Annual Integrated Report & Accounts 2019/20

northern ireland water

Northern Ireland Water

Annual Integrated Report and Accounts
For the year ended 31 March 2020

Laid before the Northern Ireland Assembly under Article 276 of the Water and Sewerage Services (Northern Ireland) Order 2006 by the Department for Infrastructure on 4 August 2020

About this report

This report aims to tell the story of how NI Water provides the water for life we all rely on to thrive.

Reporting what matters

Our Annual Integrated Report and Accounts aims to meet the information needs of all our stakeholders and tell the story of how we are delivering what matters by creating and sustaining value over the short, medium and long term. This value does not just focus on financial capital but extends across all six capitals or pools of resources – financial (financial efficiency and resilience), natural (plants, animals, water, soils and the eco-system services they provide), social (stakeholder relationships), human (talent, health and wellbeing), manufactured (pipes, treatment works, plant and equipment, IT and offices) and intellectual capital (knowledge and processes) to ensure that we are profiting from creating sustainable solutions for people and the planet. We have included information that we believe is material to our stakeholders and presented it in a way that we believe is fair, balanced and understandable.

We listen to our stakeholders through multiple communication channels and have drawn on this regular engagement to develop a matrix approach on reporting what matters (page 27). We either include the important matters in this report or sign post the reader to other reports and information sources.

We believe this approach meets the requirements of company law, best practice corporate governance for Government Owned Companies, IFRS and the International <IR> Framework, and that we go beyond those requirements where we feel it is particularly helpful to do so and where it can be done while still keeping it an easy read.

Integrated Report

We have been developing our approach to integrated reporting over a number of years. This Annual Integrated Report and Accounts is our first Integrated Report and has been prepared and presented in accordance with the International <IR> Framework published by the International Integrated Reporting Council. Integrated reporting is about telling a simple and concise story of how organisations create and sustain value over the short, medium and long term. The Board, which is responsible for the integrity of this report, has considered the preparation and presentation of this report and concluded that it has been prepared and presented in accordance with the Framework.

Tell us what you think of our report

We hope that this report will be of use to all our stakeholders and would welcome feedback to develop our future reporting.

Please direct any feedback to the Business Reporting Manager, Finance and Regulation Directorate. Our contact details are on the back cover of this report.

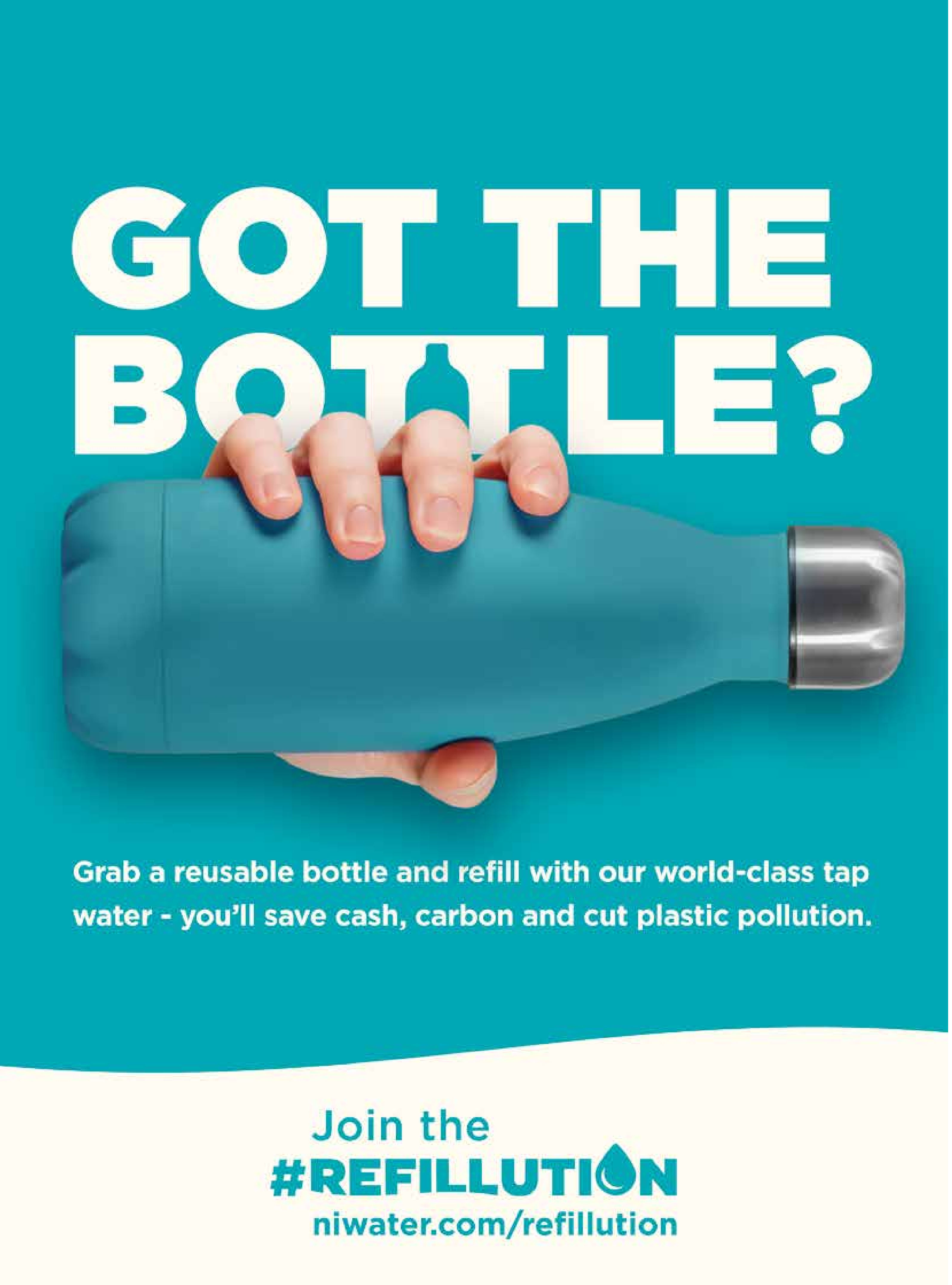
Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Any enquiries regarding this publication should be addressed to the Business Reporting Manager using the contact details on the back cover of this report.

We would like to acknowledge particular thanks to Michael Cooper Photography who supplied the majority of images used in our report.

Cautionary note

This document contains links to other websites. Any information contained on these websites has not been subject to audit. Refer to the Independent Auditors' Report on page 194 for details on which areas of this report have been subject to audit.



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Strategic Report

This Strategic Report is produced in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

River Derg catchment, County Tyrone

Welcome

Long term thinking

No business can stand still and ours is no exception. Our business faces unprecedented strategic challenges due to the climate emergency, coupled with a growing population, and continued underfunding. The outbreak of Covid-19 has added a new dimension to these challenges.

This year, we launched our new strategy to address these challenges. By supporting long term thinking over the next quarter of a century the strategy aims to put us in the best possible position to support a cleaner, greener and more prosperous society. We are encouraged by the broad endorsement from our stakeholders, the profile given to water and wastewater infrastructure in the 'New Decade, New Approach' agreement for the re-established Northern Ireland Assembly and the high profile given to our challenges by our new Minister for Infrastructure.

It's time to fix our broken funding model

Water companies sit at the heart of society and provide an essential service with considerable health dimensions. Our abstraction and sewage treatment also have major environmental consequences, and our infrastructure is a foundation for sustainable economic growth.

Despite this, Northern Ireland is unique within the UK as the only region with a broken funding model, where the regulated water utility is unable to fully implement the economic regulator's final determination due to public expenditure constraints. Against this backdrop, NI Water has continued to successfully deliver private sector levels of performance and efficiency. This, however, cannot continue with sustained and significant underfunding. Our PC15 business plan (2015-21) started with a constrained funding of £990m against a £1.7bn requirement. This has been further constrained by public expenditure cuts over PC15. The underfunding has already resulted in curbs to economic development with new housing and businesses being unable to connect to our sewerage system in major parts of our cities and in over 100 towns.

Underfunding over PC15 is part of a generational underinvestment in the sewerage infrastructure, which adds complexity and significant inefficiency to the delivery of longer term asset resilience, risks deterioration in levels of service for customers, and is leading to inadequate environmental protection through increased sewer flooding and pollution.

Unless we start properly investing in our failing wastewater infrastructure we will have to make difficult choices about our economy and our natural environment. The scale of the problem requires a major, inescapable step change in investment. Over £2bn is required in our next business plan period PC21 (2021-27), including £0.5bn for the Living with water programme to address strategic drainage in Belfast. NI Water's Board and Executives continue to work with stakeholders to identify a means to fund this vital investment. Although various infrastructure funding models exist across the UK and Ireland, a solution for Northern Ireland has not yet been identified. Failure to do so will lead to an infrastructure funding crisis with negative impacts for our environment and economy.

Building 'blue green' infrastructure

In the context of future uncertainty, the best approach may not be the obvious one and will involve more diverse infrastructure. The solution may not be additional carbon intensive 'grey' infrastructure, which is heavily reliant on energy, chemicals and concrete, but rather more 'blue green' infrastructure, which utilises nature's ecosystem services to filter our raw water, slow flood water and store carbon. It may also include new infrastructure based on different technologies than the existing network.

We must better manage, understand and invest in water catchments, integrate land management and flood defences with water and sewerage, and do all this in ways that restore and enhance nature and support cleaner economic growth. This will require avoiding contradictory economic and environmental regulation and policy.

Getting smarter

Every aspect of society is becoming more digitalised and connected as the onset of new technologies revolutionises day-to-day life and business. Cutting-edge techniques underpinned by the use of data analytics, sensors, artificial intelligence and robotics is helping us build resilience against the effects of climate change, which will continue to make floods and drought more likely. Reducing leakage will also become more and more important in the future. We lose around 25% of drinking water through leaks across our 27,000 km of underground water pipes. Our PC21 business plan sets out how we can embed the latest technologies such as satellite monitoring to drive down leakage.

Using less drinking water

We also need to consider water efficiency. We use around 70% more water today than we did 40 years ago. As a society, more needs to be done to reduce our water footprint by making our homes and buildings more water efficient and better understanding the hidden water in the products we buy. By designing our homes to use 'green water' such as recycled water, storm water or rainwater to flush our toilets, wash our clothes or for outdoor use, the average person could reduce their water usage by around 40% and NI Water's total water demand by 25%. This can help further drive down leakage, our carbon footprint and increase water resilience, while also easing pressures on our sewerage infrastructure.

Completing the picture on wastewater compliance

We recognise the need to improve how we measure wastewater compliance. The current model is based on pre-announced rather than un-announced regulatory sampling at the treatment works and the reported wastewater compliance doesn't incorporate flow compliance for the wastewater treatment works or the sewer network. This provides an incomplete picture of environmental compliance and protection. We are working with the Northern Ireland Environment Agency and other stakeholders to reform the wastewater compliance model to improve compliance across the whole wastewater system.

Towards net zero

The concentration of carbon in the atmosphere has been increasing remorselessly for the past quarter of a century. Almost everything we do from the moment we wake up to going to bed is carbon intensive. A key development over the past year has been the legislated target for the UK to reach net zero greenhouse gas emissions by 2050. Our strategy aims to decarbonise our business by taking a sustainable consumption path and we recognise that we can play a key role in supporting the wider societal shift to a decarbonised circular economy through areas such as battery storage, green charging infrastructures, hydrogen heating for homes and businesses and energy from waste. Biological carbon in the soil, peat bogs and forests across our water catchments can also act as major carbon sinks.

Partnering for prosperity

We can't solve these challenges on our own. Working with a range of stakeholders across the public, private and third sectors is the only way in which we can develop a joined-up and holistic approach to help our society meet the challenges of the 21st century. We support the National Infrastructure Commission's call for a National Infrastructure Strategy to take a long term perspective beyond the immediate spending review period and set out the Government's expectations for infrastructure funding and policy up to 2050.

Not all heroes wear capes

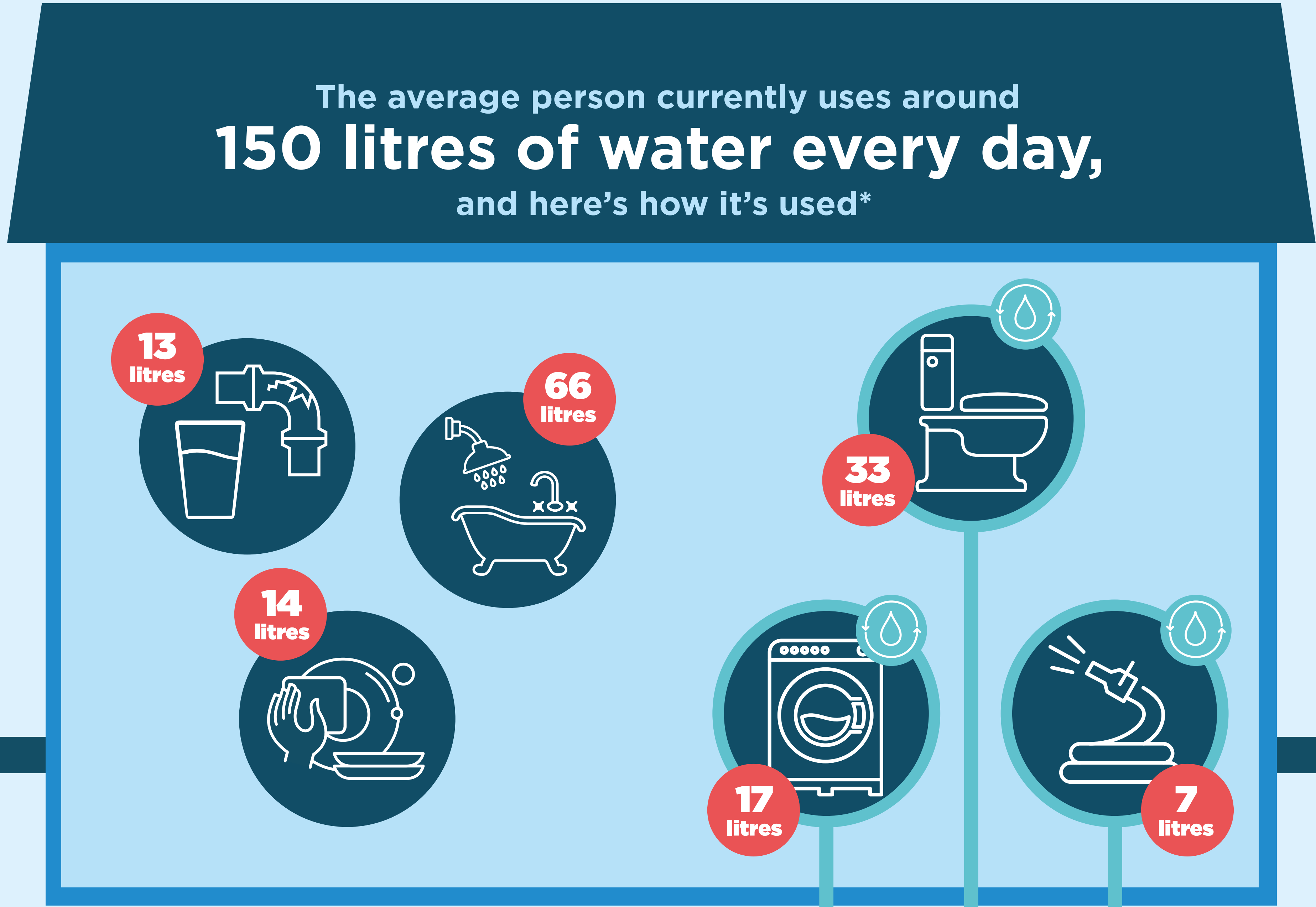
Finally, I would like to pay tribute to our people. In late 2019/20 we faced one of our biggest challenges to date with the onset of Covid-19. We activated our business continuity plans and pandemic major incident plan, and successfully maintained the supply of essential water and wastewater services. As essential workers, my colleagues have my utmost respect and admiration, and they give me great confidence that we can successfully meet any challenges that we face.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Using less drinking water

By better designing our homes we could reduce the total demand for drinking water by around 25%. Further reductions in demand can be achieved by installing more water efficient appliances in the home and changing our behaviours e.g. shorter showers. By using less we can lower our carbon footprint, improve biodiversity, reduce leakage, increase resilience and ease pressures on our sewerage infrastructure. Find out more at **www.niwater.com/water-saving/**

Around 70% of total drinking water supplied by NI Water goes to the home



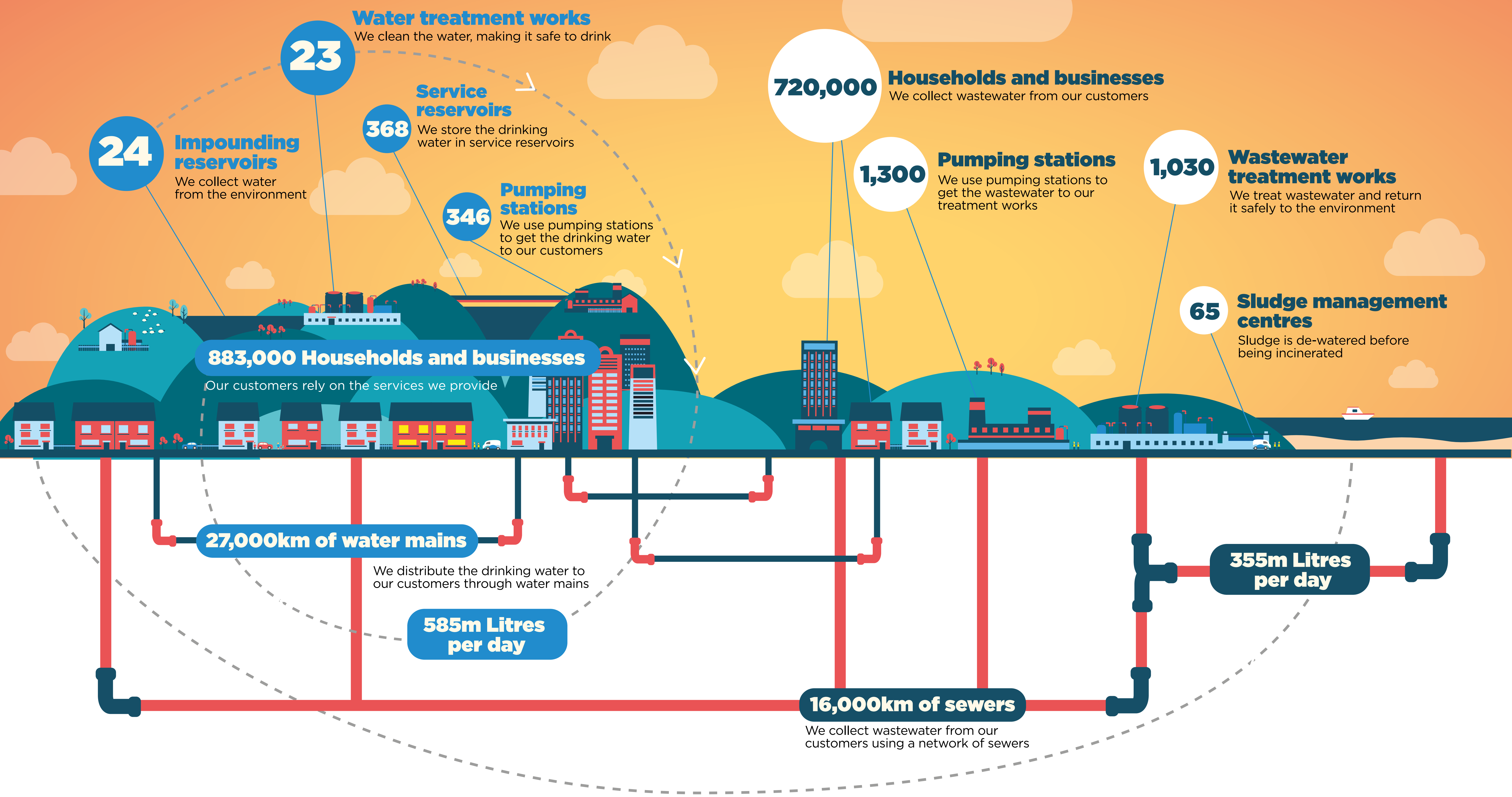
*Volumes are approximate and based on NAO report on Water Supply and Demand Management (March 2020)

Around 95% goes back into the sewer which is contributing to the pressure that sewers are under, many of which are at or near capacity

By designing our homes to use '**green water**' such as **recycled water**, **storm water** or **rain water** to flush our toilets, wash our clothes or for outdoor use the average person could reduce their water usage by around 40%

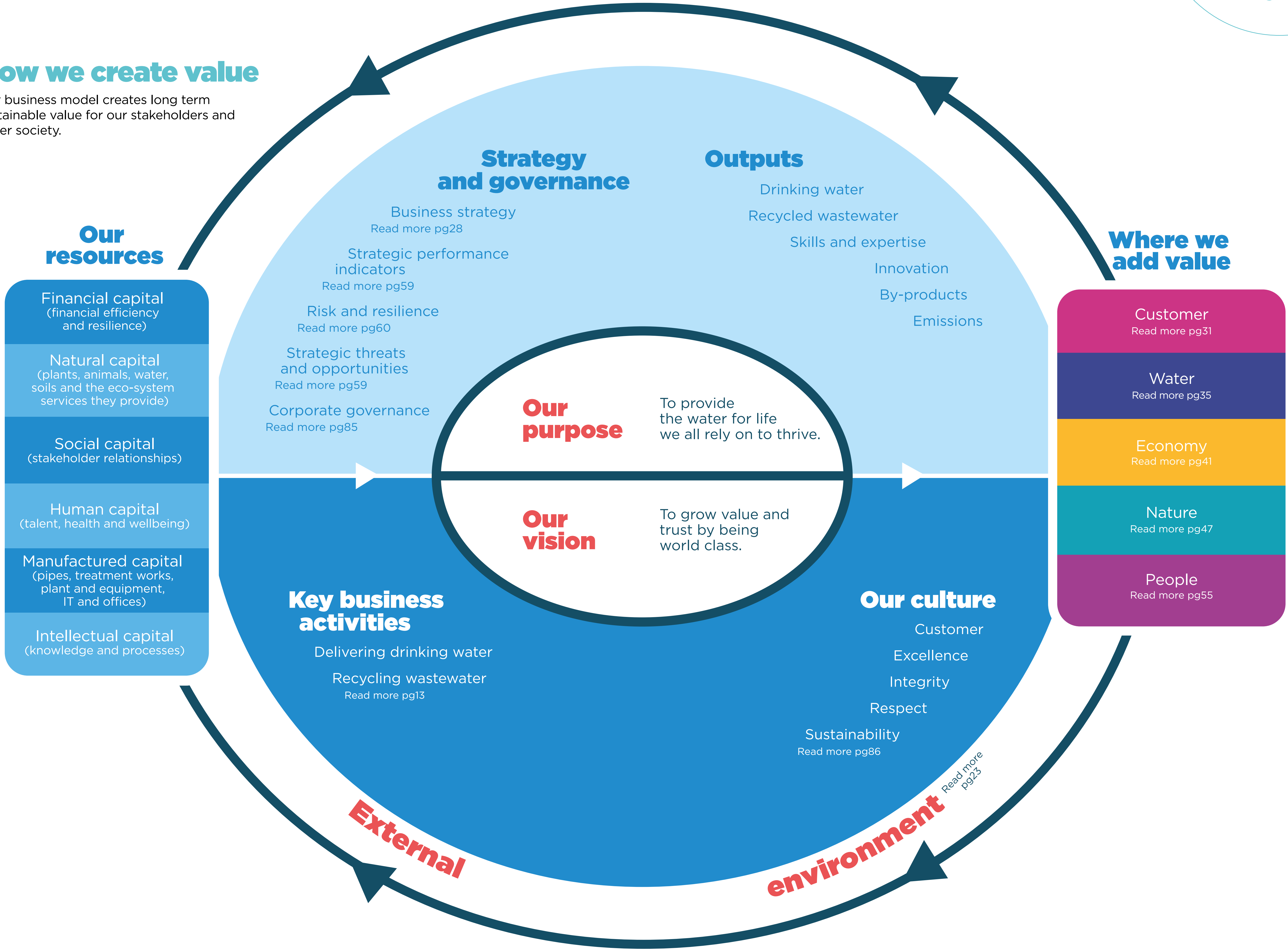
About NI Water

It costs around £460m each year to deliver water services in Northern Ireland. Thousands of assets at a value of around £3bn, are operated and maintained to provide these services. This includes over 40,000km of water mains and sewers - one and a half times longer than Northern Ireland's entire road network and long enough to circle planet earth.



How we create value

Our business model creates long term sustainable value for our stakeholders and wider society.



Business performance

We submitted our PC21 Business Plan to the Utility Regulator in 2019/20. The plan sets out the step change in investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure.

Delivering what matters

Our purpose is to provide the water for life we all rely on to thrive. We deliver great tasting, safe drinking water to our customers and recycle their wastewater safely back to the natural environment.

We are proud of the significant achievements we have made in water and wastewater services. We have been leading the challenge in doing more for less - we have been delivering record levels of service for our customers while reducing our cost base through sustainable efficiencies. NI Water has been successful in achieving levels of performance and efficiency with the benchmarked water companies in England, Wales and Scotland. We want to continue to build on this success and become world class.

Much of the work we are doing through the remainder of our PC15 Business Plan (2015-21) will build the foundation for further transformational changes in our next business plan period, PC21 (2021-27). We expect the Utility Regulator to issue its draft determination on our PC21 Business Plan in September 2020 and its final determination in March 2021.

Some of the notable highlights over 2019/20 are provided below and further details on progress are contained in this report.

Delighting our customers

Providing a great service to our customers is core to our business, so it is important that we continue to look for opportunities to help us adapt to changing customer expectations. Advancements in technology and innovation have helped us make great strides in this area. We have set ourselves a challenge to achieve higher Net Promoter Scores, which is an internationally recognised customer advocacy benchmark that spans all sectors, not just utilities. We will achieve this by reducing service failures and resolving issues on first point of contact. We are delighted that our effort and innovation in this area is reflected in the achievement of our Net Promoter Score for 2019/20.

Over 2019/20 we have continued to promote Quick Check 101 to prevent 'bogus callers' and continued to grow and raise awareness of our Customer Care Register to ensure that our services are inclusive, available and accessible to all our customers, regardless of their personal circumstances.

In 2019/20 we invested in software robots to help us automate manual and repetitive tasks so our teams can spend more time focusing on helping customers with more complex tasks. In 2020/21, we will continue to develop our digital services for the benefit of our customers, with an exciting launch of an on-line application portal for new connections.

We liaise closely with the National Cyber Security Centre and the Centre for the Protection of National Infrastructure to ensure all our environments are 'Cyber Watertight'. Over 2019/20 we ran a number of phishing campaigns to highlight cyber risks and will continue this awareness over 2020/21.

P31 Read more about delivering an exceptional customer experience.

Clean and safe water when you need it

Great products start with great raw materials. In 2019/20 we completed the restoration of the largest expanse of intact blanket bog in Northern Ireland, the Garron Bog, which has improved the quality and reliability of the water received at NI Water's Dungonnell treatment works. In 2020/21 we are investing €4.9m to improve the Erne and Derg cross border river catchments that are a source of our drinking water, piloting changes in land management techniques.

Our changing climate is bringing more frequent and severe weather events such as heavy rainfall, heatwaves and extreme cold. One way we mitigate the risks associated with climate change is through temporary storage of drinking water in large storage tanks known as service reservoirs. Over 2019/20 we invested in additional storage capacity for our customers in Pomeroy and Cookstown. Investment in 2020/21 will provide additional storage capacity at treatment works serving Counties Down and Fermanagh.

To make it suitable for drinking, we treat the fresh water to remove anything that could be harmful. In 2019/20 we introduced a new treatment plant to enhance the water source at Rathlin Island. In 2020/21 we are trialling a number of pilot studies at Derg water treatment works to remove heavy metals, suspended solids (turbidity) and pesticides. We are delighted that through initiatives such as these we have maintained our best ever drinking water quality in 2019.

Reducing leakage is a top priority for NI Water, but with a network of around 27,000 km of underground water pipes, it can be a complex and costly job finding the leaks. In 2019/20 we tested a number of initiatives to detect leakage including, listening devices known as acoustic loggers. We have also improved our ability to understand water consumption by analysing water usage on a minute-by-minute basis. However, we have struggled with leakage over PC15. Our PC21 Business Plan sets out how we can achieve the sustainable economic level of leakage of 150 million litres per day, which is the point at which the cost of fixing a leak outweighs the benefit. To succeed we need to find more and more innovative ways to track down leaks and save water. For example, in 2020/21 we will be trialling the use of satellite technologies to locate leaks.

Every minute counts when it comes to fixing water supply problems so we are looking at a range of areas to fix problems before customers are affected. One area we have been looking at over 2019/20 is better management of valves to reduce surges in our network. We have also been learning lessons from previous interruptions. In 2020/21 we will develop our SMART network to provide information in real time and help predict interruptions to supply and identify leaks.

P35 Read more about supporting a healthy and thriving population.

Sustainable economic growth

Funding levels made available to NI Water in recent price controls have not been sufficient to stem the degradation of assets. As a result, our infrastructure is having a widespread detrimental impact on the economy, by severely limiting development across the country in 25 of the 27 economic hubs identified by local councils for growth in the future. Our PC21 Business Plan sets out the funding required to start to address these constraints.

Using new efficiency models developed with the Utility Regulator, we estimate the gap to the upper quartile water company in England and Wales is reduced from 49% in 2007/08 to 7% in 2018/19. We recognise it is progressively harder to deliver efficiencies when quick wins have already been captured but our plan sets out that we will continue our efficiency journey. By the end of PC21 we are proposing to close 80% of the gap to the upper quartile company in England and Wales through 'Planning for the Future' projects.

These significant sustainable cost efficiencies have helped us keep any increase in non-domestic water and sewerage charges below inflation. We are acutely aware of the pressures that Covid-19 is having on our healthcare system and our local economy. A planned 1.7% increase in non-domestic water and sewerage charges, which had been due to be introduced in April 2020, has therefore been deferred and will be reviewed in September 2020.

Northern Ireland is aiming to capitalise on a predicted 20 years of sustained growth across global tourism. A major draw is our natural environment, with Northern Ireland having some of the most spectacular beaches in Europe. In 2019/20 we invested in a new wastewater treatment works in Ballintoy, County Antrim to improve the water quality in the surrounding coastal areas and increase capacity to support growth in local tourism and development. Over 2020/21 we will upgrade the wastewater treatment works in the village of Greyabbey, County Down to help alleviate development constraints and support local tourism.

P41 Read more about supporting a growing economy.

Flourishing natural environment

Flooding and the risk of flooding can constrain economic development, increase the cost of insurance and pollute our natural environment. In 2019/20 we upgraded the sewers at Ormeau Avenue in Belfast, some of which dated back to the late 1800's and were in very poor condition. This investment has reduced the risk of out of sewer flooding. Unforeseen complexities for another of our sewer rehabilitation schemes in Belfast has resulted in the removal of a lower number of properties at risk of out of sewer flooding than targeted. In 2020/21 we will continue our work with developers to ensure new developments are sustainable and do not increase the flood risk to the site or surrounding area by looking at more sustainable ways of taking storm water out of the combined sewer system.

Traditional treatment works require a lot of energy, carbon, concrete and chemicals such as chlorine to ensure wastewater can be safely released back to the environment. In 2019/20 we constructed a wetland in Clabby, County Fermanagh and plan to upgrade the existing wastewater treatment works in Ballykelly, County Derry/Londonderry in 2020/21 by constructing a sustainable integrated constructed wetland, both of which require less energy, carbon, concrete and chemicals.

We deal with around 15,000 blockages of our sewers each year, over 11,000 of which could have been prevented. In 2019/20, we introduced Wipezilla the wet wipe monster to towns across Northern Ireland in a bid to raise awareness of the damage caused by wet wipes to sewers and our natural environment and to reinforce the message of flushing only the Three P's; pee, poo and paper.

Wipezilla – our wet wipe monster reinforcing the message of flushing only the Three P's: pee, poo and paper

We also launched the Refillution campaign to reduce the number of single use plastic bottles Northern Ireland uses every year and encourage people to refill a reusable bottle with tap water.

As Northern Ireland's single largest electricity consumer, our goal is to fully exploit innovative approaches to energy and new technology to reduce our carbon footprint and ultimately become carbon neutral by 2050. We are already taking significant steps. In 2019/20 we successfully achieved the ISO 50001 certification, the international standard for energy management systems, which will allow us to achieve continual improvement in energy performance. In 2020/21, we are aiming to increase our electricity consumption from renewable sources such as solar and hydro power to 40%, rising to 100% by 2027, and plan to improve our storage of carbon by planting around 200,000 trees in partnership with the Woodland Trust.

