NORTHUMBRIAN WATER LIMITED ANNUAL PERFORMANCE REPORT

For year ended 31 March 2024

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BOARD STATEMENT – OUR PURPOSE, VISION, AND PERFORMANCE

For most of our customers, Northumbrian Water is the only available supplier of essential water and wastewater services. The Board therefore recognises that we carry very significant responsibilities and must continuously strive tomeet the high expectations that can reasonably be expected of us.

As a Board, we remain committed to continuing our drive to be the national leader in sustainable water and wastewater services and to delivering outstanding service to our customers and other stakeholders, now and into the future. Together, we are facing the challenges of an ever-evolving business landscape and the issues facing our industry by formulating strategies to improve standards further, deliver leadership and show support for our regions and communities.

During the year our industry has been the subject of much criticism particularly in relation to our environmental performance and the ability to consistently deliver high quality drinking water. Whilst the vast majority of criticism does not apply to Northumbrian Water, we acknowledge that we are not perfect and recognise the need for the Company and its Board to continually improve our performance.

Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review the progress made in the fourth year of delivering our 2020-25 Business Plan and our performance delivered against the commitments we have made in it. We have confidence in our strong track record and ability to leverage good practice.

As a Board, we are conscious of the increasing expectations of our stakeholders, especially in respect of the environment, and which will require significant further investment to attain. We have much to reflect on with pride this fiscal year, having made significant progress, including: no category 1 or 2 pollution incidents; improved water quality; record-low leakage; enhanced water management and achieving all three sewer flooding targets. The company's performance and leadership in Environmental, Social and Governance (ESG) activities has continued to attract accolades and visible support from campaigning organisations.

Also given external stakeholder views, we can once again confirm that no executive bonuses will be paid from customer bills and our dividends reflect the service performance we have delivered for customers, in line with our dividend policy.

As ever, it is our people who are our 'front-line' and our ambassadors and NWL's performance depends on their continued engagement, initiative, innovation, and hard work. We would once again like to offer our thanks to all our employees for their dedication and commitment over this year.

Looking ahead

The Board was closely involved in developing the PR24 Business Plan, including leading the development of strategy, customer and stakeholder engagement arrangements, and assurance processes. This meant providing support to management as they deliberated on the many detailed matters to be addressed as part of the plan.

We attended customer research panels with the Water Forum and worked with operational teams directly to understand the challenges and views that would shape the plan. We have also provided advocacy and challenge to the planning process, and in changing the conversation more widely.

Soon, we will receive Ofwat's Draft Determination (DD) which will set out the increased scale of the investment programme we need to deliver for the 2025-30 period. Ofwat has already indicated that this is likely to involve the largest investment programme we have ever undertaken, more than double our programme in the current 2020-25 period. While this scale of investment will bring its challenges, it also provides the opportunity to make a step change in performance for our customers and in relation to the environment, in particular reducing storm overflows. We have already started bringing forward this investment and established strong supply chain partnerships to ensure that we are in the best possible place to deliver such a significant programme of work.

In addition to NWL's own performance contribution to achieving future goals, Ofwat, as regulator, will have a key role in determining what resources are available to achieve these targets and against what standards the company will be measured, as also defined by Defra and the Environment Agency.

Signed on behalf of the Board of Northumbrian Water Limited:
By order of the Board

Andrew J Hunter
Chairman

Heidi Mottram
CEO

Alan Bryce
Senior Independent
Non-Executive Director

Dominic Chan
Non-Executive Director

H L Kam
Non-Executive Director

Duncan Macrae
Non-Executive Director

Jacquie McGlade
Independent Non-Executive Director

Bridget Rosewell
Independent Non-Executive Director

Richard Sexton
Independent Non-Executive Director

Peter Vicary-Smith
Independent Non-Executive Director

10 July 2024

CEO'S WELCOME

At the end of the fourth year of the 2020-25 period, our commitment to being the national leader in sustainable water and wastewater services remains steadfast. Guided by our purpose and ethical culture, every plan and endeavour must align with our overarching vision.

Yet again, we have achieved a significant portion of the targets we set in our last business plan and have delivered strong year on year performance gains against many of the others, especially as our ambitious goals for 2020-25 were carefully crafted based on invaluable input from our customers. Overall our performance for 2023-24 attracts a reward under Ofwat's Outcomes regime, demonstrating that we continue to deliver more of the service improvements that customers value most.

However, we are never complacent and recognise the many challenges currently facing the water sector: Climate change has an ever-increasing potential to impact our services; we acknowledge and will respond to greater environmental standards and concerns, and we will continue to focus on serving all customers well with a particular focus on affordability and those who are most vulnerable in society.

In response we challenge ourselves to go further, investing heavily, innovating and working hard to further demonstrate our track record for protecting and enhancing the environment alongside delivering excellent customer service and supporting more customers than ever before with their bills.

Customer

We retain an unwavering commitment to delivering unparalleled customer experiences. Whilst we are pleased with our upper quartile performance for customer satisfaction, we are determined to regain the top spot next year and continue to focus on the detail of making every customer journey a satisfying experience. This commitment is further reflected in our Service Mark accreditation which has recently been confirmed by the Institute of Customer Service.

We have an ambitious target to eradicate water poverty in our operational areas by 2030 and this continues to drive us to design and implement policies and services which are inclusive and affordable for all. As the cost of living crisis has continued to push more people into water poverty, we have worked hard to increase the number of our customers receiving support with their bills by 25% and the number of customers on our priority services register has increased by 35,000 households, meaning more customers will get the help they need.

It is particularly important that we have achieved all of our sewer flooding targets this year. We are proud of this achievement as sewer flooding is one of the worst service failures our customers can experience. We have delivered significant reductions in flooding since the start of the price review period, reducing internal sewer flooding incidents by more than 65% since 2019/20. This year, for the first time, we have achieved our regulatory Performance Commitment (PC) on all three measures of sewer flooding, internal, external and repeat, despite it being a much wetter year with rainfall up by c.50% compared to the previous year. This is a significant milestone in our efforts to enhance infrastructure, mitigate environmental risks and deliver an unrivalled service to our customers.

Environment

Caring for the environment is a core part of our purpose and this year we launched ‘Restore and Regenerate: Our Environment Strategy to 2050’. This strategy builds on our achievements to date and sets our direction for the future to achieve our environmental priorities from enhancing our catchments, rivers and coastal waters and reducing the water we take from the environment to taking effective climate action, enhancing biodiversity and eliminating waste.

We've committed to significant investments in the current regulatory period to minimise our reliance on storm overflows and enhance our wastewater infrastructure, but we know that we need to move faster and have proposed a substantial increase in environmental investment in our business plan for the next five years, and beyond. As part of this programme we will prioritise nature-based solutions whenever feasible.

We remain confident in the overall level of compliance of our assets with their environmental permits, and continue to work closely with the EA to ensure this is maintained in future as standards become more stringent.

In the year, we have maintained our strong environmental performance and we had no serious category 1 or 2 pollution incidents for the second successive year. Our bathing waters continue to be amongst the cleanest in the country with 32 out of 34 classed as Excellent or Good. Additionally, we're confident that our groundbreaking venture into drone technology for real-time water quality assessments will mark a significant step-change in the utilities industry.

Water

We have continued to reduce levels of leakage from our water networks, achieving some of the lowest levels of leakage ever recorded in each of our operating regions. In addition to initiatives around pressure management optimisation and use of AI sensor technology to make our leakage detection surveys more efficient, we have continued to scale up our use of No-Dig repair technology, which revolutionises water pipe repairs, reducing cost, minimising disruption and improving team safety.

We have made significant strides on improving water quality standards and are continuing to deliver on our plans to enhance water treatment, collaborating closely with the Drinking Water Inspectorate (DWI). We have also continued to excel in customer-facing measures like taste, odour, and discoloration and also improved our performance on interruptions to supply.

Our people and the communities we serve

Our Purpose is to care for the essential needs of our environment and communities, now and for generations to come. This year, our commitment to living our Purpose was recognised through external accreditations, including our 13th consecutive recognition on the World’s Most Ethical Companies list, a testament to our unwavering focus on governance, employment practices, and social responsibility.

Our partnership approach is pivotal in achieving our goal to build successful economies in our regions. Surpassing our target of spending at least 60p in every £1 with local suppliers underscores how we use our operations to drive economic growth and social value locally. Our collaboration with like-minded businesses, exemplified by the County Durham Pound group, has earned recognition like the Best Public Sector Project award. We have maintained our significant annual investment in our communities by giving time, expertise and resources to their important causes with 35% of our colleagues volunteering. As we continue this journey I'm confident that together, we'll create a lasting legacy of positive change in our regions and beyond.

None of these achievements are possible unless we have the right people, with the right skills, in the right culture, enabled to deliver customer-focused business objectives and thrive in an evolving world of work. I am immensely proud of the work that my colleagues do every day and in often difficult circumstances to make sure that our customers have reliable and affordable water and wastewater services.

It is of the utmost importance that their work is carried out to the highest standards of health and safety practices so that every colleague and contractor goes home safe, every day. We continue to see positive employee engagement with our established safety awareness tools and good outcomes attained with the support of visible safety leadership, resulting in the number of High Potential incidents reducing by 30% compared to 2022.

Also important to our culture, the work started in 2021 on our Together for Inclusion, Diversity and Equity (TIDE) strategy has driven behaviours that enable a more diverse workforce and has led to increases in the numbers of colleagues in all under-represented groups (female, non-white or with a reported disability). We know there is more to do to achieve our ambitions and we are continuing targeted engagement and advocacy of under-represented groups in our workforce and customer populations.

We remain committed to our responsible business practices, evident in being the sole water company awarded the prestigious Good Business Charter for the third successive year. Additionally, our employee engagement score of 77%, reaffirms our position as a leading 'Great Place to Work'.

Investment

As we move towards the end of the current five-year planning period we are working hard to complete the investment programme that we set out in our last business plan. The Covid pandemic heavily disrupted the start of the five-year period and global supply chains have also been impacted by the Ukraine war and other international events. However, as we head into the final year we have closed the gap and have made 71% of the investment we had planned at this stage. We expect to deliver the vast majority of our planned investment programmes by the end of 2020-25.

The cost allowances we were given in the last price reset have proven to be insufficient, given the extent of efficiency assumptions in combination with input cost inflation - across the sector almost every company has had to spend more than its allowances. We are continuing to invest to meet our commitments and over the course of the period we expect to spend around £200m beyond our allowed costs with the majority of this investment coming from our shareholders.

At the same time, we are seeking to bring forward future investment from our plans for the next period (2025-30) in particular to accelerate improvements to the water environment in the North East and address water scarcity challenges in our Essex and Suffolk region. The planned increase in the investment programme in our proposed business plan and this associated acceleration are the subject of particular focus by the executive and the board, we have introduced a new enterprise delivery model and expanded our supply chain and we are recruiting more staff to deal with the additional workload. Overall, we are currently investing c.£35m a month compared to c.20m in 2019-21.

Looking forward

We have completed four years of our current five-year price review period and have made significant progress towards the ambitious goals we set out in our PR19 business plan. We will continue to drive this forward over the coming year, building on our strong foundations in areas such as our highly engaged workforce, our industry leading customer service and ever improving environmental performance. Although we are pleased to be the most trusted water company in England, we are committed to driving up standards further. There is more work to do to improve our performance across water quality and discharge permit compliance and we continue to invest in the resilience of our assets. I am confident in the detailed plans and investments in place to address these areas.

We submitted our Business Plan for the period 2025-2030 in October 2023, setting out our ambitious goals for upgrading infrastructure, restoring and regenerating the environment and continuing to raise the bar on service quality. Our aim is to emerge as an even more customer focused, environmentally conscious industry leader.

We have committed to a significant increase in environmental improvements and water supply resilience and have already started work on these areas, establishing our Living Water Enterprise with twelve strategic supply chain partners to deliver this programme, founded on the principles of economic sustainability and delivering social value. Alongside additional contributions from our investors and borrowing by the company, the increased investment will require an increase in customer bills, which we appreciate will be unwelcome. To make this more manageable for our customers we have committed to a four-fold increase in financial support for those customers who need it most.

Our business is inherently long term, and we created our business plan in the context of our long-term delivery strategy to 2050, which enables us to clearly identify the areas where we will need to make new investment to secure resilient services for customers and address the challenges posed by the impact of climate change.

Such challenges also bring opportunities. By embracing innovation and new technologies, we can create a more sustainable and resilient water system for the future. We can work with our customers and communities to promote water conservation and reduce demand and we can invest in renewable energy sources and new ways of treating and distributing water to reduce our carbon footprint.

We are pleased with our achievements to date, but we are never complacent and will continue to drive further improvements for our customers and the environment over the coming years.

H Mottram

H Mottram CBE, CEO

WATER FORUM STATEMENT

Each year, members of the Water Forum (NWL's Independent Challenge Group) review, discuss and take the time to understand the company's results against the promises made to its customers in the 2020-2024 business plan it agreed with Ofwat.

All water companies are waiting for feedback from Ofwat on their next business plans, a process that will set water and wastewater prices for customers from 2025 to 2029. The Water Forum is staying close to this process, having provided independent challenge to the company when it was creating its plans.

This review looks back – it covers the 12 months to the end of March 2024: a period during which critical media spotlight continued to be on the water industry, the UK cost-of-living crisis continued to affect residential and business customers, and the impacts of climate change were evident. These factors will likely continue to be extremely influential in the year ahead, so were front of mind when considering the comments and challenges offered below.

Water Poverty – affordable and inclusive services

We are pleased that NWL exceeded its promises for all three measures of its Priority Services Register, which is provided to help those customers in vulnerable circumstances; and for the satisfaction levels of customers who get financial support, which remained high.

As the cost-of-living challenges continue, we reiterate our challenge made last year about the results for customers' *awareness of additional financial and non-financial support available*. Both measures remained stubbornly low and below target for the fourth year running, and an issue that the whole industry is grappling with (CCW's latest Water Matters research found the leading water company is only achieving 52% awareness levels). We know that NWL tried using a variety of communication campaigns and made improvements to its website, but even though the need for support increased, awareness did not. We consider that the key to unlocking this challenge is likely through partnerships with organisations who support and are aware of those in need – committing resource into working with local, non-voluntary bodies as part of a broader partnerships strategy and providing information leaflets and cards for the voluntary sector.

Customer Service and Customer Experience

NWL strives to give "unrivalled customer experience", so 12 months ago we challenged the team to understand and tackle the issue of a significantly below-target *response time to written customer complaints*. The latest results were therefore disappointing – for the fourth year in a row, the company did not deliver its promise of responding to emails and letters within 2 days. We are aware that NWL focused on 'getting things right first time' as shown by the number of complaints reducing by 25%, and this is commendable and positive news. Nonetheless the team must tackle the stubbornly high length of time – almost 8 days – that it took last year to respond to its customers who choose to contact them in this way.

There are two measures of overall customer experience – *CMeX for residential customers and DMeX for housing developers*, each of which has very different needs – and NWL's promise was to be 'top two' in the industry for both. Water Forum members believe that at a time when the water sector is rightly under a lot of scrutiny, the scores achieved, rather than industry position, provide the most useful insight. Last year's numbers evidence a mixed performance. We are pleased to see there was a consistent year-on-year improvement in the experience delivered for housing developers and encourage the company to now seek learnings from the industry leader. But we are disappointed that the experience for residential customers worsened in each of the past 4 years and are keen to understand how the company intends to reverse this trend.

Improving the environment and climate change resilience

The number of *pollution incidents* and the *discharge compliance of sewage treatment works* remain very high on the public interest agenda – but NWL did not meet its targets for either, which is very disappointing.

The total number of pollution incidents were at the highest level since 2016 and the trend is going the wrong way. However, we note there were no serious pollution incidents in 2023, which follows zero serious incidents in 2022. We understand that power outages were a particular issue and that NWL is seeking investment in generators as back-ups; and is also working with its electricity suppliers to find supply solutions.

Three of NWL's sewage treatment works failed last year, causing compliance levels to fall below the 100% target for the fourth year running. With this in mind, we urge the team to put more management focus and attention on achieving a full understanding of all the risks that are involved in this area so that they can then take meaningful, targeted action to mitigate them.

We do congratulate the company on its success in other environmental measures, notably the commitment to and performance in *water environment improvements*, which is an excellent initiative that continues to involve customers in improving their local natural environment; and the reduction it achieved in *greenhouse gas emissions*, which advanced for the second year running and were once again much better than target. We are pleased to see that NWL continued to successfully deliver its part of the *Water Industry National Environment Programme*.

Drinking Water Quality

As we have written previously, NWL is undertaking a large-scale and long-term transformation programme with the Drinking Water Inspectorate to improve its *Compliance Risk Index* (CRI) score. Although the programme is still underway, its benefits are clear in last year's numbers, which were a step change versus the previous years' results. This is very good news for customers – if the company can deliver the same level of improvement next year, there should once again be full compliance and the aims of the programme achieved.

Water resources – providing a reliable supply of water

Reducing leakage continues to be an important issue for customers, and we acknowledge the efforts NWL has made, especially to be faster to respond to visible leaks that customers report. This should support confidence levels at a time when the industry needs customers to change water consumption behaviours, so that enough water is available for current and future generations. Initiatives, such as those targeting leaking toilets and responding faster to mains bursts, demonstrate the breadth of action that is underway; but further innovation is greatly needed in this area.

Results for *per capita consumption* were better than the previous three years but once again below target. Reducing the amount of water we all use is an important, long-term and ongoing challenge, so we urge NWL to learn from other water companies who performed more strongly. In the Essex and Suffolk region, a comprehensive, holistic public engagement programme about the nature of the water resource challenge will be key to a successful roll-out of smart metering and customer behaviour change. And at a national level, work such as the lobbying of white goods manufacturers to label the water efficiency of appliances will be crucial.

We understand that NWL's failure to meet its interruptions to supply promises, two of which they managed to reverse a decline seen the previous year, was primarily due to one big incident at Walpole in January. We are pleased to note that the company has already done a review of what happened to identify what lessons it can learn; and that it quickly got tankered water to affected customers, which was an innovation that came about because of learnings from a previous large incident.

Sewerage service and handling heavy rain

We are delighted that NWL hit all six of its targets for how it handles sewage and heavy rainfall – particularly the progress the team made in preventing external sewer flooding incidents since our challenge in last year's report.

Initiatives such as 'Bin the Wipe' continued to make a strong contribution and we encourage the company to continue the good work, including by innovative use of technology to check that underlying causes of blocked sewers are addressed, not just the symptoms.

We are acutely aware that there will be future challenges to NWL's continued strong performance in this area, because of other organisations' maintenance budgets that are outside its direct control. Key will be to build on the existing partnership working approach with Local Authorities and the Integrated Drainage Partnerships, which should enable all parties to be on the front foot in this regard.

Trust and reputation

We see that customers' perceptions of trust declined last year to its lowest level in four years and was below target. Against the backdrop of media coverage about industry-wide issues, we encourage NWL to double down in the coming year on delivering all its performance targets. By doing so, the company would be able to say that it met all its promises in the fifth and final year of the last business plan; and this should build confidence and trust in its ability to do the same across the next five years.

In conclusion

From the Water Forum's involvement in independently scrutinising and challenging NWL's business plan for 2025-2029, we know that future challenges will be huge, including to complete the very large-scale investment programme that the industry has been mandated to deliver.

The team at NWL has created some strong foundations for this, including its success in spending more that 60 pence in every pound with its local supply chain; the continued use of its innovation fund to find breakthrough ideas to tricky problems; and its community engagement programme. We believe there is another important activity to supplement and strengthen these foundations; and have therefore encouraged the company to invest in a programme of regular customer engagement and involvement, to keep its finger on the pulse of current of contemporary, persistent and emerging issues that can inform the action it takes on behalf of its customers.

Melanie Laws, Water Forum Chair

WHO WE ARE

Northumbrian Water Limited provides:

- Water and wastewater services to 2.7 million people in North East England, trading as Northumbrian Water, and
- Water services to 1.8 million people in Essex and 0.3 million people in Suffolk, trading as Essex & Suffolk Water.

OUR PURPOSE

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

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

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

OUR VISION

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

OUR VALUES

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

CUSTOMER FOCUSED

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

RESULTS-DRIVEN

We take personal responsibility for achieving excellent business results.

ETHICAL

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

INNOVATIVE

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

ONE TEAM

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

THE OUTCOMES WE AIM TO DELIVER IN 2020-25

UNRIVALLED CUSTOMER EXPERIENCE:

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

AFFORDABLE AND INCLUSIVE SERVICES:

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

RELIABLE AND RESILIENT SERVICES:

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

LEADING IN INNOVATION:

- We are an innovative and efficient company.

IMPROVING THE ENVIRONMENT:

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

BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS:

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

ASSURANCE SUMMARY

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

We focus a significant proportion of assurance activity on making sure that the information we publish in our Annual Performance Report is of appropriate quality. We've published a Data Assurance Statement alongside this Annual Performance Report. This details how we decide what level of assurance should be applied to our data (i.e. who should provide the assurance), and whether this has been completed during the year.

Our Board carefully reviews reports from both internal and external assurance teams throughout the year and in particular prior to signing the staterment on Accuracy and Completeness which can be found on page 4. We also require additional focus and extra scrutiny when required in specific areas, for example for 2023/24 this has focused on leakage reporting, especially in light of Ofwat's recent findings at other companies.

In a number of areas Ofwat has set out specific assurance requirements, and we signpost our responses to these below:

- **RAG Compliance Checklists for seven metrics**: Details of these can be found for Leakage (page 68), PCC (page 61), Unplanned Outage (page 67), Mains repairs (page 71), Interruptions (page 67), Internal Sewer Flooding (page 80) and Sewer Collapses (page 82). In summary all reporting components for these neasures are Green, with the exception of a small number of components for Leakage which are Amber – which we show does not have a material impact on the accuract of our reported Leakage.
- **External Assurance of Financial ODIS:** We continue to ensure that performance against financial ODIs[1] in particular receives appropriate assurance – and take a risk based approach to determining which financial ODIs receive scrutiny from an external assurance provider[2] as opposed to by our internal audit team. As a result the majority of financial ODIs listed in tables 3a and 3b receive external assurance, with the exception of the following which are reviewed by our internal audit team:
  - **Table 3a:** Interruptions > 3h; mains repairs; Interruptions >12h; interruptions >1 and <3h; lead enhancement programme; smart metering enhancement programme; cyber resilience enhancement proigramme
  - **Table 3b:** Internal sewer flooding; sewer collapses; sewer blockages;external flooding; repeat flooding; WINEP delivery.
- The majority of external assurance has been conducted by PwC, more information can be found in PwC's report, with the exception of the items listed below which receive assurance from a specialist provider:
  - **Third Party Assurance Reports for Specific Investment Schemes**: These have been compiled by Jacobs and are referenced for Water Resilience (page 49), Wasetwater Resilience (page 53) and Howdon Resilience (page 54). The first two were provided alongside our PR24 Business Plan, the 3rd is provided alongside this report.

[1] In this context by Financial ODIs we mean those listed in tables 3a and 3b – which excludes C-Mex and D-Mex.
[2] As agreed with Ofwat by email on 8th January 2024

- **Greenhouse Gases**: As required we provide a separate report to provide independent verification – conducted by 3rd party Achilles that our GHG PC reporting is compliant with ISO14064-1. In relation to our broader emissions reporting we provide a table of Strengths, opportunities, Weaknesses and Threats. (see page 94)
- **Water Environment Improvements**: Full details of 3rd party checks conducted by our Water Environment Governance Group are provided on page 97, with links to further supporting information.

- **Specific requirements for CMEX, DMEX and PSR**: These can be found on pages 27, 30 and 43. These include confirmation that we have had the required number of communication channels for CMEX and the additional checks we have undertaken on DMEX performance.

TRANSPARENCY AND OPEN DATA

We are now at the end of the first year of our Open Data Strategy. We have been the lead entrant on 'Stream' – a sector wide initiative to unlock the potential of water data to benefit customers, society and the environment - and also convener of the first ever Open Data Forum. This forum brought the sector together to develop and adopt the Water Sector open data roadmap, which was approved by all companies at the beginning of December last year.

Northumbrian Water has also led the development of a standard way to convert the Annual Performance Report (APR) tables from human readable format (xls) to machine readable format (csv) along with a standard for how the data is described in the associated metadata. Standardising the conversion now enables the data to be more easily joined up and queried across companies and the adoption of this should demonstrate a clear step change across the sector in the adoption of open data characteristics in the publication of the APR tables. The conversion methodology has also been shared with relevant members of Ofwat.

We have also undertaken a review of Environmental Information Requests to identify the most commonly requested data types (many of which align to key performance indicators in the APR) and are currently preparing to openly publish two of these: blockage data and storm overflow data. We are also preparing to publish data to support a number of sprints at this year's Innovation Festival, focussed around the key challenges facing the sector. We will use the Stream portal to amplify the reach of these datasets.

The publication of our APR this year will meet all three of the Open Data characteristics through provision of data in a human readable version (xls format) and machine readable version (csv) plus associiated machine readable metadata. Our open data page also contains a 'contact us' feature for questions relating to open data published there. We will also catalogue this data on Stream to increase it's discoverability and this also has a feedback mechanism for data users to raise questions about the data.

This report summarises our performance against our Outcomes during the regulatory year ending 31 March 2024. This is the fourth year of us delivering our 2020-25 Business Plan.

Our drive to be the best is supported by six strategic themes: Unrivalled customer experience; affordable and inclusive services; leading in innovation; reliable and resilient services; improving the environment and building successful economies in our regions. Our Outcomes are aligned to these themes and set out what we aim to achieve. They represent what our customers have told us they value in the long-term as we developed our business plan for the current 2020-25 period.. They are our commitments, or promises, to our customers.

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

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

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

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

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

Further information about our performance is available on our website www.nwg.co.uk. For information about how we are performing in comparison to other water and sewerage companies, visit www.discoverwater.co.uk.

OUR ANNUAL PERFORMANCE AT A GLANCE

We show figures in green where we've met our performance against our promise this year, and red where we have not met our performance. Similarly, any applicable rewards are shown in green and penalties in red.

Comparators used in the final column are UQ (our performance is at least as good as the best 25% of companies), ABOVE AV (our performance is better than the average across the industry), BELOW AV (our performance is worse than the average of the industry), LQ (our performance is in the worst 25% of the industry).

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

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
			2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE[3]: UQ, ABOVE AV, BELOW AV, LQ
Ofwat's Customer Measure of Experience (C-MeX)	C	Comparative assessment	85.76 (3rd)	84.46 (2nd)	83.74 (1st)	81.40 (3rd)	+£2.67m	UQ
Response time to written complaints	B	2 days	7.1 days	9.97 days	7.93 days	7.26 days	N/A	
Ofwat's Developer Services Measure of Experience (D-MeX)	C	Comparative assessment	86.94 (7th)	88.56 (5th)	89.85(6th)	91.30 (Top 2)	+£0.761m	UQ
Customers' perception of trust (independent survey)	B	8.8	8.8	8.7	8.5	8.2	N/A	
NWL independent value for money survey	B	8.4	8.3	8.2	8.2	7.9	N/A	
Percentage of households in water poverty	B	7.87%	10.38%	9.61%	15.27%	14.79%	N/A	
Awareness of additional financial support	B	65%	41%	38%	41.5%	43%	N/A	
Satisfaction of customers who receive additional financial support	B	8.8	9.3	9.2	9.2	8.9	N/A	
Awareness of additional non-financial support	B	58.5%	50%	45.0%	45.3%	43%	N/A	

[3] When compared to industry performance for 2022/23, with the exception of C-Mex and D-Mex where up to date comparator information is available.

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
			2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE[3]: UQ, ABOVE AV, BELOW AV, LQ
Satisfaction of customers who receive additional non-financial support	B	8.8	8.7	8.7	8.5	8.4	N/A	
Priority services for customers in vulnerable circumstances – PSR Reach/ Actual contact/ Attempted contact	C	9.4% / 35% / 90%	2.3% / 57.3% / 40%	3.5% / 40.2% / 93.4%	8.8% / 44% / 90.3%	10.5% 50.9% 91.1%	N/A	UQ / ABOVE AV / BELOW AV
British Standards Institute Award for Inclusive Services	B	Maintained	Maintained	Maintained	Maintained	Maintained	N/A	
Voids	B	4.25%	3.74%	3.53%	3.39%	3.29%	+£1.333m	
Gap sites	B	92.4%	67.5%	64.3%	59.1%	65.5%	N/A	
Risk of severe restrictions in a drought (% of customers)	C	0%	0%	0%	0%	0%	N/A	
Per Capita Consumption (PCC) (litres/person/day 3 year average)	C	4.1% reduction	3.8% increase to 156.3 litres	4.7% increase to 157.7 litres	5.6% increase to 159.1 litres	2.7% increase to 154.7 l/p/d.	Deferred to 2024/25	BELOW AV
Unplanned outages at Water Treatment Works	C	3.35%	5.69%	4.57%	3.51%	2.89%	£0	LQ
Interruptions to supply between one and three hours (mm:ss)	B	92.5%	n/a	87.9%	124.2%	95.2% of baseline (07:53)	-£0.242m	
Water supply interruptions greater than three hours (mm:ss)	C	5 mins 23 sec	4 mins 4 sec	5 mins 51 sec	8 mins 17 sec	5 mins 32 sec	-£0.152m	UQ
Interruptions to supply greater than 12 hours (properties)	B	425	143	917	448	1,067	-£2.125m	
Leakage (ESW)* (MLD 3-year average)	C	10.5% reduction	0.5% reduction to 64.9MLD	3.2% reduction to 63.1 MLD	7.5% reduction to 60.3 MLD	15.3% reduction from baseline to 55.2Ml/d	+£0.493m	UQ[4]
Leakage (NW)* (MLD 3-year average)	C	9% reduction	1% increase to 136.2 MLD	0.1% reduction to 134.7 MLD	3.7% reduction to 129.8 MLD	8.7% reduction from baseline to 123.1 Ml/d	-£0.070m	ABOVE ABV
Visible Leak repair time (average days)	B	4.0	9.7	6.7	7.1	4.5	-£0.214m	

[4] Comparison based on litres per property per day

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
			2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE[3]: UQ, ABOVE AV, BELOW AV, LQ
Mains repairs (per 1,000km main)	C	127.9	127.0	110.9	154.9	109.4 (Actual 2,902)	+£1.333m	UQ
Abstraction Incentive Mechanism (AIM)	B	0	n/a	n/a	n/a	n/a	£0	
Water quality compliance (CRI)	C	0	7.11	6.36	7.62	3.45	-£2.718m	ABOVE AV
Event Risk Index (ERI)	B	81.870	197.592	289.699	166.907	137.891	-£0.112m	
Discoloured water contacts (per 10,000 population)	B	8.21	8.22	8.42	7.85	6.88 (3131 actual)	+£1.168m	
Taste and smell contacts (per 10,000 population)	B	2.04	1.75	1.89	1.75	1.70 (776 actual)	+£0.299m	
Internal sewer flooding (per 10,000 connections)	C	1.44	1.89	1.84	1.21	1.21 (159 actual)	+£0.580m	UQ
Repeat sewer flooding	B	39	25	23	20	24	+£0.827m	
External sewer flooding	B	2,828	3,862	3,454	3,018	2,764	+£0.276m	BELOW AV
Risk of sewer flooding in a storm	C	24.8%	16.11%	16.11%	16.11%	16.11%	N/A	
Sewer blockages	B	10,950	12,023	11,991	10,949	9,733	+£0.949m	UQ
Sewer collapses (per 1,000km of sewers)	C	8.79	9.82	8.71	9.29	8.39 (254 actual)	£0	BELOW AV
Treatment works discharge compliance	C	100%	99.51%	98.03%	98.52%	98.54% (3 STW fails)	-£0.275m	BELOW AV
Bathing water compliance (no. Of sites achieving good or excellent)	B	97.06% (33 in 34 beaches)	n/a	97.06% (33 of 34 sites	97.06% (33 of 34 sites	94.12% (32/34)	-£0.732m	

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
			2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE[3]: UQ, ABOVE AV, BELOW AV, LQ
				including 1 exemption)	including 1 exemption)			
Pollution incidents (per 10,000km of sewers) [5]	C	22.40	14.61	22.98 per 10,000km (69)	19.98 per 10,000km (60)	32.97 (99 incidents)	-£3.858m	ABOVE AV
Water Industry National Environment Programme (WINEP)	B	535	0	347	447*	549	N/A	
Delivery of WINEP requirements	B	Met	Met	Met	Met	Met	N/A	
Water environment improvements	B	10 km	30.2 km	34.6km	33.1km	31.9	+£0.168m	
Greenhouse gas emissions (tCO2e reduction from 2019/20 baseline)	B	7,941	15,235	46,492	23,445	49,307	+£7.735m	
Bioresources	B	100%	100%	100%	100%	100%	N/A	

We have achieved or beaten 29 out of our 50 PCs in 2023/24, an improvement from 25 in 2022/23.

The table above shows we earned rewards for ten of these achievements, excluding the final confirmation of C-MEX and D-MEX rewards.

We accrued penalties for not meeting eight of our PCs this year and did not achieve eight of our reputational only PCs. We acknowledge areas where we fell short of our intended goals and have clear performance improvement plans in place.

[5] As reported by the Environment Agency, and described further in the data assurance summary

Headlines include:

- We are encouraged to have achieve third place in the industry for C-Mex, however having been placed first in 2022/23, we are determined to improve further in 2024/25, reflecting our long-standing commitment to delivering unrivalled customer experience. We continue to score highly in this area in CCW's 'Water Matters' report, with NWL being placed first for overall experience[6] and overall satisfaction.
- Trust levels have fallen for all companies in 2023, linked closely public concerns about the environment and the tone of associated political commentary and media coverage in relation to the water sector. We continue to compare favourably to other companies with CCW assessing Essex & Suffolk Water as the most trusted water only company and Northumbrian Water as the second most trusted water and sewerage company in 2023[7].
- Our plans to improve performance for customers in vulnerable circumstances continue to be a success, and we have increased the number of customers on our PSR (Priority Services Register) by a further 35,000 households, beating our target for the year.
- The cost-of-living crisis continue to push more people into water poverty and as a result, we haven't hit our industry leading target in this area. We are disappointed with this result as although we are helping more people with financial support than we originally planned to do, and have further enhanced our focus on increasing awareness of the support available, we are still short of our aim here. We will continue to innovate in this area to make sure we positively face into new challenges that the wider socio-economic landscape poses and will also continue to work with partners and stakeholders to share key messages across all available channels to make sure maximum exposure and reach. We note that CCW assessed Essex and Suffolk Water as the water only company with most affordable charges, with Northumbrian Water in 3rd place amongst water and sewerage companies[8].
- We continue to reduce leakage in both regions, achieving our reduction target overall by beating it in Essex and Suffolk and missing it by the narrowest of margins in our northern operating area. In combination across both regions we have delivered the level of reduction we committed to.
- We're disappointed to not hit our high standards in water quality (despite scoring highly in our customer facing measures around taste and odour and discoloration), although have improved our performance significantly in this regard from the previous year. We remain committed to achieving industry-leading levels of CRI and are delivering our long-term plans to reach this, as well as working closely with the DWI and will continue to prioritise our efforts around water treatment where CRI risk is highest.
- Our overall performance on interruptions to supply has been impacted by a significant incident in Walpole, Suffolk, in January 2024. Prior to this our run rate on interruptions for the year was substantially better than target. Nevertheles we expect our performance to remain in the upper quartile of the industry.
- Our interventions to reduce flooding are proving resilient to high levels of rainfall. During an extremely wet year (classified as 'exceptionally high' rainfall by the EA), we have achieved all three of our Sewer Flooding targets – internal, external and repeat. We are very proud of this achievement, which has required us to deliver very significant reductions in flooding since the start of the period. This is echoed in CCW's report with NWL placed first for 'minimising sewer flooding' for 2023[9].

[6] CCW Water Matters 2024, Data Report p58 onwards:: https://www.ccw.org.uk/publication/water-matters-2024/
[7] CCW Water Matters 2024, Data Report p28 onwards:: https://www.ccw.org.uk/publication/water-matters-2024/
[8] CCW Water Matters 2024, Data Report p73 onwards:: https://www.ccw.org.uk/publication/water-matters-2024/
[9] CCW Water Matters 2024, Data Report p50 onwards:: https://www.ccw.org.uk/publication/water-matters-2024/

- We fully recognise the level of public concern with regards to the environmental impact of the sector as a whole, and the operation of Storm Overflows in particular. We remain committed to our ambition to have the best rivers and beaches in the country and have updated our Vision for Coasts and Rivers with latest progress against the pledges we have made. The exceptionally high rainfall experienced in 2023 has resulted in a greater number of storm overflow spills being reported across the industry than in the previous year. We remain committed to our pledge to reduce average spills to 20 per year by 2025 - and have now installed spill monitors at 100% of our overflows and are progressing plans to make our wastewater network increasingly 'Smart' – with a UK first implementation of smart control systems. Our Business Plan for 2025-30 proposes almost £1bn of investment to reduce spills further. We also continue to cooperate fully with Ofwat and EA investigations into wastewater compliance.
- We are disappointed to miss our targets for Treatment Works Discharge Compliance, Bathing Water Quality and Pollution. A tactical plan to improve Discharge Compliance performance is currently underway and aims to see us reach over 99% compliance. While our Bathing Water Quality overall remains strong, we have seen a deterioration at 1 site – Seaham Hall. Despite the fact that there is no evidence that our assets are causing the issue, this is sufficient for us to fail our extremely stringent PC and we continue to investigate further. On pollution the primary issue behind a deterioration in performance is the reliability of power supplies at our sewage pumping stations. We are putting plans in place to make our sites more resilient to power supply disruption – both in the short term and via our business plan for 2025-30. Once again we can confirm we have had no serious pollution incidents and are industry leading in this area.
- Despite these challenges we anticipate (based on our own calculations) a 3 star or 'good' rating in the Environment Agency's latest annual Environmental Performance Assessment (when released), and we note that CCW's recent report placed Northumbrian Water in first place for 'cleaning wastewater properly'[10]. We have also again beaten our target (by more than a factor of four) for delivering Water Environment Improvements, and we remain fully on track with delivery of our WINEP investments.
- Our performance overall has created a net reward/penalty of £4.662m excluding C-MeX and D-MeX performance rewards. Taking C-MeX (+£2.67m) and D-MeX (+£0.761m) into account, the estimated final reward is +£8.093m. Of the 12 metrics which Ofwat focuses on its annual Service and Performance report, based on last years performance for the rest of the industry, we would antipate to be above average on 8/12 metrics, and upper quartile on 5/12 metrics.
- We are continuing to invest to meet our commitments however the cost allowances we were given in the last price reset have proven to be insufficient given input cost inflation. Across the sector almost every company has had to spend more than its allowances. Over the course of the five year period we expect to spend c£200m beyond our allowed costs with the majority of this investment coming from our shareholders.

In addition to the commitments outlined in the table above, we have PCs to make sure we deliver additional investments for customers by 2025 including: Smart metering, Lead Pipe Replacement, Delivery of our water and wastewater resilience programmes, Howdon Sewage Treatment Works Expansion and Cyber Resilience. We encountered some setbacks during the Covid-19 pandemic, with some of the investment schemes starting later than originally planned. In addition, global supply chain issues, manufacturing problems and component shortages have also delayed our smart metering programme and limited access to customer's homes during Covid also hampered the lead project. Despite these challenges we remain fully committed to delivering these schemes for our customers on time and are working hard to achieve this. The one exception to this is our SMART metering programme, where we estimate that we will fall short of targets by March 2025,

[10] CCW Water Matters 2024, Data Report p50 onwards:: https://www.ccw.org.uk/publication/water-matters-2024/

but as a minimum we'll make sure the programme is delivered in full in Suffolk, a water stressed area, along with deploying a number of non-household meters (which were not in our original plan). We also have some risks in relation to delivery of a resilience scheme at Howdon WWTW. We are on track with delivery against our wastewater resilience programme, most of our water resilience programme and cyber resilience. We are also making initial progress with early starts of 'accelerated' schemes for 2025-30.

OUR 2023/24 PERFORMANCE IN DETAIL

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

THEME ONE: UNRIVALLED CUSTOMER EXPERIENCE

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

AMBITIOUS GOAL: Deliver world class customer service

Our performance commitments for this Outcome are as follows:

- **Ofwat's Customer Measure of Experience (C-MeX)** – this is an industry comparative measure, defined by Ofwat. As such, the ranking position is more relevant to report on as opposed to the absolute score. (Reference **PR19NES_COM01**)
- **Response time to written complaints** – this is a bespoke PC introduced for 2020-25 in response to our customers telling us that the speed with which we respond to complaints was more important to them than minimising incidents. This measure uses CCW's definition of a written complaint, which covers complaints via post, email, web, or fax that are responded to within the reporting year. (Reference **PR19NES_BES03**)
- **Ofwat's Developer Services Measure of Experience (D-MeX)** – this is a financial common PC for developer customers looking at performance against a range of Water UK metrics (quantitative score), as well as levels of customer satisfaction (qualitative score). (Reference **PR19NES_COM02**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
Ofwat's Customer Measure of Experience (C-MeX)	Top two	85.76 (3rd)	84.46 (2nd)	83.74 (1st)	81.40 (3rd)	+£2.67m	UQ
Response time to written complaints	2 days	7.1 days	9.97 days	7.93 days	7.26 days	N/A	
Ofwat's Developer Services Measure of Experience (D-MeX)	Top two	86.94 (7th)	88.56 (5th)	89.85(6th)	91.30 (Top 2)	+£0.761m	UQ

Customer Measure of Experience (C-MeX)

Our ambition is to be in the top two companies for C-MeX, the industry-wide measure that provides a holistic comparison of companies' customer satisfaction (CSS) and customer experience (CES) performance. This 'top two' target is also reflected in our staff and management incentives. While we are disappointed to have finished in third place this year, after achieving our ambition in the previous two years, this remains a strong performance overall, beating the industry upper quartile and attracting a reward.

The table below shows our industry ranking for CSS, CES and overall C-MeX across the year.

	CSS	CES	OVERALL C-MEX
Q1	5th	3rd	4th
Q2	4th	7th	4th
Q3	3rd	6th	4th
Q4	2nd	3rd	1st
OVERALL	4th	4th	3rd

In a challenging climate, we did achieve upper quartile industry performance for overall C-MeX performance in each quarter of the year, achieving first position overall in quarter four. We remain focused on continuously improving and will continue our drive to achieve our top two position as we move into the final year of the AMP.

We are passionate about engaging with our customers to understand how they want us to deliver world class customer service. Our focus remains on getting things right first time, quickly, every time. We know our customers really value this and we always work hard to achieve it.

We know that to be unrivalled and to be recognised by our customers as top performers, we need to look at the interactions and engagements we have every day. We need our performance and our customer service to be consistent and to be consistently the best it can be.

To improve CSS scores, our focus has been on improving customers' experiences when they do get in touch. We continue to focus on communication at all stages of our customers' journeys as we know keeping them informed and being open and transparent is critical to satisfaction and positive experiences. This is particularly important during any incidents, so we look to constantly improve how and when we communicate, as well as the channels used. Being proactive, choosing the right time to get in touch and the right messages to share means we can share positive updates and information in a timely way. This allows our customers to clearly understand what is happening and feel informed.

In the small number of cases where complaints are received, we take a 'phone first' approach and talk with our customers before following up in writing if we need to. This makes sure we fully understand their concerns and that they are satisfied with our proposed resolution. We have put in place robust cross-functional processes to make sure complaints are resolved to customers' satisfaction as swiftly and consistently as possible. This includes a series of regular review meetings with our customer, water, wastewater, and billing teams as well as our enabling teams – like digital, training, marketing, and comms etc.

