)	-	(4,312)
At 31 March 2023	45,288	2,101	(3,665)	43,724

20 Post-employment benefits

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

20.1 Defined Benefit scheme

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

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

The risks of the scheme are as follows:

(a) Asset volatility

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

(b) Changes in bond yields

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

(c) Life expectancy

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

(d) Inflation risk

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

Financial Statements – Notes to the Financial Statements continued

20 Post-employment benefits continued

Guaranteed Minimum Pension (GMP)

We have continued to include an allowance of 0.4% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

Section buy-in

With effect from 31 March 2023, the trustees of the scheme invested in a buy-in policy with the insurance company JUST which is intended to largely match the Section's liabilities, which should reduce the volatility seen through the liability in the pension scheme.

The impact of the transaction (a loss of £10m – the difference between the premium paid and the value of the corresponding liabilities under IAS 19) has been recognised outside of profit and loss (in other comprehensive income), reflecting that the purchase of the buy-in policy was an investment decision, no liabilities have been settled and there is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term.

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2022 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

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

As at 31 March	2023	2022
Retail price inflation	3.60%	4.00%
Consumer price inflation	3.10%	3.50%
Discount rate	2.70%	2.70%
Life expectancy of male aged 60 in 2023/2022	26.4	26.4
Life expectancy of a male aged 60 in 2047	28.3	28.3
Weighted average duration	12.0	14.0

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Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Carrying amount £'000
At 1 April 2022	117,797	(91,532)	26,265
Interest on benefit obligations	-	(2,415)	(2,415)
Actuarial gains/(losses) due to:			
- changes in financial assumptions	-	24,352	24,352
- changes in demographic assumptions	-	244	244
- experience adjustments on obligation	-	(4,418)	(4,418)
Benefits paid	(4,519)	4,519	-
Interest on section assets	3,124	-	3,124
Actual return on scheme assets less interest	(37,576)	-	(37,576)
Expenses	(365)	-	(365)
At 31 March 2023	78,461	(69,250)	9,211

The main reasons for the decrease in the balance sheet asset over the year were:

- a reduction in the value of the Section's invested assets;
- the purchase of a buy-in insurance policy with JUST (which reduced the value of assets under IAS 19 as the value of the buy-in policy under IAS 19 is less than the premium paid); and
- higher inflation than assumed at the start of the year (which increased the value of the Section's obligation);

although the reduction in balance sheet asset was partially offset by an increase in the real discount rate (which reduced the Section's obligations).

Following the purchase of the buy-in policy, the balance sheet asset is expected to be relatively stable going forwards.

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

As at 31 March	2023 £'000	2022 £'000
Changes in assumptions		
Change in inflation rate (+0.1%)	700	1,100
Change in inflation rate (-0.1%)	(700)	(1,100)
Change in discount rate (+0.1%)	(800)	(1,300)
Change in discount rate (-0.1%)	800	1,400
Change in life expectancy (+1 year)	3,000	4,600
Change in life expectancy (-1 year)	(3,000)	(4,600)

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

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

Total credit/(expense) recognised in the profit and loss

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Employer's part of current service cost						
Section expenses	(365)	-	(365)	(244)	-	(244)
Past service cost	-	-	-	-	-	-
Net interest credit/(charge)	709	(26)	683	384	(19)	365
Net credit/(expense) recognised in profit and loss account for pensions schemes	344	(26)	318	140	(19)	121

Total (loss)/gains recognised in the other comprehensive income

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Net actuarial (losses)/gains in the year due to						
Changes in financial assumptions	24,352	222	24,574	5,356	33	5,389
Changes in demographic assumptions	244	1	245	665	9	674
Experience adjustments on benefit obligations	(4,418)	(73)	(4,491)	(1,207)	(33)	(1,240)
Actual (loss)/gain on Section assets relative to interest on Section assets	(37,576)	-	(37,576)	835	-	835
(Loss)/gain to recognise outside profit and loss in other comprehensive income	(17,398)	150	(17,248)	5,649	9	5,658

Changes in net assets recognised in the balance sheet

Year ended 31 March	2023 £'000 WCPS	2023 £'000 Unfunded	2023 £'000 Total	2022 £'000 WCPS	2022 £'000 Unfunded	2022 £'000 Total
Balance sheet asset/(liability) at 1 April 2022	26,265	(972)	25,293	20,476	(1,006)	19,470
Credit/(charge) recognised in profit and loss	344	(26)	318	140	(19)	121
(Loss)/gain recognised in other comprehensive income	(17,398)	150	(17,248)	5,649	9	5,658
Company contributions paid	-	46	46	-	44	44
Balance sheet asset/(liability) at 31 March 2023	9,211	(802)	8,409	26,265	(972)	25,293

Financial Statements – Notes to the Financial Statements continued

20 Post-employment benefits continued

Fair value of scheme assets

As at 31 March	2023 £'000	2022 £'000
Liability driven investments	-	28,220
Liquidity funds	8,538	14,208
Buy-in policy	68,674	-
BMO Global Absolute Return Bond Fund	-	24,317
Buy and maintain credit	-	50,450
Net current assets	597	-
Cash	652	602
Total	78,461	117,797

20.2 Defined contribution scheme

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

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

As at 31 March	2023 £'000	2022 £'000
Current year contributions*	2,006	1,905

* Charge in the profit and loss account per note 6 is £2,006k (2022: £1,905).