I am delighted that we won the Queen's Award for Enterprise for Sustainable Development 2020. The Queen's Awards are the highest official awards in the UK for business excellence and recognise companies that are leading the way in delivering a new blueprint for sustainable business in the 21st century.

P47 Read more about protecting and enhancing the natural environment.

Happy, safe and healthy people

Our water is world class and so are our people. Attracting, developing, retaining and partnering with the best talent is fundamental to the success of our business and therefore we are committed to making NI Water a great place to work.

In 2019/20 we launched a new emerging leaders program, developing around 50 aspiring leaders to fulfil their leadership potential and a new apprenticeship academy through which we will hire 30 new water apprentices. In 2020/21, we are introducing a new recognition process to celebrate our colleagues who demonstrate our corporate values in their day-to-day work.

Our health and wellbeing programme helps staff 'live well' through a range of initiatives to support mental, physical, financial and social health and we were delighted to be awarded the Chartered Institute of Personnel and Development Award for best health and wellbeing in 2019/20. Significant efforts were made in 2019/20 and into 2020/21 to ensure the safety of our colleagues and contractors following the outbreak of Covid-19. I would like to reiterate the tribute paid to our colleagues and contractors by our Chairman for maintaining our water and wastewater services. We have included some images of how our workforce rose to the challenge on page 21.

In 2020/21 we plan to introduce a new health and safety software system, which will make it much easier to report and analyse incidents to identify any improvements to our systems or processes to prevent such incidents occurring in the future.

Our Cares Challenge volunteering programme is one of the largest corporate volunteering schemes in Northern Ireland. In 2019/20 we extended the volunteering programme to include a community led initiative called 'From Little Ripples' which gives staff the opportunity to pitch for their local charity or community group to receive volunteering support and funding.

We are really proud of our unique education programme, which includes the Waterbus mobile classroom initiative. Within the last 12 years we have educated over 216,000 'water-whizz' school kids about the value of water for health, the economy and nature, visiting 275 schools in 2019/20 alone. We were delighted to have our contribution to society recognised in 2019/20 by winning the International Corporate Social Responsibility Excellence Award.

P55 Read more about helping our people and communities to thrive.

Sara Venning
Chief Executive
25 June 2020

Not all heroes wear capes

Pre-emptive delivery of bottled water to critical care customers

In late 2019/20, we faced one of our biggest challenges to date with the onset of Covid-19. We activated our business continuity plans and pandemic major incident plan in response.

All non-essential tasks and activities were stopped with only essential work necessary to maintain customer service, operate our assets and networks and meet regulatory compliance being undertaken. Our capital investment activities were suspended except for a small number of essential works. Many of our employees worked from home to reduce the risk to our front-line employees and members of the public.

We saw an increased demand for drinking water due to hand-washing, and cleaning to reduce the spread of Covid-19. Shortages of toilet roll resulted in higher levels of sewer blockages due to the disposal of inappropriate items including wet wipes and other substitutes.

Here's a few examples of how our people maintained the supply of essential water and wastewater services during this challenging time.

Process technician setting up a wastewater sampler

Personal protective equipment being loaded for delivery across the business

Wastewater operative carrying out essential work in Belfast City centre

Analytical chemist in our clean water laboratory

Mechanical and electrical craft fitter carrying out repairs

Mechanical and electrical operatives

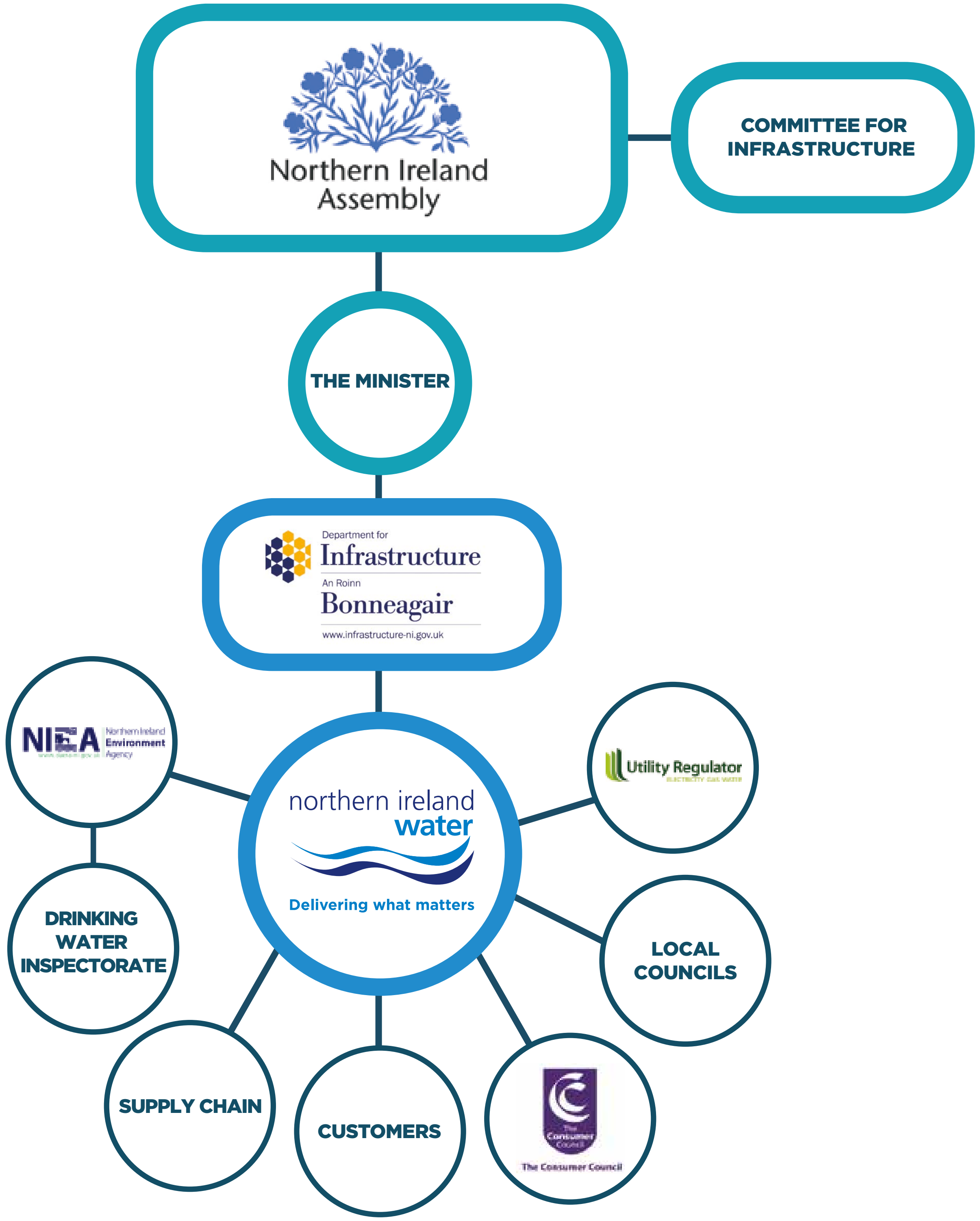
Water treatment operatives working on pumps

Customer field services team assisting with delivery of personal protective equipment

Service reservoir inspections carried out by the water production team

External environment

The water industry structure in Northern Ireland is shown below:



Role of Government

The Northern Ireland Assembly is the devolved legislature for Northern Ireland. It is responsible for making laws on transferred matters in Northern Ireland and for scrutinising the work of Ministers and Government Departments. NI Water is wholly owned by the Department for Infrastructure (DfI), which operates under the direction and control of the Minister for Infrastructure. Water and Drainage Policy Division in the DfI is responsible for setting water policy, for our funding through customer subsidies and lending the funds to support our investment programme. The Committee for Infrastructure undertakes a scrutiny, policy development and consultation role with respect to the DfI and plays a key role in the consideration and development of legislation.

Utility Regulator

The majority of NI Water's activities are not undertaken in competitive markets and are therefore subject to economic regulation by the Utility Regulator. NI Water Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator. Our revenue requirements, the amounts charged to our customers and our performance outputs are set by the Utility Regulator through a Price Control process.

Local councils

We liaise closely with the 11 Local Councils in a range of areas including their Local Development Plans.

Northern Ireland Environment Agency

The Northern Ireland Environment Agency (NIEA) aims to protect, conserve and promote the natural environment and built heritage for the benefit of present and future generations. The NIEA has regulatory powers and responsibilities to ensure environmental compliance by NI Water.

Drinking Water Inspectorate

The Drinking Water Inspectorate (DWI) is an expert unit within the NIEA. DWI is responsible for monitoring and regulating the quality of drinking water, in consultation with health and environmental authorities.

Consumer Council for Northern Ireland

The Consumer Council for Northern Ireland is a statutory body which represents the interests of water consumers. Its functions include providing our customers with advice and information; investigating complaints and undertaking research such as surveys of consumers' views.

Supply Chain

We cooperate with our wider supply chain, water industry research bodies and other utilities to implement new technologies that will help us to continue to deliver more for less.

Customers

We provide water services to around 883,000 households and businesses and wastewater services to around 720,000 households and businesses.

Listening to you

Listening to our customers' and stakeholders' views and building these into our strategy is essential for us to ensure that our customers' needs are at the heart of our service delivery.

We are all ears

200
Domestic customers surveyed bi-annually to gauge NI Water's reputation.

PC21* (2019) Customer Research
200+
In-depth qualitative research using focus groups of domestic and business customers. 1-1 sessions with developers and those on our Customer Care Register.

Customer Research/ Annual Omnibus Survey (2020)
1,500
Domestic customers (face to face)
Business customers (computer assisted telephone interviewing).

8,000+
Twitter followers.

13,000+
Facebook fans.

200
Large business customers surveyed bi-annually to gauge NI Water's reputation.

7,500
Customers who have contacted NI Water surveyed annually (telephone/sms/on-line).

190,000
Conversations with our Customer Relations Centre annually.

1.1m+
NI Water website views.

150+
Elected representatives surveyed on a regular basis.

*Price Control 2021 (PC21) is the six year business plan period (2021-2027)

Stakeholder groups

Taking part in a range of stakeholder groups helps us to report what is most important to them.

Water Stakeholder Steering Group

Provides a forum for discussion on strategic issues relating to the price control and Ministerial guidance; discussion of major water and sewerage cross-cutting issues; discussion of policy development; keeping under review the governance and regulation of the water industry; and discussion of strategic communications issues.

Output Review Group

Provides a forum for stakeholders to discuss progress on key outputs and issues of common concern in the water industry.

Stakeholder subgroups

Working groups for coordinating the delivery of the price control process and related matters.

Infrastructure Bonneagair · The Consumer Council · Utility Regulator · NIEA Northern Ireland Environment Agency · DRINKING WATER INSPECTORATE

Customer priorities**

High	Medium	Low
Internal sewer flooding	Odour and noise	Water abstraction
Supply interruptions	Sewer blockages	Quality of river waters
External sewer flooding	Taste, smell and appearance	Quality of coastal waters
Low water pressure	Pollution incidents	

Summary

From our ongoing engagement, we understand that our customers:

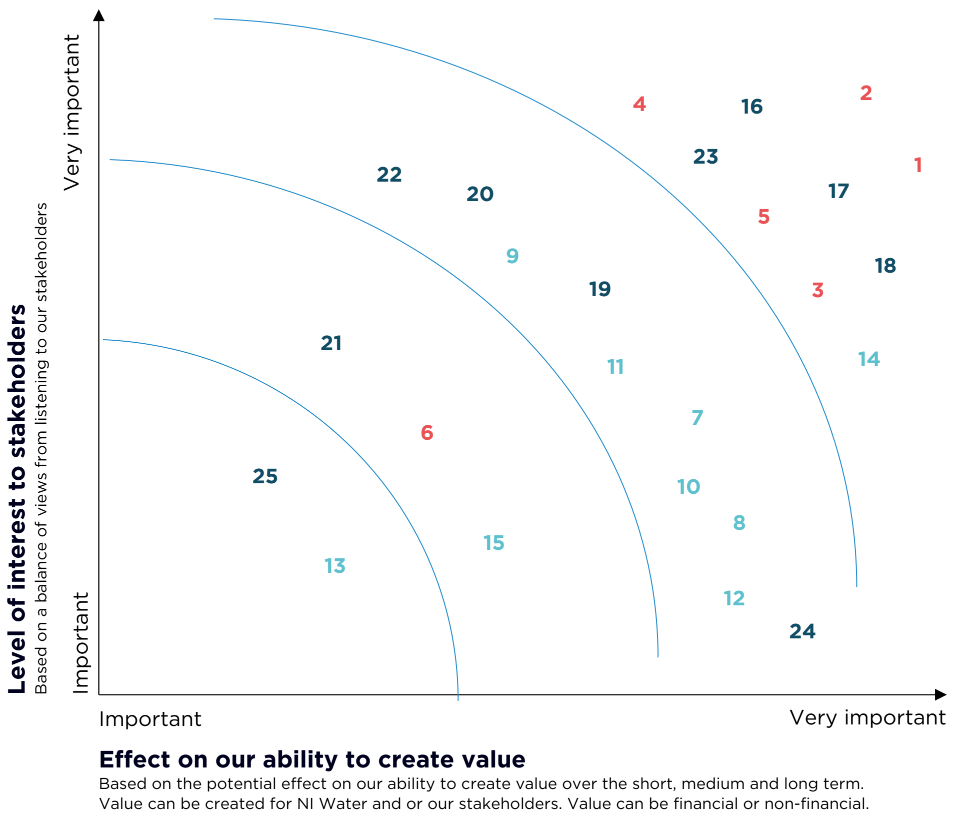
- value water services which are reliable and resilient;
- expect problems to be fixed quickly and to be kept informed of progress;
- wish to see investment to reduce flooding from sewer 'hot-spots' and target interruptions to water supplies;
- want us to invest in infrastructure to meet the economic demands of Northern Ireland;
- expect strategic improvements rather than short term fixes;
- desire to understand how they can help with water conservation and out of sewer flooding; and
- expect a range of contact channels when they need to get in touch.

**https://www.consumercouncil.org.uk/search?search_api_fulltext=filestore+documents+Connecting+with+Consumers+Report+pdf

Reporting on what matters

Listening to our stakeholders and understanding what matters to them is a fundamental part of our strategic decision making. We use a materiality matrix to consider what matters most to stakeholders alongside our own assessment of what has the biggest impact on our ability to create value. This stakeholder materiality assessment informs decisions about what we report in documents such as our Annual Integrated Report and Accounts.

In defining the strategic relevance of a matter to NI Water, we have adopted the integrated reporting framework definition of materiality, which states: "A matter is material if it could substantively affect the organisation's ability to create value in the short, medium or long term". Value, in this context, may be created internally (for the Company and our employees) or externally (for our Shareholder, customers, communities, suppliers, the local economy and the natural environment). Value can be financial or non-financial. Our assessment of the level of interest to stakeholders is based on our ongoing engagement with stakeholders, as well as the extensive insights gathered from engagement with stakeholders on our Strategy and PC21 Business Plan. Read more on stakeholder engagement and decision making on page 106. We have aligned these issues with our strategic threats and opportunities on page 59.



External matters
1. Funding and governance
2. Climate emergency
3. Cyber security
4. Local economy and development constraints
5. Natural resources
6. Land management and access

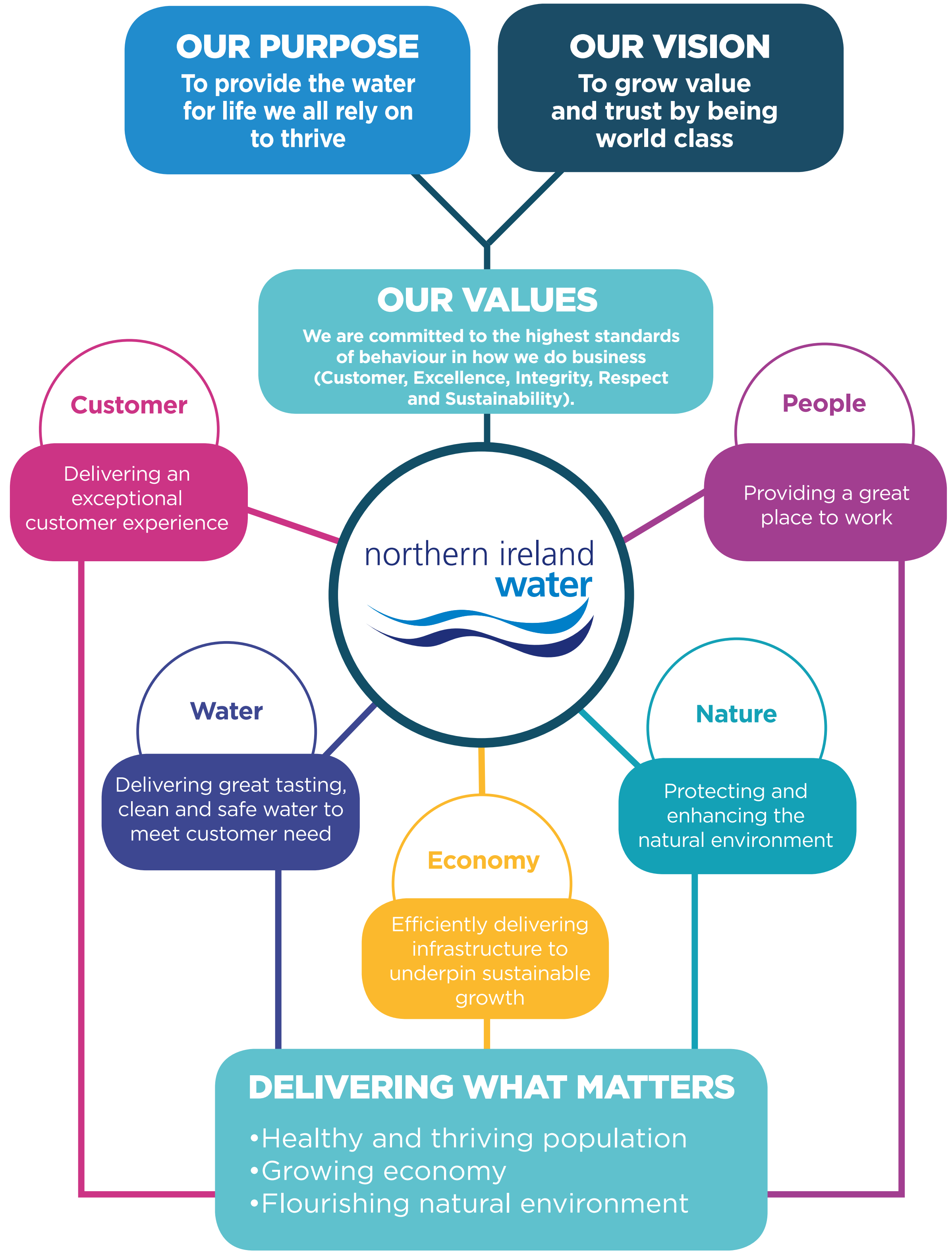
Internal matters
7. Resilience
8. Risk management
9. Corporate governance and business conduct
10. Innovation
11. Data security
12. Energy use
13. Responsible supply chain
14. Health, safety and wellbeing
15. Employee relations

Internal and external matters
16. Trust, transparency and legitimacy
17. Customer experience
18. Drinking water quality
19. Leakage and water efficiency
20. Supply interruptions and low pressure
21. Affordability
22. Sewer flooding
23. Impacts on natural environment
24. Diverse, inclusive and talented workforce
25. Creating a legacy for our communities

Business strategy

Our strategy helps deliver a healthy and thriving population, a growing economy and a flourishing natural environment – in short – delivering what matters. The strategy centres around five strategic priorities, which set out how we will deliver our purpose and vision. Read more at https://www.niwater.com/ourstrategy/

https://www.youtube.com/watch?v=i8GCuvWp5wI



Delivering our strategic priorities

Educating water whizz-kids through our Waterbus initiative

The world in which we operate

Our global world

We live in a resource constrained world and have a responsibility to ensure that our planet earth is sustainable for those who come after us. The United Nations has developed 17 goals to deliver a more sustainable world by 2030 and we are proud to play our part in supporting delivery of at least 12 of these goals:

Customer

Delivering an exceptional customer experience

NI Water staff member using smart metering technology

Strategic areas of focus

- Right place, right time, right channel
- Caring for you
- Getting smarter
- Protecting you

Sustainable development goals

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST7 ST8 SO1 SO4

Page 59 Read more about strategic threats and opportunities.

Strategic performance indicators

Customer	Unit of measurement	Target 2019/20	Actual 2019/20	Pass/ Fail	Target 2020/21
Reduction in customers reporting service failures	Number	77,000	67,013	Pass	75,000
First point of contact resolution	%	81	90	Pass	82
More customers singing our praises (Net Promoter Score)	Number	13	42	Pass	15

Strategic areas of focus

Right place, right time, right channel

Social media provides us with a fantastic platform to keep our customers informed of the challenges we face delivering great tasting, clean drinking water and recycling wastewater safely back to the natural environment. Our Facebook and Twitter accounts also allow us to reach out to our customers to change how they think about water to help reduce the pressure on our infrastructure and nature.

In our ambition to deliver an exceptional customer experience, we are embracing new ways to meet rising customer expectations. In 2019/20, we enhanced our social media platform, to keep our customers informed with live updates on planned and unplanned interruptions. By keeping customers informed of interruptions to their water supply in real-time, they can be assured that we are working on getting their supply problems fixed as quickly as possible, avoiding the need for our customers to call us for updates.

In 2020/21, we will continue to develop our digital services for the benefit of our customers, with an exciting launch of an on-line application portal for new connections. We're extending our social media service and introducing webchat, providing more ways to keep our customers informed and offering them more choices for interacting with us. We will also use insights gathered from our daily customer surveys to champion customer service delivery and drive further service improvements.

Caring for you

Over 2019/20 we have continued to promote Quick Check 101. The Quick Check scheme provides reassurance to members of the public about callers to their door claiming to be from utility companies. Anyone who wishes to check the identity of someone who says they are calling on the pretext of inspecting water, gas or electricity can call the police non-emergency 101 number to verify their identity.

We continued to grow and raise awareness of our Customer Care Register to ensure that our services are inclusive, available and accessible to all our customers, regardless of their personal circumstances. Our Customer Care Register offers a range of free additional services for those customers who need extra help, such as an alternative water supply when supplies have been interrupted for a prolonged period. In 2020/21 we are looking to engage with a range of community groups to further promote this service.

We also provide support for our non-domestic customers who experience difficulty in paying their bills by working with them to agree repayment plans.

NI Water staff member providing photographic ID to a customer

Getting Smarter

In an environment of increasing customer expectations and reducing budgets, we are continually looking for ways to provide a better customer experience. One way we are succeeding in this, is through using software robots. These robots help us to automate repetitive tasks at digital speeds and at any time of the day or night, providing staff with the ability to focus on tasks which require human intervention, judgement or experience. The robot can be programmed to perform repetitive tasks and free up our staff to spend more time helping customers on more complex tasks.

In 2019/20, we developed software robots for our Treasury Team who manage large volumes of financial transactions and our Work Control Centre who manage the allocation of our repair crews in response to issues in our water and sewerage networks. The use of robots has particularly strong customer benefits. Our Treasury Team now spends less time manually uploading bank statements and more time on optimising the cash needs for operating and investing activities. Our Work Control Centre can now spend more time on repeat network blockages. We are looking to identify further opportunities to implement software robots in other areas of the business.

NI Water staff working with software robots to tackle sewer blockages

In 2020/21 we are investing around £3m in a new digital services platform, which will enable us to replace existing manual and paper based processes with a modern web-based self-service. This will allow customers to interact with our business at a time that is convenient to them to make applications for new connections to our network, track progress and make payments.

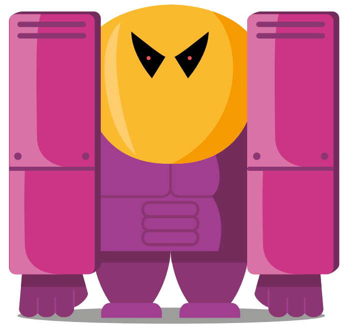
Protecting You

Be Cyber Watertight

Don't let them in

Cyber crimes are increasing in both frequency and in their disruptive potential. These crimes could lead to an interruption in the delivery of our essential services, damage our computer control systems, or lead to a data breach. We liaise closely with the National Cyber Security Centre and the Centre for the Protection of National Infrastructure to ensure all our environments are 'Cyber Watertight'.

In 2019/20 we introduced simulated phishing campaigns to test our awareness of phishing email attacks and to help educate users in how attackers attempt to gain access to their systems.



In 2020/21 we will continue to work in collaboration with teams across the business to provide our colleagues with the knowledge and skills to recognise and avoid behaviours that would compromise security.

Water

Delivering great tasting, clean and safe water to meet customer need

NI Water scientist undertaking water quality tests

Strategic areas of focus

Improve at source

Enough water for all

Tasty, clean and safe

Drive down leakage

Always on

Sustainable development goals

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST7 ST8 SO4

Page 59 Read more about strategic threats and opportunities.

Strategic performance indicators

Water	Unit of measurement	Target 2019/20	Actual 2019/20	Pass/ Fail	Target 2020/21
Water quality compliance*	%	99.79	99.90	Pass	99.79
Reduction in leakage	Ml/d (Million litres/day)	155	161	Fail	153
Reduction in supply interruptions in excess of: • 6 hours • 12 hours • 24 hours	%	0.808 0.153 0.009	0.697 0.085 0.003	Pass	0.792 0.146 0.009

*Calendar year target

Strategic areas of focus

Improve at source

Peatlands provide a range of eco-system services. They provide a natural form of water purification, protect against floods and help reduce greenhouse gas emissions by storing more carbon than the world's forests. Unfortunately over the years large areas of peatlands have been destroyed to make way for farming and construction. When peatlands are damaged the eco-system services they provide are lost and cause many tiny particles to run off the land into the river colouring the water which is expensive for us to treat.

We are committed to restoring peatlands and harnessing nature's natural water filter instead of building more carbon intensive treatment works. In 2019/20 we completed the restoration of the largest expanse of intact blanket bog in Northern Ireland, the Garron Bog. This has improved the quality and reliability of the water received at NI Water's Dungonnell treatment works, which is supplied by the Garron catchment. Drains were deliberately blocked to recreate bog to filter rain water and reduce the amount of chemicals NI Water needs to use, to clean the water. The success of the work undertaken at Dungonnell means it will serve as a demonstration site for best practice and as a model for future bog restoration projects in Northern Ireland and beyond.

In 2020/21 we are investing €4.9m to improve the Erne and Derg cross border river catchments that are a source of our drinking water, piloting changes in land management techniques such as fencing to exclude livestock and replacing boom spraying of the herbicide MCPA for rush control, with weed wipers, which helps to reduce the amount of herbicide running off into our rivers and streams. It is hoped these initiatives will help restore nature and improve the water quality before it reaches our works.

Restoration of the Garron Plateau Blanket Bog in Dungonnell Catchment, County Antrim

Garron Bog: https://www.youtube.com/watch?v=I1O62AfRjto
Derg: https://www.youtube.com/watch?v=SGzwvfBx9s4

Enough water for all

Our changing climate is bringing more frequent and severe weather events such as heavy rainfall, heatwaves and extreme cold. These events can affect the quality and quantity of our water sources, placing pressure on our water treatment works. For example heavy rainfall can cause discolouration of the water making it more difficult to treat and lead to the growth of algae, which can affect the taste and odour. Higher temperatures can accelerate the growth of harmful bacteria.

One way we mitigate the risks associated with climate change is through temporary storage of drinking water in large storage tanks known as service reservoirs. These reservoirs allow us to keep customers in supply during planned maintenance and unplanned events at our water treatment works.

We started a project in 2019/20 to inform capital investment to further strengthen water storage levels. The project has involved the development of a bespoke model, which allows us to predict areas that need increased water storage for customer resilience.

During 2019/20, we invested £5m in a new service reservoir at Lough Fea. This reservoir has the capacity to hold 12 million litres of drinking water for supply to our customers in Pomeroy and Cookstown, County Tyrone.

Over 2020/21, we are investing £10m in additional drinking water storage for Enniskillen in County Fermanagh and £14m at Drumaroad water treatment works in County Down.

The new Lough Fea service reservoir, County Tyrone

Tasty, clean and safe

Delivery of great tasting, clean and safe drinking water is central to what we do. It underpins the public health and economy of Northern Ireland. The fresh water we use to produce our high quality drinking water is predominantly taken from Lough Neagh, local rivers and a range of upland sources, all of which are rich in natural organic matter.

To make it suitable for drinking, we treat the fresh water to remove anything that could be harmful, including using disinfectant such as chlorine to kill bacteria. When chlorine reacts with the organic matter it can generate harmful by-products known as trihalomethanes, which can also cause the drinking water to have an unpleasant smell or taste. One way to reduce this unpleasant smell or taste is to use less chlorine in our treatment processes by improving the quality of the fresh water reaching our treatment plants.

In 2019/20 we introduced a new treatment plant to enhance the new bore hole on Rathlin Island, the only inhabited offshore island in Northern Ireland. The bore hole has been the only source of drinking water on Rathlin for the last 15 years. The new treatment process removes organic matter leaving no opportunity for trihalomethanes to form, improving the taste and quality of the water and protecting this vital water source for Rathlin.

In 2020/21 we are trialling a number of pilot studies at Derg water treatment works, County Tyrone, to remove heavy metals, suspended solids (turbidity) and pesticides including using a form of volcanic crushed rock and recycled brown and green glass to filter the water.

New treatment plant at Rathlin Island, off the coast of County Antrim

Strategic areas of focus

Drive down leakage

Every day we lose around a quarter or 161 million litres of water from our infrastructure. This loss is a combination of leakage through our pipes, which is caused by natural wear and tear, damage from severe weather, leakage on the customer supply pipe, illegal usage or unknown usage. Reducing leakage is a top priority for NI Water, but with a network of around 27,000km of underground water pipes (long enough to circle more than half way around planet earth) located predominately in rural and remote areas, it can be a complex and costly job finding the leaks.

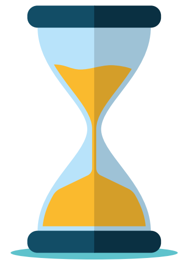
Leakage detection technology has a key role to play in detecting leaks quickly and with minimal interruption to our customers. In 2019/20 we tested a number of initiatives to detect leakage including, listening devices known as acoustic loggers, which can reduce the time taken to detect leaks, record potential leakage previously undetectable using current tools and improve the accuracy of the location of the leak. Acoustic loggers pinpoint leaks by measuring the noise of escaping water that follows a leak or burst, and then sending an alert together with details of its location, allowing us to focus effort in that area. The rapid detection and pinpointing of leaks means that the job is carried out faster and more precisely, meaning less digging, less water lost, less cost and less disruption for our customers.

We have improved monitoring of domestic consumption habits with the installation of 'fast-logging' at various sites throughout our network providing us with the ability to analyse water usage on a minute-by-minute basis. Over the last number of years we have noted a change in consumption habits during the night, which is the period of time that leakage is assessed. This refinement in understanding consumption patterns will enable us to more accurately calculate the level of leakage.

Despite the implementation of the new technology to improve leakage detection we did not meet our leakage target of 155 million litres per day for 2019/20, against an actual level of leakage of 161 million litres per day. We have struggled with leakage over PC15. Our PC21 Business Plan sets out how we can achieve the sustainable economic level of leakage of 150 million litres per day, which is the point at which the cost of fixing a leak outweighs the benefit. To succeed we need to find more and more innovative ways to track down leaks and save water. In 2020/21 we are trialling the use of satellite technologies, which use various wavelengths of the visible and invisible light spectrum to locate leaks.