In relation to CES, we continue to promote the great work we do through our Just Add Water integrated marketing campaign and have ramped up visibility of this in our local communities, promoting the ways in which we can offer help – for example with bills to our customers who are struggling to pay, people who need more support through our Priority Services Register, or in getting online with our web or app experiences.

We've offered at least five contact channels throughout the year, and at least three of them were digital. Examples of our channels include voice, automated interactive voice response (IVR), email, webform, website, app, social media, and messaging and WhatsApp.

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

- We are amongst the best performers for C-MeX.
- We are at, or above, a cross-sector threshold of customer satisfaction performance based on the all-sector upper quartile (ASUQ) of the UK Customer Satisfaction Index (UKCSI).
- We have lower than the industry average number of household complaints (per 10,000 connections).

We await Ofwat's confirmation on the level of our C-MeX reward factoring in the three criteria above but expect this to be approximately £2.7 million.

We also continue to score highly in this area in CCW's 'Water Matters' report, with NWL being placed first for overall experience and overall satisfaction.

Principles for Customer Care – Compliance with new license confdition

'Principles for Customer Care' is a new customer focused licence condition which came into effect in February 2024. We have carried out a full review of requirements and we are confident that we are compliant..

We have two core strategies which are very well aligned with the licence condition:

- Our Unrivalled Customer Experience Strategy which sets out our ambition and approach to customer service, including how we provide multiple communication channels for customers.
- Our Inclusivity Strategy which sets out how we serve vulnerable customers, the way we engage with them and wider stakeholders about our services and support whether that's financial or more broadly.

The spirit of the Customer Focused Licence Condition is one of continuous improvement and learning – and we have identified some areas of focus for improvement over the coming year, as well as some steps that we have already taken to ensure we are leading in this space.

One improvement theme we will be focused on will be better administration around our policies, procedures and customer information – areas such as document management, review cycles and monitoring of activities against the Licence Condition, which we take seriously and are looking to bolster with extra resource.

In line with Ofwat recommendations associated with Customer Focused licence condition requirements we will publish an Inclusivity Policy in 2024 – this will build on our Inclusivity Strategy.

We have a core suite of customer information documents and will be completing a full review of them in 2024. As part of this, as we ready ourselves for 2025-30, we will be examining additional key policies such as customer-side leakage, leakage allowances and the potential of flexible billing enabled by our smart metering ambition. We have made it easier for our customers to provide feedback to us on billing services by adding new pages to our websites - Have your say on our billing services (nwl.co.uk) and Have your say on our billing services (eswater.co.uk).

Finally we are reviewing our current approach to customer communications during incidents to makes sure that it reflects best / leading practice. As part of this, we have already introduced a new incident management page to our websites, which have been highlighted by CCW as being industry-leading. Our incident management pages can be found at how we manage incidents (nwl.co.uk) and how we manage incidents (eswater.co.uk).

CASE STUDY: ENHANCING CUSTOMER SERVICE EFFICIENCY

In early 2023, we identified a significant issue: nearly 30% of field jobs dispatched for blockage and flooding incidents were unnecessary, often stemming from private property issues beyond our responsibility. This inefficiency not only incurred avoidable costs but also strained customer relations because even when we dispatched teams to support our customers' they could not take action where the assets were not our own.

To address this challenge, we redefined our approach to customer conversations, focusing on value-driven interactions. Despite the potential for customer disappointment, we set an ambitious goal of reducing unnecessary jobs by 30% while maintaining our exceptional customer satisfaction (C-MeX) scores.

We adopted new practices, including daily huddles, learning teams, coaching, and resolver practices. Through group coaching sessions and ongoing support, advisors gained knowledge and confidence in navigating such conversations. This approach was embedded into our training process, ensuring all new hires were equipped with the necessary skills.

To measure progress, a Power BI dashboard was implemented, providing real-time performance insights. The results were outstanding: over £100,000 saved to date, surpassing the original target with a reduction of almost 16% for blockages and 14% for external flooding. These savings have helped to either improve our efficiency and lower bills for customers or can be reinvested to further improve service levels.

Simon Cyhanko, Head of Wastewater Networks, praised the initiative for its significant cost savings and collaborative approach. The implementation of 'better validation' principles not only reduced unnecessary costs but also exemplified our commitment to learning and teamwork.

Response time to written complaints (days)

We have not achieved our target but have made a slight improvement on the previous year's performance.

We're committed to responding to a minimum of 90% of written complaints within one working day.

To reflect that commitment, while also maintaining appropriate focus on complex complaints which cannot be responded to within one day, we set our PC to two working days for 2020-25. This has proven to be an extremely stretching target.

We failed to achieve our target, in part because only substantive and full responses are included in the figure. Most complaints we receive are complex and require in-depth investigations and/or further work to resolve the issue.

Our response time to wastewater complaints is poorer than that of water and billing complaints because these issues are largely more complex and take longer to fully investigate and resolve. This applies mainly to sewer flooding investigations.

While we are disappointed to not achieve our target, we are confident that we are ultimately working with our customers to resolve issues to their satisfaction. Customers give good feedback in terms of how we resolve their issues, and they are complimentary when they do speak to us. They also tell us that if we keep them informed, they are happy for resolution to take that little bit longer to achieve the best outcome.

Just 4.63% of complaints were escalated to the second stage of our complaint process, with more than 95% resolved without the need for a second review.

Written complaints have reduced by 29% compared to 2022/23 which will allow us to improve response times.

Developer Experience (D-MeX)

We have performed strongly finishing the year in 2nd place in the industry with a score of 91.30, a significant improvement of 6th place (89.85) last year. We scored a qualitative score of 93.41 and a quantitative score of 99.79. We expect to receive a reward of approximately £0.761m once Ofwat has finalised the league table.

Performance this year has much improved for both the quantitative and qualitative elements. We have implemented a new approach to delivering new service connections and now have a dedicated field resource. This has allowed us to ensure planned jobs are not moved or cancelled due to other work priorities with connections being completed within SLA resulting in higher satisfaction scores.

We continue to invest in our corporate systems and this year we have introduced a jeopardy management tool which now provides visibility of the end to end customer journeys, ensuring that SLA's are achieved. Additionally, we continue to enhance Salesforce which now allows customers to apply and receive their quotation online. Further system developments are planned for 2024 which will further enhance the customer experience.

We are also required to report the process we follow to assure ourselves that performance against the selected Water UK metrics in D-MeX are an accurate reflection of our underlying performance. To do this in each reporting year we undertake the following:

1. Internal quality control checks (providing first line or management assurance), these consist of validation by data providers and then peer review by our Customer Experience Manager (D-MeX).
2. Selected performance data, by exception, is further referred to our Developer Services Regulation & Compliance Manager for review.

3. In addition to the above management assurance, there is an annual audit of performance from our independent Internal Audit team. This scope of this audit is a comprehensive review of all metrics to ensure the following:
    - Applications for new water supply connections, to existing water mains, are processed in a timely manner, connections are made within advertised timescales and reported figures for applications/new connections are accurate and the process for extracting the data is robust.
    - Applications for new water supply connections, to new water mains, are processed in a timely manner, quotations are sent within advertised timescales and commissioning of water mains are completed within stated and agreed timescales.
    - Self-lay applications, for self-laid mains and new connections, are processed in a timely manner, written terms are sent within 28 days on receipt of full application and pressure and bacteriological testing is completed within stated timescales with connections being made within 14 days of successful testing.
    - Applications for new sewers are processed in a timely manner, constructed and commissioned within stated timescales and reported figures for applications for developer delivered diversions are accurate and processed in agreed timescale.

The above process, both quality assurance and Internal Audit assurance has been in place for 2020-21, 2021-22, 2022-23 and 2023-24.

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

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

Whenever we have big decisions to make about changes to the services we provide and how we provide with them, we seek our customers' views to make sure we provide services in the way that they want us to. We do this through multiple channels including face to face customer research and engagement, as well as reaching out to customers through our integrated marketing campaigns. We are on track to achieving our ambitious customer participation goal.

We also ask them about the channels we use and how they want to engage with us – both operationally and on a wider level more generally. As we've been developing our updated Unrivalled Customer Experience strategy we've enshrined this philosophy in our Six Customer Priorities – which have been directly informed by customer research and feedback and reflect the things our customers tell us matter most to them. Our Six Customer Priorities, along with our Six Pillars of Customer Experience Excellence form the backbone of our Unrivalled Customer Experience Strategy, and inform priorities, behaviours and thinking right across our business.

Getting the right balance between investing in our services, environmental improvements and the affordability of customer bills is not easy, and it's important to us that the views of our customers inform those decisions. When customers feel informed about the service they receive, this can lead to greater satisfaction and confidence in the choices they make.

Since 2020 we have been engaging with customers on developing our PR24 Business Plan and we reflect what our customers have asked for, and told us is important to them, in our plans for 2025-30. Balancing investments in services, environmental improvements, and affordable customer bills is challenging. Customer input is crucial for making informed decisions.

It is important that our customers can see how their views have shaped our plans. We host a Research library on our website where we have published in full all the customer research and engagement that we undertook to inform our plans for 2025-30. As part of our business plan submission we also produced and published a document explaining how we conducted Customer and Stakeholder Engagement for business planning.

Drinking water quality is consistently rated amongst our customers' highest priorities and it is evident that there is increasing backing for environmental enhancements. Yet, customers may hesitate to bear these costs through their bills, particularly during challenging times. This balancing act between promoting sustainability and managing expenses can be a delicate one for the business and customers alike.

Ensuring affordability and providing financial assistance are key priorities for us. We are committed to offering services at competitive rates while also implementing support plans for customers facing financial challenges. This dedication reflects our genuine concern for meeting the diverse needs of our customers, reinforcing our commitment to accessibility and inclusivity in our services. Maintaining affordable services is also essential for supporting communities in need. By keeping costs low not only helps to address immediate needs but also fosters long-term community well-being.

Collaborating with others in the region to address challenging issues is a key expectation from our customers. Our successful history in this field showcases our ability to effectively engage with partners and stakeholders. This collaborative approach not only enhances problem-solving but also fosters a sense of community and shared responsibility towards overcoming obstacles.

Working with organisations like the Rivers Trust has enhanced our Business Plan development. By closely working with such entities, we gain valuable insights into the most effective strategies for addressing environmental issues. This partnership approach ensures that our plans are well-informed and aligned with the latest best practices in sustainability.

CASE STUDY: RESILIENCE AND RESPONSE STRATEGIES

In the face of unforeseen challenges such as global pandemics, major storms, and energy supply disruptions, our commitment to customer support and employee safety remains steadfast. Priority is given to servicing our Priority Service Register customers, hospitals, and care homes, while collaborating with retailers to facilitate the safe operation or necessary closure of local businesses.

Beyond the incident itself, our focus lies on the well-being of individuals throughout and after the event. We work hard to make sure our customers and the communities we serve feel informed, supported, and cared for at every stage, with a visible presence in the area where appropriate.

Post-incident, debrief sessions are conducted to analyse successes and areas for improvement, especially in the context of significant regional or national incidents. Collaboration extends to local agencies, resilience forums, support bodies, and industry counterparts within Water UK.

Insight revealed that our non-operational staff can contribute meaningfully during operational incidents, thereby freeing up operational resources for problem resolution. To formalise this discovery, we've established a structured process where employees across the company can volunteer for various roles, including engagement with the Business Continuity Team, participation in exercises to validate plans, involvement in incident teams, and registration as volunteers.

The contribution of these volunteers spans a diverse range of tasks, such as managing bottled water stations, coordinating volunteers, data analysis, call handling, customer liaison, social media management, and traffic coordination. Not only does this help us to deliver unrivalled customer experiences, but it also enriches the skillset of our workforce and fosters continuous learning.

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

Our performance commitment for this Outcome is as follows:

- **Customers' perception of trust (independent survey)** – this measure is the mean customer satisfaction score out of ten from our independent customer tracking survey. The survey engages 500 household customers each quarter. There are no financial incentives associated with this bespoke measure which is reputational only. (Reference **PR19NES_BES05**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE				
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)
Customers' perception of trust (independent survey)	8.8	8.8	8.7	8.5	8.2	N/A

Customers' perception of trust (independent survey)

We have not achieved our target. Our trust score from our own independent survey has dropped to 8.2 from 8.5 in 2022, which is below our PC.

We fully recognise the level of public concern with regards to the environmental impact of the sector, and the operation of Storm Overflows in particular, and acknowledge that delivering significant investment and improvement in this area is vital to improving trust scores. We remain committed to our ambition to have the best rivers and beaches in the country and have updated our Vision for Coasts and Rivers with latest progress against the pledges we have made. The exceptionally high rainfall experienced in 2023 has resulted in a greater number of storm overflow spills being reported across the industry than in the previous year. We remain committed to our pledge to reduce average spills to 20 per year by 2025 - and have now installed spill monitors at 100% of our overflows and are progressing plans to make our wastewater network increasingly 'Smart' – with a UK first implementation of smart control systems. Our Business Plan for 2025-30 proposes almost £1bn of investment to reduce spills further. We also continue to cooperate fully with Ofwat and EA investigations into wastewater compliance, and accept that concluding these investigations is also a key part of improving trust.

Trust levels have fallen for all companies in 2023, linked closely to the above issues and the tone of the associated political commentary and media coverage. We are encouraged, however, to continue to remain the most trusted water and sewerage company in England.[11]

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

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

Financial structure and resilience

Like most companies, we are financed through a combination of money from shareholders, profits, and borrowings. NWL is a wholly owned subsidiary of Northumbrian Water Group Limited (NWGL), which is majority owned by companies in the CK Hutchison Holdings Limited (CKHH) group, based in Hong Kong, who are responsible and committed investors in our business. KKR & Co Inc, based in the USA, own a 25% shareholding in NWGL.

The chart below shows the summarised corporate structure of the Group. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. CKHH, CK Infrastructure Holdings Limited (CKI), Business Thrive Limited, KKR & Co. Inc, KKR Associates Diversified Core Infrastructure SCS, Nimbus UK Bidco and NWGL have provided Ultimate Controller undertakings to the Company in accordance with the provisions of the Company's Instrument of Appointment (Licence).

[11] In CCW's latest report https://www.ccw.org.uk/publication/water-matters-2024/ : ESW score 6.93 and NW score 6.0 with only Welsh Water scoring higher (6.94).

* Companies listed on The Stock Exchange of Hong Kong Limited
** Company listed on the New York Stock Exchange

Like any investors, our shareholders expect a return on the money they invested but these dividends are not guaranteed. Dividends are set in accordance with our dividend policy which takes account of business performance, outcomes for customers and financial resilience, remaining consistent with our investment grade credit ratings.

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

The Board has assessed our long-term financial resilience over a twelve-year period, covering the next two price review cycles. This included stress testing our plan against our most significant risks and uncertainties. The Board's assessment is set out in our long-term viability statement on page 109 of this report.

During the year, we entered an Asset Based Funding (ABF) arrangement in respect of our defined benefit pension scheme. This arrangement provides greater security to the pension scheme allowing the pension actuarial deficit to be repaid over a longer time period of 15 years. This is beneficial to both the pension scheme and NWL's customers, as it spreads the pension deficit recovery payments over a longer period, improves short term cash flows and improves financial resilience.

The ABF has introduced additional subsidiaries to NWL, shown as 'ABF subsidiaries' on the chart above, and additional accounting transactions between NWL and these subsidiaries. Therefore, NWL has produced consolidated accounts for 2023/24, reported in our Annual Report and Financial Statements, which remove these additional accounting transactions. The transactions with subsidiaries are explained in more detail on page 119 of this report.

Customer bills

The revenue that we can charge to customers is set every five years through the regulatory price review process. We aim to keep our bills as low as possible while still allowing us to invest in sustainable and resilient services and allowing a reasonable return to our investors.

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

Customers benefit from sharing any efficiencies we make in each price review period on costs, financing and tax, resulting in lower future bills.

Long term borrowings

We invest over £1 million each business day in maintaining and enhancing our asset base to improve services for our customers, and this level of investment is increasing sharply. The money we collect from customers through their bills is generally less than we need to fund this investment - for every £1 collected from customers we have typically invested between £1.10-£1.20 in the past. The scale of this capital expenditure means that we need to supplement the money we receive each year from our customers through their bills by either seeking more investment from our shareholders (equity finance) or borrowing additional money (debt finance). The latter is cheaper for customers, helping to keep bills down, but without enough of the former our financial resilience as a business can become challenged. Our investment grade credit ratings and strong capital structure help us to obtain financing at competitive interest rates, making sure our financing costs stay as efficient as possible for customers whilst also ensuring that our gearing- the balance between equity and debt financing is sufficient to ensure the long-term financial resilience of the business.

We borrow in a controlled and sustainable manner to make sure we can deliver substantial investment in our asset base without this leading to a significant increase in customer bills. We spread the financing cost of our investment and manage the borrowings over long periods of time, sometimes more than forty years. The rates at which we depreciate our investments reflect as far as possible the useful life of the assets we build or the 'natural rate'. This means both current and future customers help to pay their fair share for those investments. As a result, bills are more stable and sustainable for customers, with a fair balance of contributions between generations.

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

Our total borrowings at 31 March 2024 amounted to £3.82bn, as reported in Table 1E of this report.

Shareholder returns

Our shareholders have provided the necessary capital and financial backing required to run the business and in return they receive a dividend on the capital they have invested to relfect the risks that they are taking. The Board's dividend policy recognises the company's commitments to various stakeholders including customers, employees, specifically pension scheme obligations, and investors, and with due attention to maintaining appropriate levels of financial resilience within the company.

The policy aligns dividends to performance for customers and the environment, as well as taking into account longer term financial resilience and the underlying risk profile of the business. This means that the returns our shareholders receive are not guaranteed from one year to the next and can vary from year to year. For example, we paid no dividends in the year 2020/21 as a result of the impact of the PR19 Final Determination, the uncertainty surrounding the CMA redetermination process and the impact of the Covid-19 pandemic. There are many significant risks associated with the business and it is the shareholders rather than our customers who carry the weight of these risks.

We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back in the business. Our dividend policy is described on page 162 along with an explanation of how the directors have applied the policy in the year.

Taxes

Both NWL and our parent company, NWGL, are based in the UK and pay corporation tax to the UK Government. We are transparent about our tax arrangements and present our Tax Strategy on page 132 of this report, as well our website. This sets out our responsible approach to tax matters, under the oversight of the Board and its Audit Committees, and our constructive relationship with HMRC.

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

Responsible procurement

Our responsible approach to procurement is described on page 124-126 of this report.

CASE STUDY: INTRODUCING THE LIVING WATER ENTERPRISE . . . OUR LARGEST EVER PACKAGE OF FRAMEWORK AGREEMENTS.

The Living Water Enterprise (LWE) marks a significant milestone in our journey towards transformative investment and sustainable development. With the addition of seven new partners, LWE has expanded its network of collaborators, forming an industry-leading collaborative partnership that lies at the heart of our plan for transformational investment and change. Embodying our commitment to local communities, the LWE is founded on the principles of economic sustainability and community engagement. By partnering with local businesses such as Esh-Stantec and Avove Limited, we not only stimulate regional economies but also foster a sense of ownership and pride within the communities we serve.

Environmental stewardship lies at the core of the LWE's mission. Through innovative approaches to infrastructure design and construction, including nature-based solutions championed by partners like Farrans Construction and Mott MacDonald Bentley, we aim to minimise our environmental impact while delivering resilient, future-proof solutions.

Central to the success of the LWE, which will play a key role in the delivery of our PR24 Business Plan, is a culture of efficiency and innovation. Leveraging the collective expertise of our partners, we are trialling new approaches to asset management and delivery that will consider the complete lifecycle of assets, ensuring that projects are completed on time and within budget.
Alongside this total expenditure (TOTEX) approach, the group will challenge existing methods and investment choices, allowing for a greater focus on alternative options, including the potential to reduce carbon through nature-based solutions to water and wastewater treatment.

Monisha Gower, our Asset Management Director, underscores the significance of the LWE in shaping our future trajectory. "These partnerships aren't just about building infrastructure," she explains. "They're about building legacies, both for our communities and for future generations. By working together, we can create a brighter, more sustainable future for all."

THEME TWO: AFFORDABLE AND INCLUSIVE SERVICES

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

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

Our performance commitments for this Outcome are as follows:

• **NWL independent value for money survey** – this measure is the mean customer satisfaction score out of ten from our independent customer tracking survey. The survey engages 500 household customers each quarter. There are no financial incentives associated with this bespoke measure which is reputational only. (Reference **PR19NES_BES30**)

• **Percentage of households in water poverty** – this is a non-financial bespoke measure. We were the first water company to set the goal to eradicate water poverty in our regions by 2030. Customers in water poverty are paying more than 3% of their net household income (after housing costs) on their water bill. (Reference **PR19NES_BES06**)

• **Awareness of additional financial support** – this bespoke PC measures customers' awareness of the additional financial support we offer. This includes both discounted bills and writing off customer arrears for eligible customers. We measure awareness in quarterly surveys with customers. (Reference **PR19NES_BES02a**)

• **Satisfaction of customers who receive additional financial support** – this bespoke, reputational only PC is designed to make sure we provide high quality financial support to household customers that are signed up to one of our affordability tariffs or WaterSure. The score is determined as an annual mean from telephone surveys, during which a total of 1,000 customers who are receiving financial support for either water arrears or ongoing charges are asked to rate their overall satisfaction with the services we provide. (Reference **PR19NES_BES01a**)

• **Awareness of additional non-financial support** – this bespoke PC measures customers' awareness of the non-financial services we offer as part of our Priority Services Register. (Reference **PR19NES_BES02**)

• **Satisfaction of customers who receive additional non-financial support** – this is a bespoke PC, which is reputational only. An independent market research provider has interviewed 1,000 customers to understand their satisfaction with the service they have received. (Reference **PR19NES_BES01**)

• **Priority services for customers in vulnerable circumstances** – this is a common, reputational PC. Its purpose is to ensure a minimum standard across all companies for the number of households registered on the Priority Service Register (PSR) and for PSR data checking. (Reference **PR19NES_COM16**)

The PC has the following criteria:

• **Reach of Priority Services Register**: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR.

- **Review of Priority Services Register:** Actual contact: percentage of distinct households on the PSR that the company has contacted over a two-year period. Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period.

• **British Standards Institute Award for Inclusive Services** – this is a bespoke PC and is reputational only. Our target is to maintain this award consistently. (Reference **PR19NES_BES23**)

• **Percentage of void household properties** – this is a bespoke measure, with financial incentives for both under and outperformance. It measures the percentage of properties which are registered but not billed. (Reference **PR19NES_BES08**)

• **Gap sites** – this PC is reputational only therefore no penalty or reward is payable. Gap sites are properties receiving water and/or wastewater that are unknown to us and not being billed. The number of gap sites cannot be measured directly as they are unknown to us hence the only way to assess gap site risk is by comparing our property data with third party information to look for differences. The PC measures the extent to which we have matched our own database with that of the Valuation Office. (Reference **PR19NES_BES07**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
NWL independent value for money survey	8.4	8.3	8.2	8.2	7.9	N/A	
Percentage of households in water poverty	7.87%	10.38%	9.61%	15.27%	14.79%	N/A	
Awareness of additional financial support	65%	41%	38%	41.5%	43%	N/A	
Satisfaction of customers who receive additional financial support	8.8	9.3	9.2	9.2	8.9	N/A	
Awareness of additional non-financial support	58.5%	50%	45.0%	45.3%	43%	N/A	
Satisfaction of customers who receive additional non-financial support	8.8	8.7	8.7	8.5	8.4	N/A	
Priority services for customers in vulnerable circumstances – PSR Reach/ Actual contact/ Attempted contact	9.4% / 35% / 90%	2.3% / 57.3% / 40%	3.5% / 40.2% / 93.4%	8.8% / 44% / 90.3%	10.5% 50.9% 91.1%	N/A	UQ / ABOVE AV / BELOW AV
British Standards Institute Award for Inclusive Services	Maintained	Maintained	Maintained	Maintained	Maintained	N/A	
Voids	4.25%	3.74%	3.53%	3.39%	3.29%	+£1.333m	
Gap sites	92.4%	67.5%	64.3%	59.1%	65.5%	N/A	

Percentage of households in water poverty

We have not achieved this PC. When we first set our water poverty target, we had an estimated 22% of our customer base in water poverty, equating to 380,000 households. This was based on the best forecast information available at the time about how incomes might change in the future. We set out to reduce this number to 140,000 households by 2025, a reduction of 240,000.

One of the major strands of our original plan was a significant bill reduction at the beginning of the current price review period – the most significant reduction in the sector - which we expected to take around 100,000 customers out of water poverty. The remaining reduction of c140,000 was planned to come from targeted interventions, with the greatest proportion – a planned 95,000 – from tariff support.

We saw a bigger benefit initially from this price reduction and initially the net bill reduction alongside our financial support schemes meant we were ahead of our water poverty targets. The past four years have seen a period of significant economic upheaval, with Brexit, the COVID19 pandemic and the current period of high inflation creating a cost of living crisis. This coupled with higher inflation and lower real term wage increases have meant that the benefit of the initial bill reduction has all but eroded away – leaving a much larger gap than planned to be tackled from targeted interventions.

Consistent with this we are seeing an increase in customers reaching out for financial support. Customers who were previously just about managing to balance their income and expenditure can no longer afford to pay their bills. They are reaching out asking for financial support with lower payment arrangements and bills.

During 2023/24, the number of customers benefitting from either a reduced or capped bill tariff increased by a further 25% to 131,179 - already significantly more than the 95,000 originally planned. Within these numbers our company-funded tariff increased by 12% during year, with customers' bills being reduced by a total of £1.88m.

Despite this, due to the inflationary pressures, at the end of 2023/24 we had 14.79% of customer in Water Poverty, missing our target of 7.87%.

We continue to strive to further strengthen the support on offer to customers. In February 2024, we expanded the eligibility criteria for our low-income tariff by increasing the income cap by over 40% to £23,933 from £17,005. This made the discount available to more of our customers who were struggling with increased bills, housing, and childcare costs. Overall, this year we now have an additional 27.5% households receiving our Low Income Discount.

To reduce customer effort when applying for Low Income Discount Tariff, we have developed a unique income verification tool powered by TransUnion. Customers are also benefitting from the additional services provided by using an online account, so they can see their balance, when their next payment is due and copies of bills etc.

Data sharing with DWP has continued to provide the largest opportunity to provide reduced bills for customers. During this year, we have increased the number of customers on WaterSure by 15% and Low-Income Pensioner Discount by 32%, with a large proportion of these customers being identified with no customer effort. We have successfully set up data sharing agreements with six councils to share customer data using the digital economy act. This allows for councils to extract customer information they have and share with us where they can see that customers may be eligible for a discount. This has mainly focused on customers who are claiming Pension Credit. For one council, they have been able to provide income details for all tenants who are receiving state benefit, so we have also been able to assess for our Low-Income Discount.

Bespoke training has been provided to our frontline teams to give them the knowledge and skills to be able to have open conversations with customers around their financial situations, to encourage customers to share where they are struggling financially and identify the most suitable tariff both for ongoing tariffs and potentially reducing arrears they have built up over time. Our overall aim is always to provide affordable payment arrangements for customers.

Looking ahead, we are exploring innovative tariffs that could help customers save money, such as reducing standing charges to allow customers to reduce their bills where they were using less water.

In the longer term, rising bills and lower incomes mean that our goal to eliminate water poverty in our operating areas will be increasingly difficult to meet.

For monitoring progress towards our goal beyond 2025 we are amending our approach to Water poverty to align with CCW and the accepted industry definition of 5% of household income rather than the 3% calculation we set out back in 2018 when we started our focus on supporting customers in Water Poverty. External factors such as price inflation and the prospect of above inflation bill rises in the coming years mean that a 5% water poverty target is still stretching between now and 2030 and would still leave us in an industry leading position when supporting customers.

NWL independent value for money survey

The affordability and trust challenges described in the previous sections are also impacting customers' perception of value for money. This year the average satisfaction of customers answering whether they think the services we provide represent good value for money dropped to 7.9 out of 10 meaning we missed our 8.5 target.

Addressing these challenges is crucial to improving performance against this metric.

Awareness of additional financial and non-financial support

We have not achieved our target for either of these commitments. We are very disappointed and surprised with this result, especially due to the focus that we have taken to increase awareness of the support available. We have promoted our financial and non-financial support schemes widely, using our advisors, bills, reminder letters, leaflets, partnership promotions and events to raise awareness. Visits to our financial support pages is up 122%. We have seen a 357% increase of views of our priority services website pages over time.

Awareness of additional financial support has increased slightly to 43%, however remains lower than our target of 65%.

Awareness of non-additional financial support is 43%, a small decrease from last year and lower than our target of 58.5%

We have completed a review of best practice with a range of other water companies to understand what they have been doing that is different to us. This learning has been incorporated into our future engagement plans. Our annual plan for promotion will link in with key awareness days such as Dementia Week and National Cybersecurity Awareness month. We will also be working alongside partners to complete joint campaigns utilising Facebook, Tiktok and LinkedIn. We have found customer testimonials are being shared more widely by our customers and generating click throughs to our website.

We will be launching our new community vehicle in April, which we will be using to engage with our customers both at organised community events and when completing major projects.

The fully accessible vehicle will give us an extra opportunity to engage with customers and raise awareness of all additional support we can offer both financial and non-financial. Lower awareness impacts our customers as they are not applying for the support that they are entitled which may mean they miss out on discounts available. Awareness levels are similar to other water companies, with Northumbrian Water performing better than Essex & Suffolk Water.

Despite these challenges we have been successful in significantly increasing the number of customers on our priority service register (PSR) which is described further in the relevant section.

Satisfaction of customers who receive additional financial and non-financial support

We have achieved this PC for customers who receive additional financial support but not for customers who achieve non-financial support.

We continued to beat our satisfaction target in relation to financial support with a high score of 8.9. In our latest survey, 46% of customers said the reason for their satisfaction score as they found our service helpful or reassuring. Customers also say that they think the schemes are a good idea and beneficial.

Over this year, there has been a continued slight reduction in the customer satisfaction from customers receiving non-financial support compared to previous years. We have just missed our PC this year with a score of 8.4 out of 10.

This decrease was most noticeable in the third quarter, where we saw the lowest result of this year of 8.0.

When reviewing the responses from the third quarter we found that 54% of customers who scored us 7 or less responded that the reason for their score was because they had not had any need to use the services or didn't know enough about the services that they were receiving so didn't feel appropriate to score higher.

We reviewed the questions asked for the fourth quarter to understand this issue better and found that customers lower scores were linked to understanding of services rather than quality of the service provided. We are now reviewing our communication touch points with customers to provide more regular updates and information, so customers feel fully informed.

Priority services for customers in vulnerable circumstances: Reach of Priority Services Register (PSR), Attempted Contact, Actual Contact

We have achieved all three of these PCs.

More than 10.5% (208,791) of our households are now registered on our PSR against our target of 9.4%.

This ensures customers receive the tailored service they require which can include things like: support with supply interruptions; support with security; support with mobility and access restrictions, and particular requirements for communications.

Since April 2023 we have increased the number of customers on our PSR register by over 35k households. This has been achieved through several initiatives:

- Expansion of data sharing with energy companies, this now includes UK Power Networks for our Essex and Suffolk operating areas, and Northern Power Grid and Electricity North West who maintain services in our Northern Region.
- Partnership approaches with councils and housing associations to register households where they know the occupiers are vulnerable. For these households, the housing associations are being registered so that they have advance notification of interruption to supply and can provide additional support.
- Awareness campaigns to promote the range of priority services that we offer. PSR messaging is now embedded in our wider communication campaigns alongside increased targeted promotion through digital channels.
- Our frontline teams have received additional training on how to identify customers who require tailored services, so can sign up as part of all interactions, face to face, over the phone or from written correspondence.

We are now providing tailored service to an additional 35k customers who will be receiving the reassurance that these adjusted offerings provide.

After successfully bidding for funding to Ofwat's Innovation Fund, the "Support for All" project has completed a successful trial of designing and building a hub to host this data, sharing Priority Service Registers between companies. This initial trial was completed with a limited number of partners, and a further funding submission is currently in with Ofwat to expand this to a national platform to benefit society. This will be a leading approach and is being built collaboratively with other water companies and other wide-ranging stakeholders.

We need to keep our PSR up to date to ensure that customers continue to receive the tailored service they require We are validating our PSR register on an ongoing basis in four main ways:

- When a customer contacts us who is already on our PSR the Customer Advisor receives an alert to discuss the customers' needs and update our records.
- As part of our proactive contact with customers, when we are completing planned work, we review their PSR information.
- We are making outbound contacts to customers to validate their requirements. This has involved sending letters in with customers' bills and sending texts and emails where we have received our highest response rate.
- We are working with large housing associations to update social housing properties for tenants living in accommodation reserved for anyone needing support.

As a result we have achieved target for both actual contact with 50.9% and attempted contact with 91.1%.

British Standards Institute Award for Inclusive Services

We have achieved this PC.

This PC is designed to make sure we provide a fair, flexible service which can be used by all customers equally, regardless of their health, age, or personal circumstances.

This year the BS 19477: Inclusive Service Verification has been replaced with an enhanced Kitemark standard. The new standard is internationally recognised ISO 22458 and continues to assess whether inclusive services are fully accessible to all customers and that companies have the right business processes in place to support all customers.

This is the fourth year that we have audited our approach to vulnerability to make sure our services are inclusive for all - whatever a customer's circumstances. During the assessments BSI review our documented policies and procedures, then hold sessions with our teams to see how we operate the policies and procedures on a day-to-day basis. The sessions include contact with all areas of the business, including call listening, a complaints review, how we promote the wide range of support available, how we manage events, debt recovery and affordability. This year it involved 34 different people across 20 different departments. Each year alongside core expectations on delivery of service, BSI will review how we are continuing to develop our offering and learning from customer feedback. We're always reviewing the services we offer, and this expert assessment provides regular external scrutiny of our processes. We were thrilled to be recognised as fully achieving the standard with no non-conformities. The feedback from the auditor was a credit to everyone involved - 'Everyone we spoke to at NWL has a passion to do the right thing, they all showed they really care about customers and love working for NWL'.

To prepare for this accreditation, we completed a gap analysis with BSI to identify any potential gap areas with this new enhanced standard. As part of the audit, we showcased that we put customers at the heart of what we do, designing services and support with flexible methods of contact and application to reduce barriers for customers.

This is recognising our performance in delivering tailored services for all our customers. By achieving this standard, customers can be assured that the service we offer will be flexible to their requirements. The BS19477 standard is widely achieved in the water industry, and all water companies are transitioning to the Kitemark this year.

Percentage of void household properties

We have achieved this PC. We've beaten our PC again, achieving 3.29%, and earned a financial reward of £1.33m.

Reducing the number of void properties, which are occupied but not billed, leads to fairer charges between customers and lower bills for customers already being billed.

We continue to work closely with TransUnion to improve the way that we proactively use credit reference data to identify properties that are occupied yet not billed. We have an established selection criteria and auto billing process. This alongside automation to deal with returned post and steps in the trace process, has enabled an efficient empty property routine to be embedded.

Our work continues with local authorities and housing associations to share information on their tenants who may not yet have registered for billing. These arrangements help tenants by reducing back billing and creating debt. They also offer us an opportunity to actively provide information on our support tariffs.

We have established a process with independent water suppliers (NAV's) to inform us of occupancy information for their properties.

In future years we expect to see continued improvements by using data from our smart metering programme to help identify when customers have moved out without telling us, or where they have started to use a supply that we have registered as empty. We have been working closely with the smart team to embed an efficient process for those properties where consumption is identified by our smart meter data management system, and we don't have a registered bill payer.

Gap sites (Non-Household)

The aim of our bespoke Gap Site PC is to reduce the risk of non-household/business sites or properties receiving water and/or wastewater that are unknown to us and not being billed. Reducing the number of these 'gap sites', which are also potentially occupied, leads to fairer charges between customers and lower bills for customers already paying.

For 2023/24 We have achieved 65.5% vs a target of 92.4%, however we are taking other steps to strengthen our position.

The volume of Gap Site requests raised during 2023/24 has increased from 424 (in 2022/23) to 806 which shows a marked focus to reduce the number of Gap Sites. We continue to work closely with the retail market operator MOSL on its Data Assurance Project with a primary focus on deregistration of ineligible premises from the market.

MOSL have provided additional guidance on their data quality assessment process which was previously lacking. We have initiated discussions with a third party to evaluate the costs associated with conducting a Gap Site analysis using the data from our Customer Billing Systems. The data will be compared against Valuation Office Business Lists and Address Based Premium information. The pilot for this initiative will begin in April 2024.

MOSL monitors and compares Wholesalers across a range of measures including the number of VOA references and UPRN references each Wholesaler updates in the central market register. This metric is purely looking at fields populated and does not measure the level of accuracy. We are currently placed 7th for completeness of VOA score and 14^{th} for completeness of UPRN score.

The NHH market 2023-26 Business Plan focuses on the need to remove friction in the market and one of the strategic goals is to ensure Wholesalers create and maintain accurate and reliable address data in the central market register. A data quality trial (Project TIDE) was completed by MOSL in April 2022 which showed that 16% of records in the market could not be matched to address referenced sources and a focus group to look at the findings has been created. We had paused any work on Gap Sites while this work was in progress (as no agreed methodology of what good data quality should be measured against had been released) however will now continue.

THEME THREE: RELIABLE AND RESILIENT SERVICES

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

The performance commitments for this Outcome are designed to track progress against key investments we are making in 2020-25, and to return funding to customers in the event of any late or under delivery:

- **Risk of severe restrictions in a drought:** This is a common measure with no financial incentives which the percentage of our population at risk of experiencing severe water supply restrictions in a 1-in-200-year drought, on average, over 25 years. (Reference **PR19NES_COM10**)

- **Delivery of our smart water metering enhancement programme:** This is a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver our smart metering programme in full by March 2025. The PC specifically measures the percentage delivered of our smart metering programme. This is limited to installing new smart meters and replacing existing basic meters with smart meters. (Reference **PR19NES_BES26**)

- **Delivery of our water resilience enhancement programme:** This is a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver our water resilience investment programme in full by March 2025. (Reference **PR19NES_BES24**)

- **Delivery of our lead enhancement programme:** Our lead pipe replacement programme is supported by a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the programme in full by March 2025, alongside a reputational target in each year of the period against which we can track progress. (Reference **PR19NES_BES25**)

- **Delivery of our wastewater resilience enhanced programme:** This is a bespoke performance commitment to incentive deiliver of investment to enhance the level of resilience of 141 wastewater assets in the event of flooding. (Reference **PR19NES_BES27**)

- **Delivery of our Howdon Sewage Treatment Works enhancement**: This is a bespoked penalty only PC which incentivises on time delivery of resilience improvements at our Howdon site. (Reference **PR19NES_BES29**)

- **Delivery of our cyber resilience enhancement programme:** This bespoke PC incentivises timely delivery of our cyber resilience programme (Reference **PR19NES_BES28**)

- **Delivery of our Drainage and Wastewater Management Plan (DWMP):** This bespoke PC incentivises timely delivery of our DWMP (Reference **PR19NES_BES22**)

- **AMP8 Accelerated Delivery Schemes:** Ofwat has introduced for 2023/24 to report on progress made on early starts for key investments needed in the 2025-30 period.

Risk of severe restrictions in a drought

The metric tracks water company implementation of our PR19 Water Resources Management Plan (WRMP19) supply and demand schemes, to reduce the percentage of customers at risk of severe drought restrictions.

We report a result of 0% of population at risk for this metric, meeting our PC, reflecting progress to date with implementing our WRMP19 schemes. Our WRMP19 demonstrated that we have 100% security of supply in all our Water Resource Zones (WRZs), across the full 40-year planning horizon. We also demonstrated resilience to a drought with a return period of 1 in 200 years in all our WRZs, with 0% of our customers at risk from severe supply restrictions. We therefore did not need to promote any supply schemes in our WRMP19 but did include demand management schemes. The position has now changed, however for WRMP24, and in response to both growth and climate change, we are planning to invest c£370m over the 2025-30 period to maintain the resilience of our supplies, especially in ESW.

Delivery of our smart water metering enhancement programme

While we made significant progress with the smart programme in the last year, we did not achieve our PC for 2023/24 – having delivered 39.6% of our original programme at the end of the year against a target set at PR19 of 80.4%. However we did exceed our installation target for the year.

We're committed to rolling out smart water meters for our customers with the overall goal that all our meters will be fully smart by 2035. Our AMP7 smart metering programme was impacted by a slow start 2020/21 which was largely driven by the effects of Covid-19. This in turn triggered supply chain constraints (in particular chip shortages) which were further exacerbated by the war in Ukraine – these are industry wide issues.

However, customer demand for meters (optants) continued to be lower than pre-pandemic levels. To drive further demand for meter installation we ran a series of targeted marketing campaigns aimed at customers in Essex and Suffolk and NWL regions who would benefit the most from moving to a metered bill. Total customer demand (optant applications) was 24,478 and while Essex and Suffolk volumes were higher the demand in the NWL region was lower resulting in overall demand being 2.6% below that of 2022-23.

Our performance at the beginning of the 2023/24 year was also impacted by an issue with the Arqiva communication infrastructure which limited our installation progress for 3 months. A further factor constraining deployment was the ongoing issues recruiting additional resource in a challenging labour market, particularly in our Essex and Suffolk operating regions. In response to these challenges and supply chain constraints, we prioritised upgrading existing analogue meters to smart, (as opposed to installing smart meters where no meter before existed) which has enabled progress to be maintained despite the challenges.

In the last year we have also awarded a 15-year contract for the deployment of the Connexin LoRaWAN smart communications network across Essex and Suffolk and rollout has already commenced at pace. We also chose an alternative meter provider to give us resilience in the future in light of the global chip shortages we experienced at the beginning of the AMP. The technology solution we are using offers data collection via both a data communications network and AMR drive-by. This is beneficial as it allows us to deploy meters in areas where network coverage is not yet in place, whilst still obtaining billing reads and continuous flow alerts.

Our chosen hardware is a 'plug-and-play' solution, proven to work at depths of up 1m with both meter and cable paired in the factory. The meters also record consumption at 15-minute intervals between 2am and 4am allowing more accurate identification of customer side leakage. To date we have connected 61,820 meters to our smart networks capable of providing hourly read data. This rich source of data allows us to better understand water usage in our supply area and identify leakage and wastage, enabling us to work with customers to help reduce demand and leakage.

In response to the challenges at the start of the AMP, we agreed an action plan with Ofwat, the latest version of which was shared with them in August 2023. This set out that we would complete 61,205 meter installations in 2023/24.

By the end of March 2024, we had installed 61,326 smart meters. This was broken down into 19,451 new installs and 41,875 replacements. Along with 11,287 at new builds or bulk meter to individual replacements, which do not count towards the PC. This is an increase of 21.5% on 2022/23 installs performance (32% increase on installs that contribute to the PC) and therefore we exceeded our install target for the year.

Through hourly smart data we were able to identify 9,399 household properties with customer side leakage, this was a 353% increase on the number identified in 2022-23 period made possible through the implementation of a new Meter Data Management System which through analysis of hourly consumption information provide more accurate alarms for continuous flow. Many of these were at previously un-measured properties where it would have otherwise been unlikely that we would have identified a leak.