21 Called up share capital

Ordinary shares of 10 pence each.

Allotted and fully paid

As at 31 March	2023 £'000	2022 £'000
514,894,370 (2022: 514,894,370) ordinary shares of £0.10 each	51,489	51,489

All shares rank pari passu in all respects.

On 12 July 2023, the first instalment of committed equity injections was provided by the shareholders, with a £2m injection to the Company.

22 Dividends

Dividends paid to immediate parent company

	2023 £'000	2022 £'000
Ordinary dividend paid in June 21 – Appointed	-	1,442
Ordinary dividend paid in November 21 – Appointed	-	1,474
Ordinary dividend paid in May 22 – Appointed	1,640	-
Ordinary dividend paid in Dec 22 – Appointed	1,460	-
Total appointed dividends paid	3,100	2,916

Dividends can be classified as follows:

As at year ended 31 March	2023 £'000	2022 £'000
Interim dividend for FY 22 – Appointed	-	1,442
Final dividend for FY 22 – Appointed	-	1,474
Final dividend for FY 22 – Appointed	1,640	-
Interim dividend for FY 23 – Appointed	1,460	-
Total appointed dividends paid	3,100	2,916

In addition £5.0m of non appointed dividends (2022: £0.6m) have been paid from the non appointed business.

Non appointed dividends are not governed by the appointed dividend policy but are assessed separately based on the overall operational and financial performance of the non-appointed business. These non-appointed dividends were paid to East Surrey Holdings (ESH) Limited via SESW Holding Company Limited from the accumulated profits and cash generated by the non-appointed business of the Company (accumulated over a number of years from non-appointed activities such as billing on behalf of Thames Water and not been distributed in recent years). These monies have been retained within the ESH

Group and have not been distributed to the ultimate shareholder, but are being utilised, under the approval of the ESH Board, for other ESH Group activities.

23 Commitments

The Company has the following capital commitments for contracts for future capital expenditure not provided in the financial statements:

Year ended 31 March	2023 £'000	2022 £'000
Contracted capital commitments	3,000	10,400

24 Transactions with related parties

The Company had the following transactions with related parties:

As at year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2023 £'000	2022 £'000
Advanced Minerals Ltd	80% owned group company	Income	Sale of water treatment by-products and management charges	15	33
Advanced Minerals Ltd	80% owned group company	(Expenditure)	Costs incurred for disposal of certain by products	(20)	(29)
Total				(5)	4

The Company had the following balances with related parties:

As at year ended 31 March

Related party	Relationship	Net income/ (expenditure)	Description	2023 £'000	2022 £'000
Advanced Minerals Ltd	80% owned group company	Asset	Receivables for sales and management recharges	4	-
Advanced Minerals Ltd	80% owned group company	(Liability)	Purchase ledger position from trade	-	-
Total				4	-

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated. Details of transactions with all group companies can be found in the notes to the regulatory accounts in the Annual Performance Report.

25 Cash and cash equivalents

Within liquid resources there is £8.7m (2022: £8.2m) of restricted cash relating to the secured index-linked bond. The prior year restricted cash balance has been restated to increase the balance by £2.3m in respect of restricted interest payment account. £15m (2022: £0.0m) was drawn down on a short-term overdraft and £7.0m (2022: £0.0m) in the form of a shareholder loan to demonstrate suitable liquid assets at the calculation point of the adjusted interest cover ratios. The cash from the overdraft or shareholder loan was not required for liquidity purposes and sat as a cash balance at the year end.

26 Events after the reporting period

On 3 April 2023 £3m of the shareholder loan was repaid and on 12 May 2023 the £15m overdraft was repaid in full.

On 12 July 2023, the first instalment of committed equity injections was provided by the shareholders, with a £2m injection to the Company

27 Controlling parties

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

Glossary

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

AMP cycle – the Asset Management Plan cycle, a 5-year cycle used by Ofwat to set price increases and assess performance.

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

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

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

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

Megalitre (MI) – equal to a million litres.

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

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

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

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

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

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

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

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

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

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SES Water

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