Leakage detection in Omagh, County Tyrone

Always on



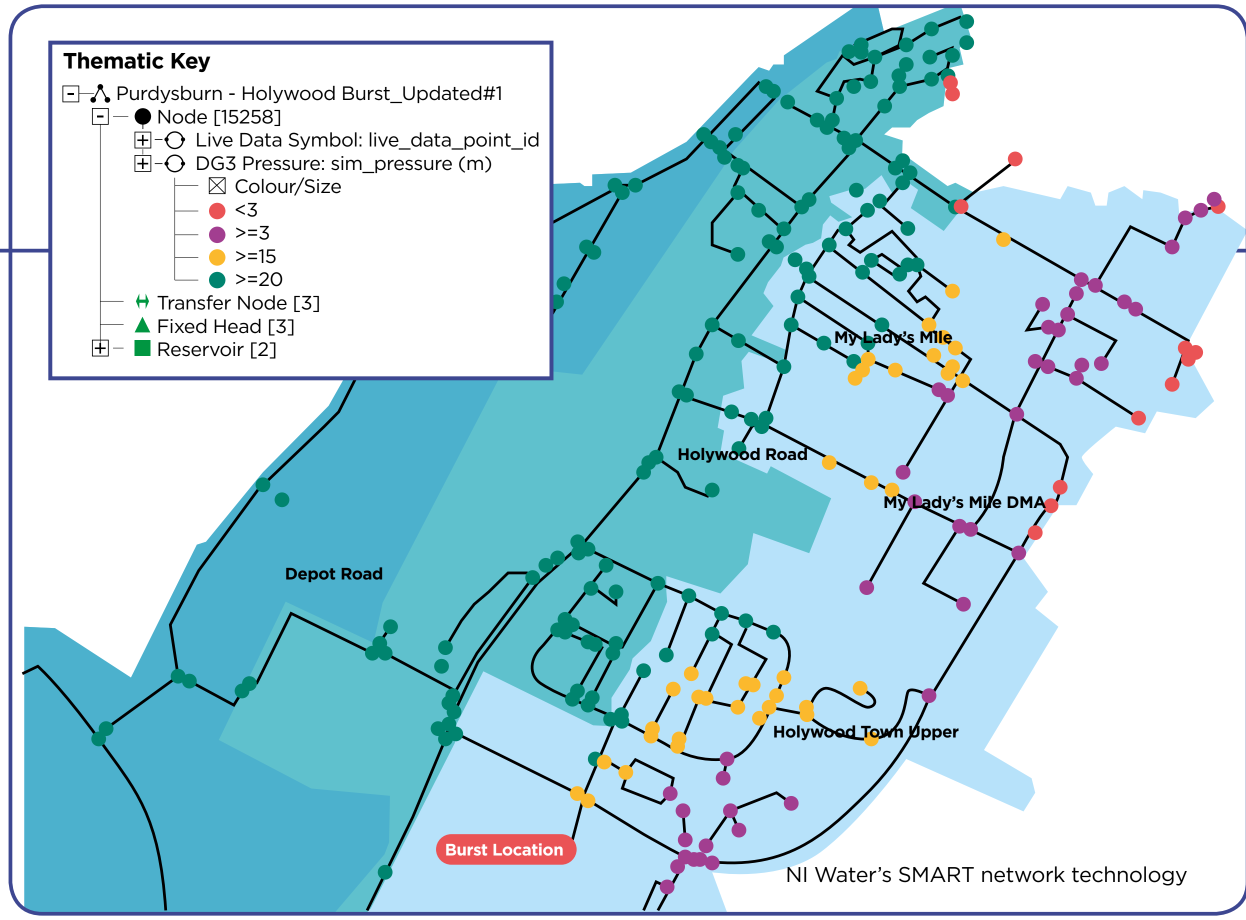
every minute counts

Things can go wrong when managing 27,000km of water mains. This can result in interruptions to customers' supply or customers experiencing low water pressure. Every minute counts when it comes to fixing water supply problems so we are looking at a range of areas to fix problems before customers are affected. This will help us to reduce the minutes lost per property by 50% to 25 lost minutes per property over PC21.

One area we have been looking at over 2019/20 is valves. Research has suggested that a proportion of supply interruptions can be traced back to work on valves, which create surges in water pressure. To ensure work on the underground pipe network does not disrupt the water supply, we have upskilled colleagues, contractors and engaged with external stakeholders who operate our water hydrants including Northern Ireland Fire and Rescue Service (NIFRS), DWI and local councils to keep our network CALM. Other approaches adopted over 2019/20 include the use of temporary over-land pipes and water tankers.

We are also learning the lessons from previous interruptions. A review of a supply interruption at Tullywhisker in County Tyrone has led to the introduction of SMART network modelling to more accurately predict the impact of work undertaken on our network.

In 2020/21 we will develop our SMART network to provide information in real time and help predict interruptions to supply and identify leaks. This SMART technology will provide early event warnings, reduce costs by fixing problems before they escalate and improve the customer experience.



NI Water's SMART network technology

Economy

Efficiently delivering infrastructure to underpin sustainable growth

Belfast wastewater treatment works and sludge incinerator, County Antrim

Strategic areas of focus

Funding world class economic infrastructure — Efficient and affordable services — Sustainable growth

Sustainable development goals

7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
11 SUSTAINABLE CITIES AND COMMUNITIES

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST5 ST7 ST8 SO3 SO4

Page 59 Read more about strategic threats and opportunities.

Strategic performance indicators

Economy	Unit of measurement	Target 2019/20	Actual 2019/20	Pass/ Fail	Target 2020/21
Increase/(decrease) in customer tariffs excluding inflation	%	3.19	2.70	Pass	2.25
Reduction in number of areas with development constraints	New indicator – target to be set in 2020/21				
Bathing water quality*	Excellent	Majority excellent or good. No poor.	14	Pass	Majority excellent or good. No poor.
	Good		9		
	Sufficient		3		
	Poor		0		

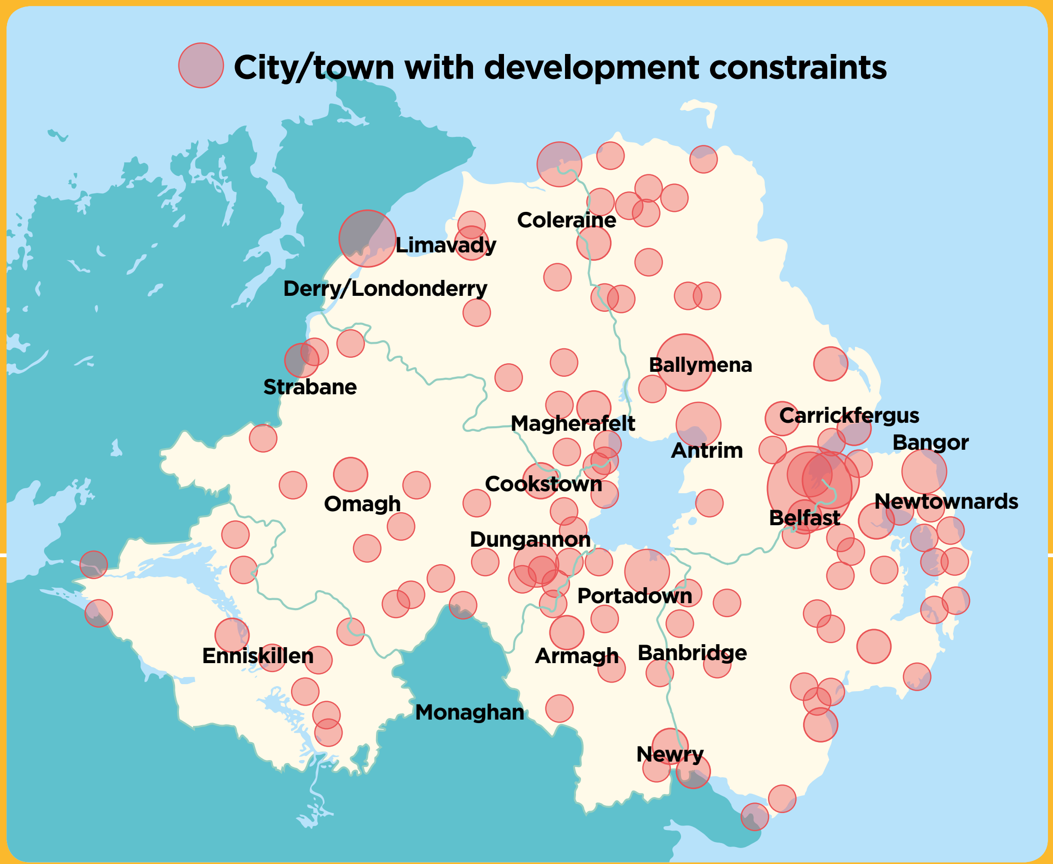
*Other major contributors to bathing water quality include agriculture, wider industry and consumer behaviour (flushing inappropriate items).

Strategic areas of focus

Funding world class economic infrastructure

Over the past 15 years the public expenditure made available from Government for investment in sewerage services has not been able to keep pace with the investment required to provide increased capacity to facilitate growth or achieve more stringent standards to achieve water quality targets. As a result, many of our sewerage networks and treatment plants are now having to operate at or beyond their design capacity, limiting opportunities for new connections and constraining economic development in 116 towns and cities across Northern Ireland, including Belfast and Derry/Londonderry.

A sustainable long term business model for NI Water is essential to the economy of Northern Ireland. It is vital if we are to continue to invest efficiently in infrastructure and improve the essential services we deliver to our customers to ensure they are on a par with our counterparts in England and Wales. We continue to work with principal stakeholders to identify a more efficient funding model and to continue to highlight the disadvantages of the current model.



Development constraints across Northern Ireland at the start of PC21 (2021)

Efficient and affordable service

Since 2007, NI Water has delivered significant improvements to water services. We have reduced operating costs and improved comparative efficiency with water companies in England and Wales, and more than doubled the level of service we provide to our customers.

Using new efficiency models developed in conjunction with the Utility Regulator, we have calculated that the gap between us and the most efficient water companies in England and Wales has reduced from 49% in 2007/08 to just 7% in 2018/19. We are committed to eliminating this efficiency gap by 2027 by reducing our annual operating costs by a further £14m.

Ulster University representative with NI Water meter query technician at Ulster University Magee Campus, County Derry/Londonderry

Strategic areas of focus

Efficient and affordable service (continued)

We have identified ten opportunities to become more efficient and still deliver a high level of service to our customers. We have created a plan called ‘Planning for the Future’, which we believe will allow NI Water to continue to deliver sustainable efficiencies.

The amount by which NI Water can increase customer tariffs is determined by the Utility Regulator. We work with the Utility Regulator to ensure the fairest pricing outcome for our customers. NI Water is acutely aware of its responsibility to strike a balance between our need to generate sufficient income to allow us to continue delivering our services and minimising the impact on non-domestic customers.

Over the last few years we have kept any increase in non-domestic water and sewerage charge below inflation. This has meant that non-domestic customers pay less, in real terms, for their water and sewerage services in 2019/20, than they did when the current PC15 price control period began in 2015. This has been achieved, in part, because of the significant sustainable cost efficiencies which are being delivered by NI Water over the PC15 period.

Looking forward, our ambition is to continue to keep bills stable in real terms despite a significant increase in the level of capital investment planned. Our PC21 Business Plan proposes that average bills will not increase in real terms over the PC21 period. We are acutely aware of the pressures that Covid-19 is having on our healthcare system and our local economy. A planned 1.7% increase in non-domestic water and sewerage charges, which had been due to be introduced in April 2020, has therefore been deferred and will be reviewed in September 2020.

Planning for the Future

Sustainable growth

Every aspect of life in Northern Ireland relies on the water and wastewater services we provide, so it is important that any investment we make in our infrastructure is built with the future in mind. In order to improve our long term resilience we need to ensure our infrastructure can withstand pressures such as climate change, growth in the economy and the need to protect and restore nature.

Northern Ireland is aiming to capitalise on a predicted 20 years of sustained growth across global tourism. A major draw is our natural environment, with Northern Ireland having some of the most spectacular beaches in Europe.

Ballintoy Harbour in County Antrim is one of the most photogenic locations on the famous coastal route, whatever the weather - from the splitting sunshine on a good day or big waves on a wet stormy day, it still looks incredible. Ballintoy Harbour is also a tourist hotspot not only for the stunning views on offer but its claim to fame with being used in the iconic show - Game of Thrones.

In 2019/20 we invested around £3m to construct a new wastewater treatment works in Ballintoy, County Antrim to improve the water quality in the surrounding coastal areas and support growth in local tourism and development.

Over 2020/21 we will invest over £2m to upgrade the wastewater treatment works in the village of Greyabbey, County Down. This investment will helping to alleviate development constraints, support local tourism in the area and protect Strangford Lough, Northern Ireland’s first marine conservation zone.

New wastewater treatment works under construction at Ballintoy, County Antrim

Nature

Protecting and enhancing the natural environment

Sustainable wastewater treatment using a wetland at Castle Archdale, County Fermanagh

Strategic areas of focus

More resilient network — Sustainable solutions — Keep it clear — Towards zero carbon

Sustainable development goals

Strategic threats/opportunities

ST1 ST2 ST3 ST4 ST6 ST8 SO3 SO4

Page 59 Read more about strategic threats and opportunities.

Strategic performance indicators

Nature	Unit of measurement	Target 2019/20	Actual 2019/20	Pass/ Fail	Target 2020/21
Reduction in pollution incidents (high and medium)*	Number	24	13	Pass	23
Wastewater compliance % population equivalent served*	%	99.16	99.51	Pass**	99.16
Reduction in number of properties at risk of out of sewer flooding (cumulative over 2015-21 period)	Number	54	41	Fail	62
Reduction in carbon footprint. Relates to reduction in net operational carbon emissions measured in tonnes of carbon dioxide equivalent (tCO_2e)	%	***	12.21	***	***

*Calendar year target.

**Based on pre-announced rather than un-announced regulatory sampling at the treatment works and the reported wastewater compliance doesn't incorporate flow compliance for the wastewater treatment works or the sewer network.

***New indicator – target to be set in 2020/21.

Strategic areas of focus

More resilient network

Flooding and the risk of flooding can constrain economic development, increase the cost of insurance and pollute our natural environment. Most of the urban areas of Northern Ireland, including road surfaces, are served by combined sewers that carry both wastewater and surface water - such a system would never be built today.

Climate change has contributed to an increase in the intensity and frequency of rainfall. Heavy rainfall can cause the sewers to become full of water and the sewage to back up in the system. Many of our traditional systems are 'combined sewer overflows', which were designed to prevent out of sewer flooding/damage to properties by discharging this excess water directly into the rivers or streams bypassing the treatment works. Whilst we adhere to NIEA's approved level of discharge, we are keen to go further to protect and enhance our natural environment by avoiding these overflows being released to water courses. As we update our networks, we are taking the opportunity to disconnect the rainwater from the sewerage system.

In 2019/20 we completed a £5m investment to upgrade the sewers at Ormeau Avenue in Belfast, some of which dated back to the late 1800's and were in very poor condition. This investment has reduced the risk of out of sewer flooding by separating the rainwater from the sewer system, and minimising the amount of 'fats, oils and greases' by using a non-stick solution on the new wastewater pumping station walls. This improves the quality of the water in the River Lagan and facilitates further development within the area. Unforeseen complexities for another of our sewer rehabilitation schemes in Belfast has resulted in the removal of a lower number of properties at risk of out of sewer flooding than targeted.

In 2020/21 we will continue our work with developers to ensure new developments are sustainable and do not increase the flood risk to the site or surrounding area by looking at more sustainable ways of taking storm water out of the combined sewer system. Where this is not achievable we will work with developers to design the storm sewers to reduce the storm flow within the development and release back into our network at a reduced rate over a longer period. This will reduce shock loading to the existing sewer network during extreme rainfall events and reduce the pressures on our combined sewer overflows.

NI Water staff demonstrating what's required to maintain our sewer networks

Ormeau Avenue sewer upgrade:
https://www.youtube.com/watch?v=AounkKc4Q4g

Sustainable solutions

Everyday we recycle wastewater from 720,000 homes and businesses before safely returning it to the rivers and sea. Traditional treatment works require a lot of energy, carbon, concrete and chemicals to ensure wastewater can be safely released back to the environment. However, due to continued growth in population and industry, many of our wastewater treatment works are no longer capable of meeting this demand.

In keeping with our ambition to put back more than we take out, we identified a green solution, which uses constructed natural wetlands to treat wastewater instead of traditional wastewater treatment processes. Wetlands do more than you think – they filter our fresh water, absorb and retain carbon, support biodiversity and protect us from flooding.

In 2019/20 we constructed a wetland in Clabby, County Fermanagh to replace the traditional wastewater treatment works, which had struggled to meet new discharge standards and was restricting growth in the village. The wetland based Phragmafiltre wastewater treatment works is more efficient to construct and maintain than traditional systems and requires less energy, carbon, concrete and chemicals.

We plan to upgrade the existing wastewater treatment works in Ballykelly, County Derry/Londonderry in 2020/21 by constructing a sustainable integrated constructed wetland to enhance the traditional treatment works.

The new wetland at Clabby, County Fermanagh

Strategic areas of focus

Keep it clear

We deal with around 15,000 blockages of our sewers each year, over 11,000 of which could have been prevented. The most common causes of these blockages is the flushing of items which do not dissolve down the toilet such as wet wipes and the disposal of fats, oils and grease (FOG) down the sink. These combine to form a solid mass in the pipes underground, meaning less waste can pass through the pipe. If enough waste cannot pass through, it leads to flooding in homes, business or our natural environment.

In 2019/20, we introduced Wipezilla the wet wipe monster to towns across Northern Ireland in a bid to raise awareness of the damage caused by wet wipes in sewers and our natural environment and to reinforce the message of flushing only the Three P's; pee, poo and paper. A further awareness campaign, in partnership with local councils, focussed on towns with the top 20 blockage 'hotspots', which have seen over 20,000 blockages in the last two years, at a cost of around £5m.

NI Water's campaign to inspire people to 'Join the Refillution' has celebrated its first year with some outstanding success stories. The Refillution campaign is aimed at encouraging everyone to stop buying single use plastic bottles and instead refill a reusable one with tap water. Since its launch in May 2019, our Councils have signed up hundreds of local businesses across their local area who welcome any member of the public on to their premises to refill their reusable bottle with tap water. The Councils have also undertaken several clean-ups across the district, including beach and river cleans, as well as continuing to support community groups to carry out litter clean-ups in their area; others have installed drinking water fountains in public places for their staff and the public to refill from. NI Water has a strong focus on the environment and we are committed to tackling the problems caused by plastic bottles and bottle tops, which block up our drains and rivers, and pollute our seas and shorelines. By refilling a reusable bottle, not only do you reduce plastic waste, you are also helping to drive down your carbon footprint. Over the last year 206 primary and secondary schools have signed up to become Refill schools, pledging to reduce the number of single use plastic water bottles in school and encouraging all pupils to refill a reusable bottle with tap water.


NI Water's Wipezilla the wet wipe monster

Bag it and bin it:
https://www.youtube.com/watch?v=syp45gNoFDg

Towards zero carbon

Operational emissions from the water industry account for nearly 1% of the UK's total carbon emissions. This is because water treatment is energy and chemical intensive and transporting water requires a great deal of pumping. Grid electricity accounts for the vast majority of our carbon emissions. As Northern Ireland's single largest electricity consumer, our goal is to fully exploit innovative approaches to energy and new technology to reduce our carbon footprint and ultimately become carbon neutral by 2050.

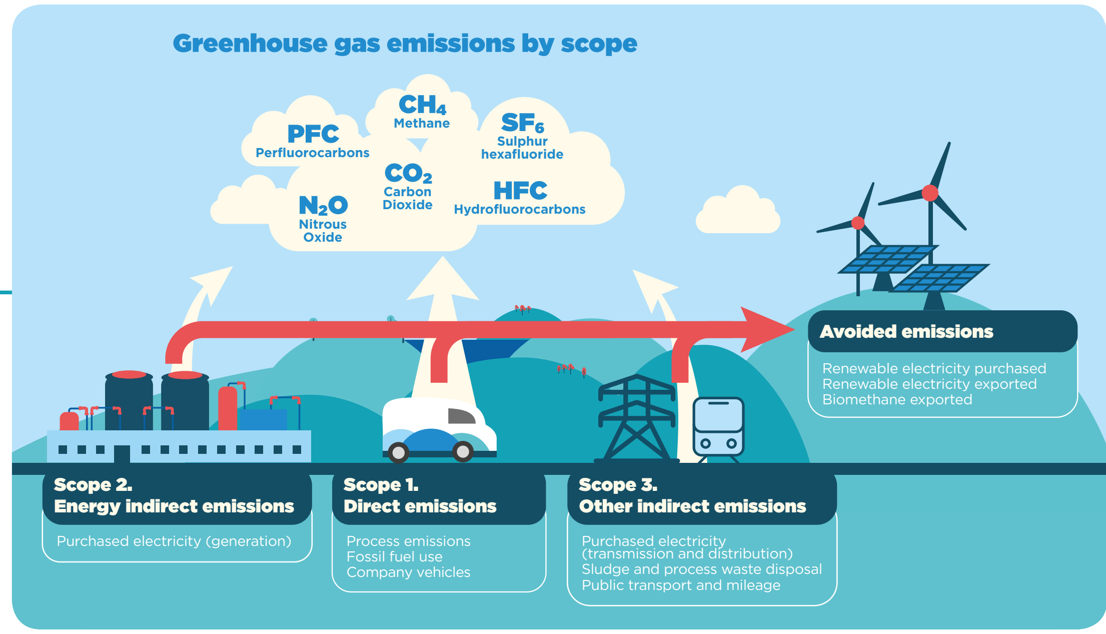
Our initial focus in PC15 on reaching net zero has centred on energy under the following themes:

- **using less:** reducing our energy consumption and improving energy efficiency;
- **buying less:** reducing the amount of energy we buy and increasing renewable energy generation;
- **buying better:** reducing the costs of the energy we use; and
- **earning more:** maximising the revenues from the energy sector.

Our focus will widen further as we approach PC21. In 2019/20 we successfully achieved the ISO 50001 certification, the international standard for energy management systems, which will allow us to achieve continual improvement in energy performance.

In 2020/21, we are aiming to increase our electricity consumption from renewable sources such as solar and hydro power to 40%, rising to 100% by 2027, and plan to improve our storage of carbon by planting around 200,000 trees in partnership with the Woodland Trust. Over 2020/21, we will also liaise with peer water companies to determine how we can capture additional areas in our carbon footprint reporting and embed carbon in our business case decision making. Our carbon footprint doesn't currently capture some emissions from treatment processes, embedded carbon in materials such as concrete used to construct our infrastructure or in the carbon stored in our land - peat bogs, trees and soils.

Initiatives under consideration to reduce carbon emissions over PC21 include transitioning to electric vehicles and energy storage such as batteries, and identifying other locations suitable for renewable energy installation. These initiatives could support Northern Ireland's renewable energy targets and open up opportunities in areas such as green fuel stations, hydrogen heating for homes and businesses and district heating schemes.



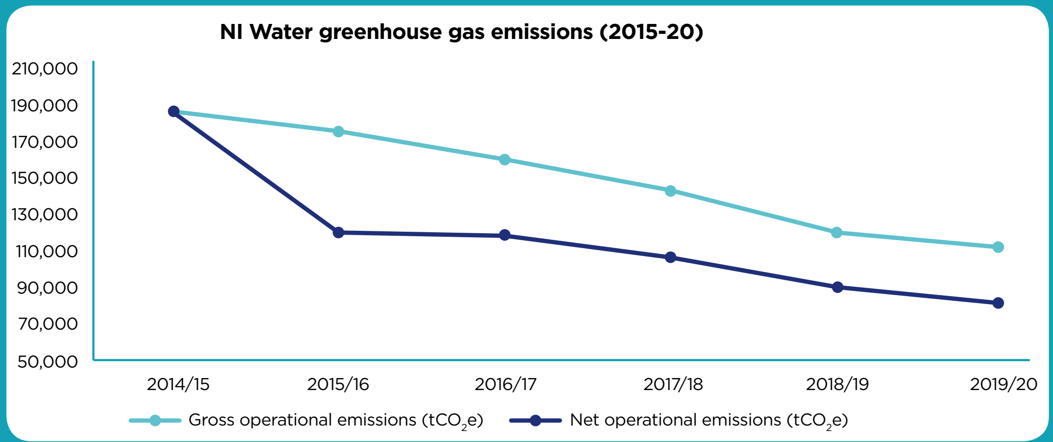
Towards zero carbon (continued)

Our greenhouse gas emissions are accounted for and calculated using the UK Water Utilities industry Carbon Accounting Workbook. The workbook is updated each year with the most recent carbon emission factors released by government. We follow the 2019 UK Government Environmental Reporting Guidelines including the streamlined energy and carbon reporting guidance. We also support the work of the Financial Stability Board's Taskforce for Climate-related Financial Disclosures (TCFD) and in line with their recommendations are reporting scope 1, 2 and 3 emissions, our methodology and targets.

NI Water greenhouse gas emissions	2019/20 tCO_2e	2019/20 kWh	2018/19 tCO_2e	2018/19 kWh
Scope 1 direct emissions				
Direct emissions from burning of fossil fuels	7,151	27,978,365	6,815	24,076,200
Process emissions from our treatment plants	8,701	34,040,023	10,016	35,382,308
Transport: Company owned or leased vehicles	2,733	10,692,997	2,971	10,497,121
Total scope 1 direct emissions	**18,585**	**72,711,385**	**19,802**	**69,955,629**
Scope 2 energy indirect emissions				
Grid electricity purchased	75,111	293,862,324	81,876	289,243,544
Total scope 2 energy indirect emissions	**75,111**	**293,862,324**	**81,876**	**289,243,544**
Scope 3 other indirect emissions				
Business travel on public transport and private vehicles used for Company business	216	845,188	576	2,034,797
Emissions from sludge and process waste disposal	11,841	46,324,844	11,208	39,594,800
Grid electricity purchased - transmission and distribution	6,377	24,948,396	6,979	24,656,269
Total scope 3 other indirect emissions	**18,434**	**72,118,428**	**18,764**	**66,285,866**
GROSS OPERATIONAL CARBON EMISSIONS	**112,130**	**438,692,137**	**120,442**	**425,485,039**
Avoided emissions from renewable electricity exported	(927)	(3,627,778)	(426)	(1,505,352)
Avoided emissions from biomethane exported	-	-	-	-
Avoided emissions from renewable electricity purchased	(31,875)	(124,706,182)	(29,652)	(104,750,168)
Total avoided emissions	**(32,802)**	**(128,333,960)**	**(30,078)**	**(106,255,520)**
NET OPERATIONAL CARBON EMISSIONS	**79,328**	**310,358,177**	**90,364**	**319,229,519**

NI Water greenhouse gas emissions intensity	2019/20	2018/19
Operational emissions per megalitre of treated water (tCO_2e/Ml)	0.118	0.139
Operational emissions per megalitre of sewage water (tCO_2e/Ml)	0.386	0.433

During 2019/20 we have made total energy savings of 9,567,896 kWh through energy reduction projects and the use of energy from renewable sources. We are targeting a reduction of around 20% in operational emissions over each of the next five price controls to reach net zero operational emissions by 2050. Developments in future technologies and the growth of renewables may enable us to reach this goal sooner. Progress in reducing our greenhouse gas emissions is shown below:



TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Dunore solar farm: https://www.youtube.com/watch?v=gwxvwrPSiKw

Solar farm at Dunore water treatment works, County Antrim

People

Providing a great place to work

NI Water CEO showing our drone technology to one of the students at the Skills NI Exhibition

Strategic areas of focus

Powered by talent — Happy, safe and healthy people — Creating a legacy for our communities

Sustainable development goals

Strategic threats/opportunities

ST1 ST2 ST4 ST5 ST6 ST7 ST8 SO2 SO4

Page 59 Read more about strategic threats and opportunities.

Strategic performance indicators

People	Unit of measurement	Target 2019/20	Actual 2019/20	Pass/ Fail	Target 2020/21
Employee engagement score	%	60	56	Fail*	65
Reduction in health and safety incidents	Number	7	5	Pass	7

*Refer to page 89 for actions to improve employee engagement.

Strategic areas of focus

Powered by talent

Our water is world class and so are our people. Attracting, developing, retaining and partnering with the best talent is fundamental to the success of our business and therefore we are committed to making NI Water a great place to work.

A diverse workforce is good for business, providing different perspectives, encouraging innovation, and fostering a more collaborative working culture. As a traditionally male dominated industry, we recognise the importance of attracting more female applicants into the industry. Of the new employees recruited in 2019/20, over half were female, helping us to successfully retain our bronze diversity charter mark, which recognises our commitment to promoting gender diversity in the workplace.

In an increasingly competitive talent market, it is important that we address the challenges presented by an ageing workforce and loss of knowledge to ensure there is a future supply of skills coming into our organisation. In 2019/20 we launched a new emerging leaders programme, developing 49 aspiring leaders to fulfil their leadership potential and a new apprenticeship academy through which we will hire 30 new water apprentices and develop them through a four year combined water and wastewater apprenticeship.

In 2020/21, we are introducing a new recognition process to celebrate our colleagues who demonstrate our corporate values in their day-to-day work.

NI Water's first female apprentice

Read more pg114

Watch more: https://www.youtube.com/watch?v=Wf6YLHkYIOs

Happy, safe and healthy people

We recognise the importance of our people in delivering the water that we all rely on to thrive and that's why we are committed to looking after them by eliminating all harm. We are aiming to ensure our business has happier, healthier and safer employees by focusing on training, processes and procedures and developing a more positive health and safety culture.

Driving is one of the most dangerous work activities that we do and contributes to more accidental deaths and serious injuries than all other work related activities together. On average five people die every day on UK roads as a result of road traffic accidents. In 2018, 55 people lost their lives on Northern Ireland's roads. We are committed to supporting the 'Road to Zero' target. To this end we are aiming for zero 'at fault' collisions involving other road users by 2022.

NI Water staff practising their driving skills in the safety of a simulator

In 2019/20 we put in place a number of initiatives to ensure our drivers are aware of driving specific health and safety practices. These included free driving eyesight tests, talks by the police traffic branch and a specialist occupational driving trainer, and simulated driving experiences.

Our health and wellbeing programme helps staff 'live well' through a range of initiatives to support mental, physical, financial and social health and we were delighted to be awarded the Chartered Institute of Personnel and Development Award for best health and wellbeing in 2019/20.

In 2020/21 we plan to introduce a new health and safety software system, which will make it much easier to report and analyse incidents to identify any improvements to our systems or processes to prevent such incidents occurring in the future.

Creating a legacy for our communities

Our Cares Challenge volunteering programme is one of the largest corporate volunteering schemes in Northern Ireland. Over 1,500 volunteers have participated on the programme. Not only does this activity help local charities and not for profit organisations, but it also develops the skills of our people. Every month a group of employee volunteers spend a day providing community support by dedicating their time and talent to highly deserving charitable projects including Southern Area Hospice, Crosskennan Animal Sanctuary, National Trust and Foyle Womens Aid to name a few.

In 2019/20 we extended the volunteering programme to include a community led initiative called 'From Little Ripples', which gives staff the opportunity to pitch for their local charity or community group to receive volunteering support and funding. The programme was named 'From Little Ripples' because every act of kindness creates a ripple with no end. One of the first local charities to receive our support was the Castlecaulfield Horticultural Society and their 'Bamboo Project', which benefited from the clearance of a new path and removal of a large quantity of damaging waste from the River Torrent. Our team of seven dedicated volunteers managed to remove televisions and cookers, metal objects including roadwork signs and grills, glass, plastics, shoes and boots from the river. The River Torrent is a water resource for some of our treatment works so this was a small but worthwhile step in helping to improve our water quality and help restore nature.

NI Water volunteers helping with clean up of the River Torrent, County Tyrone

We are really proud of our unique education programme, which includes the Waterbus mobile classroom initiative. Within the last 12 years we have educated over 216,000 'water-whizz' school kids about the value of water for health, the economy and nature, visiting 275 schools in 2019/20 alone.

We were delighted to have our contribution to society recognised in 2019/20 by winning the International Corporate Social Responsibility Excellence Award.

Water whizz-kids from Spires Integrated Primary School, Magherafelt, County Derry/Londonderry

Strategic threats and opportunities

The implementation of our strategic priorities is measured using a number of strategic performance indicators and managed using an opportunity/threat management model.

Strategic Priorities	Strategic performance indicators (SPIs)	Strategic threat (ST)/Strategic opportunity (SO) Read more pg63
Customer – delivering an exceptional customer experience Read more pg31	• Reduction in customers reporting service failures • First point of contact resolution • More customers singing our praises (Net Promoter Score)	ST1 ST2 ST3 ST4 ST7 ST8 SO1 SO4
Water – delivering great tasting, clean and safe water to meet customer need Read more pg35	• Water quality compliance • Reduction in leakage • Reduction in supply interruptions	ST1 ST2 ST3 ST4 ST7 ST8 SO4
Economy – efficiently delivering infrastructure to underpin sustainable growth Read more pg41	• Increase/(decrease) in customer tariffs excluding inflation • Reduction in number of areas with development constraints • Bathing water quality	ST1 ST2 ST3 ST4 ST5 ST7 ST8 SO3 SO4
Nature – protecting and enhancing the natural environment Read more pg47	• Reduction in our pollution incidents • Wastewater compliance • Reduction in number of properties at risk of out of sewer flooding • Reduction in our carbon footprint	ST1 ST2 ST3 ST4 ST6 ST8 SO3 SO4
People – providing a great place to work Read more pg55	• Employee engagement score • Reduction in health and safety incidents	ST1 ST2 ST4 ST5 ST6 ST7 ST8 SO2 SO4

Strategic threat (ST)	Strategic opportunity (SO)
ST1 Governance model and funding	SO1 Customer service and innovation
ST2 Health and safety	SO2 Wellbeing
ST3 Asset resilience	SO3 Living with water programme
ST4 Data integrity and cyber risk	SO4 Stakeholder engagement and education
ST5 Pension fund	
ST6 Climate change	
ST7 Covid-19	
ST8 Brexit	

Risk and resilience

Increasingly, NI Water faces downside threats which are external to the organisation. These include, for example, Covid-19, factors which impact our supply chain, uncertainty regarding funding, Brexit, cyber attacks and climate change/extreme weather events.