We remain focused on maximising programme delivery by March 2025 however there remains the risk of a shortfall and associated ODI penalty – in particular driven by the shift in demand resulting in us prioritising replacement smart meters. As a minimum we expect to deliver our PR19 expectations in full in our water stressed Suffolk operating area. Within Suffolk, in the water stressed Hartismere supply zone, we launched a programme of work to accelerate smart meter rollout for both household and non-household customers, by March 2025 – exceeding the commitments we set out at PR19. We have already achieved 2,000 smart meter installs (15% of all properties) and increased overall meter penetration (including analogue meters) from 71% to 80%.

Following on from 2023-24, we are forecasting a further increase in installations of 38% for 2024-25, a trajectory which continues to ramp up our delivery capability in advance of targeting a larger metering programme in 2025-30.

CASE STUDY: SMART ROLL-OUT

We are delighted to announce our strategic collaboration with Connexin, a leader in smart infrastructure solutions. This partnership marks a significant milestone in ensuring all water meters are smart by 2035 throughout the Essex and Suffolk supply regions.

The largest UK water metering contract with Connexin will result in tangible benefits for consumers and contribute to our overarching goals of sustainability and efficiency within the regulatory framework.

Smart water meters measure how much water is used by a household, and then send automatic readings to the water provider.

Over the next 11 years and beyond, Connexin will provide a wireless communications network that will serve up to a million households and businesses. This network will enable remote access to hourly water meter readings, enhancing the visibility of usage and empowering customers to manage their bills more effectively.

This will also help us to identify and reduce household leakage across our Essex and Suffolk area, and in turn, reduce the amount of water wasted across some of the country's most water-stressed regions.

Gary Adams, Head of the Smart Transformation Programme, said: “We are excited to bring their extensive knowledge and experience into our programme of work. We’re passionate about the environment and our targets to reduce both consumption and leakage, creating a more water-efficient system for our customers.

“We know that approximately 18% of our domestic customers have a leak at their property which has a direct impact on the value of their bill.

“Through this smart connectivity, we will be able to detect customer side leakage more precisely and quicker than before supporting our customers in keeping their bills as low as possible and provide valuable insight in shaping how the industry can better understand where water is used.”

Connexin has been awarded a contract of up to 15 years to provide the infrastructure, five years initially with the option to extend for a further 10 years.

Delivery of our water resilience enhancement programme

In our 2020-2025 Business Plan we committed to making some improvements to strengthen the resilience, effectiveness, and efficiency of our water services through several major investment schemes.

These schemes in the North East include a new underground reservoir at Springwell (Gateshead) and upgrades to our Tees pipeline along with a new Abberton to Hanningfield pipeline in the Essex area – all of which aim to improve the resilience of our water supply network. The original ambition was to complete all of the resilience schemes by or before March 2025. All except two are due to meet this timeframe. A summary of these schemes, target and forecast completion dates, and a description of the criteria for successful completion, is described in the table below.

In reporting against this PC, we have interpreted the reporting requirements as we set out in writing to Ofwat in July 2022 and again in June 2023.

SCHEME	TARGET DATE	FORECAST COMPLETION DATE	SUMMARY OF ACTIVITY	DESCRIPTION OF SUBSTANTIAL COMPLETION	% OF WATER RESILIENCE PROGRAMME
Springwell service reservoir: We’re constructing a new storage reservoir in Gateshead together with a combined length of 12.5km of pipe to connect the reservoir to our network.	Mar 25	Mar 25	Springwell service reservoir: We’re constructing a new storage reservoir in Gateshead together with 1.5km of pipework to connect the reservoir to our network. The 1.5km of 800mm – 1000mm will include new inlet and outlet pipework. A further 5.2km of 1000mm pipework from Springwell Service Reservoir to Pikes Hole main is also underway. Schedule is tight and there remains some risk, but we are currently forecasting on time delivery.	The scheme will protect 52,147 customers from a loss of supply event by providing additional storage sufficient to last 24 hours in the event of a supply failure.	36.00%

Tees pipeline: We're upgrading the network in the North East.	Mar 25	Mar 25	As of March 2024, all 27km of steel pipe has been procured and shipped to site with 8km of pipe laid to date. Shafts for the Tees tunnel have been sunk and completed ready for boring under the River Tees in April. Strategic connections at Lartington, Whorley and Shildon are progressing with work presently ongoing at the Lartington site and due for completion in July. Commissioning planned from November 2024 and EA permits have been applied for the discharge water. Asset in use February 2025 to meet 31st of March 2025 Ofwat compliance date.	70,404 Customers will benefit from a second source of supply should an issue arise with their primary source.	25.90%
Abberton pipeline: We're upgrading the network in Essex (also known as Layer to Langford pipeline)	Mar 25	Mar 25	We have completed all of our surveys and investigations, securing Permitted Development rights to install the pipeline. We have completed all of the strategic crossings including the two river crossings which were completed by innovative directional drilling methods. In February this year we began stripping topsoil along the route and in March we began putting pipe in the ground. Work is planned for Completion in advance of the March 2025 Regulatory completion date.	370,000 customers to benefit from increased resilience of raw water supplies. Read more here.	22.33%
Barsham: We're installing a borehole water treatment plant and a new treated water service reservoir.	Mar 25	Mar 25	The project started on site early 2023 and is progressing well with the construction of the filter building, the new reservoir is under construction and current reporting has completion in early 2025.	36,614 customers to benefit from increased resilience equivalent to 24 hours of storage.	9.67%

Chirton SR outlet: provide resilience in the Tyneside region	Mar 25	Dec 24	Low complexity scheme involving new valves and ice pigging on a 15-inch main. Will be completed late 2024.	Protect 43,000 customers, against loss of a single point of failure (a service reservoir outlet main) at Chirton	0.46%
Herongate SR: improve resilience for customers in the South Essex region	Mar 25	Nov 24	This scheme will improve resilience at Herongate SR. The work will involve duplicating the outlet main from the reservoir. Feasibility is underway to confirm the scope of work.	Protect 110,000 customers, against loss of a single point of failure (a single strategic main) at Herongate Service Reservoir	0.27%
Cross Connection into Darlington (C60/60a)	Mar 25	AMP8	This small element has been deferred to AMP8 as it can be delivered more efficiently as part of Phase 2 of our Tees Pipeline Project. It accounts for only 0.24% of the AMP7 programme.	27,758 customers to benefit from a second source of supply	0.24%
Resilience Improvements at 'Too Critical To Fail' Sites	Mar 25	Feb 25	Flood mitigation and/or power resilience at 14 specific locations across 8 sites; 3 major outputs, 2 minor outputs	Resilience improvements implemented at 14 sites	5.43%

Overall, >99.5% of the programme is scheduled to be delivered on time.

For this PC there was a further requirement to 'provide an assurance report at the next price review from an appropriately qualified third party to:

• Confirm that the scope expected to be delivered for each milestone is equivalent or greater to the required scope.

• Confirm expected completion of each scheme and to assess any likely delay in any individual milestone beyond 31 March 2025.

This report was provided at Annex 62 to our 2025-30 Business Plan which can be found here: https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes62.pdf with a summary on p11 of the report. The only material issue identified in relation to this programme was schedule risk in relation to the Abberton pipeline scheme in relation to archaeology. Archaeological works are now substantially completed with no adjustments required to our programme or route encountered to date. With regards to which the assurance report clearly stated that: '*Should no issues materialise, we would consider this in line with the rest of the water programme leading to 99% showing no material issues*'.

Delivery of our lead enhancement programme

While we made significant progress with our lead pipe replacement programme in the last year, we did not achieve our PC for 2023/24 – having delivered 35% of our original programme at the end of the year against a target set at PR19 of 78.8%. While we are currently behind our original output profile, we are gaining momentum and remain confident that we will deliver 100% of the programme by March 2025.

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

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

To mitigate the risk of lead in drinking water at the tap, the programme goes beyond replacing our lead communication pipe by replacing the customer's lead supply pipe to inside their homes. The success of replacement therefore requires individual property owner's consent.

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

In 2020, we focused on developing the delivery strategy, including setting up the commercial framework, and on implementing the model for delivering and reporting on our lead enhancement commitments. Although, some lead replacement was able to start in 2021, concerns for the pandemic were still high and it wasn't until January 2022 that we were able to move forward with more assurance within the circumstances.

Throughout 2023/24 we have refined our customer engagement strategy and exceeded our annual target outputs for hot spots. In addition, we have secured business authorisation for our delivery approach which will see us deliver a greater proportion of hot spot and rural candidates whilst extending the project covering vulnerable customers to also include registered nurseries, and child minders, as well as schools. We are still confident we can deliver 100% of our programme by 2025, by flexing the ratio of scheme types (hotspots vs rural supplies vs vulnerable customers) to reflect levels of customer take-up/stakeholder appetite. However level of customer uptake remains a key risk to delivery.

During year 4 we have learnt more about the customers and the best strategies for engagement. We have brought new people and expertise to the team allowing us to communicate better with customers, and new ways of working that deliver a better customer experience and encourage more lead-free properties.

We are aiming to have delivered our commitments in full by the end of 2024/25 however this remains challenging. In response we now have delivery partners in all operational areas delivering outputs at a consistent pace and perfecting the approaches for engaging with customers. Outputs are reported on a weekly basis allowing us to track performance. Our delivery partners are engaged and committed to the overall objectives of the programme. They have now ramped up the resources to the required levels, and processes are in place that provide the opportunity to continually share best practice.

Delivery of our wastewater resilience enhancement programme

There were 116 schemes completed by end 2023/24 against a target of 105 and we are on track to deliver the full programme of 141 schemes by the end of March 2025.

Projects continue to improve resilience to wastewater assets delivering protection from flooding and safeguarding wastewater services for our customers.

For this PC there was a requirement to 'provide an assurance report at the next price review from an appropriately qualified third party to:

• confirm that the scope expected to be delivered for each milestone is equivalent or greater to the required scope

• confirm expected completion of each scheme and to assess any likely delay in any individual milestone beyond 31 March 2025.

This report was provided at Annex 62 to our 2025-30 business plan which can be found here: https://www.nwg.co.uk/globalassets/business-plan-2025-30/nes62.pdf with a summary on p11 of the report.

Delivery of our Howdon sewage treatment works (STW) enhancement

Howdon is one of our largest STWs, and we are investing to improve the site's resilience. Two key assets have been identified as requiring a major upgrade: the primary effluent pumping station (PEPS), the Southbank pumping station (SBPS) and both associated rising mains. These assets are required to deliver flows up to 6,200l/s.

In reporting against this PC, we have interpreted the reporting requirements as we set out in writing to Ofwat in July 2022 and again in June 2023.

There have been some complex technical and programme challenges to overcome. These include:

- The development of extensive temporary works required to commission the new assets, ensuring that wastewater compliance is not compromised. We now have a robust commissioning plan in place.
- Maximising opportunities for embodied carbon savings, in particularly carbon savings associated with the SBPS. Jointly with our lead delivery partner, Mott MacDonald Bentley, it is estimated that there is a saving of over 500 Tonnes CO_2e.
- Resolution of planning delays, mostly associated with ecology, e.g. additional mitigation measures for protected species identified on the site, and ensuring > 6% biodiversity net gain is achieved. These are now fully resolved, with planning approval finally granted in April 2024.
- Impact of Industrial Emissions Directive, in particular the construction of secondary containment has resulted in some redesign for this scheme. This additional work is now complete.

To mitigate some of this delay, as much of the works as possible have been accelerated. An enabling work contract was awarded to Mott MacDonald Bentley in January 2024 to deliver critical upfront activities. In addition, an additional targeted and proactive maintenance campaign has been delivered to improve the reliability and resilience of the SBPS. This work has successfully improved pump availability.

Despite best efforts, delivery has been delayed by approximately twelve months. Based upon the Mott MacDonald Bentley construction programme, both PEPS and SBPS assets will be in use by April 2026 – a 24 month delay. This is confirmed in independent Assurance from Jacobs.

Not linked to this penalty-only PC, the Howdon development plan includes two further objectives to increase the permitted dry weather flow, due to population growth in the next 25-30 years (estimated to be 150,000 population equivalent) and additional measures to better manage storm flows. As part of this we are on schedule to bring new storm tanks online by end of 2026. We know our customers want us to greatly reduce spillages and we are setting new aspirational targets for our approach to rivers and coasts in our long-term vision for 2050.

The delivery of this additional scope is aligned to the programme for the expected population growth, which is continually under review so that business risk is fully managed. Delivery of this growth scope is expected to complete by end of AMP8.

Delivery of our cyber resilience enhancement programme

We remain on target to achieve this PC at the end of March 2025.

Our cyber resilience programme aims to deliver multiple benefits by enhancing our cyber security function and supporting compliance with the Network and Information Systems (NIS) Directive. We have already delivered the majority of the requirements for AMP7 and on target to deliver the remainder by end of March 2025.

We continue to monitor the increasing cyber threat landscape to make sure our investment is focused on the areas that have the greatest impact on protecting our business. Keeping up with advancements in technological and human cyber capability, particularly from well-funded foreign state threat actors is both challenging and expensive so we make sure our investments are allocated to the most appropriate areas. We continue to develop our policies and are making sure all our people are equipped with the relevant knowledge and continue to develop through Exercises, Training and Phishing simulation tests. Several cyber security procurements and enhancement have been made during 2023/24 and others are currently in flight. Our Cyber Security team has increased in size and we continue to develop our security posture in line with our continuous improvement strategy to make sure technical and human advances by malicious threat actors are mitigated appropriately and keep our people and our customers safe.

Cyber Security Enhancements ensure our customers data remains secure and our water and waste water processes and control systems are protected from malicious interference.

Delivery of our Drainage and Wastewater Management Plan (DWMP)

On 31 May 2023, we published our Drainage & Wastewater Management Plan (DWMP) on time, meeting this PC. The DWMP and reporting documentation was submitted in full to the EA, DEFRA and Ofwat for review. The plan identifies how we will extend, improve, and maintain a robust and resilient drainage and wastewater system considering the pressures of climate change, population growth and growing customer expectations. We refreshed some elements of our DWMP in January 2024 reflecting further developments, particularly in relation to our PR24 planning process.

More detail can be found in our Business Plan for 2025- 2030 and our Environment Strategy to 2050.

Delivery of AMP8 Accelerated Schemes

In Autumn 2023, recognising the scale of emerging investment needs across the sector for 2025-30 and the deliverability challenges these were likely to present, Ofwat and Defra launched a joint initiative where companies could bit for additional funding in 2023-25 in order to make an early start on any key 2025-30 investment schemes which were sufficiently well developed at that point in time.

As part of this initiave we were granted approval to accelerate some £99m of investment (the 3rd highest in the sector) by bringing forwards £25m of this investment to 203-25 – this represents mainly planning and design work so that construction can commence more rapidly in 2025-30.

Alongside the Ofwat/Defra initiative, our Board has approved further accelerated expenditure, giving a total accelerated programme for 2023-25 of c£120m, to give us the best possible start for a 2025-30 investment programme which has more than doubled in size from the current period to c£3.6bn. For the time being this additional early investment is being made at the shareholders risk, prior to receiving confirmation that this will be funded in Ofwat Draft amd Final Determinations.

Ofwat has now introduces a requirement to report on progress against the accelerated schemes that itself and Defra have approved and this is summarised in the table below.

Scheme	Target % Complete (of Early Works) by March 2024	Actual % Complete (of Early Works) by March 2024	Target Date for 100% Completion of Early Works	Forecast Date for 100% Completion of Early Works	Summary of Activity
Linford WTWs and Borehole: Completion of detailed design and securing land lease agreements.	50%	12%	March 2025	March 2025	This scheme aims to improve supply capacity in the Linford area through delivery of a 7MLD Groundwater scheme. After a slow start in 2023/24, partly due to late confirmation of accelerated funding, activity is now ramping up and we forecast on time completion of the accelerated elements – albeit with some risks in relation to landowner negotiations.
Suffolk Strategic Network & Storage Enhancements: Detailed Design.	30%	15%	March 2027	March 2027	This scheme aims to improve water connectivity across the Suffolk area, alleviating supply/demand pressures by enabling surplus water to be delivered to where it is most needed. After a slow start in 2023/24, partly due to late confirmation of accelerated funding, activity is now ramping up and we expect 75% completion by end 2024/25 (vs a 60% target) and are forecasting on time completion
Suffolk Winter Storage Reservoir: Detailed Design.	30%	5%	March 2027	TBC	This scheme aims to address supply/demand pressures in the Suffolk area by developing a significant new water resource. Early design work is crucial to enable the most beneficial sequencing of this scheme and the Lowestoft re-use scheme to be established. After a slow start in 2023/24, partly due to late confirmation of accelerated funding, activity is now ramping up. There remain some significant risks, however – especially

					in relation to reservoir size constraints. Forecast completion of the accelerated elements is tbc prior to resolution of these risks.
Lowestoft Water Reuse Scheme: Detailed Design.	30%	9%	March 2027	TBC	This scheme aims to address supply/demand pressures in the Suffolk area by developing a significant new water resource. Early design work is crucial to enable the most beneficial sequencing of this scheme and the Suffolk Winter Reservoir scheme to be established. After a slow start in 2023/24, partly due to late confirmation of accelerated funding, activity is now ramping up. There remain some significant risks, however – especially in relation to site location and corresponding planning consent. Forecast completion of the accelerated elements is tbc prior to resolution of these risks.
Berwick Upon Tweed Storm Overflows: Concept and Definition	-	-	March 2025	March 2025	See below

Berwick Upon Tweed storm overflows: Progress Report for 2023-24 regulatory year

As part of our overall plans to reduce spills from Storm Overflows in 2025-30, the Berwick Area is a high priority, in part due to the number of waterbodies in the area linked to Sites of Special Scientific Interest (SSSIs). We are hence making an early start in the 2020-25 period on project 'concept and definition' activity to enable construction to commence more rapidly in AMP8. The scheme in its entirety aims to reduce spills in the area in line with Storm Overflow Discharge Reduction Plan (SODRP) targets.

We have appointed a Strategic Technical Partner (STP) to deliver the concept and definition stage of the scheme and a contract for data collection was commissioned and awarded in December 2023.

Investigation work is now underway to identify the root cause of spills and the best value interventions to make the assets compliant with the new spill frequency requirements. A range of options is being considered to achieve this in the most efficient way including by:

- Maximising use of existing sewer capacity
- Surface water separation, point source surface water removal and Sustainable Urban Drainage (SUDs)
- Water harvesting and point source control.
- Customer initiatives – water usage reduction.
- System optimisation, Storm Overflow abandonment.
- Smart Network control, flow optimisation and improved pumping philosophy.

- River inundation reduction.
- Increase network capacity, new strategic Storm Overflow provision.
- Flow attenuation tanks.

Using a verified hydraulic model we will assess the Storm Overflow (SO) and Sewage Pumping Station (SPS) performance against SODRP targets and identify a definitive list of assets which require improving. Hydraulic simulation modelling of the assets operation pre and post completion of the enhancement scheme will be undertaken with an explanation of the methodology and assumptions underpinning both sets of modelling.

The scope of work also includes a test for compliance to confirm SO and SPS performance against current permit conditions – and any remedial work identified to meet existing compliance requirements will be met from existing base funding. We will also identify the extent to which different maintenance regimes could themselves reduce spill frequencies. Finally the impact on asset performance from tidal inundation and mine water discharge will be assessed.

Jacobs will be appointed, as an independent third-party assurer, to verify that the study conditions have been met to Ofwat's satisfaction. To satisfy the specific reporting requirements agreed with Ofwat we will:

- Submit a report on asset compliance by 31/10/2024
- Submit a final report, including independent assurance, by 31/03/2025.

A performance survey comprising 81 flow monitors and 8 rain gauges has been procured and is being carried out by provider Onsite. The flow monitors were installed in early April and we are currenlly in week 11 of a 12 week survey. The survey is being carried out in accordance with the Charted Institute of Water and Environmental Management (CIWEM) Code of Practice for the Hydraulic Modelling of Urban Drainage Systems. Drop tests will be used to confirm pumping station performance along with storm overflow, manhole and connectivity surveys to support hydraulic model calibration against EDM (spill) data and historical information.

A Customer Engagement Plan is being developed to proactively manage all external stakeholders. Every effort will be made to ensure that this project is delivered with minimal disruption meeting the expectations of all stakeholders. Customer and stakeholder liaison is underway and the project is live on our Community Portal and a post card with narrative and QR code has been posted to all Berwick residents. The QR code directs the customers to the portal where regular updates are posted reporting on the data collection progress. A comprehensive Stakeholder Management Plan is being developed for the delivery of the scheme.

OUTCOME 7: We always provide a reliable supply of water

AMBITIOUS GOAL: Have the lowest levels of leakage in the country in our water-stressed Essex & Suffolk Water (ESW) operating area (on a cubic metres per property basis)

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

Our performance commitments for this Outcome are as follows:

• **Per capita consumption (PCC)** – this is a common performance commitment which records the average per capita daily water consumption of our customers. While there are financial incentives associated with under and out performance, Ofwat has deferred these to the end of 2020-25 in light of the impacts of the Covid pandemic on this metric. (Reference **PR19NES_COM07**)

• **Unplanned outages –** This is common, penalty-only performance commitment, which is used to assess the health of our assets for our water abstraction and water treatment activities. It is designed to minimise the extent that available water treatment capacity is reduced due to unplanned issues or outages, and in turn make sure water companies appropriately maintain and improve the asset health of their non-infrastructure or above-ground water assets for the benefit of current and future generations and demonstrate their commitment to asset stewardship responsibilities. (Reference **PR19NES_COM13**)

• **Interruptions to supply greater than three hours –** This is a common measure designed to incentivise companies to minimise the number and duration of supply interruptions, with financial incentives associated with under and out performance. All interruptions of three hours or longer are added up to give a total time that customer supplies were lost across our supply area. We then divide this total time by the number of properties we serve. This gives an average number of minutes and seconds we have interrupted each customer for three hours or longer. (Reference **PR19NES_COM04**)

• **Interruptions to supply between one and three hours –** this is a bespoke performance commitment with financial incentives associated with under and out performance. It is calculated on the same basis as the greater than 3 hour PC above. It is measured as the % change from a baseline measured in 2018-19 to 2020-21. (Reference **PR19NES_BES14**)

• **Interruptions to supply greater than 12 hours –** this is a bespoke performance commitment with financial incentives associated with under and out performance. It measures the number of properties which are affected by a water supply interruption for 12 hours or longer. (Reference **PR19NES_BES14**)

• **Leakage -** This is a common measure with financial incentives associated with under and out performance. Performance is reported separately for our ESW and NW operating areas. Leakage from our water network is measured in Megalitres (millions of litres) lost per day, and we report the average daily level at the end of the year. Our PC is based on a percentage reduction of three-year average leakage against a 2019/20 baseline. (References **PR19NES_COM5 (NW) and PR19NES_COM6 (ESW)**)

• **Visible leak repair time** – This is a bespoke measure with financial incentives associated with under and out performance. It measures the average time taken to repair customer-reported visible leaks. (Reference **PR19NES_BES04**)

• **Mains repairs (bursts)** – This is a common PC which measures bursts per 1,000km on the entire water main network conveying treated water around the distribution area (excluding communication and supply pipes). There are financial incentives for out and under performance. (Reference **PR19NES_COM12**)

• **Abstraction Incentive Mechanism (AIM**) – This is a common, financially incentivised measure designed to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce. Our one AIM measure site at Ormesby Broad, Norfolk is intended to protect the site's valuable habitats and ecology. **(**Reference **PR19NES_BES18)**

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
Per Capita Consumption (PCC) (litres/person/day 3 year average)	4.1% reduction	3.8% increase to 156.3 litres	4.7% increase to 157.7 litres	5.6% increase to 159.1 litres	2.7% increase to 154.7 l/p/d.	Deferred to 2024/25	BELOW AV
Unplanned outages at Water Treatment Works	3.35%	5.69%	4.57%	3.51%	2.89%	£0	LQ
Interruptions to supply between one and three hours (mm:ss)	92.5%	n/a	87.9%	124.2%	95.2% of baseline (07:53)	-£0.242m	
Water supply interruptions greater than three hours (mm:ss)	5 mins 23 sec	4 mins 4 sec	5 mins 51 sec	8 minutes 17 sec	5 mins 32 sec	-£0.152m	UQ
Interruptions to supply greater than 12 hours (properties)	425	143	917	448	1,067	-£2.125m	
Leakage (ESW)* (MLD 3-year average)	10.5% reduction	0.5% reduction to 64.9MLD	3.2% reduction to 63.1 MLD	7.5% reduction to 60.3 MLD	15.3% reduction from baseline to 55.2Ml/d	£0.493m	UQ[12]
Leakage (NW)* (MLD 3-year average)	9% reduction	1% increase to 136.2 MLD	0.1% reduction to 134.7 MLD	3.7% reduction to 129.8 MLD	8.7% reduction from baseline to 123.1 Ml/d	-£0.070m	ABOVE ABV
Visible Leak repair time (average days)	4.0	9.7	6.7	7.1	4.5	-£0.214m	
Mains repairs (per 1,000km main)	127.9	127.0	110.9	154.9	109.4 (Actual 2,902)	+£1.333m	UQ
Abstraction Incentive Mechanism (AIM)	0	n/a	n/a	n/a	n/a	£0	

Per Capita Consumption (PCC)

We have not achieved this PC.

Our PC requires us to deliver a reduction of 5.3% by 2025 against a baseline of 150.6 l/hd/d in 2019/20, on a three-year rolling average basis. Our PCC for 2023/24 is 152.5 l/hd/d. This represents a 0.8% reduction from 2022/23 and a 7.9% reduction since 2020/21. However, annual PCC is still 1.3% higher than the target base year (3 year average). The three-year average PCC, which is 154.7 l/hd/d in 2023/24 remains inflated by the material and sustained impact of the Covid-19 pandemic. We expect this to reduce as the three-year rolling average moves forward.

Reported	Base Year	2020/21	2021/22	2022/23	2023/24
Annual average PCC NWG	-	165.7	157.8	153.8	152.5
3-year average PCC NWG	150.6	156.3	157.7	159.1	154.7

[12] Comparison based on litres per property per day

There are four core elements that impact Per Capita Consumption (PCC); water efficiency interventions, water metering (including smart metering), Government-led supportive policy change and external impacts such as Covid-19 and extreme weather. There is a clear link between the performance of our metering programme and the impact on PCC. The metering delivery outcome can be found in Theme Three.

Impact of Covid-19 on PCC

In September 2021, we wrote to Ofwat setting out a comprehensive evidence base of the sustained and material impact on PCC (7.3% increase in 2020/21). The estimated impact for 2023/24 remains at a 1.6-2% increase potentially due to Covid with hybrid working and sustained behavioural changes account for this increase. These impacts are not unique to Northumbrian Water and are evident nationally.

We contributed to the latest collaborative research delivered by Artesia and Frontier Economics on “Water use shock event effects and regulatory treatment” (here). The research concludes:

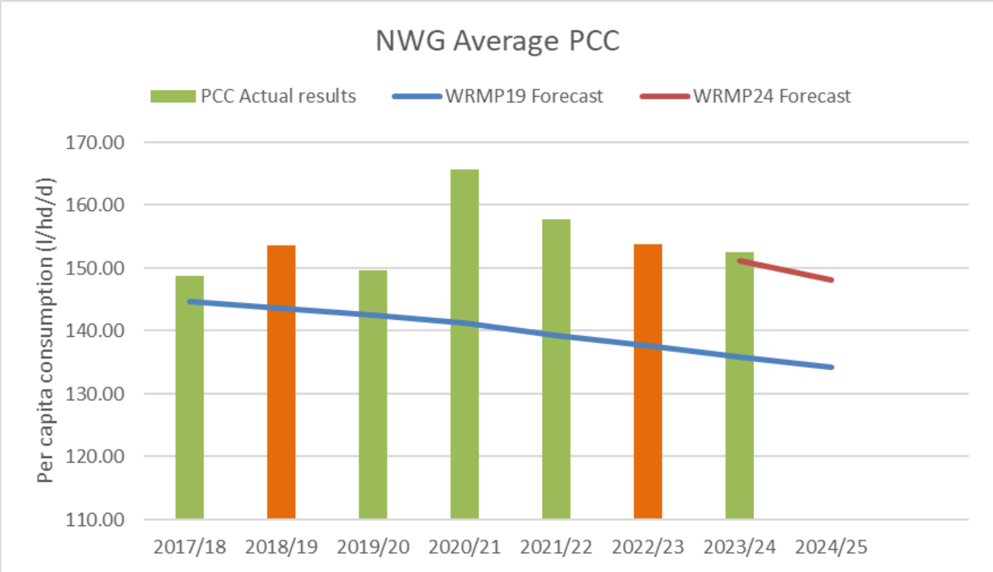
- the working from home impact has persisted since Covid-19 restrictions ended. Evidence also suggests the coincidence of hot-dry weather with other shocks has amplified the PCC effects of extreme weather events, whose increasing frequency and severity are being exacerbated by climate change.
- that 'shock' events in recent years have caused a disconnect between company activity to reduce PCC and the changes in PCC that companies have reported. Without an adjusted regulatory approach to PCC, this could undermine efficient investment incentives going forwards.

We have also undertaken our own comprehensive data analysis, customer research and reporting on the Impact of Covid-19 on Demand, on an annual basis. In addition we have worked with the Met Office to produce annual modelling of water demand across our regions which disaggregates the impact of Covid-19 on demand from other variables that influence PCC. Our modelling work with the Met Office shows:

- PCC for our operating areas overall increased by 5% between April and August 2020, with 63% of this due to an increase in base demand from normal, and 37% was due to an increase in weather dependent demand from normal.
- Between April and September 2021, demand in all three of our operating regions stayed higher than 2019 (pre-Covid). The weather dependent demand seen from people being at home using water in the garden had significantly reduced in this period compared to 2020/21. From this it can be concluded that Covid-19 alone impacted total demand and PCC over and above the effects of the weather.
- Between April and September 2022, both the relationship between weather and demand and the non-weather dependent (base) demand in all three of our operating regions returned to pre-Covid levels. Weather dependent demand contributed significantly to the total usage over the periods of warmer and drier weather, with conditions not previously captured in demand data, either before or during the Covid period.

We have also completed several phases of customer research to understand changes in work location, staycations and water use now and in the future. Customers told us working from home has increased and that they were using more or much more water. Frequent surveys have allowed us to understand the trends and changes over time.

The figure below shows the average PCC for NWG since 2017/18 with ‘dry’ years highlighted. It appears the impact of Covid on PCC is lessening in recent years however PCC is yet to return to pre-Covid levels. Considering metering and water efficiency activity in 2023/24 and the warm wet weather conditions experienced PCC still appears higher than expected. This is a combination of the continued impact of covid and subsequent increased working from home patterns but also the impact of the drought in 2022 effecting the consumption data because of lower numbers of meter reads. The lack of actual data for the period increases our uncertainty of measured household consumption (to 6%) as a higher proportion of billed consumption is estimated from estimated reads and the accrual process than normal.



2022 was the warmest year on record for the UK. Extreme heatwaves in the summer months included temperatures of more than 40 °C being recorded in the UK for the first time, and all four seasons were in the top-ten warmest for the UK overall. It was also the driest January-August period since 1976 and drought conditions were declared across parts of England and Wales. Dry weather is proven to impact household consumption with increased water use particularly outdoors.

Conversely to the impact of the summer drought, the large rises in energy costs have also impacted water consumption with measured households reporting they reduce or are more efficient with their showering, dishwashing and washing machine habits. We will continue to carry out research and data analysis annually to 2025 to make sure we have a robust and clear picture of how the pandemic continues to impact PCC.

In addition to the impact of Covid the increase in internal plumbing loss (IPL) estimation has also impacted PCC. By increasing the estimate of IPL this increases the IPL estimate assigned to properties within our unmeasured small area monitor in NW. For example, last year the change in IPL added an additional 14.6 l/property/d onto unmeasured household consumption in NW in 2022/23. This has a direct impact on average PCC when considering 55% of households in NW are unmeasured. In summary, the changes in IPL assumptions increased NWG PCC by on average 2.7 l/hd/d.

The PCC reporting methodology is broken down into reporting components. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

<u>Water Efficiency Programme</u>

In WRMP19 we committed to reduce PCC by 1.2% each year, 0.6% of which would be achieved through delivery of water efficiency interventions (with the remainder coming through increased metering and customer-side leakage reduction activities). In 2023/24, delivery of our water efficiency programmes resulted in a saving of 1.34 Ml/d (488.55 Ml/year). This equated to a 0.18% reduction in PCC against the WRMP19 target of 0.6% from water efficiency activity. We anticipate we will reach between 28% and 33% of the planned water efficiency activities over the 2020-25 period (impacted by our restricted ability to deliver interventions early in the AMP due to the Covid-19 pandemic).

Whilst we can demonstrate that the material and sustained impact of the Covid-19 pandemic on household consumption (see above), have had a material impact, we accept that these impacts do not account for the entire shortfall in our 2023/24 PCC performance. As outlined in our response to the Joint Regulators letter (December 2022), we outlined an Action Plan to address the challenges and acknowledge the regulators' challenge that we should redouble efforts.

Accordingly, we continue to adapt and innovate our approach to water efficiency including:

- Establishing a comprehensive PCC Tactical Plan, which reports into a director-led monthly PCC Focus Group providing governance. Updates on the PCC Tactical Plan are taken to the Executive Leadership Team on a quarterly basis.
- Being proactive in understanding of impact of Covid-19 on PCC.
- Substantially pivoting our water efficiency strategy to including targeting water efficiency visits at highest users with enhanced focus on personalised behaviour change and longer term follow up, via our Water's Worth Saving programme.
- Upscaling our leaky loo and home retrofit programmes.
- Leveraging our smart meter installation programme to allow us to evaluate the effectiveness of various water saving interventions – and achieve maximum future uptake.
- Making water efficiency a key part of our NWL Innovation Festivals with dedicated sprints focusing on water efficiency and PCC.

Our Action Plan for 2023/24, with associated commentary on performance, is shown below:

2023/24 Plan	Performance
Target: 5,333 home water and energy saving retrofits each saving c.25 litres per property per day (total 133,325 l/day) **Outcome: Exceeded action plan commitment by 30% on total water saved. 4,412 delivered saving 39 litres per property per day, saving a total of 173,412 l/day.**	This programme targets visits at highest users with enhanced focus on personalised behaviour change and longer term follow up. The Water's Worth Saving programme is our most complex, dynamic, multifaceted, and ambitious retrofit scheme yet. This new strategy allows us to maximise the water savings achieved per visit. We have worked with academia through the design, implementation, and delivery of the programme to make sure it was both built and delivered using behaviour change and social practice theory to ensure sustainable behaviour change.
Target: 3,500 leaking toilet repairs each saving a minimum of 215 litres per property per day.	This continued scaling up of the leaky loo programme was a result of targeted advertising with new developments, TV advertisements and enabling customers to

Outcome: Exceeded action plan commitment by 22% on total water saved. 4,270 leaking toilet repairs saving 215 litres per property per day.	video their toilet so we can check if it is leaking, working in partnership with Vyntelligence.
Target: Continue to engage schools and stakeholders to increase the use of online resources for primary schools teachers on The Ripple Effect. **Outcome: We engaged 1,098 pupils across our supply area through half-day workshops. Sponsorship of two sculpture trails also saw a wider range of engagement in the content.**	In-school delivery had to stop as schools closed in 2020, so we quickly pivoted our educational offering to an online platform accessible to teachers, parents and carers of Key Stage 2 children. The Ripple Effect is an innovative, interactive website that explains the principals of the water cycle and water use in age-appropriate language and delivery. Workshops were held in the summer term of the 2022-23 academic year. Led by expert facilitators, 38 free 'Water Tracker Training Camp' workshops were delivered to 19 schools with in the ESW area, reaching 1,098 pupils. Northumbrian Water was one of the main sponsors of an art and learning programme, 'Shaun on the Tyne Art Trail' which ran throughout July, August and September 2023 in Newcastle. People were asked to scan a QR code at each sculpture for more information. The sculpture that NWL sponsored had over 5320 scans, the most of any sculpture. The QR code provided information on The Ripple Effect. In addition the organisers. delivered the sheep during a 'Reveal Assembly' to 62 participating schools. The assembly included a section on saving water and The Ripple Effect content reaching over 2790 pupils. The Ripple Effect was shortlisted in the Global Good Awards in the Environmental Behaviour Change category. It won Gold in the Corporate Engagement Awards in the 'Best environmental or sustainable programme' category. We worked in partnership with Waterwise and Water UK to develop and deliver a new national campaign called Water's Worth Saving producing over 51 million impressions, nearly 700,000 link-clicks and over 12,000 engagements (likes, shares, comments and saves) exceeding its aims. We initiated this programme and led the developmental sprint to form the concept.
Target: c.12,000 bespoke water saving kits to homes **Outcome: We distributed 7,756 water saving kits**	Bespoke water saving kits were provided to 2,902 homes in the ESW region and 4,854 in the NW region. The total of 7,756 is a decrease when compared to the previous year. This is due to lower demand as there was a reduction in summer drought comms during 2023. We increased spend/activity in other areas (i.e. leaky loos) to mitigate the impact of lower than forecast water saving kit demand.
Target: c.40,000 online digital water efficiency engagements **Outcome: We engaged c24,652 customers through our water saving website, water calculator and pledges. This is a fivefold increase on the previous year. Digital journey improvements identified in 2022/23 have seen improved experience for customers.**	Core to this was the implementation of an innovative online survey/calculator that customers can use to understand more about their water consumption, how it links to energy consumption and offers a personalised report detailing key actions they could take and the associated benefits. Future development of the Water and Energy Saving Calculator will deliver tailored Water Efficiency digital journeys while enhancing our ability to use customer data to benefit a range of strategic and performance objectives. The target was based on anticipated digital engagement resulting from our smart meter rollout. We anticipate increased digital water efficiency engagements as the smart programme rolls out at scale.
Target: Pilots and tests of water efficiency advice, product installation and leakage repair at point of smart meter installation to understand the best method of delivery and impact.	We have now installed 1,179 flow regulators with Smart Meters sending usage data. We are utilising this data to better understand water savings along with modelling premise and socio-economic characteristics so we can, best understand where to install devices in future to realise the biggest savings. Savings in early pilots were

Key Outcome: 1,179 flow regulators fitted at point of Smart Meters installation, far exceeding our expected pilot numbers.	measured at 21 litres per property per day. However, we expect with property selection through data modelling, average savings will significantly improve. These savings have a positive impact on customer bills, water demand reduction and reductions in our carbon footprint. We are early adopters of this new and opportunity-filled technology and we will continue to test and learn, adapting our delivery model as we increase knowledge and understanding of impact. Since the Innovation festival we are also working on a trial of LeakBot, a technology which will support identification of internal leaks and provide guidance of how to resolve. We see this as a potential solution to areas where Smart meters will arrive in later AMPs.
Funding and actively contributing to three water efficiency related programmes from Ofwat's Water Breakthrough Competition Challenge and awaiting the outcome of another	**£3.8m Fair Water** If we are going to reduce the amount of water and energy that we use, then we will need to find different ways of carrying out these tasks, perhaps by using different products or devices installed in our homes, or simply through making small changes to our behaviour. We're working with our partners on the Fair Water project, to develop solutions tailored to individual circumstances and characteristics. See https://www.nwg.co.uk/fairwater for the latest. **£1m Water Literacy** We are leading the Water Literacy Programme, which aims to raise awareness of the value of water through an accredited learning experience. Working with core partners Waterwise and Groundwork East (and a wider consortium of eight further partners), we will address the lack of awareness and understanding of water use and drive sustained behaviour change. The 2.5 year programme is in the mobilisation phase. **£300k Water efficiency in faith and diverse communities** We are contributing partners in an 18-month project on water use relating to faith in association with Cambridge University and South Staffs Water. The project kicked off in May 2023 and seeks to establish a deeper understanding and evidence base on how water is used and valued in different faiths and cultures. It also aims to develop a more inclusive and comprehensive water efficiency engagement and support framework which water companies can adopt in future.
A water efficiency related sprint at the 2023 Innovation Festival	In the 2023 Innovation Festival, water efficiency was integral to sprints focused on resolving internal leakage with Southern Water, non-household demand reduction with retailer Wave and laundry with P&G. In 2024, we will deliver a sprint on utilising smart meter data to support on internal leakage and customer behaviour.

We have also:

- Taken active and leading involvement in two national water efficiency behaviour change campaigns: Water's Worth Saving and Pledge23. We were the key partner in developing the social media led campaign called Pledge in 2021 with Waterwise.

- Integrated water efficiency as a core customer journey in our smart metering programme. Our Smart meter installation programme is allowing us to trial various water saving interventions, across different customer groups, at different stages of the customer journey. Smart meter data will allow us to better understand the impact of these interventions and create customer profiles, which will allow us to create tailored offerings to get the maximum customer uptake in future.

- Led and chaired the ‘task and finish’ group focused on building the evidence and case for the co-delivery of water and energy efficiency (now aligned to Strategic Objective 7 of the new national Water Efficiency Strategy 2030).

- Re-established and chaired the Water Efficiency Collaborative Fund Board, a £100k research fund contributed to by all water companies to further all our aims of reducing PCC. This has led to improved understanding of the performance reality of Building Regulations Part G standards, delivered an Enhanced Audit Framework to ensure all companies understand the best practice for delivery of visits to homes and learnings, and funding to understand rainwater harvesting (RWH) and cultivation techniques for water efficiency on allotments.

We continue to recommend that 2020-25 PCC targets be adjusted by holding companies to account for the % reductions in PCC committed to at PR19 but measured against a baseline adjusted for Covid-19 impacts.

We remain committed to long-term targets to reduce PCC to 118 litres per person per day by 2040 and 110 by 2050. We continue to advocate the use of metering as an effective means of reducing consumption and hence increased meter penetration will continue to be a vital element of our strategy. In line with this our 2025-30 plan proposes compulsory metering in our Essex & Suffolk operating area. Our Northumbrian operating area is not sufficiently water stressed for compulsory metering to be permitted - here we will continue to promote the benefits of metering to our customers, however for the time being will be reliant on customers opting for a meter. This reduces the level of control we have over the number of meters which will be introduced, and in turn the certainty with which we can expect to deliver the associated reductions in consumption.

Unplanned Outage

We have achieved this PC.

Ofwat set us the stretching target of having only 2.34% of unplanned outages by the end of 2025, with a glide path to demonstrate us getting there year on year.

Every day we discuss how best to look after the treatment of water and the control of its distribution around our network. We look to minimise the time of any unplanned, or planned treatment issue and over each year we are tested by the weather. We have further improved our UPO performance, reporting 2.89% across the year against a performance commitment for 2023/24 of 3.35%.

We continue to inform Ofwat of any unplanned or planned situations when we’re unable to meet Peak Week Production Capacity (PWPC) because of any asset failures or the inability to treat water to required standards. In addition, we continue to improve our processes and simplify the data entry process for operations. Internal engagement through regular meetings and outage reviews means our people have a clear awareness of the need to accurately record outages. Our internal and external audit teams ensure the number we provide is accurate.

Our improvement plans remain centred on proactive maintenance regimes, continued operator asset care and delivery of future investment to our water treatment assets.

The unplanned outage reporting methodology is broken down into reporting components. We look to continually improve the UPO reporting mechanism, this year by streamlining the review process, ahead of automating it as much as possible. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

There is also a requirement for 'capacity testing' to be undertaken at out WTW sites to inform accurate reporting of this measure. We will carry this out in advance of March 2025 – meeting the requirement for these to be conducted on a 5 year basis. These will be undertaken using a risk based approach (again consistent with the reporting guidance) using telemetry data in the first instance to identify any sites where there appears to be a deteriorating trend or other anomaly in capacity data and trends.

Water supply interruptions (1 to 3 hours, > 3 hours and > 12 hours)

We have not achieved these performance commitments.

An interruption to the water supply can occur on a planned basis when we carry out network maintenance or unexpectedly when a burst or other failure occurs in the network. We recognise that interruptions to the water supply can cause our customers real inconvenience - especially when they are unexpected, and we cannot warn customers in advance. We put our customers at the centre of our response to a supply interruption and despite failing the targets expect our performance to remain in the upper quartile of the industry. Our focus is to restore our customers supplies before undertaking any permanent repair, while always taking a balanced approach to other considerations such as environmental protection and the health and safety of our team and the public.

Our underlying performance for most of the year had us on track to achieve our PC levels (for the > 3 hr and > 12 hr metrics) and was very close to target for the >1 hour metric.

On 18th January 2024, a burst on the inlet to Walpole Treatment Works in Suffolk led to around 3000 properties in the Halesworth, Dennington, Saxstead and Framlingham areas experiencing low pressure or no water. Water was injected directly into the network via tankers to limit the number of customers losing their supply. Proactive delivery of bottled water was carried out to approximately 800 properties registered as Priority Services Register. A bottled water station was also set up in Hailsworth. All customers were back in to supply and the incident was closed down on 19th January 2024.

Our deployment of mobile storage units (MOWBIs) proved effective at mitigating the impact of the incident on customers. This is a good example of innovation projects being scaled up rapidly once their effectiveness is proven.

Our final position of 05:32 is slightly in excess of the target of 05:23 and has been significantly influenced by an event in Suffolk at the beginning of 2024.
This event itself added 61 second to our reported annual performance figure for the > 3 hour metric resulting in a final position of 5m:32s against a target of 5m:23s – indicating a typical annual run rate against this PC of 04:29.

Our year end figure for the between 1 and 3 hour metric of 07:53 is 13 seconds above our PC target. Five seconds have been added because of the event in Walpole, Suffolk.

The incident added 965 to the > 12 hour metric This masks very good underlying performance where our year end performance would otherwise have been well under PC.

Longer term our performance against these metrics remains susceptible to external factors in particular weather events such as storms or flooding which are expected to increase in frequency due to climate change and which can disrupt the operation of our assets, particularly if they affect power supplies. Our PR24 Business Plan will set out robust proposals to address this, however delivery of these proposals will be dependent on provision of associated funding.

The interruptions reporting methodology is broken down into reporting components. We can confirm that that the reporting methodology used to provide these figures is consistent with a ‘green’ (I.e. compliant) assessment against each component.

Leakage Northumbrian Water (NW) and Essex and Suffolk Water (ESW)

In ESW we have reduced leakage from 55.6Ml/d in 2022/23 to 50.8Ml/d in 2023/24 (an 8.6% year on year improvement) which gives a 3-year average of 55.2Ml/d against a PC of 58.4Ml/d which in turn equates to a reduction of 15% against a PC of 10.5% - achieving the PC.

In NW leakage has changed from 118.8Ml/d in 2022/23 to 120Ml/d in 2023/24 which gives a 3-year average of 123.1Ml/d against a PC of 122.7Ml/d (a 9% reduction) missing the PC by the narrowest of margins.

In combination we have achieved a 3yr average leakage level of 178.3Ml/d – lower than a combined target of 181.1Ml/d

These leakage levels represent 17% of overall distribution input in NW and 11% in ESW.

During the year we achieved some of the lowest levels of leakage ever recorded in both regions. The weather has been relatively kind which enabled us to drive down leakage levels throughout the summer and even with a couple of freeze/thaw events in the winter we were able to recover quickly without too much of an impact on the annual figures.

Some of the projects that have delivered improvements this year include a programme of pressure management optimisation where we have been trying to maximise the leakage benefit from our existing assets. Our new centralised leakage strategy team has improved the prioritisation of DMAs for survey and also the most important leaks for repair. FIDO have supported our active leakage detection activities by carrying out DMA surveys using their AI devices to help us find more reactive leaks in the network. We have been working closely with Origin Tech for a number of years on their No Dig repair technology and this is the first year that we have implemented this method for all communication pipe repairs where suitable. This is delivering quicker and less disruptive repairs and we are looking to develop the technology further in order to use on mains failures in future. This is a further example of our ability to rapidly scale up innovation to deliver improved performance, and has resulted in NWL being the leader in this area. We have also been working with Origin to develop their satellite leak detection service, particularly in the Berwick region, which aims to reduce the awareness and location times to find leaks.

We are actively looking at new innovative leakage technology like hydrophones, digital listening sticks and pressure transient loggers to understand where they work best and the benefits they can deliver. This is continually influencing our strategy for the next year and beyond, to deliver our targets in the most efficient way.

Our final leakage position for the year is confirmed by an annual review of our water balance, this reconciles the total volume of water input into our supply network at our treatment works with the water that is consumed by our metered and non-metered customers, along with the water used for various other purposes, and the volume lost due to leakage.

As expected in Ofwat's reporting methodology we are continually improving the quality off all datasets to ensure we present the most accurate picture of use and leakage across our network and these elements all change annually. In our 2022/23 APR we described work that we had undertaken with a third party, Invenio, to improve the accuracy of our data in relation to household plumbing losses. This work is now concluded and we continue to use the position we set out previously – this has contributed 5.1Ml/d of the improvement in annual leakage for 2023/24 for ESW and 10.7 Ml/d for NW.

The way datasets are combined to calculate final leakage numbers is described in the reporting methodology, which ensures that performance across the industry, as well as baseline and in-year performance, are calculated consistently.

We follow this methodology, which is made up of several components of the leakage calculations. We continue to have a 'green' status against Ofwat's reporting requirements for most components including the 'Household Night Use Component' which includes the plumbing losses data.

We have one amber component for both regions for 2023/24 which relates to the size of the water balance gap of 2.41%. for ESW and 2.13% for NW, only narrowly over the threshold for Green of 2%

We do not consider that this has a material impact on the accuracy of our reported leakage because:

- The water balance gap has been allocated to the various water balance components – including leakage - using the best practice MLE methodology, which allocates the unaccounted for water across the water balance components according to their relative accuracy, that is components considered to be less accurate (with a worse 'confidence grade') are given a higher allocation.
- Sensitivity analysis shows that reported leakage is not especially sensitive to the confidence grade used for the leakage component, that is if the confidence grade for the leakage component is artificially worsened (so that a greater proportion of the gap is allocated to leakage) it does not have a material impact on overall reported leakage.
- For 2023/24 we have reviewed and refreshed our calculations and data for trunk mains leakage. Partly as trunk mains leakage (in the North) is now in the region of 5% of total leakage - so an annual update is required by the reporting methodology, and partly as a precaution to assure ourselves that the water balance gap is not being exacerbated by any inaccurate assumptions in relation to trunk mains leakage. This update to trunk mains leakage data has reduced the water balance gap which would otherwise have been 'red' in both regions. It has also increased reported leakage in both regions – resulting in the PC fail in NW.

Our external technical auditors, PwC, performed independent assurance procedures in relation to leakage performance information. PwC's independent assurance report, including the scope of their work and the assurance opinion, can be found here.

Our board has considered the reporting of 2023/24 leakage performance at some length including specifically:

- the completion of data improvements in relation to both household plumbing losses and trunk mains leakage – and their opposing effects on reported leakage - as described above;
- the fact that we do not consider such data improvements to represent a change to reporting methodology – the rationale for which was set out in a previous query response to Ofwat[13], and
- crucially the overall audit opinion provided by PwC in relation to both 2022/23 and 2023/24 reporting.

On this basis, and in contrast to the position set out in 2022/23, our board has decided (subject to Ofwat's determination on the matter) to accept the ODI reward due in respect of ESW leakage performance.

Visible leak repair time (days)

On average in 2023/24 we repaired visible leaks in 4.5 days. This is marginally higher than our PC target of 4.0 days.

We recognise that continued focus on this measure is important for customers, particularly during times when we are asking customers to be mindful of their own personal consumption - they want to know that we are working hard to minimise leaks and it's not acceptable to fall short of our targets.

We are disappointed not to achieve the PC, however have significantly improved performance. Over the past 12 months we have reduced our average repair time from 7.1 days down to 4.5 days. The number of visible leaks repaired this year is lower than 2022/23, however the number of visible leaks repaired is comparable to 2021/22 where our average repair time was 6.7 days. During the year, there were five months where our performance was 4.0 days or below. We also achieved our best ever monthly performance in November by averaging 3.4 days across all our operational areas. Regionally, our performance in our Essex and Suffolk operational area was 3.1 days across the year.

We have continued to be proactive in triaging and resolving customer reported leaks. Our use of 'No Dig' technology continues to grow, specifically to repair visible leaks arising on communication pipes and ancillary assets.

Mains repairs (bursts)

We have repaired 109.4 mains bursts per 1,000km, which is well below our PC of 127.9. We will receive a reward of £1.333M which is the maximum available. This year we did not experience a repeat of the record summer temperatures or prolonged freeze-thaw winter conditions experienced during 2022/23. As such our performance returns to a position more aligned to the 2021/22 reporting year.

In 2023/24 we replaced approximately 20km of distribution main in the Northeast and 10km of distribution main in Essex and Suffolk. We are also continuing to identify new pressure management opportunities as well as optimising existing assets to reduce mains bursts

Our business plan for 2025-30 proposes to significantly increase investment in new water mains over 2025-30, subject to reaching a funding agreement with our regulator Ofwat. We have concerns that replacement rates for certain types of asset imply an asset life far greater than is likely to be achievable in practice – presenting a risk that companies may be storing up risks for future generations - and we are keen to address this. We have calculated that historic funding allowances for

[13] Query NES-APR-IP-005 in relation to NWL's 2022/23 APR.

the sector are consistent with companies on average replacing 0.17% of their water mains network per year – a replacement rate which is unlikely to be consistent with an estimated asset life for these mains of between 63 and 125 years.

Our business plan proposes to invest £63 million over 2025-30 from base allowances to replace c£230km of mains (equivalent to 0.17% per year), but also seeks additional funding of £74 million to increase the replacement rate by a further 0.20% of the network per year. Even this higher rate is unlikely to be sufficient to maintain asset health in the longer term, however it presents a no regrets investment which (subject to approval) will enable us to start to mitigate the risk while balancing investment plans with current cost of living pressures for customers, and allowing time for further work to identify what the optimum renewal rate is for the longer term. Further details can be found in the associated investment case which formed part of our PR24 business plan.

The reporting methodology for mains repairs is broken down into reporting components. We can confirm that that the reporting methodology used to provide these figures is consistent with a ‘green’ (I.e. compliant) assessment against each component.

CASE STUDY: NO-DIG: REVOLUTIONISING WATER PIPE REPAIRS

Originating from our Innovation Festival in 2021, No-Dig emerged as a groundbreaking solution to water pipe leaks. Developed alongside Origin Tech, it underwent rigorous testing throughout the year, including live trials on various pipe diameters and materials. These trials demonstrated its effectiveness in repairing leaks swiftly and efficiently and more than 1000 successful repairs have since been carried out.

No-Dig stands out in the industry for its simplicity, ease of use, and environmental benefits. Unlike traditional methods, it requires no excavation, minimising disruption to customers and reducing carbon emissions. The all-natural, food-grade materials used ensure safety for water sources. Its adaptation from technologies used in other industries showcases our innovative thinking in addressing leakage issues, with a focus on meeting regulatory standards and ensuring water quality.

The adoption of No-Dig has yielded significant benefits; enhanced customer satisfaction by reducing disruptions and maintaining water supply continuity. Cost savings are realised through decreased traffic management expenses and the safety of our maintenance teams is improved by eliminating risks associated with traditional digging methods.

The potential for widespread adoption of No-Dig extends beyond Northumbrian Water, with trials already underway across the industry.

Abstraction Incentive Mechanism (AIM) - PR19NES_BES18

Our PC in this area (the number of days beyond the collar level) is zero and once again we are reporting performance as N/A as AIM was not triggered this year - as Broad water levels were managed to remain above the AIM water level trigger point. Despite summer rainfall being variable (with June and August being below average and July significantly above), abstraction from Ormesby Broad was below average due to water quality reasons. The AIM has only been triggered once, in 2018, when summer rainfall was around 50% of long-term average.

We report the number of days in our WRMP Annual Review which we submit on 30 June. The Annual Review is then approved each year by the Environment Agency.

(For the PC PR19NES_BES18 Abstraction Incentive Mechanism (AIM), (RAG ref. 3A.14), the performance level for both previous year 2022/23 and current year (2023/24) is N/A as AIM was not triggered in either year.)

Each AIM measure is bespoke to a particular waterbody, so results are not directly comparable across water companies.

CASE STUDY: LANDMARK MOMENT FOR £155M WATER INVESTMENT

The first pipes have been laid in a new 57km water pipeline, which will support supplies to more than 200,000 people across the North East. Our Project Pipeline: County Durham and the Tees Valley is a huge £155m investment in futureproofing the resilience and quality of water supply to customers.

Phase 1 of the project, which will connect Lartington Water Treatment Works in Upper Teesdale with the town of Gainford and across to Shildon, County Durham, will see the replacement of sections of the network that have served the area for more than 100 years, alongside new stretches of pipeline.

A second phase is currently being planned, with work scheduled to start in 2025, further connecting the pipeline on to Teesside at Long Newton. James Dawes, Project Manager, said: “This is one of the biggest ever investments in customers’ water supplies here in the North East. Following years of planning and preparation, to ensure we can deliver this project in the best way possible, it’s fantastic to see the first pipes in the ground.

“We will continue to work with Farrans Construction and our other partners, with local stakeholders, communities and customers, as we progress across the south of County Durham and into Teesside, delivering benefits for 200,000 customers.”

Stephen Coates, Project Manager, Farrans Construction, said: “This is an important project that will provide resilience in the water supply for many years to come. We look forward to continuing to support the local community through our social value programme and already we have worked with social enterprises, charities and taken part in the Cotherstone 5km run.”

CASE STUDY: £48M FOR ESSEX AND SUFFOLK WATER SUPPLY

Four projects that will help maintain secure supplies of water to 1.8m people across Essex and Suffolk have been given a funding boost that will enable work to start sooner than planned. Accelerated funding will allow us to bring forward the start of vital works represents a combined £48m of investment in boosting the resilience of the water network in Essex and Suffolk. Rather than starting work on the projects in 2025, the funding will allow progress to begin this year with a potential for up to £22.72m to be spent by the end of March 2025.

The investment includes:

- £12.74m on a new water treatment works and borehole in Linford, Essex, which will add an extra seven million litres of capacity into the local water network.
- Detailed engineering designs for the £12.49m Suffolk Strategic Network and Storage Enhancement Schemes. This work will lead to the construction of two new strategic pipelines in Suffolk, which will allow surplus water to be transferred more easily around the county to the areas that need it.
- Detailed design of the £15.08m North Suffolk Winter Storage Reservoir, which would further add resilience to Suffolk’s water supplies.
- Detailed design of the £7.79m Lowestoft Reuse scheme.

The storage reservoir and reuse schemes have the potential to work alongside the Suffolk Strategic Network and Storage Enhancement Schemes to add further resilience to supplies for customers in Suffolk.

Kieran Ingram, our Water Director, said: “The challenges we face in Essex and Suffolk as a result of the dry weather and changing climate are recognised by this decision. These investments will support the tireless efforts of our team to keep the water flowing for all of our customers, all day, every day.

“This funding will allow us to do more, faster, and that’s great for our customers and our region.”

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

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

Our performance commitments for this Outcome are as follows:

• **Water quality compliance (CRI)** – CRI is a common, penalty-only, calendar year PC using a risk-based monitoring methodology, which assesses water quality compliance against our statutory obligations. (Reference **PR19NES_COM03**)

• **Event Risk Index (ERI)** – this is a bespoke, penalty-only, calendar year measure and this PC incentivises us to promote a proactive approach to risk mitigation of water quality events, including understanding the impact of events on customers. Events are assessed by the Drinking Water Inspectorate (DWI), and the assessment considers the seriousness of an event, our response, the population impacted, and the duration. (Reference **PR19NES_BES13**)

• **Discoloured water contacts** – this is a bespoke calendar year measure that reflects the number of times we've been contacted by customers due to the appearance of their tap water not being clear, per 10,000 population. The appearance measure covers seven contact types including discolouration (brown/black/orange and blue/green/pink), aerated water, particles, and general conditions. (Reference **PR19NES_BES11**)

• **Satisfaction with taste and odour of tap water** – this bespoke measure reflects the number of times we've been contacted by customers to report perceptive issues with the taste or smell of their tap water, per 10,000 population. We want our customers to be satisfied with the taste and smell of our tap water. (Reference **PR19NES_BES12**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
Water quality compliance (CRI)	0	7.11	6.36	7.62	3.45	-£2.718m	ABOVE AV
Event Risk Index (ERI)	81.870	197.592	289.699	166.907	137.891	-£0.112m	
Discoloured water contacts	8.21	8.22	8.42	7.85	6.88 (3131 actual)	+£1.168m	
Satisfaction with taste and odour of tap water	2.04	1.75	1.89	1.75	1.70 (776 actual)	+£0.299m	

Water quality Compliance Risk Index (CRI)

Our CRI was 3.45 (to 2 decimal places) against a PC level of 0, incurring a penalty of £2.718 million. Despite not meeting the target this performance represents an improvement in performance from our overall score in 2022 by 4.17 CRI units.

For 2023 most of our CRI score is derived from compliance failures in our North East operational area as was the case in 2022. Our Essex and Suffolk operating area CRI score for 2023 was 0.097 which based on industry wide figures shows a performance near the top of the industry.

When a failure occurs at an asset or in a supply area that is subject to an agreed programme of work with the Drinking Water Inspectorate (DWI), the DWI's compliance assessment will increase the associated CRI score. In 2023, this effect increased the CRI total by 1.246 units.

The biggest impact on CRI for 2023 was a pesticide failure from a water treatment works in the Tyneside area, which accounted for 0.603 units. This represents more than 19% of the final figure. This result promoted a review of our pesticide removal capabilities at both Horsley and Whittle Dene WTWs which supply Tyneside. We have since adapted our GAC regeneration strategy to re-define the trigger levels for full media replacement with virgin carbon as opposed to actual regeneration. This will provide a much more objective assessment of the asset health of carbon processes and will also support improved capital expenditure planning.

Around 90% of the sample failures recorded in 2023 were at customers' taps at the point of use. Two thirds of these results were because of internal plumbing or the property supply pipe and therefore did not attract any CRI points. In these circumstances, we work closely with the customer to understand the issue and determine a root cause. Support for the customer can take several forms, including the issue of precautionary advice and bottled water while investigations continue, education and awareness on tap hygiene and cross contamination in the home, and the replacement of lead communication pipes supplying a property where the risk is shown to be elevated. Our aim is to make sure customers retain a high level of trust in the tap water we provide.

Metals failures (iron and aluminium) which could not be attributed to the property equated to over 60% of the total company CRI score. We are working hard in this area through pipeline management (strategic mains conditioning) and our local distribution flushing programmes to remove historic mains sediment to reduce the risk of failure.

There have been eight service reservoir (SR) failures in 2023. This is an improvement in performance compared to 2022. We are continuing with the enhanced programme of treated water storage tank inspections to mitigate some of the risks identified at these sites.

There was a single Water Treatment Works (WTW) failure in 2023 which again signposts an improvement across this asset type. This was detected at Wooler WTW in Northumberland. In response to this result, we are procuring a new rising main in 2024 to enhance the supply arrangements for this borehole site as part of a broader focus on raw water assets across the regions.

Although a significant improvement to CRI has been seen in 2023 compared to the previous year, we are disappointed to not hit our high standards in this area as we are committed to achieving industry-leading performance and are delivering our long-term plans to reach this; this includes working closely with the DWI. We've accelerated funding in our base capital programme as part of a transformation plan with the DWI. As our capital work continues, we hope to see an improvement in our performance over the coming years.

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

The journey of water from treatment through to customer tap is important, and in our networks, we are continuing with the enhanced service reservoir maintenance programme, inspecting and (where applicable) repairing a higher number of tanks per annum to maintain the integrity of these assets and minimise any water quality risks. We are using a combination of physical assessment and technologies such as Remote Operating Vehicles (ROVs) to support the inspection process.

We are continuing with smart network innovation to allow real time operational decisions to be made on the quality of water being supplied through our networks and so improve the customer experience. The water quality sensor network in Teesside is currently the largest application of this type in the United Kingdom and is supported by Ofwat catalyst funding.

Event Risk Index (ERI)

Our performance of 137.891 units for the year, fails our PC. Despite this our performance marks a 17% improvement on the previous year and continues the positive trend of the last four years.

During 2023, twenty-nine events were notified to the DWI for assessment, which is 30% less than the number of events reported in 2022. The outcome in 2023 was influenced by six high scoring events, five of which occurred in our Northeast operating area. A bacteriological failure at Chirton Grange Service Reservoir (SR) in the Tyneside area was our highest scoring event but did not result in any customer impact. The reservoir is currently undergoing significant remediation to prevent reoccurrence.

In the Essex and Suffolk region, an event during October resulted in multiple customer contacts relating to the appearance of their supply with customers reporting a green/yellow tinge to their water. A cluster of contacts in the Gorleston and Great Yarmouth areas have been linked to an unusual rise in colour levels in the river Bure following the recent storms, heavy rainfall leading to significant flooding, and tidal locking. This was also seen in the river Wensum causing Anglian Water similar issues in their Norfolk area of supply that borders our own. This slight increase in colour was noticed by some customers as unusual, particularly in large volumes of water,= such as when a bath was filled. The contact was primarily driven by social media posts on Facebook that advised customers to contact us. Colour from the supplying treatment works returned to normal levels in the treated water relatively quickly due to the treatment adjustments and blend changes made to the different sources.

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

Discoloured water and taste and smell contacts

We have achieved both of these PCs.

Our PC for discoloured water this year was 8.21, which we’ve beaten with a result of 6.88, earning a reward of £1.168M.

We’ve continued to perform better than our PC for the ninth year in a row and this has been the best performing year for appearance. Our plan continues to focus on discoloured water – brown, orange, or black, which is our major contributor of contacts to this measure. Very occasionally, and for a short time, customers’ tap water may appear discoloured. This is caused by the disturbance of harmless material in our water supply network, possibly caused by a burst, leak or third-party activity. We tackle this through a source to tap approach, minimising metals leaving our treatment works and managing any material which enters the network through several different activities.

We have a programme of work agreed with the Drinking Water Inspectorate (DWI) to improve the number of trunk mains in which flow can be automatically raised with less risk of disturbing mains material and causing discolouration in downstream supply areas. We have so far conditioned around 30% of the strategic mains identified for this technique.

Flushing of smaller sized pipes closer to customers is a key enabler for this measure as well as investigations into how to improve the other contact types such as water coloured white due to aeration. This year, we achieved our stretch target for flushing across the three operating regions and used the focused zonal approach identified in previous years to deliver another step change in performance. Over 4500km of pipe was flushed in the calendar year and we will sustain this approach into 2024.

This year, we've increased the number of text messaging and email alerts to cover the different contact types to inform customers when we are either carrying out planned work or are aware of an issue in which the potential cause is under investigation. We continue to put a lot of emphasis on employee training, to make sure we are using the correct operational techniques, which we know helps to manage the number of contacts we receive while we work on the network. We've supplied training to third party contractors to also help manage the number of contacts we receive.

We received 776 taste and smell contacts in 2023. This level of performance is better than the upper quartile (top 25%) threshold, and better than our stringent PC of 960 contacts. An outperformance reward of approximately £0.299M is payable for this measure. This is particularly good, given we were able to maintain this performance through challenging operational periods.

Water supplies for most areas routinely come from the same source. However, to carry out asset maintenance, or in response to reactive issues like a burst pipe, water to an area can be re-zoned through a different route or come from a different source treatment works. We know that customers can be sensitive to changes derived from these actions and may choose to contact us to report a perceived change in taste or odour to their supply.

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

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

Alongside operational management of our supplies, we make good use of text messaging, the company website, and social media streams to help inform, support and manage the expectations of our customers around taste and odour in line with the above themes.

Our Water Quality Inspector project in the Tees system (supported by Ofwat catalyst funding) is progressing well. Its aim is to use online water quality monitors in both the strategic and local distribution networks to identify changes in water quality parameters, providing insight to support investigations into water quality changes which may influence the taste and smell of the water, as well as its appearance. The project also incorporates leakage data to understand synergies with water quality and includes customer behavioural research to understand how the future customer wants to interact with water quality information.

CASE STUDY: £10M UPGRADE TO WATER SUPPLY

We are investing £10m in upgrades at a water treatment works that will help improve resilience and quality of the water supply to large parts of the North East.

Mosswood WTW, in County Durham, supports the supply of water to more than 800,000 customers across County Durham, South Tyneside, Washington, and parts of Sunderland and North Tyneside.

Work includes the installation of 12 innovative ultraviolet units that will support long-term water quality improvements. The system was trialled at Mosswood as an industry-first and has also been implemented at Lumley Water Treatment Works, near Chester-le-Street.

Alongside this, the treatment process will benefit from upgrades to the site's power systems and the addition of two new chemical storage tanks, designed and installed in a way that can enable further upgrades to be delivered more efficiently.

While the majority of these pieces of work have now been completed, an additional project to construct a lagoon on site to store and manage process water is expected to be continue until Spring 2024. This allows partially treated water to be held on site, in the case of an issue with the treatment process, helping to protect the environment.

Project Manager, Lowri Robbins said: "This collection of works represents a significant investment in Mosswood Water Treatment Works, that will deliver clean, clear and great tasting water for our customers, now and into the future, as well as environmental benefits."

CASE STUDY: UPGRADES TO WATER FOR MORE THAN 1MILLION CUSTOMERS IN ESSEX

We've doubled the capacity of our washwater facility at Hanningfield WTW by completing a £14m project that will enhance the resilience and quality of drinking water for more than a million people across Essex.

The investment has seen the installation of two new 1.25 Megalitre tanks, along with a new pumping station to support the additional water flows. The washwater facility takes water that has been used for cleaning the site's filters, so that it is not sent straight back into the environment.

Once it has been given time to settle, samples are taken, with the cleanest water being returned to Hanningfield Reservoir, with the remaining sludge going into the site's innovative reed bed facility.

These reed beds were a first for sustainable solution for water treatment sludge, representing a saving of 70 tonnes of CO2 emissions a year, compared with the traditional system. They provide a natural method of dealing with the sludge, recycling the water back into the reservoir for re-use and removing the need for mechanical or chemical processes, along with the associated maintenance, labour and power.

George Mok, our Project Manager, said: "This has been a project that has required great teamwork from across our business, from colleagues in Operations, to Regulation, to Conservation, as well as with the team at Farrans & TES, and we are really pleased that the newly expanded facility is now in action."

Steve Haviland, Contracts Manager for Farrans Construction, said: "There have been a number of excellent innovations in the water sector in recent years which will have a significant impact on the environmental sustainability of washwater facilities in the future and we are proud to have been involved in this one at Hanningfield.

“The new treatment works are built for the future, with capacity and conservation at the heart of the design. The project was an excellent example of collaboration throughout from design to commissioning.”

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

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

Our performance commitments for this Outcome are as follows:

• **Internal sewer flooding** – this is a common performance commitment with financial incentives associated with under and out performance. The performance commitment records the number of internal sewer flooding incidents per 10,000 connected properties per year. (Reference **PR19NES_COM08**)

• **Repeat sewer flooding** – this is a bespoke performance commitment with financial incentives associated with under and out performance. This measures the number of incidents where properties have flooded internally more than once in the last five years. (Reference **PR19NES_BES17**)

• **External sewer flooding** – this performance commitment records the number of external sewer flooding incidents per year. This is also a bespoke measure with a financial incentive applied for under or out performance. (Reference **PR19NES_BES16**)

• **Sewer blockages** – This is a bespoke measure with financial incentives associated with under and out performance. This records the number of sewer blockages per year. (Reference **PR19NES_BES15**)

• **Risk of sewer flooding in a storm** – This is a common performance commitment with no financial incentive. This records the percentage of population at risk in a 1 in 50 year return storm as defined by hydraulic modelling. (Reference **PR19NES_COM11**)

• **Sewer collapses** – This is a common measure with an associated penalty for under performance (we do not earn a reward for outperformance). The measure is a count of the number of sewer collapses we report per 1,000 km of sewer that have not been identified proactively and which cause an impact on service or on the environment. (Reference **PR19NES_COM14**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
Internal sewer flooding (per 10,000 connections)	1.44	1.89	1.84	1.21	1.21 (159 actual)	+£0.580m	UQ
Repeat sewer flooding	39	25	23	20	24	+£0.827m	
External sewer flooding	2,828	3,862	3,454	3,018	2,764	+£0.276m	BELOW AV
Risk of sewer flooding in a storm	24.8%	16.11%	16.11%	16.11%	16.11%	N/A	
Sewer blockages	10,950	12,023	11,991	10,949	9,733	+£0.949m	UQ
Sewer collapses (per 1,000km of sewers)	8.79	9.82	8.71	9.29	8.39 (254 actual)	£0	BELOW AV

Internal sewer flooding, External Sewer Flooding, Repeat Flooding & Sewer Blockages

We are very pleased to have achieved all four of these performance commitments.

- While internal flooding incidents were slightly higher than in the previous year overall since the end of 2019/20 we have reduced the number of internal sewer flooding incidents we report by more than 65%.
- For repeat flooding we have significantly outperformed our PC for the fourth year in a row.
- We have achieved our PC for external sewer flooding for the first time this regulatory reporting period and have improved our performance by a further 8% compared with the performance we reported last year. Overall, since the end of 2019/20, we have reduced the number of external sewer flooding incidents by over 40%.
- We have achieved our PC for the year having reduced blockages by a further 11% compared to last year. Since the end of 2019/2020 we have reduced sewer blockages by over 18%.

This level of performance has been delivered despite this year being much wetter than previous years, with annual rainfall up by more than 49% compared to the previous year – showing that the interventions we have made to reduce flooding incidents are robust. We have also seen significantly more named storms impacting our region when compared to other years and as a result we have experienced more heavy periods of severe rainfall compared to last year. On Sunday 10 September 2023, the day of the Great North Run, our region experienced significant and heavy rainfall, with storm return periods recorded at over 1 in 150 years (that is a rainfall event that is likely to occur less than 0.006% of the time).

This storm led to flash flooding across our region, with travel disruption and road closures widespread. Our teams have not experienced a storm as intense as this one since "Thunder Thursday" back in 2012, and on 10 September we had over 700 flooding contacts reported to us in one day. This number of contacts means that from this event alone, we received nearly one months' worth of customer contacts we typically expect in just a single day.

Our colleagues worked with our partner organisations to create an operational incident partnership to help us respond to all our customers, collecting vital information in a more efficient manner.

Our performance for sewer flooding continues to be driven by the rigour we undertake through manager led investigations as well as from the interventions we carry out as part of the sewer flooding tactical plan we have had in place since 2019.

Key elements of this plan include our Bin the Wipe campaign where we have now directly reached over 235,000 households with our operational activities and contacted a further 600,000 with targeted letters in hotspot locations.

We also introduced a new activity to our plan last year where we now CCTV all blockages that occur on the network. This helps us to investigate and rectify any defects which may have led to future blockages or flooding from our network effectively and efficiently, and this activity is helping us to further reduce external sewer flooding to customers in the North East. In addition, our dedicated Fats Oils and Grease (FOG) team work closely with both commercial and domestic customers. We have recently increased our resource and activity in both areas to further support performance improvements in the next 12 months and to also sustain the benefits we have already seen. For example, we have boosted our resources in our FOG team to allow us to monitor and provide follow up visits to help ensure best practice and maintenance continues for grease management.

Blockages remain a significant contributing factor of flooding incidents on our network. However, our numbers are continuing to reduce and since the introduction of our CCTV first time blockage initiative to our tactical plan we are also now seeing a 20% reduction per month in repeat blockages.

Despite this strong performance sewer flooding, and internal flooding in particular, is one of the worst performance failures that our customers can experience. We continue to support affected customers with Guaranteed Standards Scheme (GSS) payments, as well as providing support and cleaning services post flood events. We also continue to work closely with CCW on their joint sewer flooding activities and we are exploring how we can enhance our service levels to all customers, particularly those have been worst affected, for example the small number of customers who have suffered repeat sewer flooding. We will have these plans fully embedded in our operations in the next 12 months.

Our performance this year means that we remain one of the top performing companies in relation to internal sewer flooding, with our performance above the industry upper quartile.

Despite our improving performance on external flooding, we have more work to do to improve our comparative performance. However, we have recently identified several areas where we can increase our activity, which we are confident will improve our performance relative to the industry average in the next 12 months. These include increasing the amount of proactive CCTV find and fix activity in hotspot locations by 40% and significantly increasing the number of Bin the Wipe letters we send customers to 500,000 per annum.

Our sewer blockage performance continues to be better than the industry average and we are also better than the industry upper quartile meaning that we are a top performing company in this area. Our Long Term Delivery Strategy also outlines our commitment to reduce sewer blockages to no more than 1,000 by 2050.

The reporting methodology for internal flooding is broken down into reporting components. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

Risk of sewer flooding in a storm

In May 2023 we published our final Drainage and Wastewater Management Plan (DWMP) and the modelling work we used to support this has helped us significantly reduce the percentage of properties we report to be at risk to significantly below our required PC level. Our percentage at risk is also significantly less than our required performance commitment for 2024/25, meaning we have already outperformed our PC in this area.

Despite our outperformance, we are behind in comparison to the rest of the industry. However, our final DWMP includes plans for significant investment to improve the capacity of our network. We will see wider benefits from our Storm Overflow Reduction Plan, which will improve the resilience of our network and further reduce flood risk.

Our Long-term Strategy also outlines our commitment to further reduce flood risk by 60% by 2050.

Sewer collapses (per 10,000km sewer)

We have achieved our PC for the year, having reduced the number of sewer collapses by 9% compared with last year. This means that over the last 5 years we have reduced the number of sewer collapses on our network by over 54%.

Sewer collapses by their very definition have been reported to us by customers and therefore have resulted in a service impact that we strive to avoid. All our incidents are reviewed by our technical and operational teams and any learning we identify is continuously shared. We also work very closely with our contract partners who help us identify and repair many of the defects and they also share best practice and learning from all their activities to help us improve our customer service and performance.

Despite our improvements and that we have continued to achieve our performance commitment year on year, our overall performance for sewer collapses is slightly worse than the industry average.

As a result of this, we have refreshed our tactical plans for this area and are developing several operational improvements we believe will help us on the journey to improving the number of sewer collapses we report to industry average or better over the next 12 months.

The reporting methodology for sewer collapses is broken down into reporting components. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

CASE STUDY: BIN THE WIPE HITS AN IMPRESSIVE MILESTONE

Our award-winning 'Bin The Wipe' team have now pulled one tonne of wipes out the North East sewer network which equates to over 200,000 unflushable wipes!

The milestone comes three years after the project was launched in 2020 when it was found that 64% of the 15,600 sewer blockages cleared in the North East were caused by wet wipes.

At the time of the launch, an ambitious target of reducing blockages by 40% was set. The results show this target is being exceeded year on year in the 'hot spot' areas. Most recently, teams working in North Tyneside saw a 79% reduction in wipes in the hotspot areas and in Washington a 77% reduction was achieved when intervention work was carried out.

Since the launch, the teams have reached over 433,000 households, and following a visit, the number of wipes in the network have reduced in the 'hot spot' areas by up to 91%. This reduces the chance, and cost of flooding into customers' homes, as well as having positive impacts on the local environment.

Simon Cyhanko, Head of Wastewater Networks said: "It shows the dedication and professionalism of our Sewerage Maintenance Operatives who are working tirelessly day in and day out to clear our network. By helping people to understand the problems caused by flushing wipes, and the potentially awful consequences, it really opens people's eyes and inspires change."

The success of the project and the support it has generated from customers, regulators, and stakeholders, including members of parliament, has led to it being adopted by the water and wastewater industry, and the industry body, WaterUK. This has resulted in a national 'Bin the Wipe campaign' which was launched in 2023.

THEME FOUR: LEADING IN INNOVATION

OUTCOME 10: We are an innovative and efficient company

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

Leading in innovation

Innovation is central to our business, recognised as a core value and celebrated year-round. We aim to provide value for our customers through reliable and resilient operations. To achieve this, we are fostering an innovative culture, empowering individuals at every level. This approach is key to meeting our strategic goals and has positioned us as leaders in innovation, earning recognition within and beyond the water sector.

This year, we've built on our strong foundation, focusing on developing and implementing larger ideas while promoting inclusivity. In 2023, 26.2% of our people engaged in innovation activities, surpassing our 25% target, and improving from 24.2% last year. We've expanded employee participation in innovation initiatives and enhanced our pipeline processes. Additionally, we secured 18% of the Ofwat Innovation Fund, significantly boosting our innovation capabilities. Once again, we were rated the top UK water company for innovation in the British Water supply chain survey and by independent analysts.

We measure innovation in multiple ways across the business, as detailed in the below table.

Metric	Description	Target	18/19	19/20	20/21*	21/22**	22/23	23/24
Innovation funding	External funding secured (£)	>500k	n/a	n/a	475K	11.77M	£6.6M	£6.6M
Pipeline Value	Potential worth of the pipeline	>£20m	5	15	27	£37M	£66M	£90M
Ideas in pipeline	#ideas in the pipeline	>50	42	56	70	87	109	81
Success Rate	% projects into business as usual	>40%	n/a	38	41	42	40	40
Innovation ambassador Group	# NWG ambassadors	All of NWG	14	47	71	82	96	155
Innovation Engagement	% employees actively engaged in innovation	>25%	-	-	-	20	25	26.2
IF participation	# attendees	>2500	2373	3311	2730	4000	2050	2500
Employees at Innovation Festival	# employees' part of the festival	600 (>20%)	328	484	645	439	610	690
External collaboration	# business/ organisations taking part in IF	>140	510	734	941	800	600	650
Training	Training hours delivered	>12	23	46	400	256	>500	>500
#sprints and hack	# sprints & hacks delivered at IF	>20	16	23	40	44	31	40
Unfiltered ideas	# ideas brought into the business	>300	334	615	2000	1675	1800	-
Social Reach	Social media reach at IF	>5M	4.1M	8.6M	15M	5.1M	3.8M	3.8M

Innovation culture

Our innovative culture is growing, with more employees participating. Expanding our innovation ambassador group has been key to this shift, fostering curiosity and openness in our operations and strategies. We've established 'hub leads' for each directorate to streamline communication and better manage high-impact projects. This approach has strengthened our supply chain relationships, allowing us to quickly seize opportunities and provide clear feedback.

Employee engagement in innovation has increased significantly. The ambassador group grew from 96 to 155 members, spanning all levels and departments. Our annual Innovation Festival saw record attendance with 690 participants. Updates are shared monthly through our Innovation Connect newsletter, reaching over 6,000 readers, and quarterly virtual calls with external innovators.

The Innovation Ambassador group hosts monthly training sessions with external speakers and promotes internal collaboration. Over 150 employees have received training through NWG Innovation University, totalling more than 500 hours in various innovation skills. We're preparing for ISO 56001 innovation management training, with 13 ambassadors already trained. Celebrating innovation is crucial, exemplified by the 2023 ViVa award for innovation, won by the disrupting capital delivery team.

Innovation Festival

The Innovation Festival returned for its seventh year as a hybrid event with in-person and virtual participation. The theme was "Citizens," and it achieved the highest engagement levels yet, with participants from NWG, the water sector, and beyond. The festival is crucial for generating ideas, accelerating projects, and forming consortia for future funding bids, establishing itself as a highly anticipated global event.

The festival attracted a diverse audience, essential for effective design sprints. It featured 40 activities, including 32 sprints and three data hacks, with five sprints conducted online. With 65 sponsors and attendees from 41 sectors and over 650 organisations across 33 countries, it offered extensive collaboration and networking opportunities. The professional services value of this contribution is estimated at £6 million.

We strengthened our collaboration with Australian water companies, including Sydney Water and South East Water, and supported Hunter Water in adopting our event format. The festival contributed over £2 million to the local economy and attracted significant talent and resources.

In 2023, our presence on social media platforms like LinkedIn, Twitter, and Facebook helped grow an innovation community with a social reach exceeding 3 million. The festival's output, with a potential combined value of £170 million, includes high-impact projects such as the Water Cookbook initiative, projected to save £105 million, and the Power Arrangers sprint, expected to save £10 million. Additionally, four Ofwat innovation bids were formulated during the festival, potentially worth over £10 million.

Innovation fund

During this period, we participated in the Ofwat Innovation Fund's Breakthrough 4, Catalyst, and Transform rounds. We submitted five bids totalling £7.9m to the Catalyst stream, with four bids totalling £6.5m shortlisted to the final stage: Cleaner Greener Sheets (£1.35m), METREAU (£1.66m), Pipebot Patrol (£1.62m), and Support4All Phase 2 (£1.85m). Results are expected by April 15. Of the 29 industry-wide bids, 17 advanced to the final stage.

We also submitted two bids to the Transform competition. One was eliminated, but the second, "River Deep Mountain AI" (£5.1m), advanced to the final stage, with results due by April 15. Five Transform bids are in the final round across the sector. We have built significant internal capability, submitting the most bids (30) in this competition. This has driven higher collaboration within and beyond the water sector.

Our funded projects are progressing well. The Green Ammonia project, a world-first that turns ammonia into green hydrogen fuel, was completed successfully, in collaboration with Organics, Wood Group, and Warwick and Cranfield Universities. The Support for All platform pilot for vulnerable customers was also successful, and we are exploring scaling up via a new Ofwat bid. The National Leakage Research and Test Centre (£5.3m), the first of its kind, is in the design phase. The Stream open data platform has secured funding to scale its use.

Value from innovation

We continue to accelerate innovation and expand our ideas. Our pipeline includes 81 ideas, potentially worth over £90M annually. We encourage employees to propose ideas through our Invest Quest competition; the 2023 winners were the Bran Sands wastewater team. Past winners include the Green Machine for nutrient recovery from waste streams.

In 2023, we focus on transformational ideas like the Tipping Point asset health tool, the Water Cookbook for reducing civil design costs by 3%, and the Smart Sewer project to optimise storm overflow use. We're also scaling up projects like No Dig pipe fix technology and the National Underground Asset Register. These efforts can really make a difference for customers and enhance our innovation impact for a resilient future.

We support new businesses in the water sector by providing knowledge, funding, and access to facilities. This helps grow the supply chain and introduce technologies from other sectors. For example, we adapted Origin Tech's No Dig solution from the oil and gas industry to water sector regulations, reducing leak repair costs. We also deployed Vyntelligence's AI video capture for health and safety checks.

We've supported over 50 SMEs in the past two years, helping to implement innovative solutions for more reliable and resilient services. Our openness to new ideas is reflected in our leading position in British Water's innovation survey.

CASE STUDY: EYES TO THE SKIES AS NORTHUMBRIAN WATER BEGINS WATER QUALITY DRONE

Our maiden test flight of a drone which is set to help improve the quality of the North East’s rivers and coastal waters took place in January 2024.

In a world-first for the utilities industry, we are exploring the use of drone technology to carry out at scale, real-time water quality assessments, in partnership with cloud data experts, Makutu, and Skyports Drone Services.

The test flights come after months of ground-breaking research into how the uncrewed aerial vehicles (UAVs), or pilotless drones, will use sensors, AI, and data analytics to carry out a huge water quality monitoring programme of key coastal and inland locations.

Affectionately named Project Kingfisher by the partner organisations, for the way the drones will hover and dip in and out of water, the project has explored how and what data the drones will collect, to help us respond quickly to any potential issues.

Currently, we can only survey water quality by sending our people to manually take water samples from sites, which can prove difficult when they’re a long distance away, in very rural areas, or during bad weather.