While management of these threats is to a large extent outside the control of NI Water, we recognise the need to build a resilience culture in order to protect the value we create.

NI Water manages risks (both threats and opportunities) in line with our integrated risk and resilience framework which demonstrates the interconnectivity between risk and resilience, and the need for accountability to protect value creation.

NI Water's integrated risk and resilience framework

Integrated

The framework and the model outline the requirement for risks (threats and opportunities) to be managed on a cross-directorate basis and with input from external partners where required (e.g. supply chain, strategic partners and service users).

Resilient

NI Water recognises the need to adopt a resilience culture to prepare for unavoidable risk factors, which are external to NI Water.

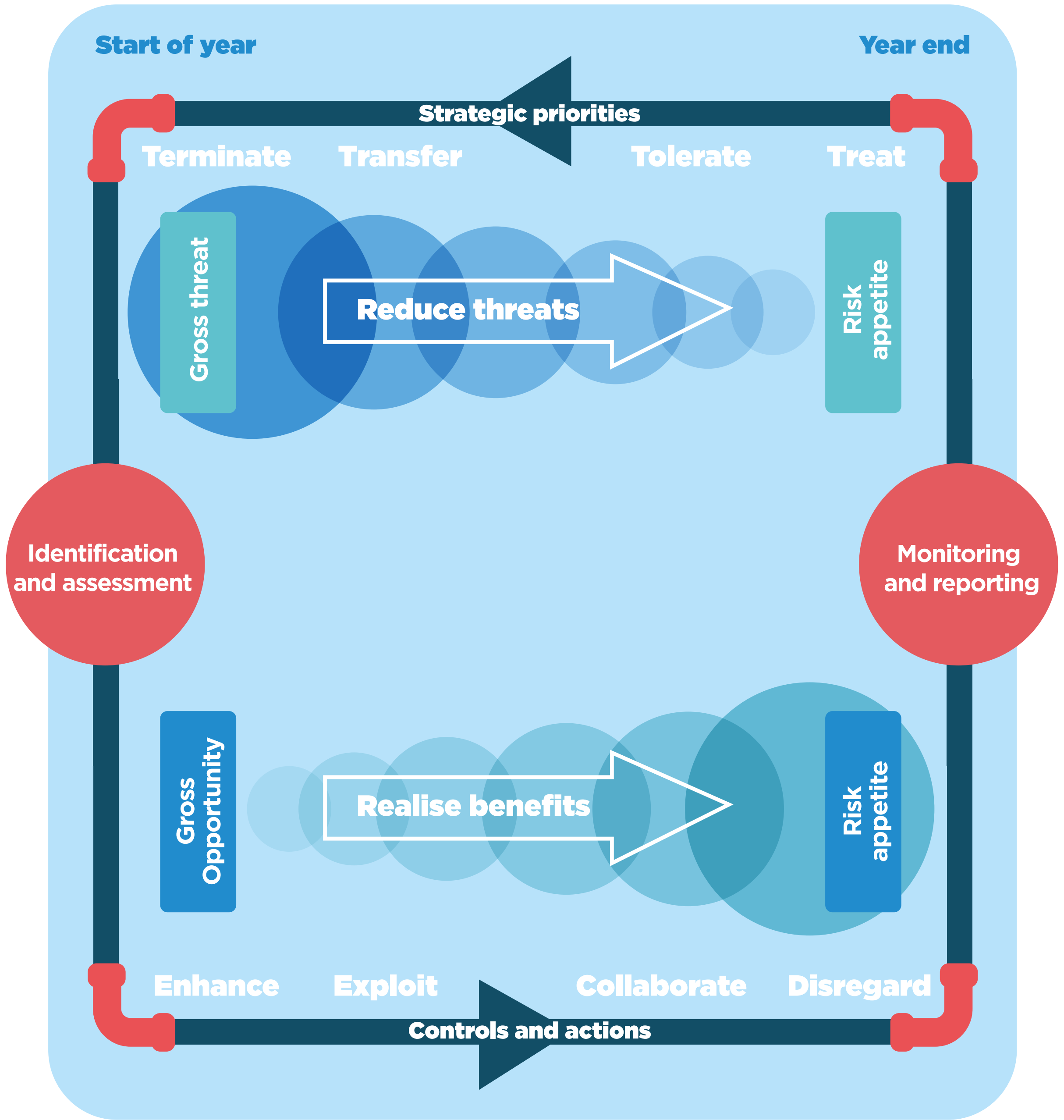
NI Water defines resilience as 'the strategic and organisational capacity of NI Water to resist, respond to, and recover from disruptive threats both foreseen and unforeseen'.

A resilience culture within NI Water means that all employees are united in purpose and are clear on the need to be prepared for when that incident does occur rather than simply thinking that it might occur. This is demonstrated by putting plans in place in advance and then being adaptive when an incident does occur so that disruption is minimised and NI Water can return to 'business as usual' in the most effective and efficient way possible. Our response to the impact of Covid-19 is a prime example of how having effective business resilience in place makes a difference to managing even unexpected incidents. All the corporate risk maps have a section which records the existing controls and the actions to be put in place to continually improve on our resilience.

NI Water's integrated risk and resilience model

NI Water's approach to risk management

NI Water's approach to risk management is to have a risk culture where our employees and strategic partners are aware of how they contribute towards our strategic priorities. There is a collaborative approach to analyse the downside risk (threats) that could have a detrimental impact on the achievement of our priorities but also to consider the upside risk (opportunities) towards deriving better outcomes, as shown below:



Through a process of horizon scanning emerging risks, benchmarking, risk trend analysis and workshops held on a business-wide basis, corporate threats and opportunities are established at the start of year. These are updated throughout the year to take account of emerging risks.

The wording of the risk, the risk gradings and the individual risk appetite are approved by the Board. The Board receives a monthly progress report on the management of risks towards the projected risk appetite for each individual risk.

The Board has set the risk appetite for seven strategic risk themes. The movement of the current risk position against each of these seven strategic risk themes is reported to the Risk Committee twice each year.

The Risk Committee considers the threat and opportunity maps throughout the year, reviewing the effectiveness of clearly defined controls and the completion of actions towards the delivery of expected outcomes and the appetite level.

The Audit Committee considers financial risks on a regular basis and at year end holds a joint meeting with the Risk Committee to consider the overall effectiveness of NI Water's system of internal controls and risk management.

The Executive Committee meets on a monthly basis to consider corporate risk maps and the completion of actions within agreed timelines.

Corporate risk maps are linked to directorate, programme and project threats and opportunities, and business-wide groups either have or are being encouraged to have updated 'live' risk registers in order to better integrate risk management into ongoing activities.

Read more about risk management on pages 95 and 97.

Emerging from the corporate threat and opportunity maps are a number of significant strategic threats and opportunities (described as principal in the UK Corporate Governance Code). For each strategic threat or opportunity, we have identified the related strategic priority and the change in the level of threat or opportunity over 2019/20.

Strategic threat	Strategic priority	Change in threat level*
ST1 Governance model and funding	Customer, Water, Economy, Nature, People	▲
ST2 Health and safety	Customer, Water, Economy, Nature, People	=
ST3 Asset resilience	Customer, Water, Economy, Nature	▲
ST4 Data integrity and cyber risk	Customer, Water, Economy, Nature, People	=
ST5 Pension fund	Economy, People	▲
ST6 Climate change	Nature, People	=
ST7 Covid-19	Customer, Water, Economy, People	NEW
ST8 Brexit	Customer, Water, Economy, Nature, People	▲

Strategic opportunity	Strategic priority	Level of Opportunity**
SO1 Customer service and innovation	Customer	=
SO2 Welbeing	People	▲
SO3 Living with water programme	Economy, Nature	=
SO4 Stakeholder engagement and education	Customer, Water, Economy, Nature, People	=

*This column shows the change in the threat level compared to what was reported in 2018/19. An upward arrow means that the level of threat has increased.
**This column represents the change in the opportunity compared to what was reported in 2018/19. An upward arrow means that the potential benefits to NI Water from the opportunity have increased.

Strategic threats

ST1 Governance model and funding

Strategic priorities: Customer, Water, Economy, Nature, People

Background to the threat

The status of NI Water as both a Government Company (GOCO) and a Non-Departmental Public Body (NDPB) is recognised as less than ideal for a utility provider with long term infrastructure investment needs. A sustainable funding model is required to support delivery of our strategy. There is a growing risk that:

- the levels of service to our customers in Northern Ireland will fall behind what customers expect and fall behind the water companies in the rest of the UK, which is often used as a benchmark against our performance;
- NI Water is unable to finance much needed infrastructure investment to underpin sustainable growth. The current Executive policy is that the funding arrangements will remain in place until 2022.

The absence of a sustainable funding model is recognised as the top strategic threat to the delivery of our strategy, both now in PC15 and in PC21.

The current system of setting investment financing within the Utility Regulator's PC15 price setting process does not align with the annual cycle of public expenditure funding. NI Water is an asset intensive business and medium to long term planning is essential to improve services for customers today enabling us to invest to safeguard services for future customers. The uncertainty arising from annual budgeting for capital investment adds complexity and significant inefficiency to the delivery of longer term asset resilience. In the current model NI Water cannot finance a continuous multi-year investment programme and it is increasingly difficult to maintain momentum to complete programmes of work.

Like many businesses, NI Water is subject to threats which are largely outside its control such as pandemics, cost increases, adverse weather resulting in recovery costs and damage to our assets, unlawful acts by third parties (e.g. pollution, terrorism, legislation breaches) as well as a downturn in the economy, which could adversely impact on business performance. The timing and impact of these is dependent on the nature of the threat. NI Water does not have a contingency fund to deal with any cost shocks such as these if they occur. This can potentially impact on the recovery actions which NI Water can take.

Managing the threat

NI Water continues to work with the Utility Regulator and DfI to make the case for certainty of funding and on short, medium and long term targets and efficiency savings, including the approval of strategic capital projects to reduce the threat of adverse impacts on customers.

In the meantime, NI Water ensures that the implications on the delivery of our services as a consequence of funding constraints are fully analysed, managed and communicated to the public in a clear and responsive manner.

On 31 January 2020, NI Water submitted its PC21 Business Plan to the Utility Regulator based on 'keeping tariffs stable in real terms'. The PC21 Business Plan requires a step change in capital investment seeking £2.2bn of capital funding compared to less than £1bn in PC15. The plan makes the case for necessary investment in water and wastewater services. This will include addressing our top asset risks, addressing development constraints to enable economic growth.

Covid-19 is having implications on funding and cash-flow for NI Water. Additional personal protective equipment and IT requirements along with associated costs, together with delays in capital projects resulting in higher costs, have created additional unforeseen expenditure which was not previously included in budget assumptions. Additional personal protective equipment will continue to be required over the short and medium term. Delays in issuing invoices to help to reduce the impact of the pandemic on our non-domestic customers coupled with significant reduction in usage by non-domestic customers will also have an impact on cash flow and our bad debt position in the medium term.

ST2 Health and safety

Strategic priorities: Customer, Water, Economy, Nature, People

Background to the threat

Health and safety is an integral part of NI Water's day-to-day business. NI Water's vision for health and safety for employees, contractors and customers is the 'pursuit of zero harm by raising standards and performance through the identification and adoption of industry best practice and the development of an empowered, valued, engaged, accountable and competent workforce'.

All work activities should be conducted in compliance with the Health and Safety at Work (NI) Order.

NI Water has a Health and Safety Strategy and Action Plan for 2018–2021. Following significant actions undertaken during the year, including over 100 site visits, the need for further work to build sound foundations for health and safety was identified.

Managing the threat

NI Water has a Head of Safety senior manager who has undertaken significant work to establish a clear view of areas for improvement across the health and safety landscape.

The Safety, Health and Environment (SHE) Team is key in ensuring NI Water complies with relevant legislation and best practice. The Health and Safety Focus Group made up of representative from across NI Water meets on a monthly basis to examine NI Water and Contractor incidents, review health and safety training needs, and general promotion of health and safety, providing assurance to the Executive Committee, the Risk Committee and the Board on health and safety related matters.

The Health and Safety Action Plan is currently being updated to include the new and urgent priorities identified as part of the work undertaken during the year.

In addition to the work undertaken by the SHE Team, there is a rolling programme of site safety visits by Directors and Line Managers.

Covid-19 presents challenges to NI Water in terms of the health and safety of our employees. Significant work is underway to address health and safety risks and health and wellbeing support provided to colleagues and their families whilst working from home. We continue to manage the risks associated with a return to office working when appropriate.

ST3 Asset resilience

Strategic priorities: Customer, Water, Economy, Nature

Background to the threat

NI Water inherited an aged asset base and significant investment is required to bring it to a comparable level by UK and European standards. Significant capital investment together with a funded maintenance programme for water and wastewater networks and treatment facilities is required in order to comply with regulatory and environmental performance standards.

There is a significant risk that NI Water could suffer a major failure in its assets or be unable to respond effectively to a major incident such as severe weather which has affected NI Water's assets. This could cause a significant impact to our customers due to deterioration in the quality of drinking water, interruptions to supply and management of wastewater services, including an adverse impact to the environment.

The threat of service failure or service deterioration due to ageing assets not being replaced in a timely way has increased over the PC15 period due to constrained funding.

Managing the threat

NI Water is committed to working with the Utility Regulator and DfI on medium and long term funding arrangements in order to be able to invest in further improvement to its assets and take opportunities to manage exposure to threats associated with climate change. As part of the PC21 submission detailed capital maintenance plans have been developed to ascertain the correct level of funding and the likely impact on customer service if this funding is constrained. The assessment for PC21 has demonstrated that additional capital (base) maintenance will be required for PC21 in order to be able to maintain service levels.

In addition delays to delivery of the capital programme as a result of Covid-19 will have an impact on the resilience of our assets and increase the risk of disruption to services.

ST4 Data integrity and cyber risks

Strategic priorities: Customer, Water, Economy, Nature, People

Background to the threat

The robustness and accuracy of data, increasing regulation, changes in technology and the impact of cyber crime may have a significant disruption to the quality of service that customers have come to expect.

The General Data Protection Regulation brings increasing regulatory requirements in respect of privacy and the storage and retention of personal information. The Network and Information Security Regulation, mandatory for Operators of Essential Services establishes a set of principles to improve the security of network and information systems across the UK.

Cyber crimes are increasing in both frequency and disruptive potential; leading to disruption to services, interruption to computer control systems and impact on data integrity. This could have a significant adverse impact on business performance over the recovery period.

With a high number of our employees working from home as a result of Covid-19 coupled with an awareness of increased levels of cyber fraud, NI Water is further enhancing its IT security to ensure that systems remain secure and that any hard copy documents are maintained securely.

Managing the threat

NI Water is continually making improvements in its information governance to manage the quality of information to support service delivery and policy making.

In terms of the NI Water Corporate IT Network, there is a constant cycle of work to improve cyber resilience through updating of systems controls, compliance with IT system supplier updates and through training and awareness programmes. This includes a significant phishing campaign, which was rolled out in 2019/20 to educate employees of the need to be careful when clicking on links in emails.

For Operational Technology, which is the technology used to run the NI Water sites, an action plan was developed in 2018/19 in response to an external report on cyber security readiness. Significant work has been ongoing to deliver this action plan and a follow up to the initial report, undertaken during 2019/20, demonstrated that good foundations have been laid with certain improvements made in key areas. Delivery of this action plan may be delayed due to Covid-19.

ST5 Pension fund

Strategic priorities: Economy, People

Background to the threat

NI Water Limited operates a funded, defined benefit pension scheme. Given the nature of the NI Water Limited Pension Scheme, NI Water Limited is exposed to the threat of paying unanticipated additional contributions to the Scheme and its consequential impact to the business.

The threats in relation to the pension scheme include higher than expected actual inflation, lower than expected investment returns, the threat that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets, and members living for longer than expected.

Covid-19 has caused turmoil in the markets and as a result the funding level has fallen substantially. This could generate deficit contributions of significant payments per annum.

Managing the threat

The Pension Trustee's investment strategy is to invest in a diversified range of growth and defensive assets. This is in order to strike a balance between maximising the returns on the Scheme's assets and minimising the threats associated with lower than expected returns on the Scheme's assets.

A triennial valuation of the pension scheme as at 31 March 2017 was completed by the Pension Scheme Trustees in June 2018. The valuation has reported a small deficit in the funding of the scheme. The Company has agreed to higher Employer's Contributions to the Scheme effective from April 2017, which have been accrued in the financial statements.

Further information on accounting for the pension scheme is provided at page 81 and Notes E2 and G3 to the Statutory Accounts. The Trustee is required to regularly review the investment strategy in light of the revised term and nature of the Scheme's liabilities. This includes consultation with NI Water Limited.

NI Water Limited is continuing to engage with the pension scheme trustees and DfI on pension scheme costs.

ST6 Climate change

Strategic priorities: Nature, People

Background to the threat

In February 2020 the Northern Ireland Executive declared a Climate Emergency, supporting immediate action to cut carbon emissions and calling for the establishment of an independent Environmental Protection Agency.

As Northern Ireland's largest single electricity user and second largest landowner, NI Water has a role to play in helping the UK to meet its net zero carbon target by 2050.

Managing the threat

NI Water's ambition is that services will always contribute to a flourishing natural environment. The goal is to fully exploit innovative approaches to energy, new technology, revised design standards, reuse/repurposing of existing assets and artificial intelligence to reduce our carbon footprint and ultimately become carbon neutral.

In 2019/20 NI Water completed the restoration of Garron Bog, which is the largest expanse of intact blanket bog in Northern Ireland, to improve the quality and reliability of the water received at NI Water's Dungonnell treatment works. The success of the work will serve as a demonstration site for best practice and as a model for future bog restoration projects. NI Water constructed a wetland in Clabby, County Fermanagh to replace the traditional wastewater treatment works. The wetland based Phragmafiltre wastewater treatment works was more efficient to construct than the traditional systems and more efficient as it requires less energy, carbon and chemical usage. Our first Nereda wastewater treatment work stream, at Dungannon, County Tyrone, which is a more sustainable process has been in operation since May 2019.

NI Water manages a range of SCaMP NI (Sustainable Catchment Area Management Practice Northern Ireland) Projects in order to improve the quality and reliability of the water through sustainable catchment based solutions that focus on protecting and enhancing the natural environment.

In order to achieve this NI Water is adopting a range of adaptation and mitigation measures which will affect almost every aspect of our business, including improved instrumentation, automation and control of plant and equipment, investing in new treatment processes and pumping systems to reduce their energy demand and the emission of other greenhouse gasses, increasing self-generation of renewable energy and procurement of more renewable energy.

ST7 Covid-19

NEW

Strategic priorities: Customer, Water, Economy, People

Background to the threat

As an essential service provider, NI Water continues to deliver water and wastewater services to protect the health of the Northern Ireland public. Domestic consumption increased significantly over and above the reduction from non-domestic usage during the 'lockdown' period and our colleagues were able to work safely to manage the demand-surge.

This is a continuing threat as NI Water puts appropriate controls in place to move towards the 'new normal' way of working and take opportunity to improve service provision, customer experience and communication given the learning from our response towards Covid-19.

The impact of Covid-19 on NI Water's income, operational costs, health and safety, pension fund and supply chain are included within each of the strategic threats highlighted above and are managed as part of NI Water's risk management process.

Managing the threat

In January 2020 NI Water stepped up preparations to protect our colleagues and minimise disruption to business. There is the potential for significant impact as a result of Covid-19 including staff and resource availability, increased potential for cyber attacks, additional financial spend for purchase of health and safety stocks and equipment, human resource management, incident management and IT infrastructure resources. NI Water has updated and implemented its Pandemic Incident Plan and Business Continuity Plans across each business area within NI Water. In so far as is reasonable NI Water is continuing to run the business to achieve its core outputs. NI Water is conscious that the scale and nature of Covid-19 will likely escalate the challenges faced by the business operations on a day-to-day basis.

ST8 Brexit

Strategic priorities: Customer, Water, Economy, Nature, People

Background to the threat

There is a high risk that United Kingdom could fail to agree terms with the European Union before the end of the transition period on 31 December 2020. The impact of 'lockdown' as a consequence of Covid-19 has made it more difficult for the authorities to agree and put in place the necessary measures for a smooth exit. The lack of certainty is making it increasingly more difficult to assess the strategic, financial and operational impact on our customers, colleagues and service provision and the conditions that could apply specifically to Northern Ireland brings with it a certain complexity, which needs to be managed.

Managing the threat

We have considered the threats and opportunities surrounding Brexit and have a well-established internal working group to manage the impact of Brexit. Through our longer term viability Brexit impact assessment, we have reviewed different 'worst case' and 'best case' scenarios and combination of risk factors to inform on the possible impact on our business. However, given the variety of possible scenarios and outcomes, managing this threat will be a short, medium and longer term risk. NI Water continues to engage our Shareholder, regulators and stakeholders to ensure that we receive the necessary resources and support to manage Brexit risks, such as supply of chemicals and equipment, to meet our business needs and regulatory compliance requirements.

We are working closely with Water UK and Irish Water to share learning and have established mutual support to improve on our resilience.

Strategic opportunities

SO1 Customer service and innovation

Strategic priorities: Customer

Background to the opportunity

NI Water is seeking to deliver an exceptional customer experience, which exceeds our customers' expectations.

Changing customer expectations, the digital revolution and demographic and lifestyle changes are all leading NI Water to embrace new ways to meet customer needs, now and in the future.

Exploiting the opportunity

Future developments in artificial intelligence and machine learning will enable us to spend less time on low value-added tasks and instead focus on customer care and improving customer journeys. More customers are using self-service options such as web and mobile self-service, interactive voice response or chatbots as their preferred point of contact.

Through cooperation with other utilities, business partners and universities and in-house development, we continue to support and implement new technologies to improve customer experience and efficiency in service delivery.

During the year NI Water completed several actions to lay the groundwork for future improvements. This includes increasing the number of customer contact details recorded and developing the NI Water digital strategy to set out the roadmap for digital development. A social media pilot is underway to help communicate operational issues to customers. Options are being considered for an Intelligent Operations Centre to enable more efficient management of our assets.

SO2 Wellbeing

Strategic priorities: People

Background to the opportunity

In line with its strategic priority of People, NI Water wants to be a great place to work, recognised as a local employer of choice, championing diversity and attracting and retaining the best talent.

We have put in place a highly innovative health and wellbeing programme, which takes into account our workforce demographics, our engagement survey results and the business benefits of enhancing the wellbeing of employees. Our programme strategically focuses on improving the physical and mental wellbeing of employees and supports our attendance and engagement targets.

Exploiting the opportunity

We have delivered a programme that includes initiatives such as retirement seminars to support our employees (aged over 50) in the transition from work to retirement, dedicated workplace counselling on site, mental health courses and mental health training, and mental health first aid champions.

NI Water has undertaken significant work in relation to diversity and inclusion and has developed a NI Water diversity and inclusion strategy and roadmap, with some initial data gathering undertaken.

NI Water has strengthened the action planning process to concentrate on four elements – focus, momentum, involvement and accountability. Each business function has an engagement sponsor and engagement lead responsible for the delivery of the engagement and wellbeing activities across the business.

The quality and impact of our health and wellbeing programme has been recognised externally, as NI Water has been named winner of the Best Health and Wellbeing Initiatives award at the CIPD business awards. NI Water was also highly commended in the Wellbeing at Work Category in the Business in the Community Responsible Business Awards and in the Right Place to Work category at the Irish News Workplace and Employment Awards.

In response to Covid-19, NI Water has been actively engaging with employees with a series of employee guides aimed at supporting employees through these unprecedented times. A series of pulse surveys have also been issued to all employees to identify whether there are any further measures NI Water could be taking.

SO3 Living with water programme

Strategic priorities: Economy, Nature

Background to the opportunity

In line with NI Water's strategic priority of protecting and enhancing the natural environment and building a more resilient network, NI Water is contributing along with a number of other organisations to the resolution of Belfast drainage and wastewater treatment issues. This opportunity will help to improve the drainage networks and waste water treatment works that discharge into Inner Belfast Lough.

In July 2014 the NI Executive agreed to develop a strategic drainage infrastructure plan for Belfast. The plan aims to protect against flooding, enhance the environment and support economic growth by improving capacity for new connections. The initiative is now known as the 'Living with water programme' and is led by DfI.

The programme is currently overseen by a Board that includes DfI, NI Water, the Utility Regulator, NIEA and Belfast City Council.

The programme has steadily developed a profile and was referenced in the draft Programme for Government, NI Water PC21 Business Plan and the 'New Decade, New Approach' deal, which accompanied the restoration of devolved government for Northern Ireland in January 2020.

Exploiting the opportunity

NI Water's participation in the programme provides an opportunity to develop the catchment based multi-agency and sustainable solutions needed to achieve key outcomes included within the draft Programme for Government and upgrade the sewerage networks and six wastewater treatment works that discharge into Inner Belfast Lough. The upgrades need to be undertaken in a way that Government and NI Water can afford, and which minimises disruption during construction.

NI Water's investment appraisals to inform the plan are already helping to identify and manage risks and make the best use of the funding over PC15 and beyond. Implementation of most of the proposed programme capital investments that relate to NI Water's assets will require funding over and above that likely to be made available through the price control model.

This requirement to fund these essential infrastructure improvements has been factored into the draft Investment Strategy for Northern Ireland and the NI Water PC21 Business Plan.

SO4 Stakeholder engagement and education

Strategic priorities: Customer, Water, Economy, Nature, People

Background to the opportunity

In line with the strategic priority of People, NI Water is seeking to create a legacy for our communities and to work in such a way which puts more back into society than we take out.

Exploiting the opportunity

NI Water will continue to promote employee volunteering schemes and other local initiatives to develop our people and benefit our local communities.

Over 1,500 volunteers have participated in the NI Water Cares Challenge volunteering programme – making it one of the largest corporate volunteering schemes in Northern Ireland.

NI Water has a multi-tiered educational programme, with a focus on school children, which has delivered a comprehensive series of campaigns, tailored specifically in terms of message, delivery mechanism and language to different audiences – young people, families, businesses and the wider community. This includes our 'Fats Oils and Grease' and 'Bag it and Bin it' campaigns.

NI Water also promotes the responsible use of water and how it can contribute to a healthy lifestyle. NI Water will continue to invest in educating the community by taking the value of water message to them and will work with strategic partners to broaden the education programme.

An overall engagement strategy is in place which is monitored regularly. As a result NI Water continues to develop good relationships with political, regulatory and media representatives.

In developing its brand and reputation, NI Water will seek to develop world class partnerships including with market leading companies and world leading universities in order to share learning.

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2019/20 we received a subsidy of £309.9m.

Bills

We bill non-domestic customers which generated £80.5m of revenue in 2019/20 and road drainage charges of £22.6m from DfI.

Other income

Other forms of income were £16.1m in 2019/20.

Day-to-day operating costs

Our day-to-day running costs totalled £282.0m in 2019/20. These costs include staff, power, rates, hired and contracted services.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £147.3m in 2019/20.

Financing our investment

Interest on our borrowings from DfI £50.0m and our Public Private Partnership liabilities £12.2m comprised the majority of our net finance charges of £62.8m in 2019/20.

Profit before tax

The profit before tax was £84.5m in 2019/20.

Corporation tax

We have not paid any corporation tax due to capital allowances, which defer our tax to future years, when the benefits of the investments are realised. In 2019/20 we have provided £36.1m for tax to be paid in future years.

Profit after tax

The profit after tax for the year was £48.4m. This is an accounting profit and provides no additional spending power either to NI Water or to DfI.

Dividend

A dividend of £28.3m was paid to the DfI in 2019/20. The dividend to DfI represents a return to the taxpayer on the amount invested in the Company.

Reinvestment of profit

Any remaining profits reduce the loans required from DfI.

Government loans

We borrow from the DfI to help fund our capital investment programme. £40.0m was borrowed in 2019/20.

Investment

Investment in new assets and on our network totalled £181.2m in 2019/20.

Financial performance

NI Water is required to prepare two sets of accounts to report on financial performance:

- Statutory Group Accounts prepared under International Financial Reporting Standards (IFRS) covering NI Water Limited (both our appointed (regulated) and non-appointed (non-regulated) businesses) and our subsidiaries; and
- Regulatory Accounts for NI Water Limited for our appointed (regulated) business prepared under the Regulatory Accounting Guidelines issued by the Utility Regulator.

Our appointed business relates to the provision of certain water and wastewater services under our Instrument of Appointment (the Regulatory Licence). We are the monopoly supplier of these services.

Our non-appointed business operates in competitive markets and is ring fenced from our appointed activities to prevent cross subsidisation. Non-appointed activities include septic tank emptying, vehicle maintenance and rental of aerial masts to the telecommunications sector.

Pages 117 to 193
Read our Statutory Accounts.
The Regulatory Accounts are published separately.

See the latest Regulatory accounts at:
https://www.niwater.com/publications/

In November 2017 NI Water Limited acquired Kelda Water Services' holdings in a number of companies which are contracted to provide bulk drinking water supplies under a Public Private Partnership arrangement. Further information on the Group can be found at Note A5 to the Statutory Accounts.

The financial performance section refers to NI Water (the Group) unless otherwise indicated.

The £48.4m profit after tax for the year is an accounting profit and provides no additional spending power either to NI Water or to DfI.

Consolidated Statement of Comprehensive Income

Our Consolidated Statement of Comprehensive Income (SOCI) as presented on page 121 is summarised below.

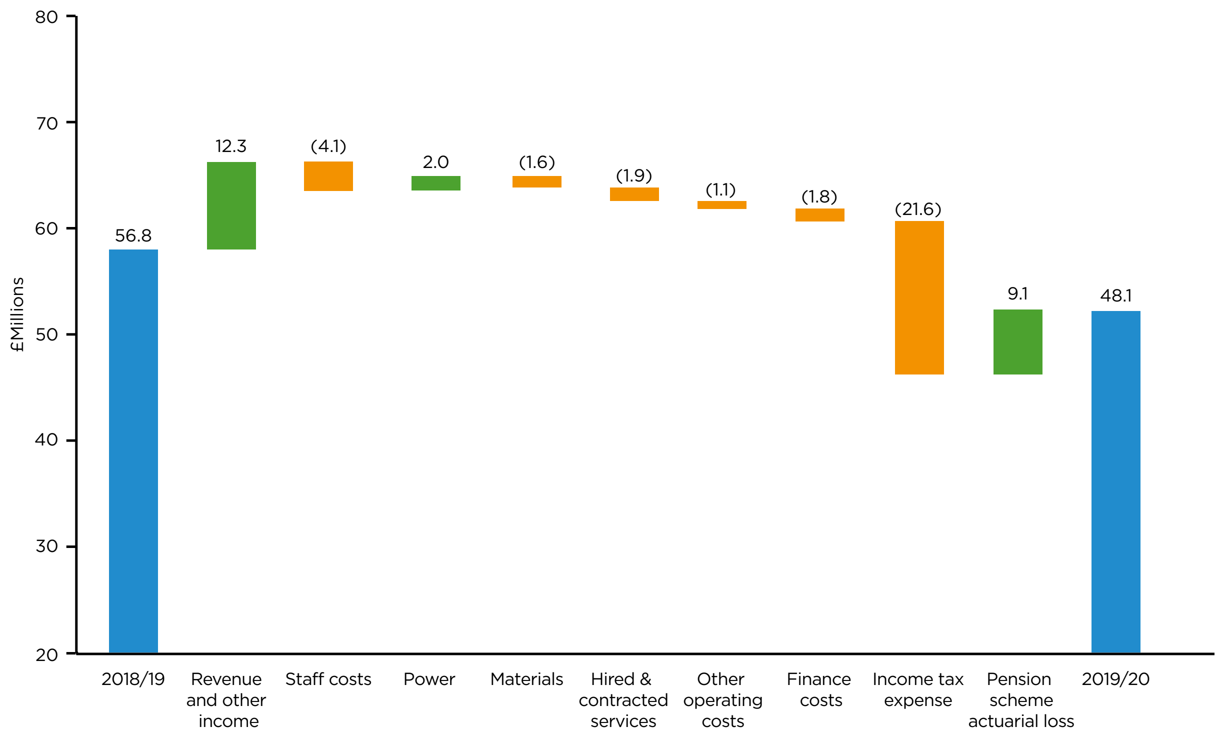
Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Revenue	**429.1**	416.4
Results from operating activities	**147.3**	141.7
Net finance charges	**(62.8)**	(61.1)
Profit before tax	**84.5**	80.7
Income tax expense	**(36.1)**	(14.5)
Profit for the year	**48.4**	66.2
Other comprehensive expenditure, net of income tax	**(0.3)**	(9.4)
Total comprehensive income for the period	**48.1**	56.8

Revenue has been stated excluding the value of adopted assets (£46.7m) (2018/19: £34.3m) following the adoption of IFRS 15 "Revenue from Contracts with Customers" in 2018/19. It is considered that the adoption of assets creates a long term obligation to maintain the related assets and therefore the revenue should be spread over the life of the assets through a deferred credit release (£3.3m) (2018/19: £3.1m).