By using drones and clever technology, we expect to see improved access to hard-to-reach areas, a reduced carbon footprint, more data over a larger area with faster results.

The skies above Berwick-upon-Tweed, Bishop Auckland and Blyth will be the first to play host to Skyports Drone Services' Speedbird Aero aircraft, which have a wingspan of 1.6m, as part of the phase one of a series of flight tests.

The Kingfisher tests will involve launching the drone from key locations in these areas and it will automatically visit several pre-programmed water sampling sites.

When it is at the sampling site, the drone will hover while a number of key water quality tests are performed, before moving onto its next sample site. Meanwhile, the data it has collected will be fed back into us for analysis in near real-time.

Once phase one is successfully completed, the second phase of the trial will begin which will see the demonstration of the service to scale - operating robotically beyond visual line of sight over a period of three months, without ground observers.

Richard Warneford, Wastewater Director, said: "There's a lot of hard work gone into understanding how UAV technology can be used to collect data efficiently, and these successful test flights have proven the validity of it as part of our huge water quality monitoring programme.

"We're proud to be making history with this project and we can't wait to begin rolling it out officially across the North East – it's just another step towards having the cleanest rivers and beaches in the country."

THEME FIVE: IMPROVING THE ENVIRONMENT

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

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

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

Introduction

We fully recognise the level of public concern with regards to the environmental impact of the sector, and the operation of Storm Overflows in particular. We remain committed to our ambition to have the best rivers and beaches in the country and have updated our Vision for Coasts and Rivers with latest progress against the pledges we have made. The exceptionally high rainfall experienced in 2023 has resulted in a greater number of storm overflow spills being reported across the industry than in the previous year. We remain committed to our pledge to reduce average spills to 20 per year by 2025 - and have now installed spill monitors at 100% of our overflows and are progressing plans to make our wastewater network increasingly 'Smart' – with a UK first implementation of smart control systems. Our business plan for 2025-30 proposes almost £1bn of investment to reduce spills further. We also continue to cooperate fully with Ofwat and EA investigations into wastewater compliance.

We have 344 waterbodies in the North East, across which the EA has identified 1800 'Reasons Not at Good' status (RNAGs). 16.8% of these RNAG's are linked to the water sector, with the remainder attributed elsewhere. Hence there is clearly an important role for other sectors to play here too, and – as recently observed by the Office of Environmental Protection – it is equally important for these other sectors to also put forwards credible, costed, and funded plans to reduce their impact.

Despite challenges in some areas, we anticipate (based on our own calculations) that the EA will continue to give us a 3 star or 'good' rating in its annual Environmental Performance Assessment (due to be published late July 2024). CCW's recent report placed Northumbrian Water in first place for 'cleaning wastewater properly'.

Our performance commitments for this Outcome are as follows:

• **Treatment works compliance** – this is a common performance measure, and it is slightly different to that reported by the Environment Agency (EA) in its annual Environmental Performance Assessment (EPA) of water companies in England. This measure is reported as the total number of failing sites expressed as a percentage of the total number of discharges on the EA register. For both NW and ESW in 2020-25, this measure includes both sewage treatment works (STW) and water treatment works (WTW) discharges and is subject to penalty only for under-performance. (Reference **PR19NES_COM15**)

• **Bathing water compliance** – this stretching bespoke measure is to contribute to all the region's bathing waters being 'Good' or 'Excellent'. For 2015-20, our PC was to contribute to all the regions designated beaches being 'Sufficient or better'. (Reference **PR19NES_BES19**)

• **Pollution incidents** – our PC is a common measure for category 1, 2 and 3 pollution incidents using the Environment Agency's (EA) EPA methodology. This number is provided by the EA. (Reference **PR19NES_COM09**)

• **Water Industry National Environment Programme (WINEP) and Delivery of WINEP requirements** – these are two bespoke PCs which track delivery of our WINEP programme. Both are reputational only until 2025 where there are penalties for under performance. (References **PR19NES_BES31** and **PR19NES_NEP01**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE					
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)	COMPARATIVE UQ, ABOVE AV, BELOW AV, LQ
Treatments works compliance	100%	99.51%	98.03%	98.52%	98.54% (3 STW fails)	-£0.275m	BELOW AV
Bathing water compliance	97.06% (33 in 34 beaches)	n/a	97.06% (33 of 34 sites including 1 exemption)	97.06% (33 of 34 sites including 1 exemption)	94.12% (32/34)	-£0.732m	
Pollution incidents[14]	22.40	14.61	22.98 per 10,000km (69)	19.98 per 10,000km (60)	32.97 (99 incidents)	-£3.858m	ABOVE AV
Water Industry National Environment Programme (WINEP)	535	0	347	447*	549	N/A	
Delivery of WINEP requirements	Met	Met	Met	Met	Met	N/A	

[14] As reported by the Environment Agency, and described further in the data assurance summary

Treatment works compliance

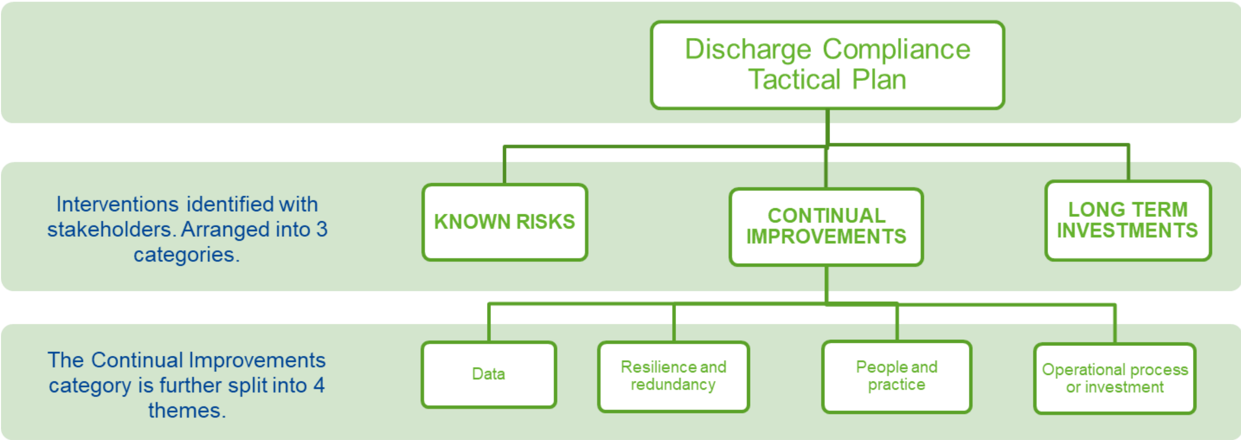
We have not achieved this PC. This year we have seen failures at three sites out of a total of 205 eligible treatment works resulting in performance of 98.54%, failing the target by a small margin and incurring a small penalty of £0.275m. The failing sites were all wastewater treatment works in our northern region and were Lockhaugh STW, Seahouses STW and Bran Sands ETW.

To make sure we are doing all we can to improve our performance and to achieve our aim of 100% compliance we have implemented a tactical plan specifically for discharge compliance. This covers both water treatment works, and wastewater treatment works in NW and in ESW, and includes new root cause analysis, data interpretation as well as identifying any additional training or governance required. Targeted investments to support improvement in this measure are already included in our plan.

We are disappointed to have had failures again this year though in each case the impact was relatively minor and transient. The development of the new tactical plan will reduce the risk of failures and therefore help us to improve in this area. This will be across both water and wastewater so we can share learning.

The industry average (across the ten water and sewerage companies) performance for discharge compliance has been between 98.0% and 99.4% over the last eight years. Last year the average performance was 99.05% and there was only 1.5% difference between the highest and lowest performing company showing the high standards achieved across England and Wales. We make sure that our treatment works meet the required discharge standards by taking regular samples that are analysed for the levels of substances, including phosphorous and ammonia, and other specific substances that may accumulate to cause a problem in the water environment. We have a strong record for meeting numeric discharge compliance limits (with additional reporting following a failure until you have reported 12 consecutive months of numeric compliance) at our STWs. These numeric permits apply to 161 of our largest STWs and 44 WTWs. Future permits will tighten as legislation changes. This will introduce new challenges and standards over the next five years and beyond, as well as tightening existing permit standards. We will therefore need to adopt new treatment technologies and increase our emphasis on very efficient operational control. The pressures of increasing population, new housing, industrial development, and climate change will also challenge our performance. We commit to doing our best to deliver against challenging new standards over 2020-25 and to meet our target of 100% compliance.

To get back on track in 2023/24, a tactical plan to improve performance is currently being implemented and aims to see us reach our target of 100%% compliance. The plan addresses three key areas across both water and wastewater as shown in the diagram below.



To improve performance, we are making sure we carry out work at any sites with a history of any level of sample failures, to prevent a reoccurrence. Examples of intervention activities range from additional training in root cause analysis to capital investment schemes at sites with a known risk. Our aim is zero failures. This will be challenging but is important in meeting our environmental purpose and to meet our objective to be a Four Star company in the Environment Agencies' Environmental Performance Assessment.

Bathing water compliance

We have not achieved this PC. High amenity sites are designated as bathing waters under the bathing water regulations to protect public health and are classified every year as either: Excellent, Good, Sufficient or Poor. Classifications are calculated using the Environment Agency's (EA's) regulatory samples for the previous four bathing seasons (May-September) that measure the levels of bacteria in sea water. 'Sufficient' is the minimum acceptable standard.

Bathing waters can either be at the coast, at lakes or on inland river – all sites in our region are currently coastal beaches.

For the 2023 bathing season, 32 out of 34 bathing beaches were assessed and classified as either Good (11) or Excellent (21). This is equivalent to 94.12% against our target of 97.06% (33 out of 34). The two bathing waters that haven't met our PC of 'Good' or 'Excellent' are Seaham Hall ('Sufficient') and Cullercoats ('Poor').

Seaham Hall deteriorated from 'Good' in 2022 to 'Sufficient' in 2023. The classification has been significantly impacted by poor results since the 2019 season all linked to rainfall. We undertook a WINEP investigation at Seaham Hall to understand what improvements would be needed to our assets alone to achieve a robust classification of 'Excellent'. The classification is affected by a non-NWL source of bacteria which is likely to be from an unnamed drainage ditch adjacent to the sample point. Improvements to our impacting assets alone would not deliver a robust 'Excellent' status without significantly reducing or removing the local non-NWL source. We continue to work in partnership with the EA and local authority to investigate the reasons for the deterioration in bathing water quality at Seaham Hall including additional sampling and monitoring. Initial results show significantly elevated bacteria levels in the unnamed drainage ditch linked to non-NWL sources.

Cullercoats has been classified as Poor since 2018 having deteriorated from Good in 2016 and Sufficient in 2017. The 5-year consecutive count before de-designation for Poor bathing waters was reset in 2021 due to the break in classification in 2020. For Cullercoats, this means that it could be de-designated due to five consecutive Poor classifications under the regulations after the 2025 bathing season.

Our WINEP investigation found that contaminated groundwater is the most likely primary reason for the deterioration in bathing water quality and that there is no evidence that our assets have an impact. The study built on the extensive partnership investigations with the EA and local authority carried out since 2017 and included targeted investigations, remedial works, and surveys to determine the most likely cause. An uncharted polluted drainage culvert belonging to the local authority, that was identified in a previous study in 2011 and capped off from the beach, was also investigated further. Groundwater flows in the culvert have been shown to contain high levels of bacteria and to improve bathing water quality, this was diverted into our combined sewerage network in December 2022.

A hydrogeological study to further understand the pathways of groundwater into the Cullercoats bathing water was completed in September 2023. The outcome from this report is being used to determine the next steps in partnership with the EA and North Tyneside Council. We remain committed to working with our partners to improve the bathing water quality at Cullercoats for our customers, local businesses, and recreational users.

We have been working with, and offered our support to, South Tyneside Council in their successful Defra application to designate a new bathing water at Littlehaven, a popular beach just within the Tyne estuary. We have highlighted some of the challenges of undertaking an investigation to understand sources of bacteria impacting bathing water quality at a newly designated site and then to put in place the necessary investment required to meet the bathing standards; this having to be undertaken all within the 5-year timescale or otherwise face de-designation.

Our Water Ranger volunteers help us to monitor environmental conditions and improve the coastal area. In our engagement with local community groups, we have provided training to community groups who are passionate about protecting the environment and their local area, especially the beach and nearby waterways. Training gave them an in-depth understanding of our wastewater system and included the Bin-The-Wipe campaign which has since been adopted for the UK national campaign. We are developing the Water Rangers scheme further in line with our Vision for our Coasts and Rivers pledge to increase the number of trained citizen science volunteers.

We continue to work in partnership to make improvements and maintain standards as seawater quality can be affected by many different sources of bacteria, such as run-off from agriculture, seabirds, and urban pollution, as well as from our assets. This includes working closely with the EA to understand all bathing water quality compliance issues and identify priority beaches for closer attention.

Our bathing waters continue to be amongst the cleanest in the country. We were again ranked second in this measure in 2023 for the percentage of Excellent and Good coastal bathing waters in comparison with water companies in England.

Pollution incidents (Category 1-3 Wastewater)

We have not achieved this PC. We aim to avoid all pollution as a result of our assets and operations.

For 2023, our performance for category 1-3 wastewater pollution incidents deteriorated to with 99 incidents (32.97 against our PC of 22.40 incidents per 10,000km of sewer served) resulting in a penalty of £3.858m. Despite this we expect to remain an upper quartile company for pollution.

All these incidents were confirmed as Category 3 by the EA (minimal impact), and we again have zero serious category 1 and 2 pollution incidents in 2023 from our water and wastewater assets having achieved zero in 2022 with very low occurrence (one category 2) in 2021. We continue to strive to have zero serious incidents.

Power issues continue to be one of the main reasons behind the increase in category 3 incidents which primarily impact our sewage pumping stations (SPS) where power cuts or very small interruptions, known as 'brown-outs', cause significant issues. We continue to put in place interventions to increase our power resilience, such as improved arrangements for generators, engagement with our power Distribution Network Operator (DNO) to address risks and resilience investment in our PR24 Business Plan.

Our focus is on continuous improvement in pollution performance through our company-wide zero-tolerance approach as set out in our published Pollution Incident Reduction Plan (PIRP). We constantly examine every aspect of pollution to target our efforts to effectively reduce pollution risk. We share our experiences and learn from others, such as through the industry Pollution Reduction Task Force and our innovation networks. We have fully deployed an innovative smart network management technology across our wastewater service. This uses advanced machine language learning, together with hyperlocal rainfall forecasting, to accurately predict the normal performance of our assets and provide alerts of issues occurring. We are also working with a leading US company to deliver the UK's first Real-Rime Decisions Support System for our largest wastewater system on Tyneside involving installation of new devices and development of a digital twin. This increases our capability to detect issues, manage flows effectively and respond to prevent pollutions from happening. Overall, it will result in the largest smart sewer system in the world.

The EA expects that we will pro-actively 'self-report' at least 80% of all pollution incidents to them rather than rely on others to point out a problem. This is part of the basket of pollution measures reported annually in the EPA. We consistently achieve high levels of self-reporting in surpassing the 80% requirement with continued improvement to 94% in 2023 compared with 91% in 2022 and 89% for 2021. From 2020 onwards, the EA also expects a self-reporting level of 90% or more for sewage pumping stations (SPSs) and sewage treatment works (STWs). We achieved 96% self-reported in 2023 having previously attained 92% in 2022 and 100% for 2021 and 2020.

In June 2023, the EA communicated their Water Industry Transformation Programme with water companies. This contained a fundamental change in the way the EA regulates the industry and recognised that *"We know that these changes will mean we are likely to uncover more issues. Reported water industry performance is likely to get worse before it gets better".* As a result, we are working with the EA through Task and Finish Groups to update pollution reporting guidance which covers areas such as retrospectively reporting incidents from increasing amounts of monitoring data and expected performance of wastewater systems (e.g. drain down times following rainfall).

In the meantime, we fully comply with existing EA reporting guidance for pollution. This is reflected in our high level of pollution self-reporting and the number of incidents categorised as category 4 pollutions (no impact). Water companies vary in their application of the guidance with lower levels of reporting and lower numbers of category 4 incidents. It is expected that water companies will converge their reporting in-line with the revised guidance.

Our performance in 2023 is reflective of our continued full application of existing EA guidance and forthcoming changes in reporting being enacted. This has meant that the EA has categorised more incidents as category 3 which would have been category 4 incidents in previous years. We also experienced significant rainfall and a high number of named storms in 2023 that placed additional challenges on our wastewater service. The EA classed the rainfall as 'exceptionally high' and is something that is expected once every 20 years being 35% above the amount recorded in 2022. There were 11 named storms in 2023 compared to 5 in 2022 and 2021. Many of these storms impacted our service with severe winds causing power line issues and inundation of surface water due to prolonged heavy rainfall particularly in the autumn months.

In previous years, incidents attributable to significant storms have been removed or categorised as no impact (category 4 incidents). These decisions by the EA reflected that these types of incidents were deemed to be outside of our control following full investigations. For 2023 onwards, the EA expect that we will have resilient plans in place to manage severe storms and maintain our service to minimise pollutions. Our systems are not currently capable of dealing with the most severe storms in all circumstances and this change in stance from the EA is also therefore resulting in a greater number of incidents being recorded. This risk is exacerbated by the expectation that severe weather events such as storms or flooding are expected to increase in frequency due to climate change which will increase their potential to disrupt the operation of our assets, particularly if they affect power supplies. Our Business Plan for 2025-30 sets out robust proposals to address this for power resilience and the changes in pollution reporting, however delivery of these proposals will be dependent on provision of associated funding.

Water Industry National Environment Programme (WINEP) and Delivery of Water Industry National Environment Programme requirements

The first metric tracks the number of WINEP schemes completed vs the version of the WINEP programme in place at 31 March 2023. As such it does not reflect subsequent changes to the WINEP programme agreed with the EA. While the reported number of schemes completed to end of 2023/24 is 513, (and hence less than the target of 535), we are in fact fully on track with progress when measured against the latest/current version of the WINEP.

This is confirmed by the second metric, which does reflect more recent changes to the WINEP programme, where the fact that we are on track with all schemes is reported against the metric as 'met' (as opposed to 'not met').

We have consistently delivered all 100% of our WINEP commitments since its introduction in 2011.

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

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

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

Our performance commitments for this Outcome are as follows:

• **Greenhouse gas emissions** – this is a bespoke PC which financial incentives for out or under performance which measures our reduction in greenhouse gas emissions arising from our operational activities. The baseline against which reductions are measured was re-calculated for 2019/20 using the newest carbon accounting workbook. (Reference **PR19NES_BES21**)

• **Bioresources** – the bespoke PC measure for bioresources performance is the percentage of sewage sludge that is treated and converted to biosolids at one of our two Advanced Anaerobic Digestion (AAD) treatment centres and the percentage of biosolids that are then beneficially recycled to land. (Reference **PR19NES_BES22**)

• **Water environment improvements** – this is a bespoke performance commitment which measures the length of water environment where we have delivered improvements to public access, facilities, water quality or biodiversity. There are financial incentives for out or under performance (Reference **PR19NES_BES20**)

A summary of our performance against these commitments is provided in the table below:

MEASURE OF SUCCESS	OUR TARGET FOR 2023/24	OUR PERFORMANCE				
		2020/21 ACHIEVED	2021/22 ACHIEVED	2022/23 ACHIEVED	2023/24 ACHIEVED	REWARD / PENALTY (£m)
Greenhouse gas emissions	7,941	15,235	46,492	23,445	49,307	+£7.735m
Bioresources	100%	100%	100%	100%	100%	N/A
Water environment improvements	10 km	30.2 km	34.6km	33.1km	31.9km	+£0.168

Greenhouse gas emissions

This year, following the PC definition and in accordance with ISO-14064-1 we have reduced our operational emissions to just 19.3 thousand tonnes of CO_2e. This is a modest improvement compared to last year.

We have reduced emissions by:

- Installing our first large scale solar arrays across 6 sites including our 9MW solar array at Broken Scar which was commissioned this year;
- Being the first and are the only water company to use 100% of our sewage sludge to create energy (or power from poo), and we've enhanced our activities in energy creation further with the implementation our second Gas to Grid plant at Bran Sands.
- Using biomethane purchased through the market to reduce our reliance on natural gas.
- Continuing to be efficient in our travel – avoiding unnecessary journeys and travelling by public transport.
- Migrating our HGVs onto HVO (a form of biodiesel) which displaced 770 thousand litres of diesel in our bioresources fleet.
- Leading the industry with our offshore wind Power Purchase Agreement (PPA), which was the first of its type in the UK. This 10-year deal has us sourcing approximately 30% of our electricity demand from the Race bank offshore wind farm.
- Powering all sites using renewable electricity.
- Using electric vehicles wherever possible.
- The use of Green Gas Certificates continues to represent one of the most efficient and effective ways to reduce our emissions for customers, and we have once again optimised our holdings of these for 2023/24 – at a cost to NWL of c£1.8m..

This level of performance is equivalent to a reward of £ 7.74M. Whilst the company has already made significant investments to achieve this level of performance, we also intend to reinvest in further Net Zero projects.

Our reporting has been independently verified in accordance with ISO14064-1. Ofwat has also asked us to re-verify previous year's performance to ensure the ODI revenues have been fully reflective of our performance.

Greenhouse Gases – Swot Analysis

The wider scope emissions reported in Table 11A is a significant expansion on the emissions reporting covered in our performance commitment. As such, reporting for some of the Scope 3 emissions is less mature. The table below provides a SWOT analysis relating to our emissions inventory.

Strengths	Weaknesses
• Positive audit report in relation to 2023/24 Scope 1,2 and mandatory Scope 3 emissions in relation to compliance with ISO 14064 Part 1 2018. • Our external audit covers all emissions sources (including Capital and Chemicals) and our use of the Carbon Accounting Workbook. • Good quality activity data covers more than 98% of our Operational Emissions boundary.	• APR and audit do not align well with the certification requirements for market-based reporting (REGO and RGGO certificates may not be fully auditable until after submission). • For the wider Scope included in 11A, 41% of our gross emissions are estimated based on high-level spend data. • Notably, 31% of our emissions inventory is from purchased goods and services, excluding capital and

• The first company to use 100% of our sewage sludge to create energy via advanced anaerobic digestion processes (AAD) before all sludge being beneficially recycled to land. • 100% use of renewable electricity, including the first Power Purchase Agreement (PPA) for an offshore wind farm in the UK. • Northumbrian Water has an embedded and mature approach to innovation with multiple projects in our innovation pipeline that could aid future emissions reductions, including algal wastewater treatment, ammonia recovery and real time power emissions optimisation. • This year we have improved our Scope 3 reporting from construction activities by increasing the granularity of the asset information used to estimate the emissions. • This year we have made a significant improvement/correction to our chemicals inventory – identifying uses with units of measure*.	chemicals, which given the quantum and diversity of items procured is very difficult to convert into an emissions inventory. • Whilst good activity data is available, the emissions inventory is only as accurate as the emissions factors used. • Within the CAW the energy related factors are robust, but the chemical and process emissions factors are known to be weak. • We have reported emissions from chemicals based on the standard factors included in the CAW, and where the CAW provides more than one factor for a chemical, we have used the highest factor for that chemical.
Opportunities	**Threats**
• We have committed to publishing and SBTI aligned emissions reduction plan and to aligning with PAS2080 by 2025. • We are working with our supply chain partners to deliver accurate emissions reporting for new build assets. • There is scope to strengthen incentives on companies to innovate by using actual emissions factors associated with purchased electricity in future reporting rather than grid average factors – which reduces the scope for innovation. • There is scope to improve the reporting of chemical emissions through use of more accurate emissions factors. This year a WaterUk group identified alternative factors that appear to be of higher fidelity than those in the CAW. We have completed shadow reporting using these factors but have not included them in our APR as it is inappropriate to deviate from the regulatory standard. • We believe there is greater opportunity for future sector reporting to allow greater recognition of carbon offsets (and insets) where these have a high confidence of emissions reductions and assured benefits. We are currently working with local partners to develop a defined and validate a local offset and co-benefit scheme – encouraging inward investment into environmental programmes in our operating areas. • Industry reporting capability – via the Carbon Accounting Workbook – is continually improving and there is an opportunity to reflect this in Performance Commitments by permitting use of the latest available version of the workbook in each reporting year. • Continual improvement in the science and measurement of emissions may identify areas where emissions reduction efforts need to be concentrated.	• There is now a significant difference in scope between the existing industry Operational Emissions definition (which customers are familiar with) and the scope included in table 11A. This risks undermining the sectors' approach. • Whilst it is positive to consider the whole climate impact of our activities, we anticipate that the greater Scope of emissions, combined with removing the use of green energy certificates our net emissions look set to rise from ~19kTCO_2e to 563 kTCO_2e in the next AMP. • Whilst we generally agree with Ofwat's desire for a standard Performance Commitment in the next AMP and its intention to ensure companies themselves take action, we believe the current definition limits our ability to improve and reduces benefits for customers and the environment. We will include further recommendations in our Draft Determination response.

*During this year's data validation process, we identified that chemical measurements recorded in our corporate systems were misleading. A range of chemicals were being purchased with a Unit of Measure of 1 tonne, in 2022/23 we used this measurement to calculate our total chemical use. This 1 tonne measure applied to numerous chemicals being delivered in Intermediate Bulk Containers (IBCs). 1 tonne refers to the mass of water such IBCs contain at standard conditions, as such the density of the specific chemical was being ignored, which for 2022/23 created an under reporting of chemical use. This year we have aimed to include the actual mass of chemical. The error in 2022/23 had no impact on our financial Performance Commitment.

CASE STUDY: GREEN ENERGY EXPANSION

A high-tech test facility that uses heat to capture ammonia from sewage, ready to turn into green fuels, is now up and running in the North East.

We have taken delivery of a purpose-built advanced ammonia stripper and recovery system – a small-scale treatment plant which would be trialled at our existing Howdon Sewage Treatment Works in North Tyneside.

The project, in partnership with environmental technology company, Organics Group, would see thermal energy strip and recover the ammonia from wastewater – the first time in the world that a water company has ever recovered ammonia using a thermal technique in this way.

The recovered ammonia product can then be used to generate fertiliser products and green fuels that may be used in the emerging hydrogen economy.

Since the ground-breaking piece of kit arrived in the UK, work has been ongoing to get it up and running, and a testing programme is now in full swing, with the facility already recovering 95% of a high strength ammonia product.

Ammonia is present in wastewater through the natural breakdown of proteins and is a building-block used widely in the production of valuable chemicals, such as pharmaceuticals, fertiliser products and green fuels.

Removing ammonia will also have a number of benefits for our wastewater treatment process, making it more efficient by reducing overall energy demand, reducing greenhouse gas emissions and ultimately helping to keep customer bills as low as possible.

By minimising emissions from the biological treatment process, it will also help to accelerate our ambitious net zero goals.

Angela MacOscar, Head of Innovation, said: "To be the first, not just in the water industry, but in the world, to use this bespoke technology is incredible and testament to our commitment to improve the environment and drive us even further on the road towards net zero.

"As a business we have been supporting a circular economy for many years by generating renewable energy, recycling sludge to land and maintaining a healthy water cycle. This is the next stage of our continual journey to maximise our resource efficiency."

The idea to develop a thermal ammonia stripper plant at Howdon first won a £225,000 funding bid from water regulators, Ofwat, back in 2021.

Bioresources

We have achieved this PC. Our performance has remained at 100% **allowing us to maintain industry leading performance. We are also recognised by Ofwat as the most efficient water company in relation to bioresources.**

Key enablers in continually achieving this leading status have been:

• Continued optimisation of two strategically located AAD treatment centres in the north and south of the region processing the sludge volumes from more than 400 sewage treatment works.

• We harness the opportunity of upgrading the biogas generated from the AAD process to biomethane, and injection into the natural gas grid at both AAD facilities and retain the option of generating electricity through combined heat and power processes.

• We are fully compliant in the deployment of nutrient rich biosolids to agriculture providing key plant nutrients including phosphate, nitrogen and sulphur whilst offering farmers an economically viable fertiliser alternative.

These key enablers have allowed us to continue to lead the sector being the only Water and Sewage Company (WaSC) that processes 100% of raw sludge through AAD operations with 100% of the final biosolids being compliantly deployed to the region's landbank.

The Environment Agency's (EA) pending interpretation of the Farming Rules for Water (FRfW) and transition from Sludge Use in Agriculture Regulations (SUiAR) to the new Environment Agency Sludge Strategy, has the potential to both impact upon agriculture land accessibility and availability and we are continuing to work with the EA and other partners to secure the best possible outcome. This future regulatory uncertainty continues within the industry and may impact on our future operating model and efficiencies.

Operational interventions that will contribute to mitigate some of these risks have been included within our PR24 business case submission which include additional biosolids barn storage and post digester thickening processes reducing the amount of biosolids to be deployed to land.

In addition, we have already started to insource previously outsourced activities under our NWGrow (recycling to agriculture) initiative. We see this as providing a huge opportunity to better communicate the agricultural services we provide and thereby enhance the service provision to our agricultural stakeholders offering greater control and resilience to remain compliant.

Our aspiration to commercially trade wastewater sludge under Ofwat's Bid Assessment Framework (BAF) continues benefiting the sector and customer in terms of affordability efficiencies and carbon footprint. Discussions continue with neighbouring WaSC's to progress the opportunity to commercially trade under the BAF mechanism.

Water environment improvements

We have performed better than our PC, achieving 31.9 km of water environment improvements through delivery of 12 partnership projects across our NW and ESW operating areas – against our target of 10km. We also have a further 5 km of projects in delivery in year four which will be signed off in future years.

This is the third full year of our programme following feasibility work in 2020/21, and the fourth year of reporting for the ODI.

In total through the first four years of the 2020-25 Business Plan, we have improved circa 125 km of water environment for our customers in our regions. We have continued to work closely with the Water Environment Governance Group (WEGG), an independent group made up of external expert stakeholders who are passionate about improving the environment. The WEGG helps steer our activity and approves and signs off projects against the ODI.

Our Bluespaces funding scheme which provides the platform for developing and delivering partnership projects to support this is working well, with 40 projects already completed in total, and we have a further 8 partnership projects approved in the pipeline for year five which are not yet in delivery.

We will receive a reward of £0.168m for our performance this year.

We committed to reinvest at least 50% of any reward received above costs in new water environment projects, and have more than met this commitment each year. In 2023-24, we have invested £150K in water environment improvements, as well as the programme level resource costs we support. For year five, we will continue to invest towards meeting our internal target of 248 km improvements by 2025. The level of investment annually and across the programme will be substantially above the 50% reward reinvestment level we committed to.

This year, we have also been developing our ambition for the future through PR24 business planning, learning from our engagement with partners and stakeholders, and working with the Environment Agency to include non-statutory WINEP schemes to deliver the Bluespaces improvements and their associated wider environmental and recreational benefits that could be achieved in our regions from 2025-30. Our ODI and performance commitment will be discontinued from 2025, although our internal measure of success for water environment improvements remains, linked to our Bluespaces pledge to improve 500 km of Bluespaces by 2030.

The 2023/24 Governance Statement from Richard Powell OBE, Chair of the WEGG, demonstrates that we have addressed Ofwat's specific reporting and assurance requirements for this ODI. More detail can be found on the Water Environment Governance Group pages on our website.

Case study: COLLABORATIVE CONSERVATION IN COUNTY DURHAM

We're working with Wear Rivers Trust to help protect the Hummer Beck and River Gaunless in County Durham.

The team delivering our £4.3m project to upgrade our New Moors Sewage Treatment Works (STW), near Evenwood Gate, County Durham, have provided more than £14,000 of funding to WRT's Hummer Beck and Lower Gaunless Project, near Bishop Auckland.

The project aims to support ecological improvements in the two watercourses, complementing our New Moors upgrades, which will improve the quality of treated water returned to the environment via the Hummer Beck.

This Bluespaces funding will support improvements to 4.3km of accessible environments along and by the watercourses.

The Wear Rivers Trust project is also supported by Let's Clean Up Bishop Auckland, Gaunless Gateway – Big Local, Bishop Auckland Area Action Partnership, Catchment Sensitive Farming (part of Natural England and the Environment Agency.

THEME SIX: BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS

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

AMBITIOUS GOAL: Be the most socially responsible water company

Our responsible business practices have again been recognised through significant external accreditations over the past year.

For the 13th time we were named on the World's Most Ethical Companies list, compiled by Ethisphere – one of only two UK companies named in the list. This is based on information requested by Ethisphere on issues including governance, employment practices and social responsibility, which is judged against a set criteria and benchmarked against companies around the world.

For the third successive year, we were the only water company awarded the Good Business Charter, supported by the Trades Union Congress. This involves demonstrating good practice against a series of key components, including employment practices, environmental responsibility, fair tax and procurement.

We have also been listed for the fourth time by the Great Place to Work as one of the UK's Best Workplaces in the super large category. Being recognised nationally as a great employer is a fantastic achievement and something we are very proud of.

Being a great place to work has many contributing factors, it's not just about what our people do as an individual, it's about the teams we belong to and what we deliver for our customers, the environment, and our communities.

Community Investment

Our community investment strategy focuses on three areas which are at the heart of who we are and central to our Purpose. We deliver community investment activity in these areas through financial contributions, volunteering (including our Just an Hour scheme through which 35% of our employees supported 226 good causes), education impact, and playing a leadership role.

As we have done for many years we reinvested at least 1% of our profits to our communities, through activities such as; our employee volunteering programme, Just an Hour, employee donation programme, Cheque it Out, and our funding programmes Branch Out, Bluespaces and our Community Foundations.

The key areas of our community investment strategy are:

Ending Water Poverty – supporting customers with their bills is an important part of our customer teams work. As part of that we set up a series of information events with Karbon Homes, a social housing provider in the North East of England. Our customer heroes attended providing support to the local community, offering bills advice about support on how customers can use water wisely. A total of 25 information events throughout Chester le Street, Consett, Stanley and mid-Durham were held offering advice on health, finance and wellbeing. These events give us the opportunity to support customers that may not be aware of the support available to them.

Water for Health – more Powered By Water school sessions were held delivering our key hydration messages to over 10,000 children. We also held our first WaterAid Ball since 2019 and raised £40,000 on the evening which was held to celebrate reaching our £1 million target to fund projects in Madagascar. We are now developing an exciting new partnership with organisations in Zambia.

Protecting the Water Environment – we extended our educational activity adding a wastewater section to our Ripple Effect, where we engage with 11 to 14 year and encourages everyone to learn more about wastewater and make small changes to protect our network, our customers, and our environment. To support our environmental education work, we had two successful community partnerships in 2023 – the Shaun the Sheep trail supporting St Oswald's Hospice in Newcastle, and 'Herd in the City' supporting Havens Hospices in Southend. Both of these gave us the opportunities to promote our messages about sustainable water use, particularly to school students.

We continue to hold a number of accreditations that demonstrate our commitment to responsible business practices, including:

- ISO 14001 Environmental Management
- ISO 15001 Asset Management
- ISO 17025 Testing and Calibration Laboratories
- BITC Responsible Business Tracker – which showed us to be leading in our cohort for Governance & transparency, Supply chain, Digital transformation and Nature stewardship
- BSI for inclusive services
- Living Wage employer
- Disability Confident employer
- Armed Forces Covenant

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

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

We have achieved this performance commitment. After making strong and sustained progress since 2017/18 we are pleased to have surpassed this target again over the past year, with local spending in 2023 at 61.74%. As one the largest businesses in the regions where we operate, and in keeping with our commitment to our communities, we believe it is important to maximise the positive impact of our spending. We therefore prioritise working with a supply chain that upholds our social, economic, and environmental standards and shares our vision of continuous improvement.

To calculate our local procurement spending, we established a baseline by defining local procurement and mapping suppliers to local and non-local categories. We define 'local spend' as spending with suppliers with a postcode that falls within its operating areas. This is based on the 'pay site' defined on the supplier's invoices. In calculating local procurement expenditure, we include both capex and opex, but exclude certain spend categories, such as power, banking payments and inter-company payments. Excluding these items removes approximately 20% of total expenditure. For smaller companies, the invoice location is generally near where the company is based and where their employees work and live. However, for companies operating over larger geographical areas, using invoice postcodes is less effective. Examples include temporary staffing contractors and capital framework partners who have a head office out of our regions but source our requirements from our local areas. To address this, a manual adjustment is made to better reflect where their employees work and live.

In 2022 we updated our Responsible Procurement Strategy, through which we have developed the 'Impact Initiative 7'.

Throughout 2023, we have continued to implement and develop our strategy. Actions over the past year include:

• Targeted local supplier engagement at 'Meet the Buyer' events such as the chamber of commerce expo and Business Durham, to enable local suppliers to gain insights and access to opportunities.

• We ran 'Lunch n Learn' sessions on our responsible procurement initiatives including local spends for our supply chain. In the session we shared our approach for measuring 60p in £ and insights from the local spend impact analysis.

• We continue to share our 'Procurement in the Community' educational pack designed for local SME's to inform them about the procurement process and wider Utility procurement.

• We have maintained a great network with other Northeast organisations through the County Durham Pound group. This group has similar goals and challenges to us regarding local spend and social value. Being part of the collective will assist us with spend analysis to show leakage outside of the local area and where new opportunities lie.

We have continued to measure and report the social and local economic value generated in the Durham region as part of the County Durham Pound group. We have currently recorded over £99m spend with local businesses within the County Durham region. To make sure we continue to improve building successful economies in our region(s) we have identified actions:

a) Improve / promotion with our supplier partners to 'cascade' our approach to local spend. Encourage our Tier 1 Capex partners to 'think local' as part of their delivery model.

b) Ensure the local supply chain is engaged at procurement strategy development. For example, can larger contracts / requirements be split into Lots to provide opportunity for local SME's (where commercially viable) who may struggle to deliver the full work package. This may also drive innovation / new ideas.

c) Continue to engage with Durham County Family to deliver social value benefits in our regions where possible through our supply chains.

British Water's annual UK Water Company Performance Survey asks contractors, consultants and suppliers to rate their clients' performance in 12 areas, including professionalism, contractual approach and communication. NWL have continued to score above the average on all areas and fall within the top two on every aspect.

CASE STUDY: RIPPLE EFFECT

Through our engagement with our local business communities, we've found broad support and a great appetite for action amongst our peers - an example is being a founding member of the County Durham Pound (CD£) group of likeminded businesses, who share similar goals and work collectively to improve local spend and social value.

The CD£ won Best Public Sector Project award at the 2023 Social Value Conference and is now expanding to involve nominated local suppliers as 'supporters' and share social value resources and knowledge even further. As social value becomes a more significant part of the procurement process for many companies, sharing these resources will support local suppliers to better engage with procuring organisations and win contracts.

All this work combines into our responsible procurement strategy, which aligns to the UN's Sustainable Development Goals and outlines what we call the 'Impact Initiative 7' (ii7). The ii7 sets key activities within seven areas - environment, local spend, diversity, skills, innovation, social value, and modern slavery - which will help us, and our supply chain have the biggest possible positive impact.

REGULATORY ACCOUNTING STATEMENTS

&

ADDITIONAL REGULATORY INFORMATION

DIRECTORS' RESPONSIBILITIES AND DECLARATIONS

for the year ended 31 March 2024

CONDITION F – REGULATORY ACCOUNTING STATEMENTS

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

- ensuring that appropriate accounting records are maintained by the Appointee which are consistent with the Regulatory Accounting Guidelines published by Ofwat;
- preparing a set of regulatory accounting statements each financial year in accordance with the Regulatory Accounting Guidelines; and
- complying with all other requirements set out in the Regulatory Accounting Guidelines.

RISK AND COMPLIANCE STATEMENT

The Board confirms that:

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

Ongoing compliance with our obligations in future will be dependent in particular on:

- successfully securing adequate/sustainable funding levels for capital maintenance in order to maintain asset health in the medium and long term;
- securing funding to allow sufficient investment in climate adaptation, to protect our services from deteriorating climate trends and increased prevalence of severe weather events;
- given the substantial uplift in investment requirements from AMP8 onwards, successfully concluding work to secure the deliverability and financeability of our PR24 business plan; and
- an environment where regulatory interpretation of what constitutes compliant operations remains stable.

As stated above the Board has concluded that it has a full understanding of the Company's statutory obligations and can confirm that these have been materially met. However, the table below reports departures which are included for transparency.

Legislation	Section	Duty	Detail of departure
Environmental Permitting England and Wales	Regulation 12	Compliance with Environmental Permits	As for last year, the Board notes that the Company continues to comply fully with the Ofwat and EA investigations into environmental permit compliance in relation to flow to full treatment at wastewater treatment works, we were disappointed to identify potential non-compliance at four smaller sites which were remediated before the end of September 2022. Quarterly updates for stakeholders are provided on our website.
Water Resources Act 1991	24a	Abstraction Licences	Our Redgrave and Rickinghall abstraction licences have conditions which are time limited and which we have made an application to the Environment Agency to renew. However, the Environment Agency has requested additional time to determine the applications which means they will not be formally determined until after the expiry date of the time limited elements. However, the EA has issued Local Enforcement Positions to allow us to continue to legally abstract.
Water Industry Act	3	General environmental and recreational duties	Emergency work was undertaken to repair a water pipe leak adjacent to a watercourse at Belhus Woods Country Park in Essex. Excavation work had already commenced before it was realised that there was a high risk of protected species in the working area. The repair work had also damaged the habitat in the vicinity. Once this was realised ecological specialists were consulted to review the impact and identify suitable mitigation options.
Water Industry Act 1991	87	Fluoridation of water supplies	The target dose range for fluoride was only achieved between 60 – 80% of the time across the year for the targeted communities. A recovery plan to improve performance has been agreed with the Department of Health and Social Care to replace some assets due to age whilst putting a sharper focus on maintenance criticality and response times.
Water Industry Act 1991	199	Sewer maps	In common with other wastewater companies in England and Wales not all sewers are mapped, in particular those that were transferred assets from local authorities. Records are updated regularly to reflect any changes identified in sewer locations or attributes but the cost of full surveys of all sewer assets is generally deemed to be uneconomic.

Legislation	Section	Duty	Detail of departure
Water Supply – Water Quality Regulations	Regulation 29	Water treatment to minimise contamination from pipes	We model lead risk across all supply areas annually and set treatment targets for phosphate accordingly. We don't dose phosphate everywhere. The reason for the departure is that we only take a limited set of lead samples every year (compliance and operational) to inform our models and risk assessment, but we know that there are over 500k lead communication pipes (company-owned) and a likely equivalent of customer lead supply pipes still in existence. Phosphate treatment has performed well but is not a long-term sustainable solution to the lead risk. The only long term solution is to remove lead piping entirely from supplies. This needs an integrated, multi-stakeholder approach that extends beyond the water sector. We have plans to reduce lead piping in both AMP8 and our Long-Term Delivery Strategy.
Licence Condition P	P1-3	Board leadership, transparency and governance	A full explanation of compliance with the guidelines is provided in the Governance Report within the Annual Report & Financial Statements the departures explained are: • Chair is not independent of investors and • Remuneration Committee is not chaired by an Independent Director.
Water Supply – Water Quality Regulations	Regulation 31	Application and introduction of substances and products	The requirements of Reg 31 are understood and applied internally, but the knowledge of applicable products and their associated instructions for use (IFU) are shown to be inconsistent across the supply chain. This has led to further internal risk assessments on products used, and even aborted work. This situation is not unique to NWL and is recognised quite broadly across the water sector. NWL is helping to lead on a new scheme supported by the Energy and Utilities Skills Register to create a standard training course equivalent to the national Water Hygiene Card to make sure all employees (internal and supply chain) who would need Reg 31 awareness are deemed competent and hold evidence to demonstrate it.