A reduction of £0.8m (2019: nil) to Revenue was made to take account of the estimated impact of Covid-19 on our billed customers towards the end of the financial year. It is expected that there will be a more significant impact in 2020/21.

Movement in total consolidated comprehensive income for the period



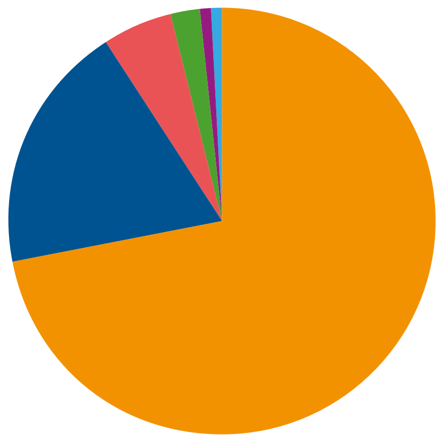
Revenue

Domestic consumers are not charged directly for water and wastewater services. As a result, NI Water is dependent on Government subsidy for around 72% of its total revenue.

The customer subsidy from Government covered the full domestic charge and this arrangement will remain in place until 2022.

Revenue was £429.1m for the year to 31 March 2020 (2019: £416.4m). Included in revenue was £332.5m (2019: £321.8m) received from DfI, being subsidy of £309.9m (2019: £299.9m) and road drainage charges of £22.6m (2019: £21.9m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2019/20 (£m)



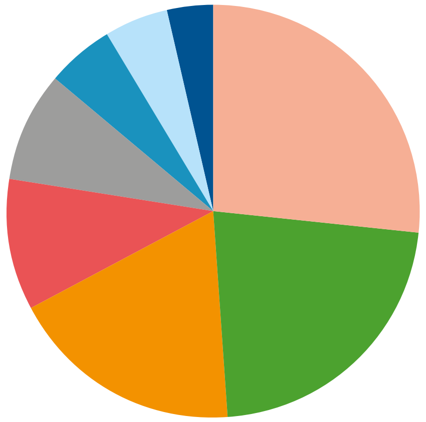
Customer subsidy from DfI 309.9
Customer income 80.5
Road drainage from DfI 22.6
Connection and infrastructure charges 9.8
Other third party contributions 3.1
Transfers of assets from customers 3.2

See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2019/20 of £282.0m (2019: £275.5m) increased from last year. The increase primarily resulted from higher staff costs relating to the pension scheme (provision for McCloud case (see Statutory Accounts Note D4 for further information)) and depreciation costs as a result of the increased asset base. This was partially offset by lower power costs in the year. Results from operating activities before interest for the year was £147.3m (2019: £141.7m).

Operating expenses 2019/20 (£m)



- Depreciation: 84.5
- Staff costs: 69.6
- Hire and contracted services: 57.4
- Power: 32.2
- Rates: 27.5
- Own work capitalised: (16.0)
- Raw materials and consumables: 16.1
- Other operating expenses: 10.7

NI Water is one of the largest users of electricity in Northern Ireland. We spent around £32.2m on power in 2019/20.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £50.0m (2019: £49.3m); our Public Private Partnership (PPP) liabilities of £12.2m (2019: £12.6m) and net finance costs on the pension fund of £0.7m (2019: £0.5m). This was partly offset by £0.1m (2019: £1.1m) fair value amortisation in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £0.1m (2019: £0.2m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £36.1m (2019: £14.5m) for which payment is deferred to future years. The effective tax rate for the year to 31 March 2020 was (42.6%) (2019: 18%). The increase from 2019 is largely due to the increase in the rate of corporation tax by 2% to 19%. See Statutory Accounts Note F1.

Capital allowances available on our capital investment programme allow us to defer our tax to future years, when the benefits of the investments are realised.

Pension scheme actuarial loss

In 2019/20 there was an actuarial loss of £0.3m (2019: £9.4m loss). See page 81 and Statutory Accounts Note E2 and G3.

Distributions

The Board will consider a proposal to declare a dividend of £31.5m in August 2020 (2019: £28.3m). See Statutory Accounts Note B3.

The dividend to DfI represents a return to the taxpayer on the amount invested in the Company.

Capital structure

The Consolidated Statement of Financial Position (SOFP) at 31 March 2020 as presented on page 119 is summarised below. In 2019/20 we adopted IFRS 16 Leases. The Group has a limited number of lease contracts and the value added to the asset base at the start of the year was £2.6m with an equivalent amount added to lease liability. See Statutory Accounts Note A10 for further information.

Total assets increased by 4.5% to £3,359.1m (2019: £3,210.5m).

Our net debt[1] figure was £1,370.1m at 31 March 2020 (2019: £1,333.1m).

Gearing (the ratio of net debt to equity and net debt) was 55.0% (2019: 54.7%).

Summary Consolidated Statement of Financial Position

	At 31 March 2020 £m	At 31 March 2019 £m
Total non-current assets	**3,298.1**	3,152.1
Total current assets	**61.0**	58.4
Total Assets	**3,359.1**	3,210.5
Equity	**1,122.3**	1,102.5
Total non-current liabilities	**2,106.2**	1,975.8
Total current liabilities	**130.6**	132.2
Total liabilities	**2,236.8**	2,108.0
Total equity and liabilities at 31 March	**3,359.1**	3,210.5

Liquidity

Operating activities generated a net cash inflow of £235.3m (2019: £222.7m). Net cash outflows of £179.7m (2019: £185.6m) related to investing activities. Net financing activities created a cash outflow of £59.5m (2019: £30.8m).

Our working capital requirements are met from a committed working capital facility of £20m and from available positive cash balances.

Interest is accrued on the working capital facility at floating interest rates based on London Inter-bank Offered Rates (LIBOR).

Investing activities included the acquisition of property, plant and equipment of £186.1m (2019: £187.9m), proceeds from the sale of property, plant and equipment of £1.5m (2019: £0.6m), interest received of £0.1m (2019: £0.2m) and grants received of £4.8m (2019: £1.5m).

Working capital represents the funds available for day-to-day operations. It includes inventories, trade receivables and trade payables.

[1] Refer to Notes A8 and B1 in the Statutory Accounts. Net debt consists of loans from DfI of £1,186.6m (2019: £1,146.6m), external loans relating to subsidiaries of £76.8m (2019: £82.8m), derivative financial instruments of £10.4m (2019: £9.8m); and finance leases of £111.2m (on consolidation Alpha finance lease excluded) (2019: £112.7m) less cash and cash equivalents of £14.9m (including £11.8m from consolidated entities), (2019: £18.8m).

Pension funding

The pension scheme was valued at a liability of £42.5m at 31 March 2020 (2019: liability of £35.6m). This was made up of a total market value of assets of £234.0m (2019: £238.3m) less actuarial value of liabilities £276.5m (2019: £273.9m). The increase in the net liability arises primarily due to the lower than expected return on the Scheme's assets and the impact of Covid-19. See Statutory Notes E2 and G3.

NI Water's pension scheme is a separate legal entity which is run by a Board of Trustees.

Investing in our water and wastewater infrastructure

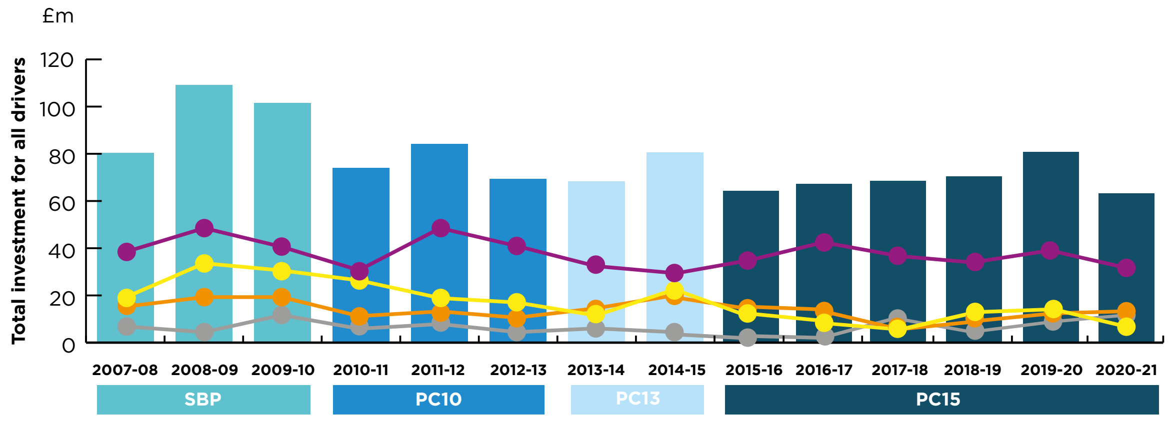
We have invested £2.4bn in Northern Ireland's water and wastewater infrastructure since our formation in 2007/08.

Around £174m of capital investment was delivered during 2019/20. £94m was invested in maintaining the current assets and a further £80m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £157m is planned for 2020/21.

Investment in 2019/20 included the completion of two wastewater treatment works, remediation of three unsatisfactory intermittent discharges and laying approximately 150km of new, renewed and relined water mains.

Investment analysed by investment driver

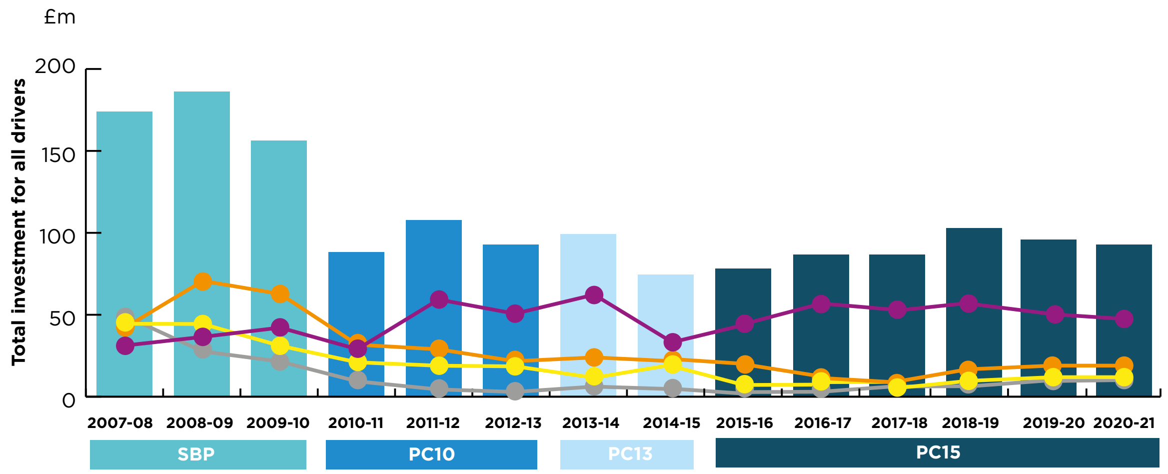
Water service



Type of investment driver

- **Maintain** our drinking water network and our treatment works
- **Improve** our drinking water network and our treatment works
- **Enhance** our customer service such as reducing low pressure and supply interruptions
- **Support** new customers and additional demand from existing customers

Wastewater service



Type of investment driver

- **Maintain** our sewerage network and our treatment works
- **Improve** our sewerage network and our treatment works
- **Enhance** our customer service such as reducing internal flooding
- **Support** new customers and additional demand from existing customers

This Strategic Report was approved by the Board of Directors on 25 June 2020 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
25 June 2020

Governance

Control panel at Killylane water treatment works, County Antrim

Corporate governance

Chairman's introduction

I am pleased to present the Corporate Governance Report for 2019/20. This report describes the key features of NI Water's corporate governance structure to support the long term sustainable success of NI Water, generating value for all our stakeholders. The report also outlines compliance with the relevant provisions given NI Water Limited's status as a Government Company under the Companies Act 2006 and as a NDPB sponsored by DfI. The Board is committed to the principles of good corporate governance and delivering what matters for all our stakeholders. For the first time this year, we have included, as required by s414CZA of the Companies Act 2006, a section 172(1) Statement (see page 106).

Putting back more than we take out

During 2019/20, the Board and management published Our Strategy (2021-46), which is designed to make Northern Ireland a more healthy, sustainable and prosperous place in which to live. Our business invests to meet the needs of current and future generations. This requires long term planning as some of our assets have lives extending over 100 years. The new strategy provides a longer term view across the next quarter of a century (2021-2046) and updates our existing long term strategy (2015-2040). It takes account of the progress to date, strategic risks, feedback from our customers and other stakeholders on what is important to them and the world in which we operate.

The strategy centres around five strategic priorities, which set out how we will deliver our purpose and vision:

Customer - delivering an exceptional customer experience;

Water - delivering great tasting, clean and safe water to meet customer need;

Economy - efficiently delivering infrastructure to underpin sustainable growth;

Nature - protecting and enhancing the natural environment; and

People - providing a great place to work.

The strategic priorities focus on sustainably growing all forms of capital (natural capital, social capital, intellectual capital, human capital, manufactured capital and financial capital) to ensure that we put back more than we take out. The priorities provide a framework to support best practice corporate decision making (integrated thinking across the capitals and natural capital accounting), corporate reporting (integrated reporting across the capitals) and corporate governance.

The United Nations has developed 17 goals to deliver a more sustainable world by 2030 and we are proud to play our part in supporting delivery of at least 12 of these goals. We also have a role to play in at least nine of the outcomes in the Draft Outcomes Delivery Plan developed by the Northern Ireland Executive. Read more at https://www.niwater.com/ourstrategy/

During 2019/20, we joined Business for Nature, a community of leading businesses, which have made commitments that will begin to reverse the loss of nature and restore the planet's vital natural systems on which our economies, wellbeing and prosperity depend.

Our purpose, vision and values

Our purpose encapsulates why we exist – namely to provide the water for life we all rely on to thrive. Our purpose is supported by a vision, which sets out what we will do to deliver our purpose namely to grow value and trust by being world class. Our values provide the cultural framework to support achievement of our purpose and vision.

We are committed to the highest standards of behaviour in how we do business. Our values provide the cultural framework to support achievement of our purpose and vision, and we encourage our employees to live these values. Our values are at the heart of our decision making and underpin everything we do. They centre around a more sustainable way of doing business by putting back more to society, the economy and the natural environment than we take out.

Monitoring culture involves regular analysis and interpretation of evidence and information gathered from a range of sources. Drawing insight from multiple quantitative and qualitative sources helps guard against forming views based on incomplete or limited information. During 2019/20, we commenced a work stream on culture and diversity, which will include refreshing our existing behaviours over 2020/21 and consideration of how to baseline and monitor culture. We will also be updating our policies and procedures to ensure they are aligned with the new values and behaviours. The workforce can raise any matters of concern though our speak up (whistleblowing) policy, which was revised and further promoted over 2019/20.

Stakeholder engagement

We launched our strategy at a stakeholder event at Belfast wastewater treatment works in September 2019 and undertook public engagement on our website and through social media. The strategy has received broad endorsement from our stakeholders. We have made further refinements to incorporate feedback and ensure that customers are right at the heart of everything we do.

Strategy launch at Belfast wastewater treatment works

Details on how the Board understands the views of stakeholders and how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in the Board's discussions and decision making are set out on page 106. The Board keeps these engagement mechanisms under review to ensure that they remain effective.

The Board draws on the following to ensure there is robust engagement with the workforce: the results of annual employee engagement surveys and action plans; Board and Executive Committee engagement sessions; consultation with the Trade Unions; encouraging involvement of employees in business performance through a regulatory performance delivery mechanism; and the work of around 30 employee champions from different parts of the business.

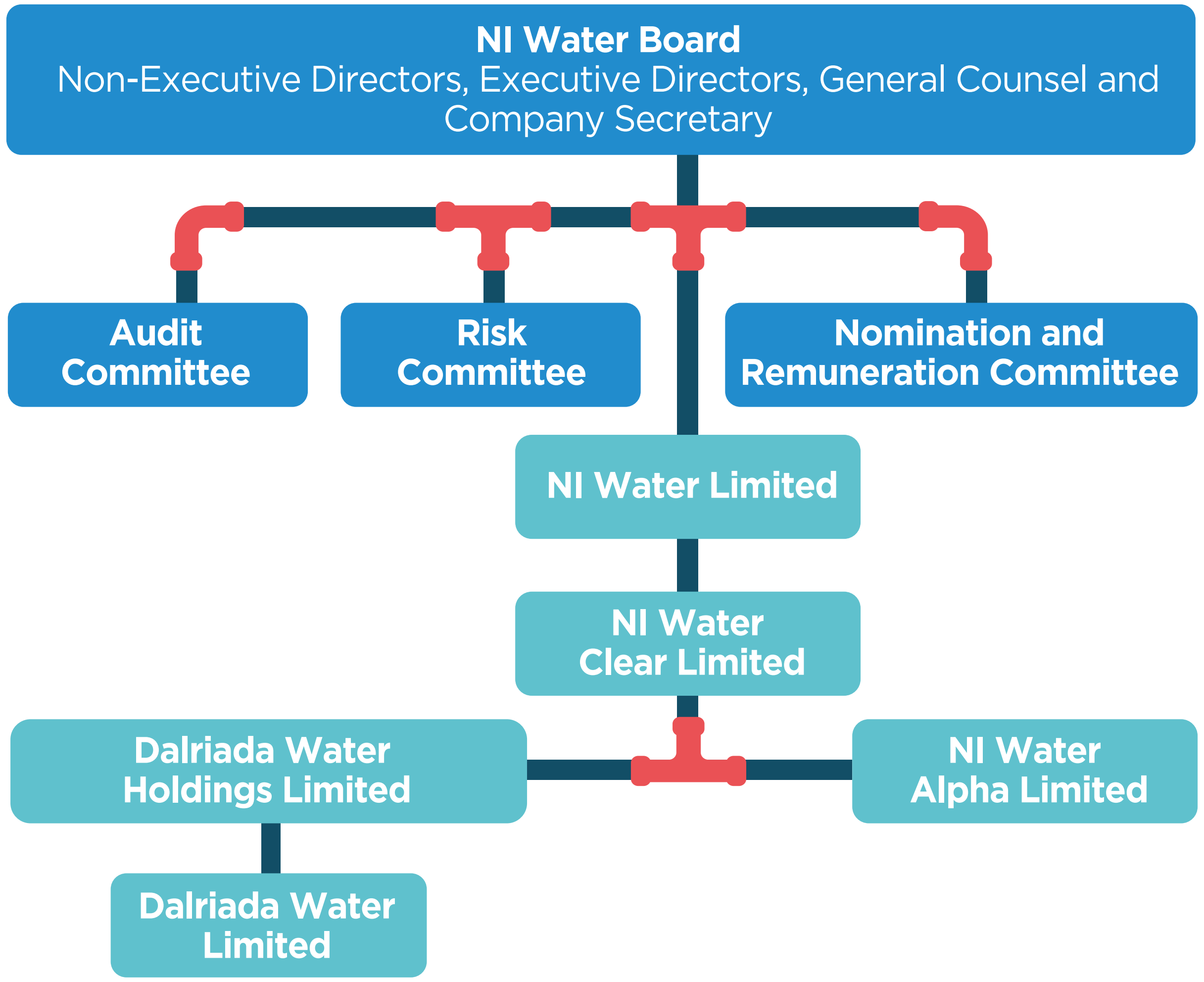
Compliance statement

The Board has taken into consideration the governance arrangements established between NI Water Limited and its sole Shareholder (DfI) through the Management Statement and Financial Memorandum (MSFM) and the relevant governance provisions in the Department of Finance (DoF) guidance entitled 'Managing Public Money Northern Ireland' (MPMNI).

The Board considers that, during the year and up to the date of this report, NI Water has complied with the main principles of corporate governance that applies to NI Water as set out within the MSFM. NI Water seeks to emulate best practice corporate governance arrangements as set out in the 'UK Corporate Governance Code' and the MSFM draws on the same but also draws on 'Corporate Governance for Central Government Departments: Code of Best Practice Northern Ireland' (Governance Code). However, it should be noted that the Company's commercial freedoms are restricted by the constraints of the public expenditure system and the provisions set down in the MSFM and consequently NI Water does not comply with the UK Corporate Governance Code within the strict definition. This includes appointment, re-appointment or removal of the external auditor, arrangements for appointment and termination of Board Members and their remuneration.

Board and Executive Committee

The Board and Executive Committee structure is shown below:



Operation of the Board

There have been a number of changes to Board membership in 2019/20. I would like to pay tribute to those Board members who has finished their terms in January 2020 (John Rae, Jim McCall, Trisha McAuley OBE and Kingsley Donaldson) and whose support and advice was greatly appreciated. I would also like to welcome the new Board members (Belinda Oldfield, Marie-Thérèse McGivern, Maurice Bullick and Paddy Larkin) who commenced their terms in February 2020, along with Peter McNaney CBE who has commenced his second term.

On 1 April 2020, I was appointed by the Infrastructure Minister to serve a second term for a period up to four years.

The Board has considered the status of the Non-Executive Directors over the year and considered them to be independent in character and judgement.

The operation of the Board and its responsibilities are outlined in the MSFM:

https://www.niwater.com/sitefiles/resources/pdf/policy/msfmsigned2017.pdf

Summary of Board activity

The Board activity over 2019/20 is summarised below:

		Cross reference
Strategy	• Reviewed and approved the Strategy (2021-46), which includes the new purpose statement, vision, strategic priorities and values;	Page 28
	• Discussed the Group's preparations in relation to Brexit;	Page 70
	• Monitored the Group's response to Covid-19;	Page 69
Governance	• Reviewed the corporate risks and the risk appetite;	Page 62
	• Reviewed the effectiveness of the risk management system and reviewed the effectiveness of the internal control systems;	Page 97
	• Reviewed the terms of reference for the Audit, Risk, Nomination and Remuneration committees;	
	• Reviewed developments in corporate governance and the implementation of any changes required, particularly relating to the UK Corporate Governance Code 2018;	Page 93
	• Reviewed the External Auditors' performance.	Page 94
Business performance	• Monitored delivery of the PC15 Final Determination (as amended);	
	• Reviewed and approved the Annual Integrated Report and Accounts for 2019/20;	Page 93
	• Reviewed and approved the Regulatory Accounts and the Annual Information Return for 2019/20;	
	• Reviewed and approved the going concern and long term viability statements;	Page 99
	• Monitored the delivery of the Annual Operating Plan and Budget for 2019/20;	Page 93
	• Reviewed and approved the Annual Operating Plan and Budget for 2020/21;	Page 93
Employees	• Reviewed the health, safety and wellbeing activities and consideration of health and safety incidents of employees and contractors, the Health and Safety Strategy to reinforce the zero harm ambition;	Page 64
	• Discussed the results of the annual employee survey. Reviewed and endorsed the action plan to address areas for improvement and the workforce engagement mechanisms to ensure an accurate representation of employees' views are provided to the Board;	Page 106
	• Reviewed the work being taken forward on the Group wide diversity and inclusion policy;	Page 114
Stakeholders	• Undertook regular engagement with the Shareholder and key Stakeholders through the Water Senior Steering Group, the Outputs Review Group and other Stakeholder sub-groups; and	Page 106
	• Undertook half yearly meetings with senior Shareholder representatives.	Page 109

Board committees

A committee structure is in place to assist the Board in the discharge of its responsibilities. The terms of reference for each Committee and the terms and conditions of appointment of Non-Executive Directors may be obtained on written request from the Group Company Secretary at the address given on the back cover of this report. The membership of the Board Committees is set out below:

Committee	Membership
Audit Committee	Peter McNaney, CBE (Chair)*
	Jim McCall**
	John Rae**
	Maurice Bullick***
	Paddy Larkin****
Risk Committee	John Rae (Chair)** Belinda Oldfield (Chair)****
	Kingsley Donaldson**
	Trisha McAuley, OBE**
	Marie-Thérèse McGivern****
	Paddy Larkin****
Nomination and Remuneration Committee	Dr Leonard J. P. O'Hagan, CBE DL (Chair)*****
	Peter McNaney, CBE*
	John Rae**
	Belinda Oldfield****

*Reappointed on 1 February 2020 to serve a second term for a period up to four years.

**Ceased Board appointment on 31 January 2020.

***Co-opted as a member from 20 July 2016 to ensure that the Audit Committee has recent and relevant financial experience. Maurice is the Finance Director at Belfast Harbour Commissioners and is a Chartered Accountant. Full Board Member from 1 February 2020.

****Appointed as a Board member on 1 February 2020 to serve a first term for a period up to four years.

*****Reappointed on 1 April 2020 to serve a second term for a period up to four years.

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2020 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	5	1 April 2015	31 March 2024
John Rae	8	22 August 2011	31 January 2020
Peter McNaney, CBE	4	1 August 2015	31 January 2024
Jim McCall	4	1 August 2015	31 January 2020
Trisha McAuley, OBE	4	1 August 2015	31 January 2020
Kingsley Donaldson	4	1 August 2015	31 January 2020
Paddy Larkin	-	1 February 2020	31 January 2024
Belinda Oldfield	-	1 February 2020	31 January 2024
Marie-Thérèse McGivern	-	1 February 2020	31 January 2024
Maurice Bullick	-	1 February 2020	31 January 2024
Sara Venning	9	21 May 2010	n/a
Ronan Larkin	14	19 September 2005*	n/a
Sean McAleese**	4	12 January 2015	28 February 2019
Mark Ellesmere	13	26 June 2006*	n/a
Paul Harper	3	1 January 2017	n/a

*Service pre 1 April 2007 is in respect of DRD Water Service.

**Sean McAleese ceased his employment with NI Water on 28 February 2019. Des Nevin was appointed interim Director of Customer Service Delivery on 1 March 2019. He is not a Director of the Company under the Companies Act 2006.

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2019/20 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit Committee and Risk Committee			Nomination and Remuneration Committee		
	Held*		Attended	Held*		Attended	Held*		Attended	Held*		Attended	Held*		Attended
	Total	Available to attend		Total	Available to attend		Total	Available to attend		Total	Available to attend		Total	Available to attend	
Dr Leonard J. P. O'Hagan, CBE DL*****	11	11	11	-	-	-	-	-	-	-	-	-	3	3	3
John Rae**	11	9	9	4	3	3	4	4	4	1	1	1	3	3	3
Peter McNaney, CBE****	11	11	11	4	4	4	-	-	-	1	1	1	3	3	3
Jim McCall**	11	9	8	4	3	3	-	-	-	1	1	1	-	-	-
Trisha McAuley, OBE**	11	9	7	-	-	-	4	4	4	1	1	1	-	-	-
Kingsley Donaldson**	11	9	9	-	-	-	4	4	4	1	1	1	-	-	-
Paddy Larkin***	2	2	2	4	1	1	4	-	-	1	-	-	-	-	-
Maurice Bullick***	2	2	1	4	1	1	-	-	-	1	-	-	-	-	-
Belinda Oldfield***	2	2	2	-	-	-	4	-	-	1	-	-	-	-	-
Marie-Thérèse McGivern***	2	2	1	-	-	-	4	-	-	1	-	-	-	-	-
Sara Venning	11	11	11	4	4	4	4	4	4	1	1	1	3	3	3
Ronan Larkin	11	11	11	4	4	4	4	4	4	1	1	1	-	-	-
Mark Ellesmere	11	11	11	4	4	4	4	4	4	1	1	1	3	3	3
Paul Harper	11	11	11	-	-	-	4	4	3	1	1	1	-	-	-

*This does not include ad hoc Board meetings during the year on specific items.

**Ceased Board appointment on 31 January 2020.

***Appointed as a Board member on 1 February 2020 to serve a first term for a period up to four years.

****Reappointed on 1 February 2020 to serve a second term for a period up to four years.

*****Reappointed on 1 April 2020 to serve a second term for a period up to four years.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Report by Chair of the Audit Committee

The Audit Committee monitored the integrity of financial reporting together with NI Water's formal announcements relating to its financial performance, paying particular attention to significant reporting judgements contained therein. The Audit Committee provided oversight on the effectiveness of financial risk management and its associated controls, reviewed the effectiveness of NI Water's Fraud Prevention, Theft, Whistleblowing and Anti-Bribery/Corruption policies and procedures, awareness training, and the effectiveness of investigations.

The Audit Committee met with the Risk Committee to consider the Chief Executive's Year End Assurance Statement, Internal Audit's Annual Assurance Statement and the effectiveness of NI Water's internal control and risk management system.

Significant matters

The significant matters that the Audit Committee considered in relation to the financial statements, and how these issues were addressed, are listed below:

- **Risk relating to financial funding:** the Audit Committee was kept updated during the year of the funding position for 2019/20, including the agreement of a budget and the revised outputs for the year as agreed with stakeholders. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2020/21 and ongoing liaison with DfI and funding arrangements over the PC21 period;
- **Subsidiary companies and consolidation:** the Audit Committee considered the appropriate accounting treatment on the consolidation of the subsidiary companies acquired in 2017/18. This included fair value accounting; the value and treatment of goodwill in the Group accounts and the treatment of the PPP contract in Dalriada Water Limited's accounts;
- **Long Term Viability Statement:** the Audit Committee was regularly briefed on the development of the Long Term Viability Statement, including the scenarios being considered, the impact of each of the scenarios and the conclusion on viability;
- **Risk relating to the pension scheme:** the Audit Committee considered the funding position of NI Water Limited's defined benefit pension scheme in the light of changes in market conditions, particularly the significant changes at year end as a result of Covid-19;
- **UK Corporate Governance code:** the Audit Committee was briefed on the corporate reform agenda and the changes required by the UK Corporate Governance Code 2018;
- **Going concern:** the Audit Committee was briefed on ongoing communications with DfI in relation to extensions to NI Water's loan notes and working capital facilities; and
- **Claims:** the claims level and treatment of claims from contractors were monitored during the year with additional information sought from management as appropriate.

KPMG were appointed as the External Auditors in July 2013 following a competitive tendering exercise. The first set of accounts signed by the current audit partner, John Poole, was for the year ended 31 March 2016. The external audit contract was put out to tender during 2018 and KPMG were reappointed as External Auditors for three more years.

External Audit

The Audit Committee met with the External Auditors at least four times in the year. The Committee and the External Auditors also held separate meetings without the attendance of executive management. In their assessment of the independence of the External Auditors, the Committee received in writing details of relationships between the External Auditors and NI Water, which may bear on the External Auditors' independence and received confirmation of this independence.

The Audit Committee approved the level of the External Auditors' fees in respect of the audit of the Statutory and Regulatory Accounts of the Group and subsidiaries, considered the adequacy of the External Auditors' proposed audit plan, and reviewed compliance with their letter of engagement. During the year, the Audit Committee undertook a review of the effectiveness of the External Auditors. The review considered the qualifications, expertise, resources and independence of the External Auditors. The Audit Committee is satisfied that the service provided by the External Auditors remains effective.

Non-audit services such as independent certification work are pre-approved as a matter of policy. Other non-audit services, which are considered to have the potential to impair or appear to impair the independence of the audit role, are precluded from being provided by the External Auditors.

Refer to Note D1 to the Statutory Accounts for the fees relating to audit and non-audit services. Non-audit services provided during 2019/20 were £11k (2018/19: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance. During the year, the Committee approved the updated Internal Audit Charter to ensure that it fully reflected the remit, scope and responsibilities of the function, in accordance with the relevant professional standards for Internal Audit. The Committee also monitored completion of the 2019/20 audit plan. The Head of Internal Audit provided a progress report to each Audit Committee meeting, which included an overview of audit review findings, follow up status of recommendations and summary of any advisory activity. The Head of Internal Audit had the opportunity to meet with the Chairman of the Audit Committee without management to discuss NI Water's overall control environment. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function. In accordance with the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit provided an annual self-assessment of the function's performance to the Audit Committee.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Audit Committee's terms of reference, as approved by the Board. A formal report was presented to the Board in September 2019.

As Chair of the Audit Committee, I provided a report to the Board after every meeting on the work of the Committee.

Peter McNaney, CBE
Chair of the Audit Committee
25 June 2020

Report by Chair of the Risk Committee

Upon appointment as Chair of the Risk Committee in February 2020, I was provided with the relevant reports, minutes and assurance that the following matters were dealt with appropriately throughout the course of the 2019/20 reporting period.

The Risk Committee provided oversight on NI Water's risk management framework. The Committee met on a quarterly basis and reviewed the risk management system and processes, the corporate threats and opportunities, risk appetite and benefits to be realised.

The Committee also considered emerging risks and the potential impact to NI Water, benchmarking of threats and opportunities, training and awareness and the management of actions to reduce NI Water's risk exposure to an acceptable level and to maximise opportunities.