DISCLOSURE OF INFORMATION TO AUDITORS

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

CONDITION P (Ring-fencing Certificate)

As required by Condition P of our Licence, the Board has provided this ring-fencing certificate to Ofwat in accordance with the requirements and expectations set out in Information Notice IN 20/01.

The Directors certify that, in their opinion:

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

In providing this certificate, the Directors have considered the following main factors:

Financial resources and facilities

- the financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in April 2024;
- the key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- £350m of proceeds from new debt issuance, received in April 2024;
- the fact that the Company has in place £450m of committed bank facilities as back up liquidity, maturing in December 2025, of which £355m was undrawn at 31 March 2024, and has initiated discussions to replace these facilities upon maturity;
- the Treasury Strategy approved by the Board in April 2022 and the £6bn EMTN programme, of which £1.1bn has been utilised to date, which enables the Company to raise new financing in a timely manner as required;
- the c.£400m of additional equity investment identified in our PR24 Business Plan; and
- the Directors assessment that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the 11 years to March 2035, reported in the viability statement.

Management resources

- the balance and effective operation of the Board, on which Independent Non-executive Directors (INEDs) are the largest group, as described in the Corporate Governance report in our Annual Report and Financial Statements;
- the work of the Nomination Committee for the appointment of senior positions;
- the experience and broad-ranging skills and experience of the INEDs and Executive Leadership Team;
- the engagement of staff, demonstrated by the 88% response rate and 77% Trust Index score for our annual Great Place to Work survey, and award of Great Place to Work Certified Employer Status again;
- the further development and embedding of our Inclusion and Diversity Strategy called TIDE (Together for Inclusion, Diversity and Equity).

Systems of planning and internal control

- the Company's formal governance and risk management arrangements which are monitored by the Audit Committee, Risk & Compliance sub-committee and Board.
- the work of the Board and its Committees to monitor the risk and control systems throughout the year, including conducting a robust assessment of principal risks and an annual review of the effectiveness of the Company's risk management and internal control systems, oversight of the work carried out by external auditor, internal audit and other assurance providers, and monitoring compliance with procedures to prevent bribery and receiving reports on any whistleblowing allegations;
- the monitoring and review throughout the year of the principal risks and uncertainties facing the business by the Risk & Compliance Sub-committee;
- the Company's robust business continuity arrangements.

Rights and resources other than financial resources

- the Company's business model comprising its Purpose, Vision, Strategic Themes, Values and Reputation and how these are delivered, as set out in Our Purpose report;
- the robust IT infrastructure and investment in recent years in major technology transformation programmes for billing and customer contact and asset management and field working;
- our asset management governance structure, certified under ISO 55001 and the development of our service planning framework.

Contracting

- the approval by the Board of all significant contracts, including new framework contracts with strategic supply chain partners in our Living Water Enterprise model to deliver the challenges of the AMP8 capital investment programme;
- disclosure of all transactions with associated companies, of which no new arrangements were entered into during the year;

- an internal audit of compliance with RAG 5.07 Guideline for transfer pricing, which confirmed that there were no areas of significant non-compliance but identified a small number of areas for improvement in disclosure which have been reflected in this APR.

Material issues or circumstances.

The Directors considered all material circumstances, including in its approval of the going concern statement and viability statement. No other material issues or circumstances were identified.

Deloitte LLP have carried out assurance on the ring-fencing certificate, in accordance with the Company's Instrument of Appointment. The assurance was in the form of agreed upon procedures and the assurance report has been submitted separately to Ofwat.

This certificate was approved by the Board on 10 July 2024.

CONDITION P26 (Credit Rating)

The Directors confirm that throughout 2023/24 the Appointee has ensured that it, and an Associated Company as issuer of debt on its behalf, has maintained an issuer credit rating which is an investment grade rating.

VIABILITY STATEMENT

The PR19 settlement remains extremely challenging and does not constitute a 'fair balance between risk and return' resulting in less financial headroom in the near term to 2025

When considering long-term viability, the Directors note that, in their opinion, the PR19 FD and the amendments made by the CMA in March 2021 still resulted in a settlement which is extremely challenging. The level of asymmetric risk in the settlement package is significant and not matched by the level of return. Allowed costs are insufficient for an efficient company like NWL to deliver the stretching service levels set out in the FD for its customers. This also results in lower financial headroom available for the management of downside shocks, such as the unprecedented increase in power prices experienced during the price review period, placing pressure on credit ratings. In the round it does not provide a 'fair balance between risk and return".

The Directors confirm that over the long-term the business remains financially resilient but have concerns about the rate of return at PR24

Financial forecasts over longer-term timeframes are inherently subject to more risk that the assumptions adopted will not be realised. As set out above, the Directors have confirmed that the business remains a going concern. In considering the longer-term viability, the Directors note the challenges inherent in the PR19 FD referred to above and that some of the downside stress test scenarios would place pressure on projected credit ratings in the next year, particularly higher operating and capital costs. The longer-term view beyond a year assumes that the 2024 price review will provide a sufficient rate of return to enable the Company to finance its functions for the period 2025-30, as well as setting stretching but achievable targets and allowing sufficient totex to enable an efficient company to meet its obligations and service level targets. This is consistent with Ofwat's statutory duty to ensure that efficient companies are financeable.

This statement and the supporting analysis takes account of the latest forecasts of investment requirements for the 2025-35 period and beyond, consistent with our long-term strategy. This is still subject to review and challenge by Ofwat in its price reviews and so is uncertain, however, these forecasts suggest a capital programme 2-3 times larger than historical levels from previous five-year periods driven principally by the need to deliver new infrastructure demanded by legal requirements. The scale of this investment programme creates a need for additional equity investment under most scenarios. Our stress test scenarios include this equity injection as a mitigant where we believe it would be required. This is also reflected in the Board's discussions around distributions.

The Directors have assessed the future prospects of the Company and consider that it should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the eleven years to March 2035 given the long-term nature of the business. Whilst the Directors consider that the business will remain financeable with regards to its obligations to debt financing and credit ratings, they remain significantly concerned that the 'early-view' returns Ofwat has set out in its PR24 methodology are not sufficient to attract the necessary investment that is likely to be needed to meet the new capital needs and, in the round, offer reasonable returns on that investment.

Following from the above, our Board can confirm that we would be financeable over the long term to 2035 specifically in relation to debt. However, we do not think that Ofwat's 'early-view' weighted cost of capital is consistent with the risks faced by our equity investors.

This confirmation is given based on the latest information and evidence available to NWL

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

- the Licence which is in place on a rolling 25 year basis;
- the controls and protections provided by the independent regulatory regime including the primary duty of Ofwat to ensure that efficient companies are able to finance their functions, including earning a reasonable return on the capital invested;
- revenue from wholesale and household retail price controls to March 2025 provided by the PR19 FD, as revised by the CMA in March 2021;
- the financial strength of the Company at the balance sheet date and the fact that the Company has a £450m committed bank facility as back up liquidity, of which £355m was undrawn at 31 March 2024, maturing in December 2025 with the intention of extending until 2030 in due course, and a further of £350m new debt which was received after the balance sheet date;
- the Treasury Strategy approved by the Board in April 2022 and the subsequent establishment of a £6bn EMTN programme which enables the Company to raise new financing in a timely manner as required;
- the key financial ratios over the planning horizon of the Company's financial forecast to March 2029 and extended forecast to March 2035, as reflected in investment grade credit ratings;
- the submitted PR24 business plan, including plans to address both the deliverability challenge and the financeability challenge created by the potential scale of the AMP8 capital programme;
- the Board's dividend policy;
- the extent to which equity could be raised in NWL if required;

- the principal risks and uncertainties facing the Company and the mitigating controls, as described on pages 64 to 74, which are monitored by the Audit Committee, R&CSC and Board; and
- the work of the Audit Committee, on behalf of the Board, to review and approve the baseline plan and stress test scenarios and to review the outputs of the stress testing in the context of the Company's financial resilience.

To support the Directors in their assessment of viability, the Audit Committee carried out a thorough review process.

This included discussing and approving appropriate updates to the Board approved plan to reflect latest economic projections, in particular inflation assumptions and discussing an appropriate forward testing period. This concluded that the base forward plan should be updated to reflect the latest inflation forecasts and our updated PR24 business plan, published on our websites in January 2024.

The Audit Committee also discussed and approved the range and severity of stress test scenarios to be applied to the baseline plan, taking account of the principal risks of the business. The stress tests are set out in detail below. The Audit Committee then reviewed the detailed outcomes of the stress testing and the potential impact on the Company's key financial ratios and discussed appropriate mitigating actions which could be taken if the need arose. Following this process, the Audit Committee recommended approval of the viability statement to the Board.

The Directors have chosen a period of eleven years to March 2035 to assess the viability of the Company

This period has been chosen to align with the business planning process for the regulatory price review period to March 2025, the next price review period to March 2030 and forecasts for the following price review to March 2035, which are consistent with our long-term strategy. Whilst the Directors do not believe that it is possible to test financial resilience beyond March 2025 to the same level of robust detail, given uncertainty of revenue and returns past this point, they have performed an assessment of viability beyond the current price control period against an extended plan applying reasonable assumptions for the next two price reviews which include a sufficient rate of return to enable the Company to finance its functions. Whilst the investment horizon in the sector is around 20 years, following the concept of asset and liability matching, the Board considered that 11 years is a long-term and pragmatic period over which reasonable judgements about the future can be made.

The financial forecast has been stress tested under a number of severe adverse scenarios linked to the Company's principal risks.

The scenarios were selected after considering the principal risks and uncertainties facing the Company and the key economic and financial variables which could impact on the forecast. The combined impact of multiple scenarios has also been tested.

The stress tests were assessed in the context of NWL's overarching financial objective of maintaining prudent investment grade credit ratings consistent with its Licence, and the Board's target of retaining regulatory gearing of around 70%. Whilst the viability statement relates specifically to NWL, both rating agencies take account of NWGL metrics in their methodologies, therefore, the impact on both NWL and NWGL financial plans have been considered.

The table below sets out the stress tests performed, how they map to the principal risks, the severity of the adverse scenarios applied, the outcome in the context of the key financial ratios and potential mitigating actions where required.

Ref	Stress Test	Principal Risk	Scenarios	Outcome	Mitigation
1	Lower inflation, reducing allowed revenue and RCV growth	Regulatory and political changes	1% per annum lower than base forecast, sustained over period	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
2	Increased borrowing costs for raising new and refinanced debt	Regulatory and political changes Funding and liquidity risk Financial performance	2% higher than base forecast	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
3	Defined benefit pension scheme deficit increases impacting credit ratios.	Regulatory and political changes	Additional £100m deficit	No material impact on gearing or credit ratios.	None required
4	Higher operating costs, reflecting costs of delivering service levels to customers and the environment..	Customer and stakeholder trust and confidence Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change Regulatory and political changes Financial performance	10% increase in current planned spend	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Outcome performance focus Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
5	Higher capital costs, reflecting input cost pressures and maintaining asset health.		10% increase in current planned investment	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	
6	Higher totex costs		Combination of scenarios 4 and 5	Increased gearing and lower interest cover which, without mitigation, could result in a credit	

				rating downgrade and potential dividend lock-up, though still at investment grade.	
7	Impact of incident crystallising one of the principal risks identified on pages 64 to 74 of the Annual Report and Financial Statements	Water/wastewater service failure Cyber security Asset health deterioration	One off impact of £50m operating cost	No material impact on gearing or credit ratios. Reputational impact could affect stakeholder views of the business over longer term.	None required (Outcome performance focus maintained)
8	Regulatory penalty for poor performance or non-compliance with obligations	Health & safety Water/wastewater service failure Asset health deterioration	One off penalty of 10% of regulated revenue	No material impact on gearing or credit ratios. Reputational impact could affect stakeholder views of the business over longer term.	None required (Outcome performance focus maintained)
9	Sustained deterioration in household revenue collection due to cost of living pressures.	Customer and stakeholder trust and confidence	Up to 2% pa	No material impact on gearing or credit ratios.	None required
10	Net ODI penalty; significant penalty in one year due to failures to meet regulatory PCs.	Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change	3% of RoRE	No material impact on gearing or credit ratios.	None required (Outcome performance focus maintained)
11	Net ODI penalty; sustained under-performance over period.	Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change	1% of RoRE each year	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	Outcome performance focus Engagement with rating agencies Board's dividend policy Additional equity raising
12	Uncertainty in debt markets restricts availability of new funding.	Funding and liquidity	Unable to raise new debt for two years	Inability to raise new finance at a reasonable rate (see scenario 2).	Alternative financing approaches

13	Adverse outcome of PR24 compared to base plan assumptions	Regulatory and political changes	Lower revenue allowance than base plan assumption to deliver the same level of obligations and investment	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade. Current shareholders may not see the business as a suitable investment forcing consideration of new equity or ultimately equity shortfall.	DD response and option to refer to CMA.
14	Combined impact of adverse economic movements		Scenarios 1, and 2	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
15	Combined impact of adverse company performance		Scenarios 6, 8 and 10	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Outcome performance focus Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising

The baseline plan is compatible with retaining the Company's investment grade credit ratings.

None of the stress test scenarios undermined the Company's long term financial resilience. However, certain scenarios, specifically higher operating and capital costs or a substantial increase in the cost of raising new finance, indicated a risk of a credit rating downgrade and potential dividend lock up, though still at investment grade. In the Board's opinion, even the most severe scenarios were not indicative of falling below investment grade credit rating.

To the extent that any of these scenarios, in isolation or combination, would place retention of the Company's investment grade credit rating or liquidity position at risk, the Board would seek to take mitigating actions. This includes:

- Strong cost management - additional controls on discretionary costs and phasing of capital expenditure, taking care not to impact on service levels to customers;
- Outcome performance focus - ongoing focus on delivering regulatory performance commitments to benefit customers and the environment and generate net rewards/avoid penalties;
- Efficient financing - flexible and efficient financing of new debt to minimise interest charges;
- Alternative financing approaches – if normal sources of financing are unavailable, consider alternative approaches, including extending revolving credit facilities or short term shareholder finance;
- Engagement with rating agencies - maintain open engagement with rating agencies to allow informed, holistic assessments of credit quality to be made;
- DD response and option to refer to CMA – continued engagement through the PR24 regulatory process, including consideration of option to refer to CMA if outcome is not acceptable.
- Board's dividend policy - application of the Board's dividend policy, which allows equity to be retained in NWL if required; and
- Additional equity - discussions with shareholders in respect of any equity raising that may be required.

The business has not required the additional equity injection up to this point, but this is likely to be required in the near future subject to the Ofwat Draft Determinations for PR24

As previously explained, almost all future scenarios require additional equity investment to be raised to support the financeability of the business. This was discussed with our shareholders and they set out their views in NWL's PR24 business plan. New equity has not been required to date to maintain credit metrics. Moreover, given the uncertainty of the PR24 process and concerns over the risk/return balance as well as ongoing changes to the investment requirements driven by Government and other regulators, NWL's Board has decided to wait until after the DD to understand the implications for the business.

All equity investors have choices about where they invest their capital and the market for that investment is global it will be essential for the risk and return balance to be fair and competitive to attract that investment. This issue is only elevated by the challenges with the external sentiment of the sector and the financial resilience of other companies.

Assurance

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

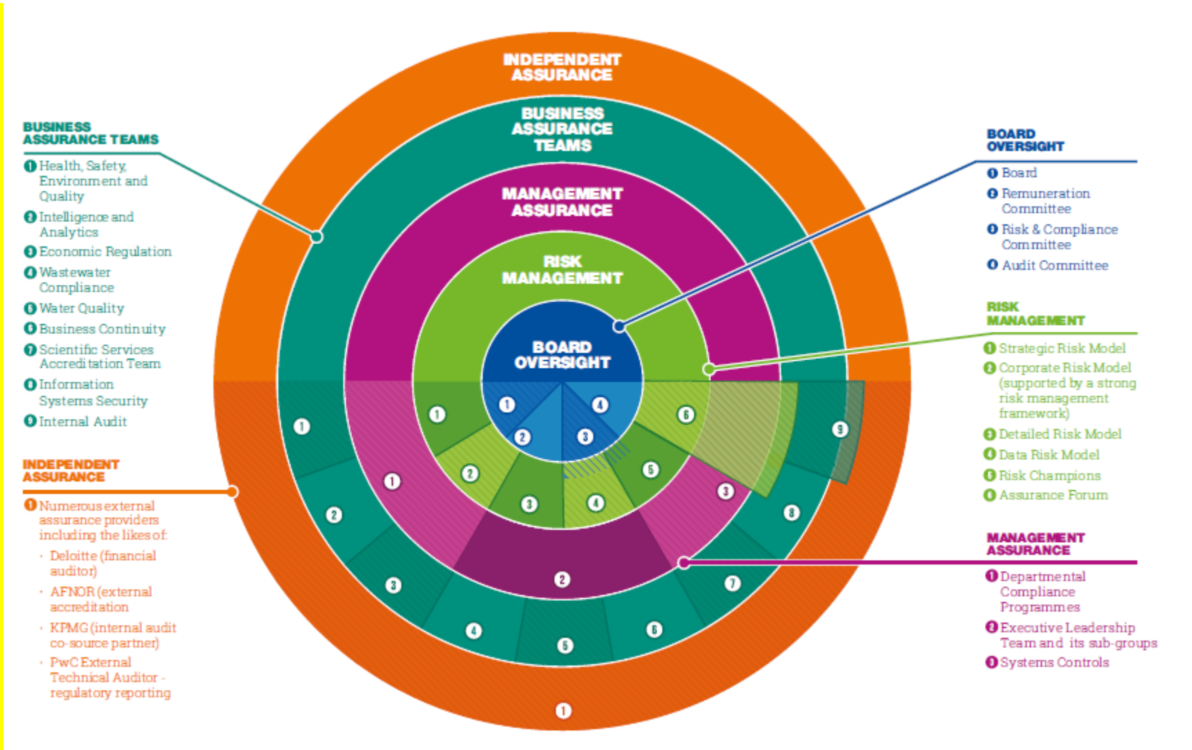
BOARD STATEMENT ON ACCURACY AND COMPLETENESS OF DATA AND INFORMATION

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

Governance Arrangements & Assurance Framework

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

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



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

Activities in the Year

We are no longer required to publish an Assurance Plan however we do provide stakeholders with an annual Assurance Statement which details our approach to assurance and the assurance arrangements we have in place. This reports also details any material findings and includes full copies of the audit reports received from external providers.

The Board, through the work of its Audit Committee, has continued to improve regulatory data through the year. This plan was designed to address areas of risk identified in reports from our assurance providers for the 2022/23 APR, as well as areas where the source of data has changed during the year and where there are new reporting requirements. This included:

- more resource was in place to ensure that conflicting data from the field was corrected quickly rather than it being a retrospective annual exercise as in previous years;
- improving accuracy in the reporting of complex property data, with further improvements planned for 2024/25; and
- taking a fresh look at guidance, on change of data provider, resulting in clarification being sought from OFWAT in some areas.

As part of the approval process for this APR, the Audit Committee received assurance reports from the Internal Audit manager, the external technical assurer, PricewaterhouseCoopers LLP, and the financial auditor, Deloitte LLP.

Greenhouse gases require specific third-party assurance from an appropriately qualified company to the ISO standard 14064. Their assurance has been completed and their opinion is included in the Data Assurance Statement.

These all confirm there were no significant issues to report.

Conclusion

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

By order of the Board

Andrew J Hunter	Heidi Mottram	Alan Bryce
Chairman	CEO	Senior Independent Non-Executive Director

Dominic Chan

Non-Executive Director

H L Kam

Non-Executive Director

Duncan Macrae

Non-Executive Director

Jacquie McGlade

Independent Non-Executive Director

Bridget Rosewell

Independent Non-Executive Director

Richard Sexton

Independent Non-Executive Director

Peter Vicary-Smith

Independent Non-Executive Director

10 July 2024

REGULATORY ACCOUNTING POLICIES AND DISCLOSURES
for the year ended 31 March 2024

This report has been republished on 14 July 2025 to reflect the correcton of overstatements in the accrued accretion charges for the index-linked arrangements of certain borrowings. The appointee's financial performance and position, net debt and cash flows have not been adversely impacted. The tables have restated finance costs and deferred tax in the income statement and non-current liabilities and reserves in the balance sheet. Further information on the prior year adjustment can be found in note 28 of the NWL Annual Report & Financial Statements for the year ended 31 March 2025.

(a) Regulatory Accounts - Basis of Accounting

The Regulatory Accounting Statements, on pages 119 to 201 of the APR, have been prepared in accordance with the Regulatory Accounting Guidelines (RAGs) issued by Ofwat. They have been prepared on a consistent basis to the Company's Consolidated Financial Statements, with the following exceptions:

- income relating to energy generation and meter reading, which is recorded as revenue in the statutory accounts, has been recorded as negative operating expenditure;
- rental income and amortisation of deferred capital income, which are recorded as revenue in the statutory accounts, have been recorded as other income below operating profit;
- profit on disposal of fixed assets, which is recorded as operating costs in the statutory accounts, has been recorded as other operating income;
- borrowing costs that are directly attributable to the acquisition or construction of an asset, which are capitalised in the statutory accounts, are charged to the income statement; and
- The net innovation fund receipt has been accrued in operating costs in the Statutory accounts but removed from the Regulatory accounts, in accordance with Ofwat guidance.

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

NWL's Statutory Accounts have been produced on a consolidated basis for the year ended 31 March 2024, including subsidiaries related to an Asset Backed Funding arrangement in respect of the defined benefit pension scheme (see table 4W) and the Kielder securitisation financing arrangement. The ABF entities and the financing subsidiary, Northumbrian Finance plc, relate to the Appointed business. The subsidiaries related to the Kielder securitisation relate to the Non-Appointed business. The structure is explained in more detail in the NWL Annual Report and Financial Statements for the year ended 31 March 2024 published on our website.

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

(b) Revenue recognition

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

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

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

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

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

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

If a property is recorded as empty in the billing system an empty property process is followed. The purpose of this process is to verify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill. No bills are raised in the name of 'the occupier'.

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

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but water is being registered, the developer will be charged. Once the developer is no longer responsible for a property, if no new occupier has been identified the property will be treated as unoccupied and the empty property process followed, as outlined above.

A retrospective review has confirmed that the measured household income accrual at 31 March 2023 of £64.6m was slightly higher than the amounts subsequently billed to customers of £60.9m.

(c) Bad debt policy

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

(i) Bad debt write offs

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

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

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- where the customer does not have any assets or has insufficient assets on which to levy execution;
- where the value of the debt makes it uneconomic to pursue;
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful; and
- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

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

(ii) Bad debt provisioning

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

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results. A comparison of the provision against historical collection rates is carried out at the end of each year to validate and, if necessary, adjust the level of provision.

The provision has reduced from £92.3m at 31 March 2023 to £86.2m at 31 March 2024, reflecting cash collection and write off of £17.6m of debt considered to be unrecoverable.

(d) Capitalisation policy

The policy for the capitalisation of costs as items of property, plant and equipment and intangible assets is applied consistently between the statutory and regulatory accounts, in accordance with IAS16 Property, Plant and Equipment and IAS38 Intangible Assets.

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

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

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

Subsequent maintenance expenditure is treated as an operating cost unless it provides an enhancement of economic benefits in excess of the expected standard of performance such as an extension in the estimated useful life or an increase in capacity, in which case it is capitalised. Examples of maintenance costs charged as operating costs include pipe and tank cleaning, inspections, surveys and zonal studies.

(e) Accounting separation policy

Cost allocations have been prepared in accordance with RAG 2.08, 2.09 and RAG 4.12 for the definitions for the regulatory accounting tables. All costs are recorded in the accounting records by cost centre. Cost centres are defined either as a direct department, comprising operational and customer functions, or a support department. Direct departments are mostly directly allocated to service activities based on the nature of the function, although some costs require apportionment on an appropriate basis. Support departments are apportioned across the price controls either based upon a specific analysis of the costs or by apportionment by an appropriate cost driver. Once allocated to the appropriate price control the costs are then allocated to service activities pro-rata to full time equivalent staff numbers of the direct departments.

Fixed assets directly involved in the activities within each business unit are recorded against that business unit using direct allocation per the location or asset type. Where an asset is utilised in more than one business unit, the asset is allocated to the business unit of principal use and costs are recharged to other different business units on the same basis used to allocate operating expenditure.

Further detail is provided in the accounting separation methodology statement published on our website.

(f) Statement of Directors' remuneration and standards of performance

Directors' remuneration is fully disclosed in the NWL Annual Report and Financial Statements for the year ended 31 March 2024, in the Remuneration Committee Report on pages 97 to 112. This is published on our website. To avoid duplication, this information has not been replicated within the APR.

The Remuneration Committee Report has been produced in accordance with section 35A of the Water Industry Act 1991. It also has regard to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of Directors' remuneration reporting for quoted companies, albeit in the context of a company which is not a listed public limited company.

1A INCOME STATEMENT
financial performance for the 12 months ended 31 March 2024

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Revenue	918.9	(29.0)	(48.6)	(77.6)	841.3
Operating costs	(685.7)	17.1	31.4	48.5	(637.2)
Other operating income	-	1.1	-	1.1	1.1
Operating profit	233.2	(10.8)	(17.2)	(28.0)	205.2
Other income	-	12.8	(3.2)	9.6	9.6
Interest income	2.4	0.1	(0.7)	(0.6)	1.8
Interest expense	(205.0)	(14.1)	14.4	0.3	(204.7)
Other interest expense	1.3	-	(0.1)	(0.1)	1.2
Profit before tax and fair value movements	31.9	(12.0)	(6.8)	(18.8)	13.1
Fair value gains/(losses) on financial instruments	(8.9)	-	(3.1)	(3.1)	(12.0)
Profit before tax	23.0	(12.0)	(9.9)	(21.9)	1.1
UK Corporation tax	(12.2)	0.1	1.6	1.7	(10.5)
Deferred tax	5.7	2.9	1.1	4.0	9.7
Profit for the year	16.5	(9.0)	(7.2)	(16.2)	0.3
Dividends	(65.8)	-	-	-	(65.8)
Tax analysis					
Current year	13.3	(0.1)	(1.6)	(1.7)	11.6
Adjustments in respect of prior years	(1.1)	-	-	-	(1.1)
UK Corporation tax	12.2	(0.1)	(1.6)	(1.7)	10.5

Analysis of non-appointed revenue

Imported sludge	-
Tankered waste	4.3
Other non-appointed revenue	44.3
Revenue	48.6

Differences between Statutory and Regulatory Definitions

Differences between statutory and RAG definitions are explained in note (a) of the Regulatory Accounting Policies and Disclosures.

The differences which result in a change to profit for the year reflect the following accounting treatments:

- capitalisation of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the Income Statement in the Regulatory Accounting Statements, along with the associated depreciation and deferred tax; and
- Innovation Fund costs, which are provided in the Statutory Financial Statements but removed from the Regulatory Accounting Statements, along with the associated tax.

Other changes are presentational in nature:

- income relating to energy generation and meter reading has been reclassified from revenue in the statutory accounts to negative operating costs;
- rental income, amortisation of deferred income and other contributions to capital investment have been reclassified from revenue in the statutory accounts to other income; and
- profit on disposal of fixed assets has been reclassified from operating costs in the statutory accounts to other operating income.

As explained in Note (a) of the Regulatory Accounting Policies and Disclosures, the NWL Statutory Accounts have been produced on a consolidated basis for the year ended 31 March 2024. The Non-appointed adjustments include the entities related to the Kielder securitisation. This applies to tables 1A to 1D.

Interest Analysis

Interest expense comprises:

	£'m
Bank overdrafts and loans	(12.5)
Loans from financing subsidiary	(106.1)
Amortisation of issuance costs	(3.7)
Accretion on index-linked debt	(75.2)
Obligations under leases	(7.2)
Interest expense	(204.7)

NWL has a financing subsidiary, Northumbrian Water Finance Limited, which raises listed debt on its behalf. The debt is then loaned to NWL at the same terms.

Other interest expenses represents interest cost on pension plan obligations.

1B STATEMENT OF COMPREHENSIVE INCOME
financial performance for the 12 months ended 31 March 2024

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Profit for the year	16.5	(9.0)	(7.2)	(16.2)	0.3
Actuarial gains/(losses) on post employment plans	(40.2)	-	(1.0)	(1.0)	(41.2)
Other comprehensive income	(1.6)	-	-	-	(1.6)
Total Comprehensive income for the year	(25.3)	(9.0)	(8.2)	(17.2)	(42.5)

1C STATEMENT OF FINANCIAL POSITION
financial performance for the 12 months ended 31 March 2024
(Registered number 02366703)

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Non-current assets					
Fixed assets	5,307.2	(81.2)	(103.2)	(184.4)	5,122.8
Intangible assets	55.2	(2.9)	(0.3)	(3.2)	52.0
Investments - loans to group companies	-	-	-	-	-
Investments - other	-	-	-	-	-
Total non-current assets	5,362.4	(84.1)	(103.5)	(187.6)	5,174.8
Current assets					
Inventories	10.3	-	(0.4)	(0.4)	9.9
Trade & other receivables	264.3	3.4	(3.6)	(0.2)	264.1
Cash & cash equivalents	61.9	-	(36.6)	(36.6)	25.3
Total current assets	336.5	3.4	(40.6)	(37.2)	299.3
Current liabilities					
Trade & other payables	(207.7)	(23.1)	19.3	(3.8)	(211.5)
Capex creditor	(62.4)	-	0.5	0.5	(61.9)
Borrowings	(214.3)	23.4	3.9	27.3	(187.0)
Current tax liabilities	-	0.1	-	0.1	0.1
Provisions	(0.1)	-	-	-	(0.1)
Total current liabilities	(484.5)	0.4	23.7	24.1	(460.4)
Net current assets / (liabilities)	(148.0)	3.8	(16.9)	(13.1)	(161.1)
Non-Current liabilities					
Trade & other payables	-	-	-	-	-
Borrowings	(3,752.8)	-	220.5	220.5	(3,532.3)
Financial instruments	(158.7)	-	57.4	57.4	(101.3)
Retirement benefit obligations	(16.2)	-	(1.2)	(1.2)	(17.4)
Provisions	(3.8)	-	-	-	(3.8)
Deferred income - G&C's	(521.0)	-	0.5	0.5	(520.5)
Deferred income - adopted assets	-	-	-	-	-
Deferred tax	(618.9)	20.1	(8.7)	11.4	(607.5)
Total non-current liabilities	(5,071.4)	20.1	268.5	288.6	(4,782.8)
Net assets	143.0	(60.2)	148.1	87.9	230.9

1C STATEMENT OF FINANCIAL POSITION (continued)
financial performance for the 12 months ended 31 March 2024

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Equity					
Called up share capital	122.7	-	(30.6)	(30.6)	92.1
Retained earnings & other reserves	20.3	(60.2)	178.7	118.5	138.8
Total Equity	143.0	(60.2)	148.1	87.9	230.9

Approved by the Board of Directors on 10 July 2024 and signed on their behalf by:

H Mottram

Differences Between Statutory and Regulatory Definitions

Differences between statutory and RAG definitions are explained in note (a) of the Regulatory Accounting Policies and Disclosures.

The change in net assets and total equity reflects the different treatment of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the income statement in the Regulatory Accounting Statements, along with the associated depreciation and deferred tax; and the removal of the provision for Innovation Fund costs from the Regulatory Accounts along with the associated tax. Other changes reflect the disaggregation of cash balances and trading balances between the appointed and non-appointed businesses.

1D STATEMENT OF CASH FLOWS
financial performance for the 12 months ended 31 March 2024

	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
					£'m
Operating profit	233.2	(10.8)	(17.2)	(28.0)	205.2
Other income	-	12.8	(3.2)	9.6	9.6
Depreciation	156.7	(2.2)	(2.8)	(5.0)	151.7
Amortisation - G&C's	-	-	-	-	-
Changes in working capital	(20.0)	0.2	(4.0)	(3.8)	(23.8)
Pension contributions	(18.7)	-	1.8	1.8	(16.9)
Movement in provisions	(6.8)	1.1	-	1.1	(5.7)
Profit on sale of fixed assets	1.2	(1.1)	-	(1.1)	0.1
Cash generated from operations	345.6	-	(25.4)	(25.4)	320.2
Net interest paid	(139.5)	-	13.6	13.6	(125.9)
Tax paid	17.9	-	1.2	1.2	19.1
Net cash generated from operating activities	224.0	-	(10.6)	(10.6)	213.4
Investing activities					
Capital expenditure	(396.6)	-	2.2	2.2	(394.4)
Grants & Contributions	14.1	-	-	-	14.1
Disposal of fixed assets	-	-	-	-	-
Other	(0.1)	-	0.1	0.1	-
Net cash used in investing activities	(382.6)	-	2.3	2.3	(380.3)
Net cash generated before financing activities	(158.6)	-	(8.3)	(8.3)	(166.9)
Cashflows from financing activities					
Equity dividends paid	(65.8)	-	-	-	(65.8)
Net loans received	118.6	-	(5.7)	(5.7)	112.9
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	52.8	-	(5.7)	(5.7)	47.1
Increase / (decrease) in net cash	(105.8)	-	(14.0)	(14.0)	(119.8)

Net interest paid comprises:

	£'m
Interest paid	(127.7)
Interest received	1.8
Net interest paid	(125.9)

1E NET DEBT ANALYSIS as at 31 March 2024
Appointed Business only

	Interest rate risk profile				
		Floating	Index linked		
	Fixed rate	rate	RPI	CPI/CPIH	Total
	£'m	£'m	£'m	£'m	£'m
Borrowings (excluding preference shares)	2,197.6	469.9	1,040.9	122.1	3,830.5
Preference share capital					-
Total borrowings					3,830.5
Cash					(11.4)
Short term deposits					-
Net Debt					3,819.1
Gearing					70.2%
Adjusted Gearing					70.2%
Interest					
Full year equivalent nominal interest cost	94.2	19.3	44.8	3.4	161.7
Full year equivalent cash interest payment	94.2	19.3	10.4	0.2	124.1
Indicative interest rates					
Indicative weighted average nominal interest	4.29%	4.11%	4.31%	2.81%	4.22%
Indicative weighted average cash interest rate	4.29%	4.11%	1.00%	0.20%	3.24%
Time to maturity					
Weighted average years to maturity	8.7	3.4	13.2	15.6	9.5

1F FINANCIAL FLOWS for the 12 months ended 31 March 2024 and for the price review to date

	12 months ended 31 March 2024						Average 2020-25					
	%			£'m			%			£'m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity (£m)	1,706.6	1,706.6	1,298.7				1,645.6	1,645.6	1,247.8			
Return on regulatory equity	4.44	3.38	4.44	75.8	57.7	57.7	4.40	3.34	4.40	72.4	54.9	54.9
Financing												
Impact of movement from notional gearing		1.06	1.34		18.1	17.4		1.06	1.30		17.5	16.9
Gearing benefits sharing		-	-		-	-		-	-		-	-
Variance in corporation tax		1.14	1.49		19.4	19.4		0.99	1.29		16.8	16.8
Group relief		-	-		-	-		-	-		-	-
Cost of debt		1.48	2.36		25.3	30.7		1.64	2.56		28.1	33.3
Hedging instruments		0.59	0.77		10.0	10.0		0.38	0.49		6.4	6.4
Return on regulatory equity including Financing adjustments	4.44	7.65	10.40	75.8	130.5	135.2	4.40	7.41	10.04	72.4	123.7	128.3
Operational Performance												
Totex out / (under) performance		-1.71	-2.25		(29.2)	(29.2)		(0.82)	(1.07)		(13.9)	(13.9)
ODI out / (under) performance		0.15	0.20		2.6	2.6		(0.16)	(0.20)		(2.7)	(2.7)
C-Mex out / (under) performance		0.20	0.26		3.4	3.4		0.13	0.18		2.3	2.3
D-Mex out / (under) performance		0.03	0.03		0.5	0.5		0.02	0.03		0.3	0.3
Retail out / (under) performance		-0.67	-0.88		(11.4)	(11.4)		(0.54)	(0.71)		(9.2)	(9.2)
Other exceptional items		0.01	0.01		0.1	0.1		0.05	0.07		0.9	0.9
Operational performance total		-1.99	-2.63		(34.0)	(34.0)		(1.32)	(1.70)		(22.3)	(22.3)
RoRE (return on regulatory equity)	4.44	5.66	7.77	75.8	96.5	101.2	4.40	6.09	8.34	72.4	101.4	106.0
RCV growth	4.61	4.61	4.61	78.7	78.7	59.9	6.20	6.20	6.20	102.0	102.0	77.4
Voluntary sharing arrangements		-	-		-	-		-	-		-	-
Total shareholder return	9.05	10.27	12.38	154.5	175.2	161.1	10.60	12.29	14.54	174.4	203.4	183.4

	12 months ended 31 March 2024						Average 2020-25					
	%			£'m			%			£'m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Dividends												
Gross Dividend	3.18	3.09	4.07	54.3	52.8	52.8	3.20	4.77	6.29	52.7	78.5	78.5
Interest Receivable on Intercompany loans		-	-		-	-		-	-		-	-
Retained Value	5.87	7.18	8.31	100.2	122.4	108.3	7.40	7.52	8.25	121.7	124.9	104.9
Cash impact of 2015-20 performance adjustments												
Totex out / under performance		-	-		-	-		0.08	0.11		1.3	1.3
ODI out / under performance		-	-		-	-		-	-		-	-
Total out / under performance		-	-		-	-		0.08	0.11		1.3	1.3

Explanation of Financial Flows

The purpose of this table is to provide transparency of financial flows to investors, comparing actual flows, and the main elements of performance which contribute to these flows, against the financial flows assumed by Ofwat under the notional structure at the last price review.

The table shows performance for 2023/24 and cumulative performance for the first four years of the 2020-2025 price control period. All of the financial values are expressed in the same 2017/18 price base as the PR19 price review. Where prior year numbers have been restated within the cumulative performance, this is explained below.

Return on regulatory equity (RORE)

At PR19, the base notional RORE was set at 4.44% for 2023/24. The regulatory equity base represents the proportion of RCV funded as equity rather than debt. Ofwat's notional structure for PR19 assumed net debt at 60% of RCV, equating to base regulatory equity of 40%, or £1,707m at March 2024.

NWL's actual average gearing in 2023/24 was 69.3%, due to having higher net debt than assumed by Ofwat's notional structure, resulting in actual regulatory equity of 30.7% of RCV, or £1,299m.

Financing

This section of the report relates to performance from financing and tax.

Gearing is calculated as net debt divided by RCV. NWL's average gearing was 69.3%, remaining above Ofwat's notional structure assumption of 60% but below our target level of around 70%. The more efficient capital structure has generated a financing benefit of £17.4m. The CMA redetermination removed the gearing sharing mechanism for NWL.

Corporation tax reports the difference current tax funded in the FD and the actual tax rate applied to profit before fair value, adjusted for capital allowances. The Company made a loss before tax in the year, due to the impact of very high inflation on index-linked debt interest charges. As a result, the tax charge was significantly lower than assumed in the FD, with a variance of £19.4m in 2023/24. This also included the impact of the full expensing of qualifying capital expenditure. A reconciliation of our current tax to FD allowance is provided on page 136. All tax losses acquired from related parties in the year were paid for in full.

Cost of debt performance is reported in real terms, rather than nominal. As reported in table 4H, around 55% of the Company's debt is at fixed rate and not impacted by indexation. In 2023/24, the real cost of debt was 1.39% lower than allowed in the FD due to high CPIH inflation, generating a £40.8m outperformance on cost of debt, including interest rate swaps.

The net effect of financing and tax in the year was an outperformance of FD allowance by £60.2m, or 4.63% of actual regulatory equity.

Operational Performance

This section of the report explains the impact of operational performance on wholesale totex, ODIs and retail costs, each of which is explained elsewhere in this report.

Wholesale totex performance reflects the performance presented in table 4C, and excludes variations due to timing of expenditure. The underperformance of £29.2m reflects overspends on the water price controls and underspends on the wastewater price controls, net of customer cost sharing, as explained in the commentary to table 4C on page 181.

ODI performance against our PCs is reported in the tables in section 3, with table 3H reporting the summary incentive rewards and penalties (excluding C-MeX and D-MeX rewards as explained below). The reported performance for the year for in-period adjustments is a net reward of £4.7m, reduced to £2.6m when the potential end-of-period penalty for PCC is taken into account. Our performance against each ODI is explained earlier in this report.

Performance rewards on C-MeX and D-Mex are based on comparative performance across the sector and are not finalised until later in the year. For the purposes of this table, the performance is reported a year in arrears so the rewards of £3.4m for C-MeX and £0.5m for D-MeX relate to 2022/23 performance and reflect 1st place overall for C-MeX in that year.

Retail costs were higher than the PR19 allowance by £11.4m, as explained in the narrative to table 2C and due in part to the allowance not being increased each year for inflation.

Exceptional items of £0.1m reflects the company's share of benefits from the disposal of surplus land and properties, as reported in table 2L.

The net effect of operational performance in the year was an underperformance of FD allowance by £34.1m, 2.63% of regulatory equity.

Total Shareholder Return

The total shareholder return comprises base RORE, financing performance, operational performance and growth in the RCV as allowed in the FD. Our total shareholder return of £160.9m performance comprises £101m RORE and £59.9m growth in RCV, reflecting the high levels of inflation in the year.

Retained Value

Our dividend policy is set out on page 162 and we explain how this dividend policy is applied on pages 164 to 168. The dividend reported in the table is for dividends paid during the year, reflecting a final dividend for 2022/23 and an interim dividend for 2023/24, rebased to 2017/18 prices. This resulted in retained value of £108.1m for 2023/24.

APPOINTED BUSINESS TAXATION

The rate of UK corporation tax for the current year was 25%. The movement in the Company's deferred tax liabilities has been calculated at 25%.

Current tax for the Appointed business is derived by adjusting the Company's statutory position by the amount relating to the activities of the Non-appointed business. The Appointed business credit for the year of £0.7m (£11.6m charge in the income statement and £12.3m credit in other comprehensive income) relates to £0.7m receivable from fellow group companies in respect of tax losses that will be surrendered by the Appointed business. Payments for the losses will be made at the full rate of corporation tax.

The prior years' corporation tax credit of £1.1m reflects revisions to tax reliefs for capital expenditure, R&D claims made and losses surrendered to the Company's joint venture Vehicle Lease and Service Limited. Payments for the losses will be made at the full rate of corporation tax.

The current corporation tax credit of £0.7m reflects a change of £0.9m compared to the credit of £1.6m in 2022/23 and is explained by the decrease in profit before tax and fair value movements (+£6.4m), reduction in tax reliefs claimed on capital expenditure by way of capital allowances disclaimers (+£41.9m), Pension contributions paid in excess of accounts service and finance costs (-£5.3m), reduction in tax losses due to the capital allowances disclaimers mentioned above (-£47.7m), deferred tax movements not at the standard rate of tax (+£5.3m) and other small variances (+£0.3m).

The deferred tax credit for the Appointed business is derived by adjusting the Company's statutory credit of £13.0m (£11.8m credit in the income statement and £1.2m credit in other comprehensive income) by amounts relating to accounting differences (i.e. capitalised interest: charge of £3.0m; Innovation Fund: credit £0.1m) and the activities of the Non-appointed business (charge of £1.4m). The resulting Appointed business credit of £17.3m includes £17.8m credit for the current year and £0.5m charge for prior years. Deferred tax in the year and at the balance sheet date is all provided at 25%, being the rate at which temporary differences are expected to reverse.

An explanation of why the current tax charge for the Appointed business is higher than the result of applying the standard rate of corporation tax to loss before tax is provided in the table opposite:

	Total appointed activities
	£'m
Profit before tax and fair value movements	13.1
Profit before tax and fair value movements multiplied by standard rate of corporation tax of 25%	3.3
EFFECTS OF:	
Expenses incurred that are not deductible for tax purposes	0.3
Depreciation in respect of non-qualifying items	1.2
Tax reliefs claimed for capital expenditure in excess of accounts depreciation	6.9
Grants and contributions received in excess of accounts amortisation	8.0
Pension contributions paid in excess of accounts service and finance costs	(0.8)
Swap interest accretion	(6.1)
Other temporary differences	0.1
Tax losses carried forward	(1.3)
Adjustments in respect of prior periods	(1.1)
UK:UK transfer pricing adjustments	(1.2)
Balancing payment payable	1.2
Appointed current tax charge per line 1A.12	10.5

Future tax charges will be affected by the following matters:

The Company expects to continue to incur high levels of capital expenditure during the remainder of the 2020-25 regulatory review period which should result in claims for tax reliefs in excess of depreciation. The company expects this trend to continue throughout the following regulatory review period.

The full expensing regime for capital allowances was made permanent in Finance Act 2024. As a result the Company expects to continue to generate a tax loss over the remainder of the 2020-25 regulatory review period, as well as throughout the following regulatory period review. The Company intends to limit the level of tax losses arising by way of disclaiming capital allowances, however, the Company will utilise brought forward tax losses to the extent that the group does not exceed the £5 million annual allowance of unrestricted profit.

The Organisation for Economic Co-operation and Developments (OECD) released Pillar Two model rules in December 2021 introducing a global minimum tax rate of 15% to address the tax concerns about uneven profit distribution and tax contributions of large multinational corporations. In December 2022, the OECD released transitional safe harbour rules as a short-term measure to minimise the compliance burden for lower risk jurisdictions.

The Pillar Two top-up tax rules were substantially enacted in the UK in 2023 with application from 1 January 2024. The Company does not expect to be subject to the top-up tax in relation to its operations because it falls within the OECD transitional safe harbour rules which have also been adopted by the UK. The Company has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and will account for it as current tax when it is incurred.

CURRENT TAX RECONCILIATION TO FD

An allowance for corporation tax was made in the Final Determination (FD) at PR19. Actual performance differs to the FD for a number of reasons. As far as current tax is concerned, the charge for the year is reconciled to the FD allowance as follows:

	Total appointed activities
	£'m
Current tax charge (at 19%) allowed in price limits	20.1
Net decrease in profit before tax and depreciation	(31.7)
Increase in allowable pension contributions	0.2
Increase in tax reliefs for capital expenditure	19.3
Decrease in amortisation of grants and contributions	(1.6)
Increase in service income taxed via capital allowances	0.1
Other	0.2
Tax losses utilised in the year	(1.3)
Tax rate difference	6.3
Adjustment in respect of prior years	(1.1)
Appointed current tax credit per line 1A.12	10.5

APPOINTED BUSINESS TAX STRATEGY

Scope

The Company is required, by section 3.32 of RAG 3.14, to publish details of its Tax Strategy relating to the Appointed Business within the Annual Performance Report. For the avoidance of doubt, the Company has a single Tax Strategy which applies to its Appointed and Non-appointed businesses, as well as to its subsidiaries.

The Tax Strategy set out below is for the Company's financial year ended 31 March 2024 in order to satisfy the requirements of Schedule 19, Finance Act 2016.

Aim

The Company is committed to fully complying with all the statutory tax obligations that are imposed on it, including the provision of tax returns, the payment and recovery of taxes at the right time, and the provision of all relevant information to HM Revenue and Customs (HMRC) to support the amounts of tax concerned.

The Company's Board owns and approves the Tax Strategy which comprises the following four components:

a) Tax governance arrangements

The Board reviews and approves all significant investment and business operating decisions directly or delegates the appropriate authority. The Company's Audit Committee considers significant tax related matters as part of its monitoring of internal controls and financial reporting arrangements.

The Chief Financial Officer is the member of the Executive Leadership Team with responsibility for tax matters. Day-to-day management of the Company's tax affairs is delegated to the Tax Manager and to other appropriately qualified staff who have responsibility for specific taxes. All staff with responsibility for tax report to members of the Company's senior management team which, in turn, reports to the Board.

The Company's tax affairs are conducted in a business-like manner in accordance with the Company's commitment to corporate responsibility.

b) Tax risk management framework

The Company's Risk Committee oversees the risk assessment process applied by the business which includes an assessment of tax risks.

As far as possible, through the activities of its Board, Committees and personnel responsible for tax matters, the Company seeks to manage the level of tax risk arising from its operations by ensuring appropriate processes and controls are in place.

The Company only takes tax positions which are justifiable and based on law, with advice taken from reputable professional firms where necessary. In accordance with internal governance procedures, any transaction that is likely to have material tax consequences must be referred to the Board.

To help manage tax risk, the Company's taxation affairs are only handled by appropriately qualified and experienced staff and, where necessary, training is given to non-tax staff who are involved in processes which have tax implications.

The Company does not tolerate or condone any form of tax evasion, whether committed or facilitated by its own staff or any associated persons (e.g. agents and other persons who perform services for or on behalf of the Company) and manages this risk by the use of appropriate processes.

c) Approach to tax planning

The Company considers tax as part of its business decision making process. When entering into commercial transactions, the Company seeks to obtain the benefit of tax incentives, reliefs and exemptions available under UK tax legislation, consistent with the purpose and the letter of the law.

The tax affairs of the Company are arranged and managed in response to, and in support of, its business or commercial activities. Related party transactions are managed and documented to ensure they are in compliance with local tax law and practice.

d) Relationship with HMRC

The Company seeks to have a transparent and constructive relationship with HMRC on all taxation matters and keeps HMRC aware of significant transactions and business developments. All contact with HMRC is conducted in a professional and courteous manner.

The Company seeks to obtain certainty from HMRC at the earliest opportunity on the tax treatment of complex or uncertain issues or to establish the appropriate understanding or interpretation of the law. Discussions with HMRC are held at least annually to review past and present tax risks and agree on the steps required to take matters forward. Resolution of any disputed matters will be sought through open discussion and negotiation with HMRC, but the Company is prepared to litigate in cases where it believes the technical basis of a decision is incorrect.

The Company takes an active role in the development of the UK's legislative framework through participation at company or industry level in Government consultations on significant new tax laws.

Publication date: 10 July 2024.

2A SEGMENTAL INCOME STATEMENT for the 12 months ended 31 March 2024

	Residential retail	Business retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue - price control	58.1	-	108.4	351.4	277.5	32.9	828.3
Revenue - non price control	-	-	-	12.3	0.7	-	13.0
Operating expenditure - excluding PU recharge	(60.2)	-	(78.0)	(210.6)	(131.5)	(4.8)	(485.1)
PU opex recharge	(2.9)	-	(1.5)	8.0	(3.3)	(0.3)	-
Operating expenditure - including PU recharge	(63.1)	-	(79.5)	(202.6)	(134.8)	(5.1)	(485.1)
Depreciation - tangible fixed assets	(2.2)	-	(7.1)	(70.4)	(54.9)	(8.3)	(142.9)
Amortisation - intangible fixed assets	(2.3)	-	-	(6.5)	-	-	(8.8)
Other operating income	-	-	0.3	0.3	0.4	0.1	1.1
Operating profit	(9.5)	-	22.1	84.5	88.9	19.6	205.6
Surface water drainage rebates							0.1

2B TOTEX ANALYSIS: WHOLESALE

for the 12 months ended 31 March 2024

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Base operating expenditure					
Power	21.3	41.5	47.6	(0.1)	110.3
Income treated as negative expenditure	(0.6)	(0.3)	-	(14.1)	(15.0)
Abstraction charges/ discharge consents	40.2	0.4	3.8	-	44.4
Bulk Supply/Bulk discharge	1.3	-	-	-	1.3
Renewals expensed in year (Infrastructure)	-	-	0.4	-	0.4
Renewals expensed in year (Non-Infrastructure)	0.2	5.2	1.9	0.1	7.4
Other operating expenditure (including Location specific costs & obligations)	7.0	131.1	70.2	17.2	225.5
Local authority and Cumulo rates	3.0	19.0	9.3	2.0	33.3
Total base operating expenditure	72.4	196.9	133.2	5.1	407.6
Other operating expenditure					
Enhancement operating expenditure	1.5	1.4	0.8	-	3.7
Developer services operating expenditure	-	0.3	0.5	-	0.8
Total operating expenditure excluding third party services	73.9	198.6	134.5	5.1	412.1
Third party services	5.6	4.0	0.3	-	9.9
Total operating expenditure	79.5	202.6	134.8	5.1	422.0
Grants and contributions - operating expenditure	-	-	-	-	-
Capital expenditure					
Base capital expenditure	35.5	140.0	76.9	5.4	257.8
Enhancement capital expenditure	1.3	75.5	63.5	-	140.3
Developer services capital expenditure	-	23.8	1.7	-	25.5
Total gross capital expenditure excluding third party	36.8	239.3	142.1	5.4	423.6
Third party services	-	0.5	-	-	0.5
Total gross capital expenditure	36.8	239.8	142.1	5.4	424.1
Grants and contributions - capital expenditure	-	13.9	2.8	-	16.7
Net totex	116.3	428.5	274.1	10.5	829.4
Cash expenditure					
Pension deficit recovery payments	0.4	9.8	4.9	0.4	15.5
Other cash items	-	-	-	-	-
Totex including cash items	116.7	438.3	279.0	10.9	844.9

2C COST ANALYSIS: RETAIL

for the 12 months ended 31 March 2024

	Residential	Business	Total
	£'m	£'m	£'m
Operating expenditure			
Customer services	16.3	-	16.3
Debt management	4.7	-	4.7
Doubtful debts	20.8	-	20.8
Meter reading	2.3	-	2.3
Services to developers		-	-
Other operating expenditure	13.2	-	13.2
Local authority and Cumulo rates	0.2	-	0.2
Total operating expenditure excluding third party services	57.5	-	57.5
Depreciation			
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	0.4	-	0.4
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	1.8	-	1.8
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	-	-	-
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	2.3	-	2.3
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.9	-	0.9
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	(0.2)	-	(0.2)
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	2.2	-	2.2
Income from wholesale assets acquired after 1 April 2015 principally used by retail	(0.1)	-	(0.1)
Net recharges costs	2.8	-	2.8
Total retail costs excluding third party and pension deficit repair	64.8	-	64.8
Third party services operating expenditure	-	-	-
Pension deficit repair costs	2.6	-	2.6
Total retail costs including third party and pension deficit repair	67.4	-	67.4
Debt written off	17.6	-	17.6
Capital expenditure	1.4	-	1.4

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

Demand-side water efficiency - gross expenditure	1.6
Demand-side water efficiency - expenditure funded by wholesale	1.6
Demand-side water efficiency - net retail expenditure	-
Customer-side leak repairs - gross expenditure	1.4
Customer-side leak repairs - expenditure funded by wholesale	1.4
Customer-side leak repairs - net retail expenditure	-
Comparison of actual and allowed expenditure	
Cumulative actual retail expenditure to reporting year end	240.4
Cumulative allowed expenditure to reporting year end	197.1
Total allowed expenditure 2020-25	247.4

Retail revenue and cost reconciliation to FD

Household retail revenue, reported in table 2I, was £58.1m, which was £6.5m lower than allowed in the FD, largely due to an increase in the number of customers benefitting from either a reduced or capped tariff.

Household retail costs excluding pension deficit repair costs, in table 2C above, were £64.8m, which was £14.8m higher than allowed in the FD.

The retail cost base is higher than the allowance in the FD, reflecting inflationary pressures on staff and other costs which were not allowed in the FD.

2D HISTORIC COST ANALYSIS OF TANGIBLE FIXED ASSETS

for the 12 months ended 31 March 2024

	Residential Retail	Business retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2023	31.9	-	359.6	3,601.4	3,176.4	207.6	7,376.9
Disposals	(0.2)	-	-	(2.9)	(1.7)	(0.6)	(5.4)
Additions	0.9	-	36.8	231.7	142.1	5.4	416.9
Adjustments	(0.3)	-	-	2.3	(4.6)	2.6	-
Assets adopted at nil cost	-	-	-	3.8	20.1	-	23.9
At 31 March 2024	32.3	-	396.4	3,836.3	3,332.3	215.0	7,812.3
Depreciation							
At 1 April 2023	(27.0)	-	(81.3)	(1,356.2)	(938.0)	(149.5)	(2,552.0)
Disposals	0.2	-	-	3.0	1.7	0.6	5.5
Adjustments	(0.3)	-	0.1	0.1	(0.4)	0.4	(0.1)
Charge for year	(2.2)	-	(7.1)	(70.4)	(54.9)	(8.3)	(142.9)
At 31 March 2024	(29.3)	-	(88.3)	(1,423.5)	(991.6)	(156.8)	(2,689.5)
Net book amount at 31 March 2024	3.0	-	308.1	2,412.8	2,340.7	58.2	5,122.8
Net book amount at 1 April 2023	4.9	-	278.3	2,245.2	2,238.4	58.1	4,824.9
Depreciation charge for year							
Principal services	(2.2)	-	(7.1)	(70.4)	(54.9)	(8.3)	(142.9)
Third party services	-	-	-	-	-	-	-
Total	(2.2)	-	(7.1)	(70.4)	(54.9)	(8.3)	(142.9)

The net book value includes £224.4m in respect of assets in the course of construction.

2E ANALYSIS OF 'GRANTS AND CONTRIBUTIONS': WATER RESOURCES, WATER NETWORK+ AND WASTEWATER NETWORK+

for the 12 months ended 31 March 2024

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£'m	£'m	£'m	£'m
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total	-	-	-	-
Value of adopted assets	-	-		-
Grants and contributions - water network+				
Connection charges	-	9.5	-	9.5
Infrastructure charge receipts	-	2.0	-	2.0
Requisitioned mains	-	1.8	-	1.8
Diversions - s185	0.7	-	-	0.7
Other contributions (price control)	0.1	-	-	0.1
Price control grants and contributions before deduction of income offset	0.8	13.3	-	14.1
Income offset	-	1.1	-	1.1
Price control grants and contributions after deduction of income offset	0.8	12.2	-	13.0
Diversions - NRSWA	0.6	-	-	0.6
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	0.2	-	-	0.2
Total	1.6	12.2	-	13.8
Value of adopted assets	-	3.8		3.8
Grants and contributions - wastewater network+				
Receipts for on-site work	-	0.2	-	0.2
Infrastructure charge receipts	-	0.4	-	0.4
Diversions - s185	0.1	-	-	0.1
Other contributions (price control)	-	1.2	-	1.2
Price control grants and contributions before deduction of income offset	0.1	1.8	-	1.9
Income offset	-	-	-	-
Price control grants and contributions after deduction of income offset	0.1	1.8	-	1.9
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	1.0	-	-	1.0
Other Contributions (non-price control)	-	-	-	-
Total	1.1	1.8	-	2.9
Value of adopted assets	-	20.1		20.1

	Water resources	Water network+	Wastewater network+	Total
	£'m	£'m	£'m	£'m
Movements in capitalised grants and contributions				
Brought forward	0.6	273.4	214.7	488.7
Received in year (above)	-	12.2	1.8	14.0
Adopted assets	-	3.8	20.1	23.9
Transferred from receipts in advance	-	0.5	(0.4)	0.1
Amortisation (in income statement)	-	(3.8)	(2.4)	(6.2)
Carried forward	0.6	286.1	233.8	520.5

Grants and contributions falling within the wholesale price control, and therefore also reported on table 2B, comprise connection charges, infrastructure charge receipts and requisitioned mains and sewers.

2F RESIDENTIAL RETAIL

for the 12 months ended 31 March 2024

	Revenue	Number of customers	Average residential revenues
	£'m	000s	£
Residential revenue			
Wholesale charges	589.0		
Retail revenue	58.1		
Total residential revenue	647.1		
Retail revenue			
Revenue Recovered ("RR")	58.1		
Revenue sacrifice	-		
Actual revenue (net)	58.1		
Adjustment			
Allowed revenue ("R")	64.6		
Net adjustment	6.5		
Customer information			
Actual customers ("AC")		1,987.9	
Reforecast customers		1,986.0	
Other residential information			
Average residential retail revenue per customer			29.2

2G & 2H NON-HOUSEHOLD WATER AND WASTEWATER REVENUES BY TARIFF TYPE

NWL exited the NHH retail market at 1 April 2017 and transferred its NHH retail business to an acquiring licenced retailer, NWGB, another subsidiary of NWGL.

In accordance with RAG 4.12, as NWL has exited all NHH market activities, we are no longer required to publish tables 2G and 2H.

NWL still provides wholesale water and wastewater services to NHH properties in our areas of supply. The NHH wholesale revenue for the year ended 31 March 2024 was £181.1m, as reported in table 2I.

2I REVENUE ANALYSIS for the 12 months ended 31 March 2024

	Household	Non-household	Total	Water resources	Water network+	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - water						
Unmeasured	191.0	1.5	192.5	47.8	144.7	192.5
Measured	169.4	91.4	260.8	60.2	200.6	260.8
Third party revenue	2.0	4.4	6.4	0.4	6.0	6.4
Total wholesale water revenue	362.4	97.3	459.7	108.4	351.3	459.7

	Household	Non-household	Total	Wastewater network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - wastewater						
Unmeasured - foul charges	85.4	0.8	86.2	75.3	10.9	86.2
Unmeasured - surface water charges	37.7	2.0	39.7	35.2	4.5	39.7
Unmeasured - highway drainage	17.9	0.9	18.8	18.6	0.2	18.8
Measured - foul charges	43.0	42.2	85.2	76.6	8.5	85.1
Measured - surface water charges	28.3	25.8	54.1	48.1	6.1	54.2
Measured - highway drainage	13.9	12.1	26.0	23.3	2.7	26.0
Third party revenue	0.4	-	0.4	0.4	-	0.4
Total wholesale wastewater revenue	226.6	83.8	310.4	277.5	32.9	310.4

	Household	Non-household	Total
Wholesale charge - Additional Control			
Unmeasured	-	-	-
Measured	-	-	-
Total wholesale additional control	-	-	-
Wholesale Total	589.0	181.1	770.1
Retail revenue			
Unmeasured	22.4	-	22.4
Measured	35.7	-	35.7
Other third party revenue	-	-	-
Retail Total	58.1	-	58.1
Third party revenue - non-price control			
Bulk supplies - water			3.6
Bulk supplies - wastewater			-
Other third party revenue			9.4
Principal services - non-price control			
Other appointed revenue			0.1
Total appointed revenue			841.3

2I REVENUE ANALYSIS for the 12 months ended 31 March 2024 (continued)

Wholesale revenue control reconciliation to FD

Charges for 2023/24 were set in accordance with the price controls set by Ofwat in its PR19 Final Determination subsequently adjusted by the CMA appeal process.

During the COVID-19 pandemic an increase in household consumption due to the impact of various lockdown periods and customers working from home was seen. As people returned to the workplace the consumption decreased and has continued to do so, only stabilising during the second half of 2023/24. Various initiatives have continued during the year which have led to a reduction in the number of household voids to a void rate of 3.29% at the year end.

For our non-household charging base, during the year we have seen consumption increase slightly in line with the return to workplaces noted above. Non-household voids have remained relatively stable.

Wholesale water revenue in 2023/24 was £2.3m (0.8%) lower than the revenue cap income allowance due to lower volumes being billed in the year. This is all within the network+ price control. Network+ price control, grants and contributions income was £9.3m (42%) lower than the allowed revenue for the period. This lower level was reflected in 2023/24 price setting and rebalanced between primary charges and grants and contributions.

Wholesale wastewater revenue in 2023/24 was in line with the revenue cap income allowance. This is split between the network+ and bioresources price controls which were £0.3m (0.1%) lower and £0.3m (0.9%) higher respectively. Within the network+ price control, grants and contributions income is £2.5m (57%) lower than the allowed revenue for the period. This lower level was reflected in 2023/24 price setting and rebalanced between primary charges and grants and contributions.

The revenue imbalances in the table above (for water resources and the network+ controls) will be incorporated into the Revenue Forecasting Incentive model and will be corrected within charges for 2025/26 against the relevant price controls.

2J INFRASTRUCTURE NETWORK REINFORCEMENT COSTS for the 12 months ended 31 March 2024

	Network reinforcement capex	On site / site specific capex (memo only)
	£'m	£'m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	3.4	-
Pumping and storage facilities	1.7	-
Other	-	-
Total	5.1	-
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	0.5	-
Surface water only systems	-	-
Pumping and storage facilities	-	-
Other	-	-
Total	0.5	-

2K INFRASTRUCTURE CHARGES RECONCILIATION for the 12 months ended 31 March 2024

	Water	Wastewater	Total
	£'m	£'m	£'m
Impact of infrastructure charge discounts			
Infrastructure charges	2.0	0.4	2.4
Discounts applied to infrastructure charges	0.1	0.1	0.2
Gross infrastructure charges	2.1	0.5	2.6
Comparison of revenue and costs			
Variance brought forward	(0.3)	0.9	0.6
Revenue	2.0	0.4	2.4
Costs	(5.1)	(0.5)	(5.6)
Variance carried forward	(3.4)	0.8	(2.6)

Reconciliation of infrastructure charges and network reinforcement costs

Infrastructure charges are set at a level to fund investment in reinforcement of our networks, to meet the demand arising from new development of household properties. We are required to ensure that revenue from infrastructure charges broadly matches network reinforcement expenditure over a five year rolling period.

We review infrastructure charges annually, taking account of extra capacity expected to be required as a result of new developments in the following five years. Our forecast reflects applications received for the provision of new infrastructure, pre-development enquiries and a longer term view of local authority plans and strategic studies.

Water

During 2023/24, expenditure on water network reinforcement projects was greater than infrastructure charges receipts. The net position at the end of 2023/24 was that the cumulative expenditure on water network reinforcement is £3.4m more than the infrastructure charge income received (2022/23: £0.3m more). The projected network reinforcement expenditure over the next five years is expected to be significant to support new development growth. Our plan is to increase water infrastructure charges to fund the next five year's reinforcement expenditure

Wastewater

During 2023/24, expenditure on wastewater network reinforcement projects was less than infrastructure charges receipts. The net position at the end of 2023/24 was that the cumulative expenditure on wastewater network reinforcement is £0.8m less than the infrastructure charge income received (2022/23: £0.9m less). The projected network reinforcement expenditure over the next five years has been reassessed and is not expected to be significant. Wastewater infrastructure charges are expected to remain at their reduced level.

2L LAND SALES for the 12 months ended 31 March 2024

	Water resources £'m	Water Network+ £'m	Wastewater Network+ £'m	Total £'m
Land sales – proceeds from disposals of protected land	0.1	0.1	-	0.2

Land Sales during 2023/24

There were no qualifying disposals to report to Ofwat during the year.

2M REVENUE RECONCILIATION: WHOLESALE for the 12 months ended 31 March 2024

	Water resources	Water network+	Wastewater network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Revenue recognised					
Wholesale revenue governed by price control	108.4	351.3	277.5	32.9	770.1
Grants & contributions (price control)	-	13.0	1.9	-	14.9
Total revenue governed by wholesale price control	108.4	364.3	279.4	32.9	785.0
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	107.6	345.0	275.3	32.6	760.5
Allowed grants & contributions before adjustments (or modified by CMA)	-	22.4	4.4	-	26.8
Revenue adjustment	-	-	-	-	-
Other adjustments	-	-	-	-	-
Revenue cap	107.6	367.4	279.7	32.6	787.3
Calculation of the revenue imbalance					
Revenue cap	107.6	367.4	279.7	32.6	787.3
Revenue Recovered	108.4	364.3	279.4	32.9	785.0
Revenue imbalance	(0.8)	3.1	0.3	(0.3)	2.3

2N RESIDENTIAL RETAIL SOCIAL TARIFFS for the 12 months ended 31 March 2024

	Revenue	Number of customers	Average amount per customer
	£'m	000s	£
Number of residential customers on social tariffs			
Residential water only social tariffs		21.2	-
Residential wastewater only social tariffs		-	-
Residential dual service social tariffs		61.4	-
Number of residential customers not on social tariffs			
Residential water only no social tariffs		763.1	-
Residential wastewater only no social tariffs		70.2	-
Residential dual service no social tariffs		1,072.0	-
Social tariff discount			
Average discount per water only social tariffs customer			108.3
Average discount per wastewater only social tariffs customer			-
Average discount per dual service social tariffs customer			65.0
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	2.3		
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.1		
Total customer funded cross-subsidies for dual service social tariffs customers	4.0		
Average customer funded cross-subsidy per water only social tariffs customer			2.9
Average customer funded cross-subsidy per wastewater only social tariffs customer			-
Average customer funded cross-subsidy per dual service social tariffs customer			3.5
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	-		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			-

Social tariff support - willingness to pay

Level of support for social tariff customers reflected in business plan	14.1
Maximum contribution to social tariffs supported by customer engagement	14.1

Section B - WaterSure tariffs

	Revenue	Number of customers	Average amount per customer
	£'m	000s	£
WaterSure tariffs			
Number of unique customers on WaterSure		19.5	
Total reduction in bills for WaterSure customers	3.8		
Average reduction in bills for WaterSure customers			194.9

Section C - other direct bill reduction schemes for household customers struggling to pay

Other bill reduction schemes

Line description	Target households	Number of unique households helped by scheme	Total amount bills reduced by through scheme	Funding source
Units	Text	000s	£m	Text
Bill Discount	Support customers who have a deficit budget for household income and expenditure. Discount of up to 50%.	13.8	1.9	Company Funded

Section D - debt metrics

Total number of household customers served - active and final accounts

Line description	Water only	Wastewater only	Dual service
Units	000s	000s	000s
Number of household customers served – active accounts	785.2	71.0	1137.8
Number of household customers served – final accounts	36.1	-	81.7

Household customers in arrears

Line description	Number of households	Total amount of debt
Units	000s	£m
Households in arrears – active accounts with debt repayment arrangements	107.5	52.2
Households in arrears – final accounts with debt repayment arrangements	4.4	2.9
Households in arrears – active accounts without debt repayment arrangements	93.3	126.4
Households in arrears – final accounts without debt repayment arrangements	108.1	85.1
Households not having made any payment for the year – active accounts	75.9	133.3
Households not having made any payment for the year – final accounts	26.6	26

Temporary payment suspension

Line description	Number of households	Total amount deferred
Units	000s	£m
Households with temporarily suspended payments – payment break arrangements	16.1	9.5
Households with temporarily suspended payments – breathing space arrangements	1.9	2.3

Household debt collection through third party agents where water company remains creditor

Line description	Number of households	Total value of debt
Units	000s	£m
Debt collected by external agents – active accounts	6.2	4.6
Debt collected by external agents – final accounts	27.8	20.7
Number of Priority Services Register customers with debt passed on to external debt collection agents – active and final accounts	2	1.3

Household debt sold to external agencies

Line description	Number of accounts	Total value of debt	Total sale value of debt
Units	000s	£m	£m
Debt sold to an external agency / third party debt purchaser – active accounts	-	-	-
Debt sold to an external agency / third party debt purchaser – final accounts	-	-	-

Number of Priority Services Register customers with debt sold to an external agency / third party debt purchaser – active and final accounts	-	-	-

Unpaid household bills referred to courts

Line description	Number of accounts	Total amount involved
Units	000s	£m
Number of county court claims	15.7	12.1
Number of county court judgements	9.9	9
Number of county court judgement enforcements	3.3	3.9
Number of high court judgement enforcements	1.7	2.1

Section E - Payments to household customers made in accordance with the Guaranteed Standards Scheme (GSS)

GSS payments to household customers

Line description	Number of payments	Total amount	Number of unique households
Units	000s	£m	000s
Total value of payments made to household customers under GSS	-	0.3	-
Total number of payments made to household customers under GSS	8.7	-	-
Total number of unique household customers receiving GSS payments	-	-	6.4

Number and value of GSS and other payments to household customers by type in the reporting period

Line description	Total number of unique payments made to household customers under GSS	Total value of payments made in relation to column 1	Total number of unique payments to household customers that could be classed as compensation or goodwill*	Column 4 Total value of payments made in relation to column 3
Units	000s	£m	000s	£m
DPs				
Keeping of appointments	1.8	-	1.8	0.1
Incidences of low water pressure	0.3	-	0.3	-
Incorrect notice of planned interruptions to supply	0.1	-	0.4	-

Supply not restored	1.7	-	2	0.1
Written account queries and requests to change payment arrangements not actioned on time	1.1	-	2.9	0.1
Written complaints not responded to within 10 working days	0.1	-	0.3	-
Properties sewer flooded internally	0.1	-	0.2	-
Properties sewer flooded externally	1.4	0.2	1.5	0.2
Payment type_2 (extension of columns 3 & 4)	-	-	0.1	-
Payment type_3 (extension of columns 3 & 4)	-	-	1.4	0.1
Payment type_4 (extension of columns 3 & 4)	-	-	0.6	0.1
Payment type_5 (extension of columns 3 & 4)	-	-	0.5	0.1
Payment type_6 (extension of columns 3 & 4)	-	-	7.5	0.1
Payment type_7 (extension of columns 3 & 4)	-	-	0.5	-
Late payment penalties (paid in relation to lines 2N.53 to 2N.60)	2	-	-	-

*including all payments made under GSS, customer charter payments and/or other payments e.g. goodwill payments

20 HISTORIC COST ANALYSIS OF INTANGIBLE FIXED ASSETS for the 12 months ended 31 March 2024

	Residential Retail	Business Retail	Water Resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2023	38.9	-	-	98.6	1.0	0.3	138.8
Disposals	-	-	-	-	-	-	-
Additions	0.5	-	-	8.1	-	-	8.6
Adjustments	0.7	-	-	(0.9)	-	-	(0.2)
Assets adopted at nil cost	-	-	-	-	-	-	-
At 31 March 2024	40.1	-	-	105.8	1.0	0.3	147.2
Amortisation							
At 1 April 2023	(12.1)	-	-	(73.5)	(0.9)	(0.1)	(86.6)
Disposals	-	-	-	-	-	-	-
Adjustments	(0.5)	-	-	0.5	-	-	-
Charge for year	(2.3)	-	-	(6.4)	-	-	(8.7)
At 31 March 2024	(14.9)	-	-	(79.4)	(0.9)	(0.1)	(95.3)
Net book amount at 31 March 2024	25.2	-	-	26.4	0.1	0.2	51.9
Net book amount at 1 April 2023	26.8	-	-	25.1	0.1	0.2	52.2
Amortisation for year							
Principal services	(2.3)	-	-	(6.4)	-	-	(8.7)
Third party services	-	-	-	-	-	-	-
Total	(2.3)	-	-	(6.4)	-	-	(8.7)

The net book value includes £5.9m in respect of assets in the course of construction.

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associate	Terms of supply	Value
		£'m		£'m
Holding company charges	NWGL	7.9	No market	1.741
Public liability insurance (deductible infill policy)	Three Rivers Insurance Company Limited (TRICL)	0.3	No market	0.324
Vehicle maintenance and capital finance charge	Vehicle Lease and Service Limited (VLS)	21.7	Competitive letting	15.607
Corporation tax group relief surrendered by regulated business	Caledonian Environmental Levenmouth Treatment Services Limited	9.3	No market	0.283
Corporation tax group relief surrendered by regulated business	Reiver Finance Limited	18.8	No market	1.176
Corporation tax group relief surrendered by regulated business	Northumbrian Water Finance plc	-	No market	0.073
Water and Sewerage Supplies	Anglian Water Business National Ltd	495.5	Competitive	0.139
Mains repairs + Trade effluent charges	Northern Gas Networks	0.5	No market	0.152
Construction	UK Power Networks	2,193.6	No market	0.378

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Turnover of associate	Terms of supply	Value
		£'m		£'m
Sale of materials	AquaGib Limited	16.5	Negotiated	0.100
Rental of garage and service charges	VLS	21.7	Negotiated	0.131
Service charge in compliance with the WROA agreement	Reiver Finance Limited	18.8	No market	0.201
UK:UK transfer pricing tax adjustment	Northumbrian Water Finance Limited	-	No market	0.073
UK:UK transfer pricing tax adjustment	Northumbrian Water Group Limited	7.9	No market	1.177
Water and Sewerage Supplies	Anglian Water Business National Ltd	495.5	Competitive	127.37
Mains repairs + Trade effluent charges	Northern Gas Networks	0.5	No market	0.122
Rental Income	UK Power Networks	2,193.6	No market	0.011

Turnover data for all companies relates to the year to 31 March 2024, with the exception of data for VLS which relates to the year to 31 December 2023 and UK Power Networks which relates to 31 March 2023.

Payment for tax losses transferred between group/associated companies and UK:UK transfer pricing adjustments is calculated as the gross amount of the item multiplied by the corporation tax rate for the year.

Services provided to the non-appointed business:

	Basis of recharge	0.139
		£'m
Treatment of imported sludge	The average unit cost per tonne dry solid is calculated using operating costs only and excluding payroll. This gives a unit rate which is more than the incremental cost but less than the income received therefore sharing the benefit of the activity.	
		0.002
Treatment of tankered waste	The recharge comprises recovery of operating costs of operator time and sampling and analysis and a charge for the use of appointed business assets, calculated using the Biological and Sludge elements of the trade effluent charge set out in the Company's Wholesale Charges Scheme.	
		2.039
Other	Other assets are specifically identified to the appropriate business.	
		-

Information in relation to allocations and apportionments

The appointed and non-appointed businesses operate separate accounting records including sales and purchase ledgers. Revenue, operating costs, assets and liabilities are taken directly from these records.

Revenue is separately recorded between wholesale water and wastewater and household and non-household retail services and no apportionment has been necessary. Operating costs have been allocated between wholesale water and wastewater and household and non-household retail services in accordance with the guidance set out in RAG 4.12.

Overhead costs incurred in the appointed business which relate to the non-appointed business have been allocated using an activity based approach to comply with RAG 5.07.

Interest has been allocated between the appointed and non-appointed businesses on the basis of actual cash balances held by these businesses during the year at market rates. Capital costs and the related depreciation charges are specifically identifiable to the appropriate business and service.

The surrender of tax losses to the non-appointed business recognises that the appointed business has tax losses while the non-appointed business has taxable profits which will be offset within the appointee's tax return.

Borrowings

At 31 March 2024, the appointee's appointed business had the following borrowings issued by associated companies:

			%	£'m
Northumbrian Water Finance plc	Fixed rate Eurobond	Feb-23	6.875	-
	Fixed rate Eurobond	Apr-33	5.625	344.897
	Index linked Eurobond	Jul-36	2.033	295.160
	Index linked Eurobond	Jan-41	1.6274	116.849
	Index linked Eurobond	Jul-49	1.7118	193.634
	Index linked Eurobond	Jul-53	1.7484	193.636
	Fixed rate Eurobond	Jan-42	5.125	343.612
	Fixed rate Eurobond	Oct-26	1.625	299.321
	Fixed rate Eurobond	Oct-27	2.375	298.813
	Index linked Private Placement	Oct-39	CPI + 0.242	122.078
	Fixed rate Eurobond	Oct-34	6.375	391.662
	Fixed rate Eurobond	Feb-31	4.5	346.961
Northumbrian Water Group Limited	Overnight borrowing	On demand	5.25	58.530
VLS	Lease	Various	5.5	13.109

At 31 March 2024, the appointee's non appointed business had the following loan issued to an associated company:

Company	Loan type	Maturity date	Interest rate	Balance at 31 March 2023
			%	£'m
Bakethin Holdings Limited	Variable	Jan-34	SONIA minus 39bp	1.955

Guarantees or other forms of security

There were no guarantees or other forms of security provided by the appointee to any associate during the year, other than those relating to amounts borrowed from NWF, outlined above.

Omission of right

There were no omissions by the appointee to exercise any rights which would cause the net assets to decrease.

Waivers

There were no waivers by the appointee of any consideration, remuneration or other payment owed to it by any associated company.

The information in this note has been produced to comply with the requirements of RAG 5.07 Transfer Pricing in the Water Industry and the disclosures required by paragraph 6 of Condition F of the Company's operating licence.

The Directors confirm that, to the best of their knowledge, all transactions with associated companies have been disclosed.

Dividend Disclosures

Dividends paid during the year

During the year, the following ordinary dividends were paid by NWL to NWGL, its immediate parent company:

Ordinary dividends paid:	**2023/24 £m**	**2022/23 £m**
Final dividend for the year ended 31 March 2023 (31 March 2022)	25.3	55.4
Interim dividend for the year ended 31 March 2024 (31 March 2023)	40.5	55.4
Appointed business	**65.8**	**110.8**
Dividend yield, as reported in table 4H	4.1%	6.9%

Dividends paid in respect of the year

The Board determines dividends for the year to which they relate, which typically comprises an interim dividend paid during the year and a final dividend paid after the year end.

After the balance sheet date, the Board approved a final dividend of £40.4m. This equated to a 5% dividend yield for dividends paid in respect of 2023/24.

Ordinary dividends paid in respect of the year:	**2023/24 £m**	**2022/23 £m**
Interim dividend for the year ended 31 March 2024 (31 March 2023)	40.5	55.4
Final dividend for the year ended 31 March 2024 (31 March 2023)	40.4	25.3
Appointed business	**80.9**	**80.7**
Dividend yield in respect of the year	5.0%	5.0%

<u>Dividend Policy</u>

NWL considers that its dividend policy should be transparent, recognising the company's commitments to various stakeholders including customers, employees, specifically pension scheme obligations, and investors, and with due attention to maintaining appropriate levels of financial resilience within the company.

A key overarching principle behind NWL's approach to dividends is that its owners should be able to receive a competitive and fair return on their investment which reflects the underlying risk profile of the business. This ensures that there will be access to the necessary capital required to make investments for customer needs now and in the future.

NWL is seeking to maintain a progressive dividend policy that takes into account long-run financial performance and ensures that an efficient balance sheet is maintained. In line with the businesses' vision of being an industry leader, the policy seeks a competitive return consistent with a high-performing water company and to maximise returns over the long-term.

To deliver this the dividend policy will be based on four components:

- a base dividend component largely derived from the price control determination;
- a performance component linked to business performance and a fair assessment of outcomes for customers and the environment;
- a financial resilience adjustment designed to appropriately calibrate the company's overall gearing levels with the underlying risk profile of the business; and
- a smoothing adjustment to take into account smaller ad-hoc movements within any year that are expected to reverse out over the AMP.

These components are discussed in turn below.

Base dividend component

The approach to setting the base dividend is that it should broadly reflect the real cost of equity based on the capital structure as established in the latest regulatory determination, on the assumption that the regulatory cost of equity will always be set at a level that ensures the company remains financeable.

Performance component

The regulatory framework incentivises companies to meet or exceed regulatory targets and shares these gains or losses between shareholders and customers. The base dividend will be adjusted up or down to reflect business performance in 3 areas:

- totex performance: cost savings after the application of the regulatory approach to cost-sharing.
- ODI performance: net ODI rewards from improved outcomes for customers.
- financing performance: where the company is able to secure debt financing at lower rates than assumed by the latest regulatory determination.

Financial resilience adjustment

Financial resilience adjustments are designed to ensure the company maintains a prudent investment grade credit rating and an appropriate buffer to absorb relevant financial risks. To achieve this an adjustment will be made to ensure that any real terms growth in the regulatory capital value is funded from both debt and equity in line with an efficient capital structure.

Smoothing adjustment

To provide stability in dividends a further adjustment may be made to ensure that over a regulatory cycle there is a more even allocation of dividends. This is because expenditure within an AMP is not evenly spread and aligned with the phasing of the price control determination, and unexpected events (positive and negative) can impact financial performance in the short term.

In making these adjustments, the Board will aim to match dividends over a cumulative period of up to five years to the level required to deliver the policies set out under the first three components of the policy.

Application of Dividend Policy

Final dividend for the year ended 31 March 2023, paid in 2023/24

The total dividend paid in respect of 2022/23 was £80.7m, comprising an interim dividend of £55.4m and a final dividend of £25.3m, paid after the balance sheet date in 2023/24. This represented a dividend yield of 5% when compared against actual year end regulated equity. In reaching these decisions the Board took full account of its revised dividend policy and, in the case of the final dividend, revised Licence Condition P30 and the associated guidance.

A full explanation of how the Board applied its dividend policy when approving this final dividend was disclosed in our APR for the year ended 31 March 2023, and is summarised below.

The total dividend paid in respect of 2022/23 comprised the elements of the dividend policy as set out in the table below:

£m	2022/23
Base return	85.3
Totex performance	(14.1)
ODI performance	(0.4)
Financing performance (including inflation)	156.7
Total return including inflation	**227.5**
Less: Financing performance (including inflation)	(156.7)
Financing performance (due to management action)	49.8
Total return including performance	**120.6**
Smoothing adjustment	(39.9)
Total dividend in respect of 2022/23	**80.7**

- **Base return** reflects the real cost of equity based on the capital structure as established in the Final Determination.
- **Totex performance** represents the Company's share of wholesale performance, as set out in table 4C, and retail costs in table 2C compared to the Final Determination allowance. This was an underperformance due to NWL overspending against its allowances primarily due to increased power prices in the year.
- **ODI performance** reflects the rewards and penalties for the year reported in table 3H plus an estimate of the C-MeX and D-MeX rewards for performance in 2022/23. The net effect was a small negative adjustment to be deducted from the base return.
- **Financing performance** relates to the significant costs of financing the business, in particular the large capital programme. The performance due to management action included in the table related to Company's share of land sales reported in table 2L, the benefit gained from the retaining a lower proportion of index-linked debt in comparison to the rest of the industry, and the difference between the real cost of debt and the allowance in the FD due to financing decisions.
- **Smoothing adjustment** took account of future investment needs over the final two years of AMP7 to deliver the Company's obligations and maintain the health of the asset base.

In reaching its decisions on dividends, the Board took account of performance for customers and the environment, its broader obligations and longer term financial resilience.

- **Customer and environment** – the Company performed well overall achieving 1st place for C-MeX, zero category 1 or 2 pollutions, continued improvements in sewer flooding and strong greenhouse gas performance. The Board recognised the challenges on water quality (CRI) and interruptions to supply performance and had committed action plans to improve these. Overall, the majority of performance commitments were met.
- **Obligations** – the Board confirmed that it considered the Company is meeting its relevant obligations in its Risk and Compliance Statement. The Company had continued to cooperate with the ongoing FFT investigations and took prompt action to address the small number of sites where there was a risk that FFT requirements may not always have been met. Additional investment was made, funded by shareholders, to increase the level of monitoring and reflecting any minor detriment that may have arisen from those sites.
- **Financial resilience** – the Directors confirmed the Company's financial resilience up to 2030 in the Viability Statement. The forecasts at the time for 2025-2030 suggested a significant increase in capital investment which was likely to require additional equity investment. This was to be addressed through the PR24 process.

The Board was satisfied that, in the round, the dividends paid in respect of 2022/23 fairly represented the Company's overall performance for its customers and stakeholders.

Interim dividend for the year ended 31 March 2024

An interim dividend of £40.5m was paid during the year, by reference to the forecast performance for the year applied to the dividend policy as set out in the table below. The full year forecast represented a dividend yield of 5%. The interim dividend represented half of the expected full year performance.