Significant matters

The significant matters that the Risk Committee considered over the financial year are listed below:

- **Corporate risks:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval;
- **Corporate threat and opportunity maps:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving strategic priorities. This included top ten asset risks for the short and medium term, attendance, wellbeing, winter readiness and Brexit;
- **Risk appetite:** the Risk Committee monitored the progress in moving towards the Board agreed risk appetite for the seven agreed risk themes;
- **Integrated risk and resilience framework:** the Risk Committee approved the revised integrated risk and resilience framework in January 2020;
- **Emerging risks:** details of emerging risks based on local and global research and incidents were reported to the Risk Committee along with details of the mitigating steps already being taken and further action for consideration;
- **Business continuity management:** the Risk Committee received updates regarding business continuity management, test exercises and IT disaster recovery plans;
- **Cyber security:** the Risk Committee was kept updated regarding ongoing work related to cyber security;
- **Health and safety:** the Risk Committee received a quarterly update on health and safety matters and progress against the health and safety action plan; and
- **Risk research and development:** the Risk Committee considered the ongoing research activities including with Queen's University Belfast, Ulster Business School, Ulster University and other European and International research bodies.

The Committee reviewed the corporate threats and opportunities and the Chair of the Risk Committee provided a report to the Board on a quarterly basis on key matters regarding risk and assurance. A corporate threat and opportunity management report was also included in the Chief Executive's report to the Board on a monthly basis. The Committee continues to provide support to management and to local universities in relation to research, development and innovation regarding threat and opportunity management.

A joint meeting between the Risk Committee and Audit Committee was held to review the effectiveness of NI Waters' internal control and risk management framework and the Board was satisfied with the Annual Integrated Report and Accounts provided by both Committees.

The Committee evaluated the annual cycle of reports considered by the Committee and was content that it has fulfilled its function as provided for in the Risk Committee's terms of reference. A formal report was presented to the Board in August 2019.

Belinda Oldfield
Chair of the Risk Committee
25 June 2020

NI Water won the GO Procurement Team of the year award for Brexit planning

Refer to the Directors' remuneration report on page 110 in relation to the work of the Nomination and Remuneration Committee.

Governance Statement

Introduction

The Governance section on pages 83 to 116 sets out the role of the Board and the assessment of its effectiveness in discharging its responsibilities under the Companies Act 2006. MPMNI requires a 'Governance Statement' to be included in the Annual Integrated Report and Accounts. Given that some of the compliance requirements have already been included in the Governance section, the Governance Statement needs to be read inconjunction with this section. The Governance Statement forms part of the audited financial statements.

Scope of responsibility

As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of NI Water's purpose, vision and strategic priorities. I am also responsible for safeguarding the public funds and the Group's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in MPMNI, and as specified in the MSFM.

The governance arrangement complies with the best practice standards of regularity and propriety in the use of public funds and the principles of MPMNI. DfI approves NI Water's Annual Budget and Operating Plan and regularly reviews the Group's performance.

The work of the Group is directed by its Board and Executive Committee. There is a comprehensive reporting and accountability system provided through the Executive Committee, Board and sub-committees of the Board who, together with the work of Internal and External Audit, support me in my role as Chief Executive and Accounting Officer.

Governance framework

The system of internal control is designed to manage threats and opportunities to a reasonable level, and to achieve the Group's purpose, vision and strategic priorities. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is supported by a risk management framework to provide an ongoing process to identify and prioritise the risks to the achievement of the strategic priorities, to evaluate the likelihood and the impact should they be realised, and to manage them efficiently, effectively and economically. The leadership team also considers opportunities for making improvements over the year to achieve better outcomes for our customers, further community engagement to improve sustainability and lots more creative ways to promote health and wellbeing of our colleagues and business partners.

The Group's Integrated Governance Framework, supported by the Integrated Risk and Resilience Framework provides the appropriate structure in place to facilitate good governance and communication across the business and with key stakeholders.

The system of internal control has been in place in NI Water for the year ended 31 March 2020 and up to the date of approval of the Annual Integrated Report and Accounts, and accords with DoF's and HM Treasury's guidance, where appropriate.

Capacity to handle risk

NI Water manages risks in line with our Integrated Risk and Resilience Framework. The Framework clearly defines the roles and responsibilities of the Board, its Committees, the Executive Committee, Directors, Risk Champions and employees. There is a clear chain of accountability from the Accounting Officer to all employees. The Framework provides guidance on how to undertake risk assessments and how to manage risk to an acceptable level as determined by the Board.

The risk and control framework

A range of information was used to establish the corporate threats and opportunities at the start of the year. This included a benchmark of threats and opportunities faced by other water companies, the Internal Audit Opinion, the Accounting Officer's Annual Assurance Statement, changes in legislation and Government guidance and emerging risks to NI Water.

During the year, the Executive Committee met on a quarterly basis to assess and evaluate corporate risks and agreed the necessary improvements required to address evolving business needs. The corporate and directorate risk registers have clearly defined owners. These registers were reviewed on a continual basis using risk management software, with monthly reports generated for monitoring purposes. Corporate risk maps were presented to the Risk Committee on a cyclical basis throughout the year. The Board received summary information on a monthly basis. Corporate risks can be 'drilled down' to business units and to programme or project levels as appropriate, to evidence the effectiveness of controls and required actions. Directorate risks can also be escalated to senior management's attention when they are graded as 'high' or 'medium'. An established escalation process is also in place to alert the Chief Executive, Board and Stakeholders of significant new issues.

The Risk Committee updates the Board on a quarterly basis on threat improvements, benefits from opportunity realised, improvement in resilience, risk escalated and completion of improvement actions. The Board approved the risk appetite and reviewed the action plans in place to manage the risk exposure and realise opportunities.

The Board provides a quarterly risk management report, at a strategic level, to DfI. Risk management is a permanent agenda item in the Shareholder meetings. Other stakeholders are involved in managing risks that impact upon them.

Key risks materialising in year

During the year risks have been effectively managed and significant risks are as reported in pages 63 to 74. Risks that are beyond the control of NI Water require different treatment. Risks such as funding constraints continue to place NI Water in a situation where service delivery could be impacted in the short to medium term and where economic development cannot be supported in the short term due to lack of asset capacity. Discussions are ongoing with DfI. Risks such as Covid-19 and weather related events, will continue to be managed by NI Water within limited resourcing and asset capability with steps taken where possible to improve on our resilience.

Internal Audit

The Head of Internal Audit provided an 'Annual Opinion' on NI Water's system of governance, risk management and internal control. The opinion for the year ended 31 March 2020 is 'Satisfactory': 'While there is some residual risk identified this should not significantly impact on the achievement of objectives'.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of corporate governance, internal control and risk management. My review is informed by the work of managers within NI Water, who have responsibility for the development and maintenance of the internal control framework. I am also informed by other independent sources of assurance.

The Board, Audit Committee and Risk Committee have also provided their review of the effectiveness of the system of internal control and a plan to address any weaknesses and to ensure that continuous improvement of the system of internal control is in place.

A formalised assurance framework to assist me in assessing the extent of compliance with the specified responsibilities, including the effectiveness of the systems of internal control has been developed. The Audit Committee and Risk Committee considered the Internal Audit Opinion and Chief Executive's Annual Assurance Statement and informed the Board on the overall effectiveness of the Group's system of internal control and risk management.

The year end management assurance statements include a list of evidence to support management's response and the associated risks. The External Audit opinion for the Statutory, Regulatory and Regularity audits are all 'unqualified' and there is an effective process to manage closure of management letter points raised by the External Auditors.

I am therefore satisfied that the governance, risk management and internal control framework in NI Water is 'Satisfactory'.

Chief Executive's Year End Assurance Statement – Exception Report

Whilst there is an adequate system of internal control in place in NI Water, a number of matters included in the 'Exception Report', appended to my Annual Assurance Statement to the DfI Accounting Officer, have been identified for further action. Most of the matters are reflected in the 'Strategic threats and opportunities' section, while others are reported to the Shareholder.

The Board and I will continue to address these matters. We will also work with our Shareholder, where there is joint accountability on certain threats and opportunities, to manage them towards the relevant risk appetite or opportunity realised level.

Sara Venning
Accounting Officer
25 June 2020

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

Principal activities

The principal activities of NI Water (the Group) are the supply of water and the collection and treatment of sewage in Northern Ireland. The Parent Company (NI Water Limited) is domiciled and incorporated in Northern Ireland. The Registered Number is NI054463 and the Registered Office is: Westland House, 40 Old Westland Road, Belfast, BT14 6TE. The Parent Company is wholly owned by DfI.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2020.

The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates as described below:

- NI Water Limited is subject to economic regulation rather than market competition. As a result, the Parent Company provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006, which designates NI Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland;
- following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a NDPB and is subject to public sector spending rules i.e. public expenditure; and
- the Board has been unable to accept the Utility Regulator's Final Determination for PC15 due to a shortfall in public expenditure funding.

NI Water Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to reductions in public expenditure funding.

Following the PC15 Mid Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond and NI Water continues to monitor performance against PC15 Final Determination targets.

Our budget for 2020/21 is based on indicative funding levels per the PC15 Final Determination and the impact of Covid-19 on billable revenues resulting in a requirement of £141.7m Resource Departmental Expenditure Limit (DEL) and £150.0m Capital DEL. The DfI has provided NI Water with indicative allocations for 2020/21, however, at the time of writing there is a gap in Resource DEL funding, which is being explored with the DfI.

NI Water has access to cash through its loan note instrument from which it can draw down loans from DfI up until 31 March 2022. In addition, the Company has access to a working capital facility of £20m.

In relation to outputs, some aspects of delivery remain behind profile mainly as a consequence of under-funding in the first two years of PC15. While this may have been recoverable with increased capital budget in latter years, this has not been available to us. Furthermore, with the reduction in delivery of capital outputs in response to Covid-19, it is now likely that there will be a shortfall in delivery against planned PC15 outputs with some work carried over into PC21.

In accordance with the Licence, NI Water Limited submitted its business plan for the PC21 period to the Utility Regulator in January 2020. NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs which will be set in the PC21 Final Determination to prevail. On the basis of the discussions, the Directors have formed a judgement at the time of approving the financial statements that the Group has adequate resources to continue in operational existence for the foreseeable future and as such to continue as a going concern.

Long term viability statement

The long term success of NI Water is dependent on the sustainability of its business model and its management of risk. Decisions made by the Board will have a direct impact on the long term viability of the Group.

The purpose of the viability statement is to assist the Board in discharging its responsibility to ensure that the Group is financially resilient i.e. the extent to which the Group's financial arrangements enable it to avoid, cope with and recover from disruption (a 'financial shock'). The viability statement demonstrates how the Board has assured itself that this is the case, providing this assurance both to the Shareholder and wider stakeholders. In making this assessment, the Board has taken account of the current position, the potential impact of the strategic risks facing the business in severe but plausible scenarios, and the effectiveness of any mitigating actions.

This viability statement has been prepared in two stages, firstly by considering and reporting on the longer term prospects by taking into account the Group's current position and strategic risks, and then by stating whether the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their viability assessment, drawing attention to any qualifications or assumptions as necessary.

Stage 1 – longer term prospects

The Directors have considered the Group's longer term prospects, taking into account the Group's current position and strategic risks. Refer to page 63.

Stage 2 – assessment of viability

Period covered

The Directors have considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between timescale and robustness of analysis, and the time periods used across the water sector. The Directors consider that a seven year period is appropriate given NI Water's position within the current regulatory cycle and the extent to which information is available on the direction of the subsequent Business Plans. As NI Water is in the final year of the six year PC15 regulatory cycle and the PC21 Business Plan has been submitted to the Utility Regulator, there is information available for the seven year period, which extends to the end of the PC21 regulatory period (March 2027). This timeframe falls well within our current strategic planning horizon (2021-46). The Strategy and the PC21 Business Plan reflect the Directors' best view of future prospects. The assumptions used in developing the PC21 Business Plan are based upon the best information currently available.

Approach

The approach to developing our long term viability statement is summarised below:

Develop scenarios

- Risk owners identify and maintain integrated risk and resilience regisiters
- Identify corporate risks
- Develop severe but plausible risk scenarios arising from the corporate risks
- Review by Audit Committee and Risk Committee

Model scenarios

- Financial shocks (income, operational and capital expenditure) applied to each severe but plausible scenario for the next seven years x probability = annual expected monetary value
- Model the financial impacts over the next seven years
- Review by Audit Committee and Risk Committee

Approve the long term viability statement

- Write the long term viability statement
- Assure supporting information
- Review by Audit Committee and Risk Committee
- Approval by Board

Scenarios

A number of severe but plausible scenarios and underlying events were developed based on the corporate risks (a sub-set of the strategic risks) and in liaison with risk owners. An estimate was made of the likely financial shock for each event, which was then multiplied by a probability of occurrence to give an expected monetary value. The expected monetary value for each event was summed to give the expected monetary value for each scenario. The total of the expected monetary values for all the scenarios represents the anticipated financial shock for all corporate risks in each year of the seven year assessment period. This financial shock is based on the Directors' current expectations and, by its very nature, is inherently unpredictable, speculative and involves risk and uncertainty because it relates to events and depends on circumstances that may or may not occur in the future.

Scenario number	Scenario name	Description of severe but plausible scenarios	Link to strategic risk (page 59)
1	Underfunding	Significant underfunding of the PC21 Business Plan	ST1 ST7 ST8
2	Macroeconomic	Macro-economic shocks and stress (combination of inflation, interest rates, bad debt, tax duty/recession) may lead to changes in the number of non-domestic customers and levels of bad debt	ST1 ST7 ST8
3	Pension	Unanticipated additional contributions to the Pension Scheme arising from higher than expected actual inflation; lower than expected investment returns; the threat that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets; and members living for longer than expected	ST5 ST7 ST8
4	People	A lack of people, capacity and capability compounded by a shortfall in STEM skills and talent in the marketplace may compromise our business performance and ability to retain critical skills	ST7 ST8 SO2
5	Supply chain	Global supply chain disruptions, chemical pricing or changes to market conditions may lead to excessive energy or chemical cost inflation, power outages/ blackouts and insolvency of key operational or capital contractors	ST1 ST7 ST8
6	Health and Safety	Major fire or explosion due to process safety failure, legionella/asbestos exposure or dam burst may lead to death or serious injury to colleague or member of the public	ST2 ST7
7	Cyber	Significant IT/cyber breach leads to major data loss (GDPR, NISD & SEMD) leading to investigation and fine by Information Commissioner or Competent Authority, service impact or breach of network information systems and security and emergency measure obligations	ST4 ST7
8	Drinking water	Major widespread water quality contamination event	ST1 ST3 ST6 ST7
9	Wastewater	Severe consent failure at key wastewater treatment works (including unexpected change to PPP Omega contract)	ST3 ST7
10	Pollution	Pollution and sewer flooding incidents lead to loss of reputation with regulators, key stakeholders and damage to the natural and built environment	ST3 ST6 ST7
11	Severe weather	Multi-year dry spring/summer leads to severe drought and supply restrictions	ST6 ST7
		Severe winter followed by thaw leading to significant increase in leakage and supply interruptions	ST6 ST7
		Widespread flood inundation/coastal inundation/ significant flood event including our ability to embed and transform our flood resilience	ST1 ST3 ST6 ST7

Financial shocks have not been developed in relation to scenario one due to the difficultly in estimating the degree to which financial shocks relating to other scenarios will increase as a result of underfunding and the uncertainty around funding over PC21. Scenario one is unique to NI Water as all other UK water companies benefit from funded regulatory settlements. The draft determination on PC21 was anticipated in July 2020 but has been deferred until September 2020 given Covid-19. The final determination was anticipated in December 2020 and has been deferred until March 2021. The PC21 funding settlement was therefore not known when the Board approved the viability statement in June 2020. Nonetheless, the Directors consider that, subject to accepting the PC21 final determination, any underfunding of the determination will increase the size and likelihood of the financial shocks across the other scenarios.

We believe that the suite of scenarios considered encompasses the full spectrum of potential risks and have sought to benchmark the severity of the scenarios against both historical risk events and other scenarios used within the industry. We have also looked at the frequency and impact of historic examples of scenarios for NI Water and across other water companies.

Pandemics are included within the suite of scenarios. The full impact of Covid-19, which commenced in late 2019/20 is difficult to predict given the level of uncertainty about its duration. Covid-19 is considered to be more extreme than the planning assumptions used in the above scenarios. We have, however, considered the actual known impact of Covid-19 and will reassess our planning assumptions once the full impact becomes more certain.

The expected value method assumes that all major risk scenarios occur on an ongoing, albeit risk adjusted, basis. One event could occur and be mitigated before the next event occurred.

The following plausible combinations of financial shocks have also been considered:

- **Combination 1 –** macroeconomic, pension and supply chain;
- **Combination 2 –** people and pollution;
- **Combination 3 –** cyber, drinking water and wastewater; and
- **Combination 4 –** drinking water and severe weather.

As part of the assessment, reverse stress testing has been performed to understand the headroom in the Group's overdraft and capital loan notes for financial shocks before and after applying probabilities. Larger financial shocks (before applying a probability of occurrence) for income and operational expenditure and capital expenditure have been used to inform the stress testing.

Fundamental assumptions

This viability statement is based on the following fundamental assumptions:

- that the Utility Regulator's final determination on the PC21 Business Plan is accepted by NI Water and is fully funded by the Shareholder;
- that the Shareholder, as the sponsoring Government Department, can provide public expenditure budget cover to allow the Group to incur additional expenditure associated with one or more of the severe but plausible scenarios occurring. This includes the full impact of Covid-19;
- that the current regulatory and statutory framework does not substantively change. From an economic perspective, given the market structure of water and wastewater services, threats to the Group's viability from risks such as reduced market share, substitution of services and reduced demand are low compared to those faced by many other industries; and
- that the assessment of financial shocks based on the above approach for this first viability assessment represents the full range of financial shocks and their magnitude. The assessment of financial shocks will be further embedded into the risk management process in future years.

In assessing the viability of NI Water, the Directors have taken account of:

- the Group's current liquidity position as outlined on page 129;
- the detailed financial projections developed as part of the planning process, which include the best available information about the final year of the PC15 regulatory period and the PC21 regulatory period ending in March 2027; and
- the severe but plausible scenarios and stress testing described above.

Mitigating actions

The English and Welsh water companies can undertake a range of actions to mitigate the impact of severe but plausible financial shocks. These actions include use of cash reserves, access to borrowing on the financial markets, flexing capital investment programme between years, moving expenditure between operational and capital expenditure, cutting dividends, equity injections, equity reductions and significantly increasing the size and scope of their commercial insurance programmes. These mitigating actions are either not available to NI Water given its NDPB status or would not provide any additional spending power. Furthermore, the English and Welsh water companies operate under a funded regulatory settlement, unlike NI Water, which has been underfunded through PC15 regulatory settlement (2015-21). NI Water's financial resilience is therefore very dependent on its sponsoring Government Department for both access to funding and public expenditure budget cover to incur expenditure, the latter of which is the fundamental constraint. Severe but plausible financial shocks would in all likelihood require additional funding bids to DfI. Such bids would compete with other bids on public expenditure within the sponsoring Government department and across the public sector.

Assurance

We applied two levels of assurance over our long term viability statement.

- Level 1 - a Project Board was established to review the preparation of the long term viability statement comprising of colleagues from risk, resilience, finance, regulation and internal audit. The Project Board ensured that the long term viability statement was produced in line with best practice and the UK Corporate Governance Code; and
- Level 2 - the viability statement was subject to scrutiny and challenge by the Audit Committee, the Risk Committee and the Board at key stages in its development.

Conclusion

The Directors have concluded that, subject to the fundamental assumptions outlined above, there is a reasonable expectation that NI Water will be able to continue in operation and meet its liabilities as they fall due over the seven year assessment period ending in March 2027.

Future developments

The Directors are not aware at the date of this report of any likely major changes to NI Water's activities in the next year.

Dividends and reserves

NI Water Limited's dividend policy is to provide a return to the Shareholder DfI based on a percentage of the regulatory capital value less net debt. The return is set in the PC15 Final Determination. Payment of any dividend is subject to NI Water having sufficient distributable profits. Refer to the strategic threats and opportunities (page 63) for factors which could impact on the amount of distributable profits. It is anticipated that a final dividend of £31.5m for the year ended 31 March 2020 (2019: £28.3m[2]) will be approved by the Shareholder upon the recommendation of the Board in June 2020 and paid in July 2020 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2020.

[2] This dividend in respect of the year ended 31 March 2019 was paid in July 2019.

Directors and Officers

The Directors and Officers who served during the year and up to the date of this report are set out on page 91.

Further details on our Board and Executive Committee can be found at: https://www.niwater.com/our-board/ and https://www.niwater.com/our-executive-committee/

Directors' and Officers' indemnities

Directors and Officers are indemnified by NI Water against costs incurred by them in carrying out their duties, including defending any proceedings brought against them arising out of their positions as Directors; or in which they are acquitted; or judgement is given in their favour; or relief from any liability is granted to them by the Court.

Policy on the payment of creditors

NI Water's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreements, the policy is to make payment not more than 30 days after receipt of a valid invoice. The year to date ratio, expressed in days, between the time invoices from large suppliers fall due and the time invoices were actually paid at 31 March 2020, was 31.4 days (2019: 31.7 days). NI Water has adopted the public sector supplier payment policy for small and medium sized suppliers of 10 days after receipt of a valid invoice in accordance with the Northern Ireland Executive's policy. As at 31 March 2020, the year to date ratio stood at 11.6 days (2019: 11.7 days).

Political and charitable contributions

NI Water made no political or charitable donations nor did it incur any political expenditure during the year.

Research and development

NI Water invested £0.3m on research and development in 2019/20 (2019: £0.2m). Refer to Note G1(f)(ii) to the Statutory Accounts for the accounting treatment.

Employees

NI Water uses an increased range of communication channels to keep its employees involved in the Group's affairs to engage them and keep them informed and appraised on performance and other business related matters. NI Water continues to oppose all forms of unlawful and unfair discrimination. It remains the Group's policy to promote equality of opportunity for all our employees during their employment.

Directors' interests in contracts

No Director had a material interest at any time during the year in any contract of significance with NI Water. The key personnel and Directors did not carry out any transactions with related parties of the Group.

Regulation - 'ring fencing'

In accordance with the requirements of the regulatory Licence, the Board confirmed, that as at 31 March 2020, it had available to it sufficient rights and assets, not including financial resources, which would enable a special administrator to manage the affairs, business and property of NI Water Limited in order that the purposes of a special administration order could be achieved if such an order were made.

Regulation - 'cross directorships'

Directors and employees of NI Water may be Directors of related companies when this is in the best interests of NI Water, and where appropriate arrangements are in place to avoid conflicts of interest. These arrangements include prior approval of any cross directorships by the Board and the Shareholder. In addition, Directors holding cross directorships are required to disclose any such interests prior to making decisions which may result in, or give the appearance of, a conflict of interest.

Greenhouse gas emissions

Details on greenhouse gas emissions are included on page 52.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Board of Directors of NI Water consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Act) in the decisions taken during the year ended 31 March 2020 (see page 89) and by reference to the approval of our Strategy (2021-46) and PC21 Business Plan (2021–27), supported by the Board assurance statement accompanying our plan:

(a) Long term decisions

Our Strategy and Business Plan set out the step change in investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure. The NI Water Board has driven the strategic development of our Strategy and Business Plan. It has challenged the Executive Committee to put forward a strategy and plan that delivers for health, environment and economy in Northern Ireland while being affordable for customers and deliverable for our people and our supply chain. The Board has obtained confirmation from its independent Board Assurance Advisor (Atkins) that the Strategy and Business Plan are clear, structured and evidence based, and the narrative is supported by robust data.

(b) Employees

Our people are the most important drivers of our success and our Strategy and Business Plan aims to create a more diverse, engaged and high-performance organisation in which all employees are supported and empowered to reach their full potential and excel in whatever they do. In addition to our annual employee engagement survey and other engagement channels, we engaged with our people and Trade Unions specifically in developing our Strategy, which has a separate strategic priority on people. The Business Plan underpins the Strategy and commits us to ensuring that our people are strongly equipped with the skills and competency to succeed in an era of unprecedented change in the workplace. It focuses on developing and delivering a sound resourcing plan to build the diverse and inclusive workforce of the future, anticipate and address current and future skill gaps and ensure a strong leadership and talent pipeline. The Business Plan also commits us to protecting the health, safety and wellbeing of our people through sector leading health, safety and wellbeing performance and our zero accident and harm ambition.

Our Business Plan was also developed to ensure that the employer pension contributions meet the funding requirements of the Pension Scheme.

(c) Suppliers, customers and others:

Supply chain

We regularly engage with our supply chain through a range of channels, which range from specific events to ongoing business as usual contacts. One of our primary channels is our annual supplier event, which has been running for nearly a decade. This event provides a great opportunity to engage with the new and existing suppliers. Over 400 representatives from local, national and international businesses attended our 2019/20 event at Titanic Belfast in partnership with InterTradeIreland. The event provided an opportunity for new and existing suppliers across a diverse range of sectors to find out more about our upcoming 18 month tender programme to support delivery of our Strategy and Business Plan. Areas of focus included energy, smart networks and artificial intelligence. Many of NI Water's strategic contractors were in attendance providing opportunities to meet potential new sub-contractors. The Ervia supply chain staff were also at the event and provided details of opportunities to work with Irish Water and other companies in the Ervia Group. Refer to page 105 regarding payment of creditor policy.

Customers

Our Strategy and Business Plan are based on engagement with our domestic customers and our non-domestic customers including developers. We recognise that we have a different relationship with our domestic customers from our peers in the rest of the UK and that not paying directly for water and sewerage services makes them even further removed and our service even more invisible. Our approach has been overseen by the consumer engagement oversight group, an ongoing partnership between NI Water, the Utility Regulator, the CCNI and the DfI. This group has worked with us to shape our approach and provide assurance. Customer engagement in preparation for PC21 has focused on qualitative engagement to better capture the views and perceptions of our customers. We have developed a new strategic partnership with Ipsos MORI, which extends into PC21, enabling us to develop an ongoing, consistent approach to engagement. Engagement[3] that has informed our PC21 Business Plan has included:

Operational engagement

200,000 phone calls per year

Up to **10,000** telephone customer surveys each year (of customers who have directly contacted NI Water)

Indirect engagement

7,000+ Twitter followers and **12,000+** Facebook fans

1.4m+ website views

Focused engagement

189 domestic and business customers engaged in focussed workshops

27 key stakeholders, developers and customers on our 'customer care register' across Northern Ireland engaged for in-depth interviews

1,036 perception surveys with domestic customers and businesses

[3]This engagement relates to the PC21 Business Plan which used 2018/19 data.

Principal Stakeholders

Our principal stakeholders helped us co-create our Strategy and Business Plan. A range of working groups and challenge groups provided us with assurance that we developed a plan that reflects our strategic priorities. These included:

- Consumer Engagement Oversight Group, chaired by NI Water and focusing on issues associated with Customers;
- Drinking Water Quality Working Group, chaired by the Drinking Water Inspectorate and focusing on issues associated with Water;
- Social Policy Working Group, chaired by the DfI and focusing on all the other issues associated with People and the Economy;
- Environmental Quality Working Group, chaired by the NIEA and focusing on issues associated with Nature and Sewerage; and
- Cost Assessment Working Group, led by the Utility Regulator and focusing on regulatory cost comparison with England and Wales.

Our participation in these groups has ensured that we have provided a forum for stakeholders for strategic discussion on priority issues, we are held accountable for progress on key outputs, and can coordinate the delivery of the price control process.

Local Councils

We presented the current status of water and wastewater infrastructure, capacity constraints and our recommended PC21 capital investment programme to all 11 Borough and District Councils in the context of their Local Development Plans and the 'hub' towns and cities that are central to their growth plans. In addition, NI Water has engaged with the Northern Ireland Local Government Association (NILGA), the Society of Local Authority Chief Executives (SOLACE) as well as Planning, Housing and Regeneration committees.

Business organisations

We focused on engaging with industry groups on our Strategy and Business Plan with the largest reliance on interest in water, such as the construction or manufacturing industry, and the farming and food sectors (through groups such as the Construction Employers' Federation, NI Food and Drink Association and the Ulster Farmers Union).

Political parties

Briefings on our Strategy and Business Plan with Party Leaders, Party Infrastructure Spokespersons, Party Policy Advisors have ensured that local representatives are all fully aware of the current status of water and wastewater infrastructure, NI Water's recommended PC21 capital investment programme and the consequences should inadequate funding continue.

(d) Community and the environment

The Strategy and Business Plan were developed in line with the DfI's Draft Social and Environmental Guidance for Water and Sewerage Services (2021-27). Government priorities for PC21 are set out in the draft guidance. The strategic priorities focus on sustainably growing all forms of capital (natural capital, social capital, intellectual capital, human capital, manufactured capital and financial capital) to ensure that we put back more than we take out. The priorities provide a framework to support best practice corporate decision making (integrated thinking across the capitals and natural capital accounting) and corporate reporting (integrated reporting across the capitals). We are proud to play our part in supporting delivery of at least 12 of the UN's Sustainable Development Goals and have joined Business for Nature, a community of leading businesses, which have made commitments that will begin to reverse the loss of nature and restore the planet's vital natural systems on which our economies, wellbeing and prosperity depend.

(e) Business conduct

As the Board of Directors, we are committed to the highest standards of behaviour in how we do business. Our values provide the cultural framework to support achievement of our purpose and vision, and we encourage our employees to live these values. Our values are at the heart of our decision making and underpin everything we do. They centre around a more sustainable way of doing business by putting back more to society, the economy and the natural environment than we take out. The values are embedded in our Code of Ethics, which links to other policies such as our Speak Up (Whistleblowing Policy), Fraud Prevention, Anti-Bribery and Corruption and Modern Slavery.

(f) Shareholder

As the Board of Directors, our intention is to behave responsibly toward our sole Shareholder (DfI), so they too may benefit from the successful delivery of our plan. This includes servicing the borrowings from DfI and paying a dividend to DfI, which represents a return to the taxpayer on the amount invested in the Group.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware and each Director has taken steps they should have taken as a Director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the External Auditors will be deemed to be re-appointed and KPMG will therefore continue in office.

By order of the Board

Mark Ellesmere
Company Secretary
25 June 2020

Directors' remuneration report

Nomination and Remuneration Committee

The Nomination and Remuneration Committee determines, on behalf of the Board, and subject to approval by the Shareholder, the NI Water policy on the remuneration of Executive Directors and Executives. Only independent Non-Executive Directors may serve on the Committee. The Committee met three times in the year.

Board appointments and diversity

The Nomination and Remuneration Committee has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors, succession planning and making recommendations to the Board and Shareholder so as to maintain an appropriate balance of skills and experience on the Board. This includes consideration of gender and ethnic diversity. The Shareholder appoints the Chair and all other Non-Executive Board members and participates in and approves the appointment of all Executive Directors to the Board.

Remuneration policy

NI Water's policy on remuneration of Executive Directors and Executives is to attract, retain and motivate the best people, recognising the input they have to the ongoing success of the business. Consistent with this policy, and in accordance with Article 62 of the Water and Sewerage Services (Northern Ireland) Order 2006, the benefit packages awarded by NI Water to Executive Directors and Executives are intended to be competitive, and under the policy should comprise base salary, and a discretionary performance related bonus designed to incentivise Directors and align their interests with those of the Shareholder. The remuneration consists of the following elements:

Base salaries

Under the policy, base salaries for each Executive Director and Executive should be reviewed annually taking into account inflation. Notwithstanding this policy NI Water Limited has been subject to public sector pay policy in 2019/20 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2019/20 for Executive Directors and Senior Managers.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

Group Companies

Apart from NI Water Limited, the Directors of the other companies in the Group did not receive any emoluments for their services.

Non-Executive Directors' remuneration

The higher fees for the Chairman reflect the additional responsibilities of that role. Further details on the fees paid to the Non-Executive Directors are provided on page 112.

Directors' employment contracts

The Executive Directors covered by this report hold appointments which are open ended. The policy relating to notice periods and termination payments is contained within their service agreements and/or NI Water's Employee Handbook. The Non-Executive Directors covered by this report hold appointments which last for four years and the DfI Minister has the option of reappointing for a further four years after consideration of a performance assessment.

Fees paid to members of the Executive Committee

	Year to 31 March 2020					Year to 31 March 2019				
Current Executive Directors:	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits[4] £000	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000	Total £000
Sara Venning	**155 - 160**	**-**	**-**	**55**	**210 - 215**	150 - 155	-	-	57	210 - 215
Ronan Larkin	**120 - 125**	**-**	**-**	**29**	**150 - 155**	115 - 120	-	-	36	150 - 155
Paul Harper	**110 - 115**	**-**	**-**	**42**	**155 - 160**	110 - 115	-	-	40	150 - 155
Former Executive Director:										
Sean McAleese	**-**	**-**	**-**	**-**	**-**	105 - 110[5]	-	-	29[6]	135 - 140
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	**115 - 120**	**-**	**-**	**38**	**150 - 155**	110 - 115	-	-	42	155 - 160
Alistair Jinks	**100 - 105**	**-**	**-**	**29**	**130 - 135**	95 - 100	-	-	30	125 - 130
Rose Kelly	**105 - 110**	**-**	**-**	**38**	**140 - 145**	100 - 105	-	-	37	135 - 140
Des Nevin	**100 - 105**	**-**	**-**	**159**	**260 - 265**	20 - 25[7]	-	-	15	35 - 40[8]

[4] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases include increases due to inflation and any increase or decrease due to a transfer of pension rights.

[5] £115k - £120k on a full year equivalent basis. Sean McAleese ceased to be Director of Customer Service Delivery on 28 February 2019.

[6] The value of all pension related benefits are assessed over the period from 1 April 2018, to 28 February 2019, the date on which he ceased to be Director of Customer Service Delivery.

[7] £100k - £105k on a full year equivalent basis. Des Nevin was appointed to the Executive Committee on 7 January 2019.

[8] The value of all pension related benefits are assessed over the period from 7 January 2019, the date on which he was appointed to the Executive Committee, to 31 March 2019.

Pay multiples

The relationship between the remuneration of the highest paid Director and the median remuneration of NI Water's workforce is shown below. The banded remuneration of the highest paid Director in NI Water was £155k to £160k on a full year equivalent basis (2019: £150k to £155k). This was 4.83 times (2019: 4.85 times) the median remuneration of the workforce, which was £32,944 (2019: £31,765). The marginal change in the pay multiple (ratio) between 2018/19 and 2019/20 was primarily due to the annual uplift to the remuneration of the highest paid director offset to a greater degree by increases to the minimum levels of remuneration.

	Group	
	Year to 31 March 2020 Total	Year to 31 March 2019 Total
Highest paid Director (£'000)	**155 - 160**	150 - 155
Median total remuneration (£)	**32,944**	31,765
Pay multiple (ratio)	**4.83**	4.85
Range of remuneration (£'000)	**16 - 160**	10 - 155

Fees paid to Non-Executive Directors

	Year to 31 March 2020				Year to 31 March 2019			
Current Executive Directors:	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Total £000
Dr Leonard J. P. O'Hagan CBE DL- Chairman	**40 - 45**	**-**	**-**	**40 - 45**	40 - 45	-	-	40 - 45
Peter McNaney, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Belinda Oldfield	**2.5 - 5.0[9]**	**-**	**-**	**2.5 - 5.0**	-	-	-	-
Marie-Thérèse McGivern	**2.5 - 5.0[9]**	**-**	**-**	**2.5 - 5.0**	-	-	-	-
Patrick Larkin	**2.5 - 5.0[9]**	**-**	**-**	**2.5 - 5.0**	-	-	-	-
Maurice Bullick	**2.5 - 5.0[9]**	**-**	**-**	**2.5 - 5.0**	-	-	-	-
Former Non-Executive Directors								
John Rae	**15 - 20[10]**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Jim McCall	**15 - 20[10]**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Trisha McAuley, OBE	**15 - 20[10]**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Kingsley Donaldson	**15 - 20[10]**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20

[9] Appointed Non-Executive Director on 1 February 2020.

[10] Ceased to be a Non-Executive Director on 31 January 2020.

Pension entitlements

Non-Executive Directors do not participate in NI Water's pension scheme. All Executive Directors are members of the defined benefit pension arrangements. The accrued pension entitlement is the amount that the Executive Director would receive if he/she retired at the end of the year. The increase in the accrued entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Further details on pensions are provided in Notes E2 and G3 to the Statutory Accounts.

Transfer values

The Cash Equivalent Transfer Value (CETV) for an individual Executive Director is the actuarially assessed capitalised value of the pension scheme benefits accrued at a particular point in time. All transfer values have been calculated on the basis of actuarial advice in accordance with Technical Actuarial Standards issued by the Financial Reporting Council. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefit. Transfer values do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

Increase in transfer value less Directors' contributions

The real increase in CETV shows the increase over the year in the transfer value of the accrued benefits after deducting the Director's personal contributions to the scheme. Further details on Directors' remuneration are shown in Note E1a to the Statutory Accounts.

Pension benefits for members of the Executive Committee

Current Executive Directors:	Accrued pension at age 60 at 31 March 2020 £000	Related lump sum at 31 March 2020 £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	25 - 30	40 - 45	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	30 - 35	-	2.5 - 5.0	-
Paul Harper	5 - 10	20 - 25	0 - 2.5	5.0 - 7.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	30 - 35	30 - 35	2.5 - 5.0	5.0 - 7.5
Alistair Jinks	25 - 30	-	0 - 2.5	-
Rose Kelly	2.5 - 5	10 - 15	0 - 2.5	5.0 - 7.5
Des Nevin	50 - 55	150 - 155	7.5 - 10	22.5 - 25.0

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2020[11] £000	CETV at 31 March 2019[12] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[13]) £000	Employer contribution (to nearest £100)
Sara Venning	**590**	513	**41**	46,500
Ronan Larkin	**753**	675	**38**	35,800
Paul Harper	**146**	95	**39**	33,500
Former Executive Director:				
Sean McAleese	**-**	1,680	**-**	-
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	**736**	667	**30**	34,100
Alistair Jinks	**637**	565	**40**	29,900
Rose Kelly	**86**	45	**33**	30,700
Des Nevin	**1,482**	1,211	**211**	30,400

11 Based on accrued benefits at 31 March 2020 and financial conditions as at 31 March 2020.

12 Based on accrued benefits at 31 March 2019 (or date of leaving the Executive Committee if earlier) and financial conditions as at 31 March 2019.

13 CPI inflation of 2.4% (CPI figure for the year to September 2018).

What we have done to improve diversity and inclusion

Valuing people for who they are and the contributions they bring provides the cultural framework to support achievement of our purpose and vision, placing our commitment to diversity and inclusion front and centre of how we do business. We recognise diversity in all its forms i.e. race, gender, age, religion, sexual orientation, socio economic background, identity, and experience.

Our diversity and inclusion strategy aims to provide an inclusive work environment where everyone feels welcomed and treated with respect and dignity; and better meet the needs of our customers by ensuring that our workforce represents the diverse communities we serve. The objectives of the strategy are to:

- increase employee engagement through providing an inclusive workplace;
- increase diversity within our workforce;
- place a commitment to diversity and inclusion firmly within our new corporate values;
- enhance employer brand and promote breadth of careers within NI Water;
- widen our schools outreach, to positively influence STEM career choices;
- develop inclusive leaders capable of developing a culture of diversity and inclusion within teams; and
- involve employees in developing the strategy, focusing activity in the areas that matter most.

Over the last two years, we have significantly strengthened our commitment to diversity and inclusion, forming strategic partnerships with external advocacy bodies such as Women in Business and Business in the Community and increasing investment in dedicated diversity and inclusion resources to lead efforts. We have also placed respect as one of our five corporate values defined as 'respecting people for who they are and the contribution they bring' and created a new workforce diagnostic tool to baseline our workforce demographic.

Highlights of our diversity and inclusion journey are shown below:

Diversity Mark

Badge of best practice. Accredited with the Bronze Diversity Charter Mark in 2019 and recently re-accredited against this standard in 2020 in recognition of our sustained commitment to diversity and inclusion.

SOCIAL MOBILITY PLEDGE™

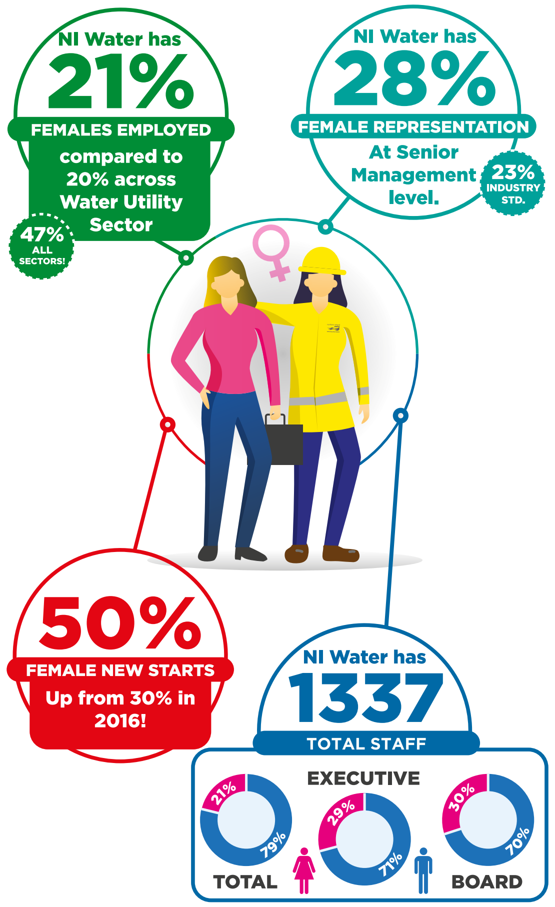
Social mobility. First Company in Northern Ireland to sign up to the UK Social Mobility Pledge in 2020 demonstrating our commitment to improve social mobility in the communities we serve.

disability confident COMMITTED

Disability confident. Recognised in 2019/20 as a disability confident employer, as an endorsement of our commitment to recruit and retain disabled people and people with health conditions.

Involving our people in the areas that matter to them. A new diversity and inclusion workgroup formed in 2019/20, involving volunteers from across the business and chaired by Paul Harper, Director of Asset Delivery.

Celebrating diversity. In 2019/20 we participated in Belfast Pride celebrations for the first time ever and held an event to celebrate our female talent as part of International Women's Day.



Increasing female representation. Changes have been made to hiring practices by use of software to check for gender neutral language in recruitment advertising, mandatory unconscious bias training for interviewers and revised schools outreach campaigns to improve our employer brand. In 2019/20, the number of female applicants increased by 20% compared to the previous year.

Widening our external outreach. Our CEO, Sara Venning was the key note speaker at the Institute of Director's Women's Leadership Conference in March 2020. We are also increasing participation by our people in external diversity and inclusion conferences.

External recognition. Our diversity and inclusion strategy was shortlisted for the CIPD award 2020 for Best Diversity and Inclusion Initiative.


CIPD Northern Ireland
March 13 at 5:26 PM

We're excited to announce the shortlist for the 2020 CIPD Northern Ireland HR Awards.

Many congratulations to everyone who has been shortlisted - please visit http://cipdniawards.co.uk for the full shortlist and information regarding rescheduled judging interview dates.

CIPD | Northern Ireland HR Awards 2020

Best Diversity and Inclusion Initiative

Sponsored by: EVERSHEDS SUTHERLAND

- Sensata Technologies
- Northern Ireland Water
- Dixons Carphone

The journey continues

We have come a long way in the last two years but we are still at early stages of our journey and there is more to come. The 2020/21 plans include the design and delivery of a series of dedicated diversity and inclusion workshops for our Executive Committee to model our commitment from the top and the design of a new management development programme for all managers with a focus on inclusive leadership training.

Dr Leonard J. P. O'Hagan CBE DL
Chairman
25 June 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report, the strategic report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year.

Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006, and the relevant provisions of the Water and Sewerage Services (Northern Ireland) Order 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Having taken advice from the Audit Committee, the Directors consider that the Annual Integrated Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the Shareholder to assess the Group and Parent Company's position, performance, business model and strategy.

Each of the Directors, whose names are listed on page 111 confirm that, to the best of their knowledge:

- the Group financial statements give a true and fair view of the assets, liabilities, financial position of the Group as at 31 March 2020 and of its profit for the year then ended;
- the Parent Company's statement of financial position gives a true and fair view of the state of affairs of the Parent Company's affairs as at 31 March 2020; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company together with a description of the principal risks and uncertainties it faces.

On behalf of the board

Mark Ellesmere
Company Secretary
25 June 2020

Statutory Accounts

Restoration of blanket bog, Garron Plateau, County Antrim

Consolidated statement of financial position

	Note	At 31 March 2020 £000	At 31 March 2019 £000
Assets			
Property, plant and equipment	A1	**3,239,823**	3,091,841
Investment properties	A3	**6,384**	6,410
Intangible assets and goodwill	A4	**51,877**	53,849
Investments	A5	**-**	-
Other investments	A6	**15**	15
Total non-current assets		**3,298,099**	3,152,115
Inventories	A7	**3,758**	3,126
Trade and other receivables	C4	**28,250**	20,973
Unbilled revenue	C5	**12,732**	12,687
Prepayments		**1,351**	2,760
Cash and cash equivalents	A8	**14,862**	18,777
Assets classified as held for sale	A9	**93**	68
Total current assets		**61,046**	58,391
Total assets		**3,359,145**	3,210,506
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**450,740**	430,921
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,122,354**	1,102,535
Liabilities			
Loans and borrowings	B1	**1,365,708**	1,332,767
Interest rate swap	D2	**10,358**	9,846
Other payables	D2	**537**	1,500
Deferred income	C2	**483,165**	426,504
Provisions	D3	**2,319**	2,490
Deferred tax liabilities	F1	**201,635**	167,095
Employee benefit	E2	**42,514**	35,632
Total non-current liabilities		**2,106,236**	1,975,834
Loans and borrowings	B1	**8,765**	9,205
Trade payables	D2	**100,854**	104,124
Other payables	D2	**15,316**	14,336
Deferred income	C2	**3,949**	2,792
Provisions	D3	**1,671**	1,680
Total current liabilities		**130,555**	132,137
Total liabilities		**2,236,791**	2,107,971
Total equity and liabilities		**3,359,145**	3,210,506

See Note A10. The Group initially applied IFRS 16 at 1 April 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

The financial statements were authorised for issue by the Board of Directors on 25 June 2020 and were signed on its behalf by:

Sara Venning,
Chief Executive,
25 June 2020

The Notes on pages 128 to 193 form part of these financial statements.

Company statement of financial position

	Note	At 31 March 2020 £000	At 31 March 2019 £000
Assets			
Property, plant and equipment	A1	**3,239,191**	3,091,207
Investment properties	A3	**6,384**	6,410
Intangible assets	A4	**28,956**	30,928
Investments	A5	**5,000**	-
Other investments	A6	**15**	15
Total non-current assets		**3,279,546**	3,128,560
Inventories	A7	**3,559**	2,954
Trade and other receivables	C4	**58,628**	56,014
Unbilled revenue	C5	**12,732**	12,687
Prepayments		**1,321**	2,779
Cash and cash equivalents	A8	**3,080**	7,731
Assets classified as held for sale	A9	**93**	68
Total current assets		**79,413**	82,233
Total assets		**3,358,959**	3,210,793
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**457,153**	439,767
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,128,767**	1,111,381
Liabilities			
Loans and borrowings	B1	**1,371,904**	1,337,867
Other payables	D2	**537**	1,500
Deferred income	C2	**483,165**	426,504
Provisions	D3	**2,319**	2,490
Deferred tax liabilities	F1	**198,508**	163,983
Employee benefit	E2	**42,514**	35,632
Total non-current liabilities		**2,098,947**	1,967,976
Loans and borrowings	B1	**8,091**	6,697
Trade payables	D2	**102,695**	105,991
Other payables	D2	**14,839**	14,276
Deferred income	C2	**3,949**	2,792
Provisions	D3	**1,671**	1,680
Total current liabilities		**131,245**	131,436
Total liabilities		**2,230,192**	2,099,412
Total equity and liabilities		**3,358,959**	3,210,793

See Note A10. The Group initially applied IFRS 16 at 1 April 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

The Company's profit for the year ended 31 March 2020 was £46,011k (2019: £66,077k).

The financial statements were authorised for issue by the Board of Directors on 25 June 2020 and were signed on its behalf by:

Sara Venning,
Chief Executive,
25 June 2020

The Notes on pages 128 to 193 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Revenue	C1	**429,114**	**416,442**
Other income	C3	**490**	911
Operating expenses	D1	**(282,015)**	(275,460)
Research and development expenses		**(309)**	(159)
Results from operating activities		**147,280**	141,734
Finance income	B2	**685**	1,260
Finance costs	B2	**(63,499)**	(62,324)
Net finance costs		**(62,814)**	(61,064)
Profit before income tax		**84,466**	80,670
Income tax expense	F1	**(36,022)**	(14,496)
Profit for the year		**48,444**	66,174
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial losses	F1	**(353)**	(9,413)
Equity investment at Fair Value Through Other Comprehensive Income (FVOCI) - net change in fair value	F1	**-**	(13)
Other comprehensive income for the period, net of income tax		**(353)**	**(9,426)**
Total comprehensive income for the period		**48,091**	**56,748**
Profit attributable to:			
Owner of the Company		**48,444**	66,174
Total comprehensive income attributable to:			
Owner of the Company		**48,091**	56,748

All profits relate to continuing operations.

See Note A10. The Group initially applied IFRS 16 at 1 April 2019, using the modified retrospective approach. Under this approach comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application.

The Notes on pages 128 to 193 form part of these financial statements.

Consolidated statement of changes in equity

	Attributable to the owner of the Group					
	Note	**Share capital £000**	**Statutory distributable reserve £000**	**Retained earnings £000**	**Fair value reserve £000**	**Total equity £000**
Balance at 1 April 2019	B3	500,000	171,690	430,921	(76)	1,102,535
Total comprehensive income for the period						
Profit for the year		-	-	48,444	-	48,444
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(858)	-	(858)
Deferred tax arising on losses in defined benefit plan	F1	-	-	505	-	505
Total other comprehensive income		-	-	(353)	-	(353)
Total comprehensive income for the period		-	-	48,091	-	48,091
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(28,272)	-	(28,272)
Balance at 31 March 2020		500,000	171,690	450,740	(76)	1,122,354
Dividends per share (GBP)						0.06

The Notes on pages 128 to 193 form part of these financial statements.

Statutory Accounts

Consolidated statement of changes in equity continued

	Attributable to the owner of the Group					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
Balance at 1 April 2018	B3	500,000	171,690	400,621	(63)	1,072,248
Total comprehensive income for the period						
Profit for the year		-	-	66,174	-	66,174
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(11,341)	-	(11,341)
Deferred tax arising on losses in defined benefit plan	F1	-	-	1,928	-	1,928
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	(9,413)	(13)	(9,426)
Total comprehensive income for the period		-	-	56,761	(13)	56,748
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of Company	B3	-	-	(26,461)	-	(26,461)
Balance at 31 March 2019		500,000	171,690	430,921	(76)	1,102,535
Dividends per share (GBP)						0.05

The Notes on pages 128 to 193 form part of these financial statements.

Company statement of changes in equity

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
Balance at 1 April 2019	B3	500,000	171,690	439,767	(76)	1,111,381
Total comprehensive income for the period						
Profit for the year		-	-	46,011	-	46,011
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(858)	-	(858)
Deferred tax arising on losses in defined benefit plan	F1	-	-	505	-	505
Total other comprehensive income		-	-	(353)	-	(353)
Total comprehensive income for the period		-	-	45,658	-	45,658
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(28,272)	-	(28,272)
Balance at 31 March 2020		500,000	171,690	457,153	(76)	1,128,767
Dividends per share (GBP)						0.06

The Notes on pages 128 to 193 form part of these financial statements.

Company statement of changes in equity continued

	Attributable to the owner of the Company					
	Note	Share capital £000	Statutory distributable reserve £000	Retained earnings £000	Fair value reserve £000	Total equity £000
Balance at 1 April 2018	B3	500,000	171,690	409,564	(63)	1,081,191
Total comprehensive income for the period						
Profit for the year		-	-	66,077	-	66,077
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(11,341)	-	(11,341)
Deferred tax arising on losses in defined benefit plan	F1	-	-	1,928	-	1,928
Items that are or may be reclassified to profit or loss:						
Equity investment at FVOCI - net change in fair value		-	-	-	(13)	(13)
Total other comprehensive income		-	-	(9,413)	(13)	(9,426)
Total comprehensive income for the period		-	-	56,664	(13)	56,651
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to owner of Company	B3	-	-	(26,461)	-	(26,461)
Balance at 31 March 2019		500,000	171,690	439,767	(76)	1,111,381
Dividends per share (GBP)						0.05

The Notes on pages 128 to 193 form part of these financial statements.

Consolidated statement of cash flows

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Cash flows from operating activities			
Profit before tax		**84,466**	80,670
Adjustments for:			
Depreciation	A1, A3	**78,047**	75,621
Amortisation of intangible assets	A4	**6,411**	6,576
Amortisation of deferred credit on adopted assets		**(3,250)**	(3,145)
Gain on sale of property, plant and equipment	C3	**(467)**	(551)
Interest expense (net)	B2	**62,814**	61,064
Amortisation of goodwill	A4	**-**	1,014
Amortisation of FV senior debt loan and associated deferred tax		**(447)**	(458)
Tax paid		**(941)**	(5)
Non-cash differences taken to profit or loss*		**(1,541)**	533
		225,092	221,319
Changes in:			
- inventories		**632**	453
- trade and other receivables		**149**	1,131
- unbilled revenue		**1,359**	(2,563)
- trade and other payables		**4,003**	3,219
- provisions		**(182)**	(723)
- excess of pension charge over cash pension contributions		**4,346**	(129)
Cash generated from operating activities		**235,399**	222,707
Cash flows from investing activities			
Interest received		**136**	164
Proceeds from sale of property, plant and equipment		**1,467**	646
Acquisition of property, plant and equipment, and intangible assets		**(186,114)**	(187,889)
Grants received		**4,772**	1,503
Net cash used in investing activities		**(179,739)**	(185,576)
Cash flows from financing activities			
Proceeds from borrowings		**40,000**	64,000
Payment of finance lease liabilities		**(4,135)**	(3,056)
Payment of bank loans		**(5,455)**	(4,081)
Interest paid		**(61,713)**	(61,189)
Dividends paid	B3	**(28,272)**	(26,461)
Net cash from financing activities		**(59,575)**	(30,787)
Net (decrease)/increase in cash and cash equivalents		**(3,915)**	6,344
Cash and cash equivalents at 1 April	A8	**18,777**	12,433
Cash and cash equivalents at 31 March	A8	**14,862**	18,777

*Relates to deferred credit written off from consolidated Statement of Financial Position (SOFP).

The Notes on pages 128 to 193 form part of these financial statements.

Company statement of cash flows

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Cash flows from operating activities			
Profit before tax		**81,594**	80,095
Adjustments for:			
Depreciation	A1, A3	**77,864**	75,603
Amortisation of intangible assets	A4	**6,411**	6,576
Notional income relating to adopted assets	C1	**-**	-
Gain on sale of property, plant and equipment	C3	**(467)**	(551)
Interest expense (net)		**64,372**	63,684
Amortisation of deferred credit for adopted assets	C1	**(3,250)**	(3,145)
Tax paid		**(1,000)**	(4)
		225,524	222,258
Changes in:			
- inventories		**(599)**	(484)
- trade and other receivables		**199**	828
- unbilled revenue		**1,408**	(2,571)
- trade and other payables		**1,533**	4,846
- provisions		**(182)**	(1,279)
- excess of pension charge over cash pension contributions		**4,346**	(129)
Cash generated from operating activities		**232,229**	223,469
Cash flows from investing activities			
Interest received		**455**	429
Proceeds from sale of property, plant and equipment		**117**	446
Insurance Proceeds		**1,350**	200
Acquisition of property, plant and equipment, and intangible assets		**(184,328)**	(187,918)
Loan to subsidiaries		**(392)**	(2,998)
Grants received		**4,772**	1,384
Net cash used in investing activities		**(178,026)**	(188,457)
Cash flows from financing activities			
Proceeds from borrowings		**40,000**	64,000
Payment of finance lease liabilities		**(7,028)**	(5,706)
Interest paid		**(63,554)**	(63,011)
Dividends paid	B3	**(28,272)**	(26,461)
Net cash from financing activities		**(58,854)**	(31,178)
Net (decrease)/increase in cash and cash equivalents		**(4,651)**	3,834
Cash and cash equivalents at 1 April	A8	**7,731**	3,897
Cash and cash equivalents at 31 March	**A8**	**3,080**	7,731

The Notes on pages 128 to 193 form part of these financial statements.

Notes to the Statutory accounts

1. Key accounting policies

a) Reporting entity

Northern Ireland Water Limited (the Company) is a Company domiciled in Northern Ireland. The address of the Company's registered office is Westland House, 40 Old Westland Road, Belfast, BT14 6TE. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the supply of water and the collection and treatment of sewerage in Northern Ireland.

The Company is wholly owned by the Department for Infrastructure (DfI).

b) Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and with the Companies Act 2006. This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note G1(o).

c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the defined benefit liability which is recognised as the fair value of the plan assets less the present value of the defined benefit obligation, the revaluation of certain financial liabilities (under IFRS) to fair value, including derivative financial instruments, and the investments which are held at fair value through Other Comprehensive Income. The defined benefit pension liability and derivative financial instruments represents a material item in the statement of financial position (SOFP).

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2020. The Directors consider it appropriate to adopt the going concern approach given the regulatory, financial and governance environment within which the Parent Company operates as described below.

NI Water Limited is subject to economic regulation rather than market competition. As a result, NI Water Limited provides water and sewerage services in Northern Ireland under the conditions in its Licence granted by the Utility Regulator and underpinned by the Water and Sewerage Services (Northern Ireland) Order 2006 which designates Northern Ireland Water Limited as the sole Water and Sewerage Undertaker for Northern Ireland.

Following the NI Assembly decision to defer the introduction of domestic water charges, NI Water Limited receives funding by means of a subsidy provided by DfI. Due to the level of subsidy, NI Water Limited is also designated as a Non-Departmental Public Body (NDPB) and is subject to public sector spending rules.

The Board has been unable to accept the Utility Regulator's Final Determination for the Price Control from 16 April 2015 to 31 March 2021 (PC15) due to a shortfall in public expenditure funding.

NI Water Limited engaged positively with the Utility Regulator and the Department to agree changes to 2015/16 and 2016/17 regulatory outputs due to the reduction in Public Expenditure funding.

Following the PC15 Mid Term Review, the Utility Regulator concluded:

- based on reasonable forward planning scenarios for capital investment, NI Water Limited should have sufficient capital budget to deliver all of its defined PC15 outputs within the PC15 six year period;
- but it is unlikely to allow investment in additional necessary quality improvements, which may need to be deferred to the PC21 period;
- the reduction in expenditure in line with inflation is being passed on to consumers through RPI+K price cap regulation and the PC15 outputs are being delivered; and
- PC15 Final Determination targets remain valid and should be used for planning and performance reporting for the rest of the PC15 period.

1. Key accounting policies continued

As a result, adjusted outputs have not been agreed with the Utility Regulator for 2017/18 and beyond and NI Water continues to monitor performance against PC15 Final Determination targets.

In accordance with the Licence, NI Water Limited submitted its business plan for the PC21 period to the Utility Regulator in January 2020. NI Water continues to make the case for certainty of funding and a medium term financial settlement to enable price limits and service targets/outputs, which will be set in the PC21 Final Determination, to prevail.

The Company has the following short term and long term cash and bank facilities:

- capital loan arrangement to 31 March 2022 has been established to fund the capital expenditure for the business. This also includes the facility to drawdown loan notes to cover unforeseen events/emergency situations including the current Covid-19 emergency;
- a £20m working capital facility to 31 March 2022 which provides access to cash facilities for short term needs and for unforeseen events/emergency situations;
- the Subsidy Agreement with DfI permits the early drawdown of subsidy in year if the cash is required; and
- access to transactional banking services under the new Northern Ireland Civil Service arrangements was established from 1 April 2016.

Further information is included in Note G2 (liquidity risk).

In the first quarter of 2020/21 DfI has agreed to the early draw down of subsidy in the year to help to make up for the reduction in cash receipts from customer billing as a result of Covid-19.

d) Functional and presentation currency

The consolidated financial statements are presented in pound sterling (GBP), which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand, unless otherwise indicated.

e) Changes in accounting policies

The Group initially applied IFRS 16 Leases (see (i)) from 1 April 2019. A number of other new standards are also effective from 1 April 2019 but they do not have a material effect on the Group's financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

1. Key accounting policies continued

(i) IFRS 16 Leases

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note G1(o).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

B. As a lessee

As a lessee, the Group leases many assets including land, property, sea outfall pipes, motor vehicles and photocopiers. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

(i) Leases classified as operating leases under IAS 17

Previously, the Group classified property lease, motor vehicles and photocopiers as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 April 2019 (see Note 1(e)(i)(D)(i)). Right-of-use assets are measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. GPS equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

(ii) Leases classified as finance leases under IAS 17

The Group did not classify any lease as finance leases under IAS 17.

C. As a lessor

The Group leases out its lands and building which are owned by the Group. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Group does not have any sub-leases in existence at 1 April 2019 that were classified as operating leases under IAS 17.

Statutory Accounts

1. Key accounting policies continued

D. Impact on financial statements

(i) Impact on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

	1 April 2019 £000
Right-of-use assets – land and buildings	1,996
Right-of-use assets – infrastructure assets	387
Right-of-use-assets – operational assets	29
Right-of-use assets – vehicle plant and equipment	181
Deferred tax asset	-
Lease liabilities	(2,593)
Retained earnings	-

*For the impact of IFRS 16 on profit or loss for the period, see Note D5. For the details of accounting policies under IFRS 16 and IAS 17, see Note G1(o).

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted-average rate applied is 2.20% (Subsidiary: 2.70%).

	1 April 2019 £000
Operating lease commitments at 31 March 2019 as disclosed under IAS 17 in the Group's consolidated financial statements	1,125
Additional finance lease liabilities recognised as at 31 March 2019	1,567
- Recognition exemption for leases of low-value assets	(106)
- Recognition exemption for leases with less than 12 months of lease term at transition	(6)
- Extension options reasonably certain to be exercised*	-
Discounted using the incremental borrowing rate at 1 April 2019	13
Lease liabilities recognised at 1 April 2019	2,593

*There is an extension option relating to one of the property leases. Please refer to Note A10 (d).

f) Critical accounting estimates and judgements

The preparation of the consolidated financial statements, in conformity with IFRSs, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following Notes:

- Note A4 – intangibles assets and goodwill;
- Note C4 – trade and other receivables;
- Note E2 – measurement of defined benefit pension obligations;
- Notes D3 and D4 – provisions and contingencies;
- Note G1(t) and Note B4 – measurement of fair values; and
- Note F1 – deferred taxation.

Significant accounting policies are included at Note G1.

Key themes for NI Water

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A. The assets we use

NI Water uses a significant number of assets in its operations. We are continually investing in our assets both to maintain and to increase our capacity for service. For further information on our capital programme see pages 81 to 82.

This section sets out those assets the Group and Company intends to continue to use, those which are in the course of being disposed of and any disposals which have been completed in the year. Certain assets which are shown on the balance sheet are being paid for through a PPP contract. Under such arrangements NI Water obtains substantially all the risks and rewards of ownership. Information is provided on Group and Company acquisitions during the year. This section also deals with the financing costs and obligations associated with such assets as well as leased assets.

For further information on the relevant accounting policies applied in this section please see section G1.