£m	2023/24 forecast
Base return	94.0
Totex performance	(36.5)
ODI performance	-
Financing performance included in return	23.4
Total return including performance	**80.9**
Smoothing adjustment brought forward from 2022/23	39.9
Smoothing adjustment carried forward to 2024/25	(39.9)
Total dividend in respect of 2023/24	**80.9**

- **Base return** reflects the real cost of equity based on the capital structure as established in the Final Determination (see fuller explanation under 'Final dividend for the year ended 31 March 2024').
- **Totex performance** represented the expected Company's share of wholesale and retail performance, which was anticipated to be an underperformance due to the sustained high power prices and planned increase in capital investment over the last two years of AMP7.

- **ODI performance** was projected to be a small net reward but, due to the inherent uncertainty, was assumed at zero for the purposes of the interim dividend.
- **Financing performance** was forecast to be a smaller outperformance than the previous year as inflation was on a downward trend.
- **Smoothing adjustment** brought forward form 2022/23 was assumed to be carried forward to 2024/25 taking account of future investment needs in the final year of AMP7.

In reaching its decision on the interim dividend, the Board took account of performance for customers and the environment, its broader obligations and longer term financial resilience.

- **Customer and environment** – the Company was continuing to perform well and the balanced scorecard for 2023/24 was projecting a net reward with positive performance on the majority of performance commitments including customer service (C-MeX and D-MeX), leakage and sewer flooding, albeit with ongoing challenges on water quality (CRI).
- **Obligations** – the Board considered that the Company was continuing to meet its relevant obligations. The Company had continued to provide information in respect of the Flow to Full Treatment investigations and the small number of issues identified had been addressed promptly. He Company was making progress against its commitments set out in 'A Vision for our Coasts and Rivers' including in respect of storm overflows.
- **Financial resilience** – the Company remained financially resilient with investment grade credit ratings and had demonstrated its ability to raise new finance under its EMTN programme. The Board had set out its position in respect of potential additional equity requirements to fund AMP8 capex in its PR24 Business Plan.

The Board was satisfied that, in the round, the interim dividend paid in respect of 2023/24 fairly represented the Company's overall performance for its customers and stakeholders and took full account of the dividend policy, Licence Condition P30 and the associated guidance.

Final dividend for the year ended 31 March 2024

The total dividend paid in respect of 2023/24 was £80.9m, comprising an interim dividend of £40.5m and a final dividend of £40.4m, paid after the balance sheet date. This represented a dividend yield of 5% when compared against actual year end regulated equity. In reaching these decisions the Board took full account of its revised dividend policy and, in the case of the final dividend, revised Licence Condition P30 and the associated guidance.

The total dividend paid in respect of 2023/24 comprised the elements of the dividend policy as set out in the table below. The 2022/23 position has been updated to reflect final reported performance and to align financing performance more closely to table 1F (inflated to outturn prices).

£m	2022/23 actual (updated)	2023/24 actual
Base return	85.3	93.6
Totex performance	(14.2)	(42.2)
ODI performance	(0.1)	10.3
Land sales	2.9	0.1

Financing performance (including inflation)	143.5	60.5
Total return including inflation	**217.4**	**122.3**
Less: Financing performance (including inflation)	(143.5)	(60.5)
Financing performance included in return	63.7	16.4
Total return including performance	**137.6**	**78.2**
Smoothing adjustment brought forward	-	56.9
Smoothing adjustment carried forward	(56.9)	(54.2)
Total dividend in respect of 2023/24	**80.7**	**80.9**

- **Base return** reflects the real cost of equity based on the capital structure as established in the Final Determination. This is the base return that NWLs shareholders receive for the c.£1.6bn of equity capital that is currently deployed in NWL and reflecting the risk of that investment.
- **Totex performance** represents the Company's share of wholesale performance, as set out in table 4C, and Retail costs compared to the Final Determination allowance. Like other appointed water companies NWL receives a cost allowance from Ofwat every five years to deliver agreed service levels to customers. Where NWL is able to outperform the cost allowances customers will gain 55% of any savings made with the business retaining 45%. Similarly, if the business overspends then 55% of any overspend is borne by the business with 45% being borne by customers. This provides incentives to reduce costs but also protection for customers and the business. The base return above needs to be adjusted for totex performance. This is an underperformance due to NWL overspending against its allowances partly due to power prices remaining high and also to increased capital investment, which is deducted from the base return.
- **ODI performance** reflects the rewards and penalties for the year reported in table 3H plus an estimate of the C-MeX and D-MeX rewards which will received for performance in 2023/24. Water companies are required to deliver stretching service levels to customers and rewarded 'Outcome Delivery Incentives' (ODIs) if they exceed those targets or incur penalties if they fail to meet them. Incentives are set broadly based on customers' willingness to pay for improvement or avoid service deterioration. The performance in the year has generated a net reward to be added to the base return, reflecting positive performance on customer service (C-MeX and D-MeX), sewer flooding, mains repairs and reducing greenhouse gas emissions. The rewards from these are greater than the penalties in respect of drinking water quality (CRI), interruptions to supply and category 3 pollution incident.
- **Land sales** reflects the company's share of land sales as reported in table 2L (i.e. where NWL has sold land the proceeds from this are shared 50:50 with customers).

- **Financing performance** relates to the costs of financing and tax compared to allowances, as reported in table 1F. Every five years Ofwat sets a framework for ensuring that companies can recover the efficient cost of financing their investment programmes, including debt financing. Where companies can raise finance more cheaply than Ofwat assumes the company can gain rewards and customers also benefit but if financing costs are higher companies will incur penalties. The financing performance included in the return excludes benefits arising solely as a result of high inflation but includes those elements which have arisen as a result of NWL's Board decisions and actions such as the benefit gained from the Company retaining a lower proportion of index-linked debt in comparison to the rest of the industry, which has hedged costs for customers against the impact of high inflation on nominal interest costs, and the difference between the real cost of debt and the allowance in the FD due to financing decisions that have enabled NWL to raise finance at lower costs that Ofwat assumed in the FD. These financing outperformance benefits are added to the base return.

- **Smoothing adjustment** takes account of future investment needs in the final year of AMP7 which will see a significant increase in capital investment to deliver the Company's obligations and maintain the health of the asset base.

In reaching its decisions on dividends, the Board took account of performance for customers and the environment, its broader obligations and longer term financial resilience.

- **Customer and environment** – the Company has performed well overall achieving upper quartile performance for both C-MeX and D-MeX, zero category 1 or 2 pollutions, meeting all sewer flooding targets and continued strong greenhouse gas performance. The Board recognises the challenges on CRI, interruptions to supply and category 3 pollution performance and has committed action plans to improve these.
- **Obligations** – the Board has confirmed that it considers the Company is meeting its relevant obligations in its Risk and Compliance Statement on page 106. In December 2023, Ofwat confirmed that it had reached the next stage in its enforcement case into the Company's management of its sewage treatment works and wider networks and notified NWL of its provisional findings privately. NWL has responded to Ofwat's provisional findings and awaits next steps.
- **Financial resilience** – the Directors have confirmed the Company's financial resilience up to 2035 as described in the Viability Statement on page 109, which remains consistent with investment grade credit ratings. The Company has submitted its Business Plan for 2025-2030 which includes a significant increase in capital investment which is likely to require additional equity investment. The Board has committed to starting certain AMP8 enhancement investment early to reduce the delivery risk of such a large capital programme and additional equity may be required in 2024/25 to support this investment with further equity injections required in the 2025-30 period. The Board has set out its position on additional equity, in the context of the risk/return balance, in its Business Plan and the Viability Statement. We further note that the dividend paid is less than the total return and so will retain further equity capital within the business strengthening future financial resilience.

The Board is satisfied that, in the round, the dividends paid in respect of 2023/24 fairly represent the Company's overall performance for its customers and stakeholders and take full account of the dividend policy, Licence Condition P30 and the associated guidance.

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE WSRA) AND THE DIRECTORS OF NORTHUMBRIAN WATER LIMITED

Opinion

We have audited the sections of Northumbrian Water Limited's Annual Performance Report for the year ended 31 March 2024 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.9 to 1F.11, 1F.15 to 1F.20 and 1F.23 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) or the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, Northumbrian Water Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.12 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

Basis for opinion

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

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements in section 4 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

- Assessing financial facilities including availability and access at the balance sheet date, the nature of the facilities, repayment and expiration terms and associated covenants;
- Evaluating management's going concern assessment and the linkage to the business model and medium-term risks including effects of changes in water availability and usage and potential regulation;
- challenging assumptions used in the forecasts, including the effects of AMP7 from the Ofwat final determination and the subsequent CMA final decision;
- evaluating the amount of headroom in the forecasts focusing on cash and covenants associated with financing activities;
- performing sensitivity analysis to assess how the headroom within the forecasts is affected by variations within the assumptions; and

- assessing the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and assessing historical accuracy of forecasts prepared by management.

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

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

Other information

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

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out in section 4, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.14, appendix 2).

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

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

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework[s] that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC and WSRA.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2024 on which we reported on 10 July 2024, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP

Newcastle, United Kingdom

10 July 2024

3A Outcome performance - Water performance commitments (financial)

Line description	Unit	Performance level - actual	PC met?	Reward/ Penalty £m	Forecast 2020-25 Reward/ Penalty £m
Common PCs - Water (Financial)					
Water quality compliance (CRI)	number	3.45	No	-2.718	-32.187
Water supply interruptions	hh:mm:ss	00:05:32	No	-0.152	-2.454
Leakage NW region	%	8.7	No	-0.070	-1.768
Leakage ESW region	%	15.3	Yes	0.493	0.749
Per capita consumption	%	-2.7	No	0.000	-9.682
Mains repairs	number	109.4	Yes	1.333	2.332
Unplanned outage	%	2.89	Yes	0.000	-0.155
Bespoke PCs - Water and Retail (Financial)					
Visible leak repair time	nr	4.5	No	-0.214	-0.481
Voids	%	3.29	Yes	1.333	6.664
Interruptions to supply greater than 12 hours	nr	1,067	No	-2.125	-9.305
Discoloured water contacts	nr	6.88	Yes	1.168	5.339
Taste and smell contacts	nr	1.70	Yes	0.299	1.203
Event Risk Index	nr	137.891	No	-0.112	0.212
Interruptions to supply between one and three hours	%	95.2	No	-0.242	-2.472
Abstraction incentive mechanism (AIM)	nr	N/A	-	0.000	0.000
Water environment improvements	nr	31.9	Yes	0.168	1.058
Greenhouse Gas Emissions	tCO2e	49,307	Yes	7.735	32.230
Delivery of water resilience enhanced programme	%	60.2	Yes	0.000	-0.037
Delivery of lead enhancement programme	%	35.0	No	0.000	0.000
Delivery of smart water metering enhancement programme	%	39.6	No	0.000	-6.577
Delivery of cyber resilience enhancement programme	%	80.0	Yes	0.000	0.000

3B Outcome performance - Wastewater performance commitments (financial)

Line description	Unit	Performance level - actual	PC met?	Reward/ Penalty	Forecast 2020-25 Reward/ Penalty
				£m	£m
Common PCs - Wastewater (Financial)					
Internal sewer flooding	No. of internal incidents per 10,000 sewer connections	1.21	Yes	0.580	0.732
Pollution incidents	Pollution incidents per 10,000 km of sewer length	32.97	No	-3.858	-2.374
Sewer collapses	No. of sewer collapses per 1,000 km of all sewers	8.39	Yes	0.000	0.000
Treatment works compliance	%	98.54	No	-0.275	-1.416
Bespoke PCs - Wastewater (Financial)					
Sewer blockages	nr	9,733	Yes	0.949	1.325
External sewer flooding	nr	2,764	Yes	0.276	-4.502
Repeat sewer flooding	nr	24	Yes	0.827	4.959
Bathing water compliance	%	94.12	No	-0.732	-2.141
Delivery wastewater resilience enhancement programme	nr	116	Yes	0.000	0.000
Water Industry National Environment Programme	nr	549	Yes	0.000	0.000
Delivery of Howdon STW enhancement	months	0	Yes	0.000	-0.658

3C Customer measure of experience (C-MeX) table

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	81.41
Annual customer satisfaction score for the customer experience survey	Number	81.39
Annual C-MeX score	Number	81.40
Annual net promoter score	Number	40.50
Total household complaints	Number	6,992
Total connected household properties	Number	2,061,472
Total household complaints per 10,000 connections	Number	33.918
Confirmation of communication channels offered	TRUE or FALSE	TRUE

3D Developer services measure of experience (D-MeX) table

Item	Unit	Value
Qualitative component annual results	Number	83.41
Quantitative component annual results	Number	99.79
D-MeX score	Number	91.60
Developer services revenue (water)	£m	14.17
Developer services revenue (wastewater)	£m	1.93

3E Outcome performance - Non financial performance commitments

Line description	Unit	Performance level - actual	PCL met?
Common			
Risk of severe restrictions in a drought	%	0.0	Yes
Priority services for customers in vulnerable circumstances - PSR reach	%	10.5	Yes
Priority services for customers in vulnerable circumstances - Attempted contacts	%	91.1	Yes
Priority services for customers in vulnerable circumstances - Actual contacts	%	50.9	Yes
Risk of sewer flooding in a storm	%	16.11	Yes
Bespoke PCs			
Satisfaction of Customers who receive additional non-financial support	nr	8.4	No
Awareness of additional non-financial support	%	43.0	No
Response time to written complaints	nr	7.26	No
Customers' perception of trust	nr	8.2	No
Percentage of households in water poverty	%	14.79	No
Gap sites	%	65.5	No
Bioresources	%	100	Yes
Satisfaction of Customers who receive additional financial support	nr	8.9	Yes
Awareness of additional financial support	%	43.0	No
British Standards Institution Award for Inclusive Services	text	Maintained	Yes
NWL Independent value for money survey	nr	7.9	No
WINEP Delivery	text	Met	Yes
Delivery of DWMPs	%	100	Yes

3H Summary information on outcome delivery incentive payments

Line description	Initial calculation of performance payments (excluding CMEX and DMEX)
	£m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	0.87
Water network plus	1.17
Wastewater network plus	0.49
Bioresources (sludge)	0.22
Residential retail	1.90
Business retail	0.00
Dummy control	0.00
Initial calculation of end of period revenue adjustment by price control	
Water resources	0.00
Water network plus	-2.04
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00
Initial calculation of end of period RCV adjustment by price control	
Water resources	0.00
Water network plus	0.00
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00

Additional Regulatory Information

This section contains additional regulatory information required by RAG 3.14.

However, some tables have not been included from this report either because their size or because of the technical nature of their content. These tables, which are listed below, can be found on our website, alongside this report.

4B	Analysis of debt
4L	Enhancement expenditure – water resources and water network+
4M	Enhancement expenditure – wastewater network+ and bioresources
4Q	Developer services – Non-financial information
4R	Properties, customers and population – non-financial information
4S-U	Green Recovery tables – not applicable to NWL
5A	Water resources – asset and volumes data
5B	Water resources - operating cost analysis
6A	Raw water transport, raw water storage, and water treatment data
6B	Treated water distribution – assets and operations
6C	Water network+ – mains, communication pipes and other data
6D	Demand management – metering and leakage activities
6E	Leakage activity detailed analysis
6F	WRMP annual reporting on delivery - non-leakage activities
7A	Wastewater network+ – functional expenditure
7B	Wastewater network+ – large sewage treatment works
7C	Wastewater network+ – sewer and volume data
7D	Wastewater network+ – sewage treatment works data
7E	Wastewater network+ – energy consumption and other data
7F	Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers
8A	Bioresources – sludge data
8B	Bioresources – operating expenditure analysis
8C	Bioresources – energy and liquors analysis
8D	Bioresources – sludge treatment and disposal data
10A-E	Green Recovery tables – not applicable to NWL
11A	Operational greenhouse gas emissions reporting

4A WATER BULK SUPPLY INFORMATION for the 12 months ended 31 March 2024

	Volume	Operating costs	Revenue
	Ml	£m	£m
Bulk supply exports			
(NESBWE14) Thames Water	-	-	1.8
(NESBWE11) Anglian Water (Stour - Tiptree)	823.7	0.7	1.1
(NESBWE12) Leep Utilities - Barking	322.7	0.2	0.4
(NESBWE9) United Utilities Water	236.4	0.2	0.4
(NESBWE17) Anglian Water (2 Sisters Buxted Chickens)	92.6	0.1	0.1
(NESBWE13) Anglian Water (Woods Meadow Oulton)	82.5	0.1	0.2
(NESBWE20) IWNL (Limebrook Way)	63.7	0.1	0.1
(NESBWE19) IWNL (Malyon's Lane)	50.4	-	0.1
(NESBWE5) Anglian Water (Layer)	39.6	-	0.1
(NESBWE15) Albion Water (Five Oaks)	32.9	0.1	-
(NESBWE18) IWNL - Throckley	30.9	-	-
(NESBEW30) IWNL (Cell A)	31.7	-	-
(NESBEW28) IWNL (West Benton)	23.8	-	-
(NESBEW27) IWNL(Howdon Green)	19.7	-	-
(NESBWE26) IWNL (Seaton Vale)	18.6	-	-
(NESBWE2) Anglian Water (Fairstead)	17.8	-	-
(NESBWE21) Marsh Road, Burnham	7.9	-	-
(NESBWE25) IWNL - River View - Maldon Road	8.0	-	-
(NESBWE6) Anglian Water (Maldon)	13.0	-	-
(NESBWE22) IWNL (Lambton Park)	8.4	-	-
(NESBWE1) Affinity Water (Three Valleys)	6.0	-	-
(NESBWE23) IWNL - Chester Road, Pennywell	6.8	-	-
(NESBWE3) Anglian Water (Fuller Street)	7.2	-	-
(NESBWE24) LEEP - Conrad Road Witham	3.0	-	-
(NESBWE4) Anglian Water (Hogwells), (NESBEW29) IWNL	0.5	-	-
Total bulk supply exports	1,947.8	1.5	4.3
Bulk supply imports			
(NESBWI2) Anglian Water (Cressing)	375.5	0.4	-
(NESBWE14) Thames Water	30,370.0	2.4	-
(NESVW13) - UUW	0.6	-	-
-	-	-	-
	30,746.1	2.8	-

4C IMPACT OF PRICE CONTROL PERFORMANCE TO DATE ON RCV for the 12 months ended 31 March 2024

	12 months ended 31 March 2024				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
Totex (net of business rates, abstraction licence fees and grants and contributions)	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	24.6	278.3	303.1	19.0	99.4	1,083.1	854.7	69.9
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	67.0	396.9	254.1	8.6	197.5	1,174.0	815.2	17.4
Transition expenditure	-	-	-	-	-	-	-	-
Disallowable costs	-	0.5	(0.1)	-	0.2	5.2	2.7	0.2
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	67.0	396.4	254.2	8.6	197.3	1,168.8	812.5	17.2
Variance	42.4	118.1	(48.9)	(10.4)	97.9	85.7	(42.2)	(52.7)
Variance due to timing of expenditure	-	48.1	-	-	-	-	-	-
Variance due to efficiency	42.4	70.0	(48.9)	(10.4)	97.9	85.7	(42.2)	(52.7)
Customer cost sharing rate - outperformance	55.00%	55.00%	55.00%	0.00%	55.00%	55.00%	55.00%	0.00%
Customer cost sharing rate - underperformance	45.00%	45.00%	45.00%	0.00%	45.00%	45.00%	45.00%	0.00%
Customer share of totex overspend	19.1	31.5	-	-	44.1	38.6	-	-
Customer share of totex underspend	-	-	(26.9)	-	-	-	(23.2)	-
Company share of totex overspend	23.3	38.4	-	-	53.8	47.1	-	-
Company share of totex underspend	-	-	(22.0)	(10.5)	-	-	(19.0)	(52.7)
Totex - business rates and abstraction licence fees								
Final determination allowed totex - business rates and abstraction licence fees	54.3	31.7	8.3	1.7	198.3	115.8	30.2	6.2
Actual totex - business rates and abstraction licence fees	43.2	19.4	9.4	2.0	182.3	100.7	28.8	6.0
Variance - business rates and abstraction licence fees	(11.1)	(12.3)	1.1	0.3	(16.0)	(15.1)	(1.4)	(0.2)
Customer cost sharing rate - business rates	83.86%	90.15%	90.00%	90.00%	83.47%	90.29%	90.00%	90.00%
Customer cost sharing rate - abstraction licence fees	82.67%	75.00%	75.00%	75.00%	82.67%	75.00%	75.00%	75.00%
Customer share of totex over/underspend - business rates and abstraction licence fees	(9.3)	(11.1)	1.0	0.3	(13.4)	(13.6)	(1.3)	(0.1)
Company share of totex over/underspend - business rates and abstraction licence fees	(1.8)	(1.2)	0.1	-	(2.6)	(1.5)	(0.1)	-
Totex not subject to cost sharing								
Final determination allowed totex - not subject to cost sharing	6.0	4.0	-	-	22.3	16.2	0.7	-
Actual totex - not subject to cost sharing	5.6	10.1	4.2	-	29.0	41.5	6.7	-
Variance - 100% company allocation	(0.4)	6.1	4.2	-	6.7	25.3	6.0	-
Total customer share of totex over/under spend	9.8	20.4	(25.9)	0.3	30.7	24.9	(24.5)	(0.2)

	12 months ended 31 March 2024				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
RCV								
Total customer share of totex over/under spend	9.8	20.4	(25.9)	0.3	30.7	24.9	(24.5)	(0.2)
PAYG rate	93.29%	57.76%	28.82%	40.57%	90.89%	55.40%	39.57%	40.79%
RCV element of cumulative totex over/underspend	0.7	8.6	(18.4)	0.2	2.8	11.1	(14.8)	(0.1)
Adjustment for ODI outperformance payment or underperformance payment					-	-	-	-
Green recovery					-	-	-	
RCV determined at FD at 31 March					342.5	2,380.5	2,543.0	176.7
Projected 'shadow' RCV					345.3	2,391.6	2,528.2	176.6

WHOLESALE TOTEX COMPARISON TO FD ALLOWANCE

Totex (net of business rates, abstraction licence fees and grants and contributions)

Actual totex in 2023/24 across all price controls was £101m higher than the FD allowance, after excluding disallowed costs.

The cumulative position for the first four years of the price control period is a total overspend of £88m, all allocated as variance due to efficiency.

Operating costs for the four years to date have been higher than FD on all price controls except Bioresources. This has been primarily due to the significant increase in power prices from 2021. Chemical prices have also been notably higher.

Water Resources and Water Network+ spend is £183m higher than allowance mainly to operating cost increases. Capital enhancement spend is lower than FD allowance so far this AMP but maintenance spend has been higher.

Wastewater network+ and bioresources expenditure is £95m lower than allowance. This is mainly due very efficient bioresource performance and the profile of enhancement spend which is £61m less than the FD allowance

Totex - business rates and abstraction licence fees

Actual totex in 2023/24 was £21.8m lower than the FD allowance. This primarily relates to lower abstraction charges following the end of a two year temporary increase to recover cost relating to Kielder and the latest periodic review of rates which has reduced the cumulo charge.

The original Ofwat determination set consistent cost sharing rates for abstraction and rates variances. However, our CMA redetermination amended the sharing rates for different elements of these costs. In order for the sharing rate calculation to work correctly, a hybrid sharing rate has been used and reported in the row for 'Customer cost sharing rate – business rates' in line with Ofwat guidance. The individual rates are shown below

	12 months ended 31 March 2024				Price control period to date			
	Water resources	Water network plus	Wastewater network plus	Bio-resources	Water resources	Water network plus	Wastewater network plus	Bio-resources
Customer cost sharing rate - abstraction	82.67%	75.00%	75.00%	75.00%	82.67%	75.00%	75.00%	75.00%
Customer cost sharing rate - business rates	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Customer cost sharing rate - weighted ave	83.86%	90.15%	90.00%	90.00%	83.47%	90.29%	90.00%	90.00%

Shadow RCV

Actual RCV at 31 March 2024, as published by Ofwat, was £5,442.7m.

The projected 'shadow' RCV, adjusted for the customer share of cost variances was £5,441.6m. The small decrease reflecting the customer share of abstraction fees and business rates offset by overspends due to increased energy costs.

Disallowable costs

Costs classified as disallowable are:

- Section 74 fines and fixed penalty notices; and
- compensation claims;

Recharges in respect of ‘principal use’ of assets

These relate to assets which are shared across more than one business unit, which mainly relate to IT systems and office buildings. The capital is allocated to Water Network+ as the ‘principal user’ and an appropriate proportion recharged to the other business units, including retail. The values are reported on table 2A.

4D TOTEX ANALYSIS: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2024

		Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Base operating expenditure	72.4	6.4	2.5	74.5	113.5	269.3
Enhancement operating expenditure	1.5	-	-	0.6	0.8	2.9
Developer services operating expenditure	-	-	-	-	0.3	0.3
Total operating expenditure excluding third party services	73.9	6.4	2.5	75.1	114.6	272.5
Third party services	5.6	1.4	-	0.3	2.3	9.6
Total operating expenditure	79.5	7.8	2.5	75.4	116.9	282.1
Grants and contributions - operating expenditure	-	-	-	-	-	-
Capital expenditure						
Base capital expenditure	35.5	0.4	-	41.4	98.2	175.5
Enhancement capital expenditure	1.3	4.2	-	14.4	56.9	76.8
Developer services capital expenditure	-	-	-	-	23.8	23.8
Total gross capital expenditure (excluding third party)	36.8	4.6	-	55.8	178.9	276.1
Third party services	-	0.4	-	0.1	-	0.5
Total gross capital expenditure	36.8	5.0	-	55.9	178.9	276.6
Grants and contributions - capital expenditure	-	-	-	-	(13.9)	(13.9)
Net totex	116.3	12.8	2.5	131.3	281.9	544.8
Cash expenditure						
Pension deficit recovery payments	0.4	-	-	2.9	6.9	10.2
Other cash items	-	-	-	-	-	-
Totex including cash items	116.7	12.8	2.5	134.2	288.8	555.0
Atypical expenditure						
Pension past service credit (non-cash)	-	-	-	-	-	-
Total atypical expenditure	-	-	-	-	-	-

4E TOTEX ANALYSIS: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2024

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Base operating expenditure	16.6	24.5	13.2	70.6	8.3	6.5	(2.6)	1.2	138.3
Enhancement operating expenditure	0.1	-	-	0.7	-	-	-	-	0.8
Developer services operating expenditure	0.3	0.1	0.1	-	-	-	-	-	0.5
Total operating expenditure excluding third party services	17.0	24.6	13.3	71.3	8.3	6.5	(2.6)	1.2	139.6
Third party services	0.1	0.1	0.1	-	-	-	-	-	0.3
Total operating expenditure	17.1	24.7	13.4	71.3	8.3	6.5	(2.6)	1.2	139.9
Grants and contributions - operating expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure									
Base capital expenditure	11.9	19.7	10.6	34.7	-	0.8	4.6	-	82.3
Enhancement capital expenditure	3.5	5.8	3.1	51.1	-	-	-	-	63.5
Developer services capital expenditure	0.5	0.8	0.4	-	-	-	-	-	1.7
Total gross capital expenditure (excluding third party)	15.9	26.3	14.1	85.8	-	0.8	4.6	-	147.5
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	15.9	26.3	14.1	85.8	-	0.8	4.6	-	147.5
Grants and contributions - capital expenditure	(0.8)	(1.3)	(0.7)	-	-	-	-	-	(2.8)
Net totex	32.2	49.7	26.8	157.1	8.3	7.3	2.0	1.2	284.6
Cash expenditure									
Pension deficit recovery payments	2.0	0.1	-	2.8	-	-	0.4	-	5.3
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	34.2	49.8	26.8	159.9	8.3	7.3	2.4	1.2	289.9
Atypical expenditure									
Item 1	-	-	-	-	-	-	-	-	-
Total atypical expenditure	-	-	-	-	-	-	-	-	-

4F & 4G MAJOR PROJECT EXPENDITURE FOR WHOLESALE WATER AND WASTEWATER

NWL does not have any Major Projects as defined by RAG 4.12.

4H FINANCIAL METRICS for the 12 months ended 31 March 2024

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	3,819.1	-
Regulatory equity	£m	1,623.6	-
Regulatory gearing	%	70.2%	-
Post tax return on regulatory equity	%	-1.3%	-
RORE (return on regulatory equity)	%	5.7%	6.2%
Dividend yield	%	4.1%	-
Retail profit margin - Household	%	-1.0%	-
Retail profit margin - Non household	%	0.0%	-
Credit rating - Fitch	Text	BBB+ (Stable)	-
Credit rating - Moody's	Text	Baa1 (Stable)	-
Credit rating - Standard and Poor's	Text	n/a	-
Return on RCV	%	3.8%	-
Dividend cover	dec	0.0	-
Funds from operations (FFO)	£m	237.1	-
Interest cover (cash)	dec	2.9	-
Adjusted interest cover (cash)	dec	0.8	-
FFO/Net debt	dec	0.1	-
Effective tax rate	%	88.7%	-
RCF	£m	171.3	-
RCF/Net debt	dec	0.0	-
Borrowings			
Proportion of borrowings which are fixed rate	%	57.4%	-
Proportion of borrowings which are floating rate	%	12.3%	-
Proportion of borrowings which are index linked	%	30.4%	-
Proportion of borrowings due within 1 year or less	%	7.7%	-
Proportion of borrowings due in more than 1 year but no more than 2 years	%	9.2%	-
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	27.5%	-
Proportion of borrowings due in more than 5 years but no more than 20 years	%	49.7%	-
Proportion of borrowings due in more than 20 years	%	5.9%	-

An explanation of RORE performance compared to the allowance in the FD is provided in the commentary to table 1F.

4I FINANCIAL DERIVATIVES for the 12 months ended 31 March 2024

	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2024)	
	0 to 1 years	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
	£'m	£'m	£'m	£m	£'m	£'m	£'m	%	%
Interest rate swap (sterling)									
Floating to fixed rate	-	150.0	-	-	150.0	7.0	-	2.36%	5.70%
Floating from fixed rate	-	-	-	-	-	-	-	0.00%	0.00%
Floating to index linked	-	-	-	-	-	-	-	0.00%	0.00%
Floating from index linked	-	-	-	-	-	-	-	0.00%	0.00%
Fixed to index-linked	-	150.0	100.0	-	250.0	2.8	(111.2)	3.61%	2.17%
Fixed from index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Index-linked to index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	300.0	100.0	-	400.0	9.8	(111.2)		
Forward currency contracts									
Forward currency contracts USD	3.0	1.2	-	-	4.2	0.1	-		
Total	3.0	1.2	-	-	4.2	0.1	-		
Other financial derivatives	-	-	-	-	-	-	-		
Total financial derivatives	3.0	301.2	100.0	-	404.2	9.9	(111.2)		

For the floating to fixed rate swaps, the interest rate receivable has been calculated using the forward SONIA curve as the applicable market rates on the last day of 2023/24 for the discounted maturity cash flows of the derivative(s).

For the fixed to index-linked swaps, the interest rate payable has been calculated using a reference RPI of 4.30%, being the published RPI for March 2024. Both swaps reported in this line are set at RPI minus the margin as a fixed percentage on the swaps.

For the mark-to-market valuations, liability (out of the money) positions are reported as positive values and asset (in the money) positions are reported as negative values, in accordance with RAG4.12. The total balance of accretion and mark-to-market, £101.3m liability, is consistent with the Financial instruments balance in table 1C Statement of Financial Position.

4J BASE EXPENDITURE ANALYSIS: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2024

		Water network+				
	Water resources	Raw water distribution	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Power	21.3	3.6	-	7.3	30.6	62.8
Income treated as negative expenditure	(0.6)	-	-	(0.3)	-	(0.9)
Bulk supply	1.3	-	-	-	-	1.3
Renewals expensed in year (infrastructure)	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	0.2	-	-	1.0	4.2	5.4
Other operating expenditure	7.0	0.5	2.5	63.3	64.3	137.6
Local authority and Cumulo rates	3.0	2.3	-	2.8	13.9	22.0
Service Charges						
Canal & River Trust abstraction charges/ discharge consents	0.5	-	-	-	-	0.5
Environment Agency / NRW abstraction charges/ discharge consents	39.7	-	-	0.4	-	40.1
Other abstraction charges/ discharge consents	-	-	-	-	-	-
Other operating expenditure						
Costs associated with Traffic Management Act	-	-	-	-	0.5	0.5
Costs associated with lane rental schemes	-	-	-	-	-	-
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	72.4	6.4	2.5	74.5	113.5	269.3
Capital expenditure						
Maintaining the long term capability of the assets - infra	9.0	-	-	-	71.9	80.9
Maintaining the long term capability of the assets - non-infra	26.5	0.4	-	41.4	26.3	94.6
Total base capital expenditure	35.5	0.4	-	41.4	98.2	175.5
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act (nr)	-	-	-	-	8,276.0	8,276.0

4K BASE EXPENDITURE ANALYSIS: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2024

	Wastewater network+					Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge Transport	Sludge Treatment	Sludge Disposal	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Power	4.9	8.2	4.4	24.0	6.1	1.6	(1.8)	0.1	47.5
Income treated as negative expenditure	-	-	-	-	-	-	(14.1)	-	(14.1)
Bulk discharge	-	-	-	-	-	-	-	-	-
Renewals expensed in year (infrastructure)	0.1	0.2	0.1	-	-	-	-	-	0.4
Renewals expensed in year (non-infrastructure)	0.3	0.4	0.2	1.0	-	-	0.1	-	2.0
Other operating expenditure	9.5	15.7	8.5	34.3	2.2	4.9	11.2	1.1	87.4
Local authority and Cumulo rates	-	-	-	9.3	-	-	2.0	-	11.3
Service Charges									
Canal & River Trust discharge consents	-	-	-	-	-	-	-	-	-
Environment Agency / NRW discharge consents	1.8	-	-	2.0	-	-	-	-	3.8
Other discharge charges / permits	-	-	-	-	-	-	-	-	-
Other expenditure									
Costs associated with Traffic Management Act	-	-	-	-	-	-	-	-	-
Costs associated with lane rental schemes	-	-	-	-	-	-	-	-	-
Costs associated with Industrial Emissions Directive	-	-	-	-	-	-	-	-	-
Total base operating expenditure	16.6	24.5	13.2	70.6	8.3	6.5	(2.6)	1.2	138.3
Capital expenditure									
Maintaining the long term capability of the assets - infra	9.0	14.9	8.0	0.1	-	-	-	-	32.0
Maintaining the long term capability of the assets - non-infra	2.9	4.8	2.6	34.6	-	0.8	4.6	-	50.3
Total base capital expenditure	11.9	19.7	10.6	34.7	-	0.8	4.6	-	82.3
Operating expenditure (AMP 7 shadow reported values)									
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act (nr)	209.0	-	-	-	-	-	-	-	209.0

4N DEVELOPER SERVICES EXPENDITURE: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2024

	Water network+		
	Treated water distribution		
	Capex	Opex	Totex
	£'m	£'m	£'m
New connections	9.7	-	9.7
Requisition mains	5.9	-	5.9
Infrastructure network reinforcement	5.1	-	5.1
s185 diversions	2.5	-	2.5
Other price controlled activities	-	-	-
Total developer services expenditure	23.2	-	23.2

40 DEVELOPER SERVICES EXPENDITURE: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2024

	Wastewater network+					
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Capex						
New connections	0.1	0.1	0.1	-	-	0.3
Requisition sewers	-	-	-	-	-	-
Infrastructure network reinforcement	0.1	0.2	0.1	-	-	0.4
s185 diversions	-	0.1	-	-	-	0.1
Other price controlled activities	0.3	0.4	0.2	-	-	0.9
Total total developer services capex	0.5	0.8	0.4	-	-	1.7
Opex						
New connections	-	-	-	-	-	-
Requisition sewers	-	-	-	-	-	-
Infrastructure network reinforcement	-	-	-	-	-	-
s185 diversions	-	-	-	-	-	-
Other price controlled activities	-	-	-	-	-	-
Total developer services opex	-	-	-	-	-	-
Totex						
Total developer services expenditure	0.5	0.8	0.4	-	-	1.7

4P EXPENDITURE ON NON-PRICE CONTROL DIVERSIONS for the 12 months ended 31 March 2024

	Water resources	Water network+	Wastewater network+	Total
	£'m	£'m	£'m	£'m
Capex				
Costs associated with NSWRA diversions	-	0.6	-	0.6
Costs associated with other non-price control diversions	-	-	-	-
Other developer services non-price control capex	-	-	-	-
Developer services non-price control capex	-	0.6	-	0.6
Opex				
Opex associated with NSWRA diversions	-	-	-	-
Opex associated with other non-price control diversions	-	-	-	-
Other developer services non-price control opex	-	0.3	0.4	0.7
Developer services non-price control opex	-	0.3	0.4	0.7
Totex				
Costs associated with NSWRA diversions	-	0.6	-	0.6
Costs associated with other non-price control diversions	-	-	-	-
Other developer services non-price control totex	-	0.3	0.4	0.7
Developer services non-price control totex	-	0.9	0.4	1.3

4V MARK-TO-MARKET OF FINANCIAL DERIVATIVES ANALYSED BASED ON PAYMENT DATES for the 12 months ended 31 March 2024

	Derivatives - Analysed by earliest payment date				Derivatives - Analysed by expected maturity date			
	Net settled	Gross Settled outflows	Gross Settled inflows	Total	Net settled	Gross Settled outflows	Gross Settled inflows	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Due within one year	0.1	-	-	0.1	0.1	-	-	0.1
Between one and two years	7.6	-	-	7.6	7.6	-	-	7.6
Between two and three years	-	-	-	-	-	-	-	-
Between three and four years	2.1	-	-	2.1	2.1	-	-	2.1
Between four and five years	-	-	-	-	-	-	-	-
After five years	-	-	-	-	-	-	-	-
Total	9.8	-	-	9.8	9.8	-	-	9.8

4W DEFINED BENEFIT PENSION SCHEME – ADDITIONAL INFORMATION for the 12 months ended 31 March 2024

	Defined benefit pension schemes
	Northumbrian Water Pension Scheme
	£'m
Scheme details	
Scheme name	Northumbrian Water Pension Scheme
Scheme status	Closed to accrual of future defined benefits
Scheme valuation under IAS/IFRS/FRS	
Scheme assets	790.3
Scheme liabilities	806.6
Scheme surplus / (deficit) Total	(16.3)
Scheme surplus / (deficit) Appointed business	(16.0)
Pension deficit recovery payments	18.0
Scheme valuation under part 3 of Pensions Act 2004	
Scheme funding valuation date	31 December 2022
Assets	799.2
Technical Provisions	980.7
Scheme surplus / (deficit)	(181.5)
Discount rate assumptions	Gilts +0.25% pa
Recovery plan (where applicable)	
Recovery Plan Structure	Recovery Plan signed on 31 October 2023. Schedule of contributions requires employers to pay the following deficit reduction contributions: £23.8m pa, with effect from 1 January 2023 to 31 March 2023; plus £27.1m pa, with effect from 1 April 2023 to 31 October 2023; £6.0m pa, with effect from 1 November 2023 to 31 October 2038, increasing annually by RPI from 1 January 2025. An additional allowance of £1.5m for Scheme expenses will be paid, also increasing annually by RPI.
Recovery plan end date	31 October 2038

Asset Backed Funding (ABF) arrangements	Yes, an ABF arrangement was implemented on 31 October 2023. The Recovery Plan was agreed taking full account of the ABF structure. Deficit contributions up to 31 October 2023 were before the implementation of the ABF and contributions from 1 November 2023 onwards were based on the ABF having been implemented. The principal asset of the ABF is a £545m loan note from Northumbrian Water Company 1 Scottish Limited Partnership to NWL. The repayments of this loan note underpin the Recovery Plan payments to the NWPS. The value of the ABF arrangement is not included in the calculation of the deficit for the NWL Consolidated Financial Statements, in accordance with IAS 19.
Responsibility for ABF arrangements	The appointed business is responsible for 98.3% of the deficit contributions with the remainder paid by the NWL non-appointed business and an associated company.

9A INNOVATION COMPETITION

	Current
Allowed	£'m
Allocated innovation competition fund price control revenue	2.9
Revenue collected for the purposes of the innovation competition	
Innovation fund income from customers	2.9
Income from customers to fund innovation projects the company is leading on	6.7
Income from customers as part of the inflation top-up mechanism	-
Income from customers that is transferred to other companies as part of the innovation fund	2.8

	Total amount of funding awarded to the lead company through the innovation fund	Total amount of inflation top-up funding received	Forecast expenditure on innovation fund projects in year (excl 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Forecast project lifecycle expenditure on innovation fund projects (excl 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Allowed future expenditure on innovation fund projects (excl 10% partnership contribution)	In year expenditure on innovation projects funded by shareholders of the lead water company	In year expenditure on innovation projects funded by project partner contributions	Cumulative expenditure on innovation projects funded by shareholders of the lead water company	Cumulative expenditure on innovation projects funded by shareholders of the lead water company
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Organics Ammonia	0.2	-	-	-	-	0.2	0.2	-	-	-	-	-	-
Spring Centre of Excellence	0.3	-	-	-	-	0.3	0.3	-	-	-	-	-	-
Fairwater	3.8	-	2.1	2.1	-	3.8	2.3	(1.5)	1.4	-	-	-	-
National Leakage Research Centre	5.3	-	0.3	0.3	-	5.3	0.4	(4.9)	4.9	-	-	-	-
Open data sharing platform	0.9	-	0.1	0.1	-	0.9	0.9	-	-	-	-	-	-
Support For All	0.6	-	0.4	0.4	-	0.7	0.7	-	-	0.1	-	0.1	-
SuPR Loofah (Sustainable Phosphorus Recovery)	0.4	-	0.3	0.3	-	0.4	0.3	(0.1)	0.1	-	-	-	-
Water Quality As-A-Service Treatment-2-Tap	0.7	-	0.4	0.4	-	0.7	0.4	(0.3)	0.3	-	-	-	-
Hydro Powered Concentric Smart Meter	0.9	-	0.3	0.3	-	0.9	0.3	(0.6)	0.6	-	-	-	-
Root defender	0.9	-	-	-	-	0.9	-	(0.9)	0.9	-	-	-	-
Water Literacy toolkit	0.9	-	-	-	-	0.9	-	(0.9)	0.8	-	-	-	-
Transform Stream 2	4.0	-	2.0	2.0	-	4.0	2.0	(2.0)	1.9	-	0.4	-	0.4
	18.9	-	5.9	5.9	-	19.0	7.8	(11.2)	10.9	0.1	0.4	0.1	0.4

Total	£'m
Administration	0.2

Innovation Competition

As part of PR19 Ofwat established its Innovation Fund, the purpose of which is to grow the water sector's capacity to innovate enabling it to better meet the evolving needs of customers, society and the environment. Our revenue allowance includes £2.9m per annum, which is recovered through customer charges, to contribute towards the Innovation Fund.

Innovation fund income received from customers was £2.889m (22/23 £2.642m).

There was also a payment to Ofwat of £0.162m for the innovation partner administration charge.

£m	**20/21**	**21/22**	**22/23**	**23/24**	**Cumulative**
Income from customers (price control)	2.512	2.526	2.642	2.890	10.570
Innovation project cost contributions	0	-0.128	-3.509	-2.845	-6.482
Administration partner costs	0	-0.116	-0.106	-0.162	-0.384
Net	**2.512**	**2.282**	**-0.973**	**-0.117**	**3.704**

The net receipt of £3.704m has been accrued in operating costs in the Statutory accounts but removed from the Regulatory accounts, in accordance with Ofwat guidance.

NWL has received the funding in 2023/24 to lead on a number of projects (all were through the Water Breakthrough Challenge 3 Catalyst Stream):

- Hydro Powered Concentric Smart Meter
- Root Defender (Using science and nature to end sewer misery)
- Water Literacy
- Stream (open data sharing platform)

The income and expenditure to date for each project is shown on the table above.