A1. Property, plant and equipment

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Cost or deemed cost								
Balance at 1 April 2018	80,023	1,879,914	1,324,150	15,558	206,967	**3,506,612**	496	**3,507,108**
Additions	-	4,212	-	-	166,989	**171,201**	175	**171,376**
Customer contributions	2	32,886	1,407	-	-	**34,295**	-	**34,295**
Disposals	(34)	(1,300)	(42)	(161)	-	**(1,537)**	-	**(1,537)**
Transfers	3,167	62,483	101,272	1,431	(168,353)	**-**	-	**-**
Reclassification of asset categories	169	-	(169)	-	-	**-**	-	**-**
Transfers to investment properties	-	-	-	-	-	**-**	-	**-**
Balance at 31 March 2019	**83,327**	**1,978,195**	**1,426,618**	**16,828**	**205,603**	**3,710,571**	**671**	**3,711,242**
Balance at 1 April 2019	83,327	1,978,195	1,426,618	16,828	205,603	**3,710,571**	671	**3,711,242**
Recognition of right-of-use asset on initial application of IFRS 16	1,996	387	29	-	-	**2,412**	181	**2,593**
Adjusted balance at 1 April 2019	85,323	1,978,582	1,426,647	16,828	205,603	**3,712,983**	852	**3,713,835**
Additions	-	4,621	-	-	172,101	**176,722**	-	**176,722**
Customer contributions	1	45,249	1,463	-	-	**46,713**	-	**46,713**
Disposals	-	(943)	-	(423)	-	**(1,366)**	-	**(1,366)**
Transfers	1,658	45,675	79,201	1,079	(127,613)	**-**	-	**-**
Transfers to assets held for sale	(3)	-	-	-	-	**(3)**	-	**(3)**
Balance at 31 March 2020	**86,979**	**2,073,184**	**1,507,311**	**17,484**	**250,091**	**3,935,049**	**852**	**3,935,901**

*Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

A1. Property, plant and equipment continued

	Company						Group	
	Land and buildings £000	Infrastructure assets £000	Operational assets* £000	Vehicle plant and equipment £000	Assets in the course of construction £000	**Total £000**	Vehicle plant and equipment £000	**Total £000**
Depreciation and impairment losses								
Balance at 1 April 2018	(10,230)	(140,537)	(382,591)	(11,944)	-	**(545,302)**	(19)	**(545,321)**
Depreciation for the year	(1,233)	(18,246)	(54,824)	(1,296)	-	**(75,599)**	(18)	**(75,617)**
Disposals	34	1,300	42	161	-	**1,537**	-	**1,537**
Balance at 31 March 2019	**(11,429)**	**(157,483)**	**(437,373)**	**(13,079)**	**-**	**(619,364)**	**(37)**	**(619,401)**
Balance at 1 April 2019	(11,429)	(157,483)	(437,373)	(13,079)	-	**(619,364)**	(37)	**(619,401)**
Depreciation for the year	(1,250)	(18,621)	(56,483)	(1,197)	-	**(77,551)**	(132)	**(77,683)**
Depreciation for the year – Right-of-use assets	(274)	(10)	(25)	-	-	**(309)**	(51)	**(360)**
Disposals	-	943	-	423	-	**1,366**	-	**1,366**
Balance at 31 March 2020	**(12,953)**	**(175,171)**	**(493,881)**	**(13,853)**	**-**	**(695,858)**	**(220)**	**(696,078)**
Carrying amounts								
At 31 March 2019	71,898	1,820,712	989,245	3,749	205,603	3,091,207	634	3,091,841
At 31 March 2020	**74,026**	**1,898,013**	**1,013,430**	**3,631**	**250,091**	**3,239,191**	**632**	**3,239,823**

*Includes civil structures, fixed plant and machinery, IT, furniture and laboratory equipment.

All surplus land and buildings have been transferred to investment properties and non-current assets held for sale (see Note A3).

Property, plant and equipment includes right-of-use assets of £1,722k related to leased properties that do not meet the definition of investment property (see Notes A10 and D5).

Borrowing costs capitalisation

Included in the total net book value of property, plant and machinery is £5,477k (2019: £5,014k) of borrowing costs capitalised during the period using a capitalisation rate of 3.77% (2019: 3.90%) relating to the Parent Company.

A1. Property, plant and equipment continued

Leased assets (Group and Company)

	At 31 March 2020 £000	At 31 March 2019 £000
The net book value of land and buildings comprises:		
Freehold	**72,976**	70,845
Leasehold - long and short term	**1,050**	1,053
Total	**74,026**	71,898

	At 31 March 2020 £000	At 31 March 2019 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**17,709**	17,544

PPP assets

The cost and net book value of PPP assets included in property, plant and equipment are disclosed in Note A2. Commitments under operating leases are shown in Note D5.

Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group and Company	
	At 31 March 2020 £000	At 31 March 2019 £000
Contracted	**90,284**	105,771

In addition to the above, at the end of the financial year the Group and Company had entered into commitments amounting to £462m (2019: £460m). These commitments relate to planned future capital spend. The contracted amount of £90m (2019: £106m) is in relation to actual spend contracted with suppliers to date.

A2. Service concession agreements

The transfer of ownership of the assets and liabilities of Water Service from an agency of a Government Department to NI Water on 1 April 2007 included the transfer of a number of service concession arrangements with private sector Companies (PPP Companies) in the form of Private Finance Initiative contracts for the supply of water and wastewater services.

The capital cost of each contract is included within 'property, plant and equipment' (see Note A1) and as PPP creditor in 'loans and borrowings' (see Note B1) in the SOFP. No changes in the arrangements occurred during the year. A description of the arrangements, their significant terms, and the nature and extent of rights and obligations are outlined below.

Kinnegar

A contract with Coastal Clear Water Limited was signed on 30 April 1999 for the provision of sewage treatment, which covered the upgrading of the Kinnegar Waste Treatment Works with a capital cost in the region of £11m. The contract is for 25 years with an end date of 30 April 2024. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2020 is £12.35m and £5.22m respectively (2019: £12.0m and £5.23m). The amount included in PPP Creditors at 31 March 2020 is £1.87m (2019: £2.53m).

Omega

A contract with Glen Water Limited was signed on 6 March 2007 for the provision of sewage treatment/sludge disposal at six sites with a capital cost in the region of £132m. The contract is for 25 years with an end date of 5 March 2032. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2020 is £149.07m and £102.28m respectively (2019: £146.95m and £104.50m). The amount included in PPP Creditors at 31 March 2020 is £107.03m (2019: £110.12m).

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A2. Service concession agreements continued

Alpha (Company only)

A contract with Dalriada Water Limited was signed on 30 May 2006 for the provision of bulk drinking water supplies. This has a capital cost in the region of £111m. The service provision commenced roll-out from November 2008. The contract is for 25 years with an end date of 29 May 2031. The cost and net book value of assets included in Property, Plant and Equipment at 31 March 2020 is £125.16m and £84.35m respectively (2019: £123.45m and £86.53m). The amount included in PPP Creditors at 31 March 2020 is £82.41m (2019: £85.35m). With the acquisition by the Group of Dalriada Water Limited during 2017/18 (see Note A5) the PPP creditor at group level is eliminated on consolidation.

Significant terms

The key terms relate to the basis upon which the Group and Company pays for the services provided by the PPP Companies. The levels of such payments are subject to performance, volume and quality targets being met, which lead to fluctuations in the amount payable. The Group and Company also has the power to levy payment deductions where the level of service falls below pre-determined standards, primarily linked to the quality of the treated wastewater and drinking water. The contracts are structured such that either party may seek to amend the basis upon which the service is provided, primarily where driven by a change in law but also by agreement to a change in the level of service or a refinancing change. This is subject to a formal variation procedure and is ultimately dependent upon the parties reaching agreement on the contractual changes required to give effect to the specific variation.

Nature and extent of rights and obligations

The Group and Company's primary obligations are to deliver fresh water and wastewater to the PPP Companies and thereafter the Group and Company pays for the treatment services provided, making the appropriate deduction where the PPP Companies fail to meet the appropriate performance standards. The PPP Companies provided the initial construction services through a sub-contract and also entered into sub-contracts for the operation and maintenance of these assets once satisfactorily commissioned. All such projects are in their operational phase. Sites are licensed or leased to the PPP Companies through the contract.

Termination in full or in part (in some circumstances) during the contractual period can arise for a number of reasons including default (by either the PPP Company or the Group and Company), force majeure, uninsurable events or voluntary termination by the Group and Company. Each contract contains a formula from which termination compensation payable by the Group and Company is derived. Other than each party's unilateral right to propose an amendment to a contract, the most likely circumstance which would give rise to the re-negotiation of a contract is as a result of a change in law which requires the manner in which the treatment and/or disposal service is delivered to be changed, in order to ensure it meets the requirements of such legislative changes. The contracts also stipulate a range of 'hand-back' conditions linked to the remaining life of certain assets.

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A3. Investment properties

	Group	Company
	Total £000	**Total £000**
Cost or deemed cost		
Balance at 1 April 2018	**19,071**	**19,071**
Disposals	**(66)**	**(66)**
Transfers to non-current assets held for sale	**-**	**-**
Transfers from non-current assets held for sale	**12**	**12**
Balance at 31 March 2019	**19,017**	**19,017**
Balance at 1 April 2019	**19,017**	**19,017**
Disposals	**-**	**-**
Transfers to non-current assets held for sale	**(57)**	**(57)**
Transfers from non-current assets held for sale	**-**	**-**
Balance at 31 March 2020	**18,960**	**18,960**
Accumulated depreciation and impairment losses		
Balance at 1 April 2018	**(12,624)**	**(12,624)**
Disposals	**21**	**21**
Impairment loss	**-**	**-**
Reclassification to non-current assets held for sale	**-**	**-**
Reclassification from non-current assets held for sale	**-**	**-**
Depreciation for the year	**(4)**	**(4)**
Balance at 31 March 2019	**(12,607)**	**(12,607)**
Balance at 1 April 2019	**(12,607)**	**(12,607)**
Disposals	**-**	**-**
Impairment loss	**-**	**-**
Reclassification to non-current assets held for sale	**35**	**35**
Reclassification from non-current assets held for sale	**-**	**-**
Depreciation for the year	**(4)**	**(4)**
Balance at 31 March 2020	**(12,576)**	**(12,576)**
Carrying amounts		
At 31 March 2019	**6,410**	**6,410**
At 31 March 2020	**6,384**	**6,384**

Impairment loss

During the year ended 31 March 2020, the Group and Company did not recognise any impairment loss for investment properties (2019: £Nil)

A4. Intangible assets and goodwill

	Company			Group	
	Computer programs and software £000	Assets in the course of construction £000	**Total £000**	Goodwill £000	**Total £000**
Cost					
Balance at 1 April 2018	79,883	3,558	**83,441**	23,935	**107,376**
Additions	-	7,130	**7,130**	-	**7,130**
Transfers	3,896	(3,896)	**-**	-	**-**
Disposals	(40)	-	**(40)**	-	**(40)**
Balance at 31 March 2019	**83,739**	**6,792**	**90,531**	**23,935**	**114,466**
Balance at 1 April 2019	83,739	6,792	**90,531**	23,935	**114,466**
Additions	-	4,439	**4,439**	-	**4,439**
Transfers	3,326	(3,326)	**-**	-	**-**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2020	**87,065**	**7,905**	**94,970**	**23,935**	**118,905**
Amortisation and impairment losses					
Balance at 1 April 2018	(53,067)	-	**(53,067)**	-	**(53,067)**
Amortisation/impairment for the year	(6,576)	-	**(6,576)**	(1,014)	**(7,590)**
Disposals	40	-	**40**	-	**40**
Balance at 31 March 2019	**(59,603)**	**-**	**(59,603)**	**(1,014)**	**(60,617)**
Balance at 1 April 2019	(59,603)	-	**(59,603)**	(1,014)	**(60,617)**
Amortisation/impairment for the year	(6,411)	-	**(6,411)**	-	**(6,411)**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2020	**(66,014)**	**-**	**(66,014)**	**(1,014)**	**(67,028)**
Carrying amounts					
At 31 March 2019	24,136	6,792	**30,928**	22,921	**53,849**
At 31 March 2020	**21,051**	**7,905**	**28,956**	**22,921**	**51,877**

a) Impairment testing for goodwill

The recoverable amount of the goodwill was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

The cash flow projections included specific estimates for the life of the finite contract and the discount rate was a post-tax measure estimated based on the historical industry average weighted-average equity cost of capital, at a market interest rate of 7.5%.

The key assumption used in the estimations of the recoverable amount reflects management's assessment of the performance of the concession arrangement and have been based on expected revenue and cost over the life of the PPP contract, discounted at the market rate.

Goodwill arising on acquisitions will be reviewed for impairment at each year end and will be written down to nil by the end of the PPP contract on the basis of the forecasted discounted profitability of the acquired companies. It is expected that the next impairment of goodwill will take place from 2028/29 onwards based on the current forecasts.

A4. Intangible assets and goodwill continued

Assets in the course of construction (AICC)

No borrowing costs were capitalised and included in the carrying value of AICC during the year.

£309k (2019: £159k) of research and development expenditure was recognised as an expense during the period. The following intangible assets are deemed to be material to the Group and Company's financial statements:

Description	Carrying amount	Remaining amortisation period
MC2 implementation (mobile work management)	£1.5m	3
Water mains studies	£1.2m	3
CBC implementation (customer billing)	£1.2m	2
Asset data acquisition and improvement	£0.7m	4
Metering related software	£0.6m	6
Drainage area plans	£0.4m	5
Wastewater networks modelling	£1.1m	8
Northern Ireland Asset Management Plan (NIAMP4)	£0.4m	5
In-sourcing Network Modelling	£0.4m	9
Goodwill arising on acquisitions	£22.92m	12

The contractual commitments for the acquisition of intangible assets as at 31 March 2020 are £5,042k (2019: £7,893k).

A5. Investments

	Company	
	At 31 March 2020 £	At 31 March 2019 £
Investment in subsidiaries	**5,000,001**	1
Total	**5,000,001**	1

During the year NI Water Clear Limited was refinanced to replace a working capital loan to NI Water as follows:

3,000,000 ordinary shares of £1.00 were issued by NI Water Clear Limited and were acquired by NI Water in consideration for the discharge of £5,000,000 of the working capital loan owed by NI Water Clear Limited to NI Water.

A debt instrument of £20m was issued by NI Water Clear Limited to NI Water in consideration for the discharge of £20m of the working capital loan owed by NI Water Clear Limited. The debt instrument has a fixed interest rate of 7% and the principal repayable by 6 monthly instalments until maturity in 2031. The balance at 31 March 2020 is included within Trade and other receivables from subsidiaries (see note C4).

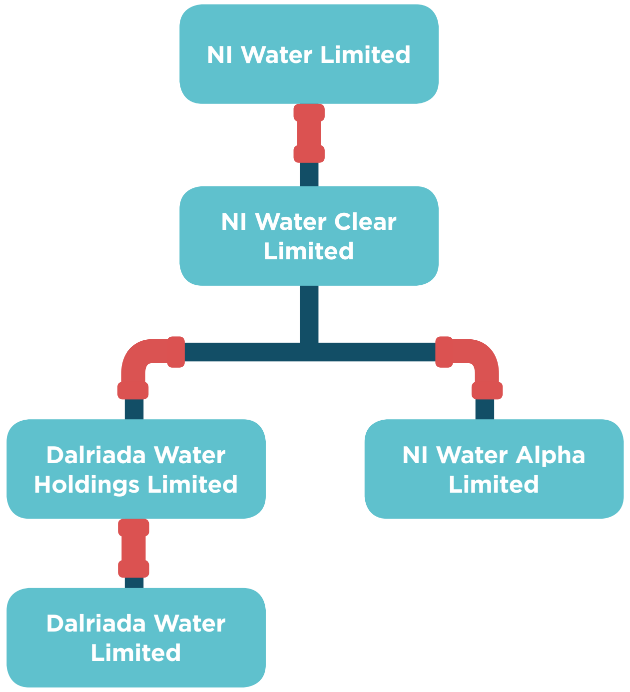
Principal subsidiary undertakings	Country of incorporation	Registered office address	% Ordinary shares and votes held	Principal activity
NI Water Clear Limited	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
Dalriada Water Holdings Limited*	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
NI Water Alpha Limited*	Northern Ireland	Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin BT29 4DZ	100	Operation and maintenance of clean water treatment facilities
Dalriada Water Limited**	Northern Ireland	Dunore Point Water Treatment Works, 9 Dunore Road, Aldergrove, Crumlin BT29 4DZ	100	Construction and financing of clean water treatment facilities

*Owned by NI Water Clear Limited **Owned by Dalriada Water Holdings Limited

A5. Investments continued

List of subsidiaries

Set out below is a list of subsidiaries of the Group.



A6. Other investments

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Non-current investments				
15,278 ordinary 'A' shares	**15**	15	**15**	15
Total	**15**	15	**15**	15

The shares relate to an investment in WRc PLC. WRc carries out research in the water, waste and environment sectors. The market value at 31 March 2020 was £1.00 per ordinary share (2019: £1.00). There is no fair value adjustment at 31 March 2020 (2019: £13k).

A7. Inventories

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Raw materials and consumables	**3,758**	3,126	**3,559**	2,954
Total	**3,758**	3,126	**3,559**	2,954

The estimated replacement cost of the stocks included above is not considered significantly different to the carrying value.

During the year raw materials, consumables and work in progress issued from stores and recognised within operating costs for the Group amounted to £4,002k (2019: £4,066k) (Company: £287k, 2019: £401k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2020 the write-down of inventories to net realisable value amounted to £60k (2019: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2019: £60k). The write-downs are included in operating expenses.

A8. Cash and cash equivalents

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Bank balances	**13,845**	17,764	**2,063**	6,718
Call deposits	**1,017**	1,013	**1,017**	1,013
Cash and cash equivalents	**14,862**	18,777	**3,080**	7,731

The Company's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note B4.

A9. Non-current assets held for sale

The Company's Land Management Department is focused on selling the properties no longer required for operational purposes. Efforts to sell the assets have commenced and where the sale is expected by March 2021 these properties have been classified as held for sale in current assets.

The movement in non-current assets held for sale is as follows:

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Balance at 1 April	**68**	130	**68**	130
Adjustment for opening balance	**-**	-	**-**	-
Net transfer from investment properties	**22**	-	**22**	-
Net transfer to investment properties	**-**	(12)	**-**	(12)
Net transfer from PPE	**3**	-	**3**	
Impairment/Depreciation	**-**	-	**-**	-
Disposals	**-**	(50)	**-**	(50)
Balance at 31 March	**93**	68	**93**	68

A gain of £2k (2019: £256k) on disposal of non-current assets held for sale is included within 'Other income' in the SOCI.

A10 Leases

See accounting policies in Note G1(o).

Leases as lessee (IFRS 16)

The Group leases lands and property. The leases for lands typically runs for a period of between 3 to 25 years, with an option to renew the leases after that date. The lease for property typically run for a period of 20 years, with an option to renew the lease after that date. Lease payments are renegotiated every five years to reflect market rentals. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

The property lease was entered into many years ago while the lands leases was entered into a few years ago. Previously, these leases were classified as operating leases under IAS 17. The Group has some leases for lands which are short term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

The Group leases networked photocopiers, which were classified as operating leases under IAS 17. See Note D5.

The Group leases sea outfall pipes from the Crown Estates Commissioners which runs for a period of 50 years.

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A10. Leases continued

The Group leases motor vehicles under a number of leases, which were classified as operating leases under IAS 17.

Information about leases for which the Group is a lessee is presented below.

a) Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see Note A1).

	Land and buildings £000	Infrastructure assets £000	Operational assets £000	Vehicle plant and equipment £000	Total £000
Balance at 1 April 2019	1,996	387	29	181	2,593
Depreciation charge for the year	(274)	(10)	(25)	(51)	(360)
Additions to right-of-use assets	-	-	-	-	-
Balance at 31 March 2020	**1,722**	**377**	**4**	**130**	**2,233**

b) Amounts recognised in profit or loss

2020 – Leases under IFRS 16	SOCI and Cash Flow £000
Interest on lease liabilities	49
Depreciation on right-of-use assets	360
Expenses relating to short term leases	6
Expenses relating to leases of low-value assets, excluding short term leases of low-value assets	16

2019 – Operating leases under IAS 17	At 31 March 2019 £000
Lease expense	238
Contingent rent expense	-

c) Amounts recognised in statement of cash flows

	At 31 March 2020 £000
Total cash outflow for leases	385

d) Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has a break clause in relation to one of the property leases which won't be exercised in 2020/21. Therefore, the lease liability in relation to this property lease has been included with the extension until the end of the lease in 2024/25.

A10. Leases continued

Leases as lessor

The Group leases out its lands and property consisting of its owned property. All leases are classified as operating leases from a lessor perspective.

a) Operating lease

The Group leases out its lands and property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during 2020 was £1,365k (2019: £1,365k).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

2020 – Operating leases under IFRS 16	At 31 March 2020 £000
Less than one year	1,365
One to two years	1,365
Two to three years	1,365
Three to four years	1,365
Four to five years	1,365
More than five years*	122,330
Total	**129,155**

*An indicative 99 years lease life have been assumed to provide the operating lease income more than five years as most of the income is associated with long life leases in perpetuity.

2019 – Operating leases under IAS 17	At 31 March 2020 £000
Less than one year	-
Between one and five years	-
More than five years	-
Total	**-**

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B. How we are financed

NI Water Limited is funded from a number of sources. This section contains the notes to the SOFP. It sets out the borrowings we receive from our Shareholder, the DfI, which is used to partially finance our capital investment programme. We pay interest on our loans and receive interest on any funds which from time-to-time we have available for short term investments. Our capital and reserves note shows the total equity attributable to the Shareholder including the dividend that is paid. For more information on how we are financed see pages 75 to 76.

For further information on the relevant accounting policies applied in this section please see section G1.

B1. Loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group and Company's exposure to interest rate and liquidity risk, see Note B4.

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Non-current liabilities				
Capital loan notes	**1,186,560**	1,146,560	**1,186,560**	1,146,560
Bank loans	**72,858**	77,303	**-**	-
Finance lease liabilities (PPP)	**104,354**	108,904	**183,490**	191,307
Finance lease liabilities (IFRS 16)	**1,936**	-	**1,854**	
Total	**1,365,708**	1,332,767	**1,371,904**	1,337,867
Current liabilities				
Current portion of bank loans	**3,895**	5,455	**-**	-
Current portion of finance lease liabilities (PPP)	**4,549**	3,750	**7,817**	6,697
Current portion of finance lease liabilities (IFRS 16)	**321**	-	**274**	-
Total	**8,765**	9,205	**8,091**	6,697

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Group					
			At 31 March 2020		At March 2019	
	Nominal interest rate	**Year of maturity**	**Face value £000**	**Carrying amount £000**	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**203,000**	**203,000**	163,000	163,000
Bank loan – EIB	5.18%	2030	**33,763**	**36,104**	36,745	38,918
Bank loan - RBC	LIBOR + margin	2029	**38,014**	**40,649**	39,947	43,840
PPP finance lease liabilities – Omega	3.67%	2032	**107,032**	**107,032**	110,124	110,124
PPP finance lease liabilities – Kinnegar	3.99%	2024	**1,871**	**1,871**	2,530	2,530
Finance lease liabilities (IFRS 16)	2.20% - 2.70%	2020-69	**2,257**	**2,257**	-	-
Total			**1,369,497**	**1,374,473**	1,335,906	1,341,972

The secured bank loans are secured over trade receivables within Dalriada Water Limited with a carrying amount of £95,535k (2019: £98,969k).

B1. Loans and borrowings continued

	Company					
			At 31 March 2020		At 31 March 2019	
	Nominal interest rate	Year of maturity	Face value £000	Carrying amount £000	Face value £000	Carrying amount £000
Capital loan notes	5.25%	2027	**627,560**	**627,560**	627,560	627,560
Capital loan notes	Gilt + 0.85%	2027	**356,000**	**356,000**	356,000	356,000
Capital loan notes	Gilt + 0.85%	2034	**203,000**	**203,000**	163,000	163,000
PPP finance lease liabilities – Alpha	5.81%	2031	**82,404**	**82,404**	85,350	85,350
PPP finance lease liabilities – Omega	3.67%	2032	**107,032**	**107,032**	110,124	110,124
PPP finance lease liabilities – Kinnegar	3.99%	2024	**1,871**	**1,871**	2,530	2,530
Finance lease liabilities (IFRS 16)	2.20%	2020-69	**2,128**	**2,128**	-	-
Total			**1,379,995**	**1,379,995**	1,344,564	1,344,564

The capital loan notes (denominated in GBP) have been issued under the instruments constituting £1,280,200k Fixed Coupon Unsecured loan notes 2027 and £600,000k Fixed Coupon Unsecured loan notes 2034. During the year to 31 March 2020, £40m of loan notes were issued under the £600,000k Fixed Coupon Unsecured loan notes 2034 instrument (2019: £64m). Capital loan notes are issued to DfI and those issued under the £1,280,200k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2027 and those issued under the £600,000k Fixed Coupon Unsecured loan notes instrument are repayable in full in 2034. All loan notes in issue before 31 March 2010 carry a fixed rate of interest of 5.25%. Any loan notes issued after 31 March 2010 carry fixed interest rates of 0.85% above the reference gilt rate as published by the UK HM Government Debt Management Office on the day of issue of the loan note. The gilt rates applying to loan drawdowns subsequent to 31 March 2010 range from 0.69% to 4.42%.

Finance lease liabilities (PPP)

Finance lease liabilities relate to PPP contracts outlined in Note A2. Finance lease liabilities are payable as follows:

	Group					
	At 31 March 2020			At 31 March 2019		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**16,208**	**11,659**	**4,549**	15,929	12,178	3,750
Between one and five years	**63,660**	**40,683**	**22,977**	63,885	43,171	20,714
More than 5 years	**117,792**	**36,415**	**81,377**	133,774	45,585	88,190
Total	**197,660**	**88,757**	**108,903**	213,588	100,934	112,654

B1. Loans and borrowings continued

	Company					
	At 31 March 2020			At 31 March 2019		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**25,297**	**17,480**	**7,817**	24,913	18,215	6,697
Between one and five years	**104,648**	**60,910**	**43,738**	103,419	64,730	38,689
More than 5 years	**190,902**	**51,150**	**139,752**	217,429	64,810	152,618
Total	**320,847**	**129,540**	**191,307**	345,761	147,755	198,004

Finance lease liabilities (IFRS 16)

Finance lease liabilities relate to leases identified as finance leases under IFRS 16 as outlined in Note A10. Finance lease liabilities are payable as follows:

	Group					
	At 31 March 2020			At 31 March 2019		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**363**	**42**	**321**	-	-	-
Between one and five years	**1,092**	**106**	**986**	-	-	-
More than 5 years	**1,211**	**261**	**950**	-	-	-
Total	**2,666**	**409**	**2,257**	-	-	-

	Company					
	At 31 March 2020			At 31 March 2019		
	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000	Future minimum lease payments £000	Interest £000	Present value of minimum lease payments £000
Less than one year	**314**	**40**	**274**	-	-	-
Between one and five years	**1,008**	**105**	**903**	-	-	-
More than 5 years	**1,211**	**260**	**951**	-	-	-
Total	**2,533**	**405**	**2,128**	-	-	-

B1. Loans and borrowings continued

Reconciliation of movements of liabilities to cash flows arising from financing activities

Group	Group £000
Balance at 1 April 2018	**1,285,661**
Changes from financing cash flows	
Proceeds from borrowings	64,000
Payment of bank loans	(4,081)
Payment of finance lease liabilities	(3,056)
Total changes from financing cash flows	**56,863**
Non-cash changes	
Amortisation of fair value adjustment arising on consolidation of senior loan	(552)
Total non-cash changes	**(552)**
Balance at 31 March 2019	**1,341,972**
Changes from financing cash flows	
Proceeds from borrowings	40,000
Payment of bank loans	(5,455)
Payment of finance lease liabilities	(4,135)
Total changes from financing cash flows	**30,410**
Non-cash changes	
New leases (IFRS 16)	2,643
Amortisation of fair value adjustment arising on consolidation of senior loan	(552)
Total non-cash changes	**2,091**
Balance at 31 March 2020	**1,374,473**

B2. Finance income and finance costs

Recognised in profit or loss

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Interest income on bank deposits	**133**	158
Financial liabilities at fair value through profit and loss – net change in fair value	**-**	550
Amortisation of senior loan debt fair valued at acquisition date	**552**	552
Net finance income	**685**	1,260
Financing charges on pension scheme	**(735)**	(460)
Financial liabilities at fair value through profit and loss – net change in fair value	**(512)**	-
Interest expense on financial liabilities measured at amortised cost	**(50,028)**	(49,270)
Interest on PPP financing arrangements	**(12,178)**	(12,594)
Interest expense on finance lease liability	**(46)**	-
Finance costs	**(63,499)**	(62,324)
Net finance costs recognised in profit or loss	**(62,814)**	(61,064)

All finance income and finance costs above relate to assets/(liabilities) not at fair value through profit or loss except for financial liabilities held at fair value. Of the above amount £51,273k (2019: £49,789k) was payable by the Company to DfI in relation to loan notes issued (see Note B1 'Loans and borrowings' and Note G4 'Related parties'). Interest of £5,477k was capitalised by the Group in the year (2019: £5,014k).

Statutory Accounts

B3. Capital and reserves

Share capital

	Company	
	Ordinary shares	
	At 31 March 2020 £000	At 31 March 2019 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2020 the authorised share capital of the Company comprised 500 million ordinary shares (2019: 500m) with a par value of £1 each.

All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends as declared from time-to-time and is entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Statutory distributable reserve

The statutory distributable reserve was established under enabling legislation.

Dividends

The following dividends were declared and paid by the Company.

	Company	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
5.65 pence per allotted ordinary share (2019: 5.29 pence)	**28,272**	26,461

The dividends recorded in each financial year represent the final dividend of the preceding financial year.

B4 Financial instruments

The Group and Company establishes an allowance for impairment of water, sewerage and trade effluent customer debt by applying a range of expected recovery rates to an aged debt profile. The expected recovery rates are based on the risk of default across different industries (derived from historical collection data and management judgement) with categorisation into high, medium or low risk. A recovery rate profile across the aging categories is set for each of the three risk categories, which reflects the relative risks of collection. All high and medium risk debt is 100% provided for if over one year old, whereas the low risk category is 100% provided for when over three years old. Separate allowances are made for debt arising from test meters, those customers on repayment plans and for debt considered uncollectible. The impairment percentages are reviewed for accuracy on an annual basis. The Group and Company believes that the unimpaired amounts that are past due are still collectible and no impairment allowance is necessary in respect of trade receivables not past due.

The Group and Company also has debtors associated with miscellaneous income. The Group and Company establishes an allowance for impairment for this debt by applying a range of expected recovery rates to an aged debt profile based on historical collection data for this type of customer. A provision of 100% has been applied for all miscellaneous debt over one year.

Impairment losses

The ageing and impairment losses of loans and receivables at the reporting date were:

	Group			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2020		At 31 March 2019	
	£000	**£000**	£000	£000
Not past due	**20,371**	**321**	20,105	150
Past due 0-30 days	**2,193**	**275**	2,055	56
Past due 31-60 days	**440**	**98**	569	38
Past due 61-90 days	**182**	**54**	244	16
Past due 91-120 days	**191**	**84**	262	57
Past due 121-150 days	**166**	**118**	164	79
Past due 151-365 days	**498**	**478**	430	338
Past due 1-2 years	**490**	**501**	558	553
Past due 2+ years*	**611**	**492**	432	401
Total	**25,142**	**2,421**	24,819	1,688

*Includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment.

The above figures include amounts relating to accrued income included in the SOFP. The Group and Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile. There are no individual customers who account for more than 5% of total net trade and other receivable balances.

All individual gross receivables included above have some element of provision for impairment.

B4. Financial instruments continued

Impairment losses

The ageing and impairment losses of loans and receivables at the reporting date were:

	Company			
	Gross	**Impairment**	Gross	Impairment
	At 31 March 2020		At 31 March 2019	
	£000	**£000**	£000	£000
Not past due	**20,371**	**321**	20,105	150
Past due 0-30 days	**2,193**	**275**	2,055	56
Past due 31-60 days	**440**	**98**	569	38
Past due 61-90 days	**182**	**54**	244	16
Past due 91-120 days	**191**	**84**	262	57
Past due 121-150 days	**166**	**118**	164	79
Past due 151-365 days	**498**	**478**	430	338
Past due 1-2 years	**490**	**501**	558	553
Past due 2+ years*	**611**	**492**	432	401
Total	**25,142**	**2,421**	24,819	1,688

*Includes contractual debtors where there are fewer concerns over recoverability and therefore no provision for impairment.

The above figures include amounts relating to accrued income included in the SOFP. The Company holds no collateral in respect of these financial assets. The aging of trade receivables is based on detailed trade receivables listings and management's best estimate of the debt profile. There are no individual customers who account for more than 5% of total net trade and other receivable balances.

All individual gross receivables included above have some element of provision for impairment.

The ageing of loans and receivables at the reporting date can also be shown as follows:

	Group	
	At 31 March 2020 £000	At 31 March 2019 £000
Not past due	**19,614**	19,214
Past due 0-30 days	**2,287**	2,195
Past due 31-60 days	**413**	597
Past due 61-90 days	**151**	247
Past due 91-120 days	**154**	240
Past due 121-150 days	**118**	114
Past due 151-365 days	**496**	388
Past due 1-2 years	**491**	574
Past due 2+ years*	**1,418**	1,250
Total	**25,142**	**24,819**

This analysis takes an alternative view of ageing with most customer balances allocated to the ageing category of the oldest invoice outstanding on that account. Certain customer balances have not been restated in this way as it has been assumed that there is no additional risk of non-collection on these accounts due to the existence of the older unpaid invoices on the account. These accounts include customers in the public sector, key accounts, customers on direct debit or repayment plans and accounts with invoices under query.

B4. Financial instruments continued

	Company	
	At 31 March 2020 £000	At 31 March 2019 £000
Not past due	**19,614**	19,214
Past due 0-30 days	**2,287**	2,195
Past due 31-60 days	**413**	597
Past due 61-90 days	**151**	247
Past due 91-120 days	**154**	240
Past due 121-150 days	**118**	114
Past due 151-365 days	**496**	388
Past due 1-2 years	**491**	574
Past due 2+ years*	**1,418**	1,250
Total	**25,142**	**24,819**

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	Group and Company	
	At 31 March 2020 £000	At 31 March 2019 £000
Balance at 1 April	**1,688**	2,465
New provisions	**1,825**	1,263
Debt provision utilised	**(415)**	(415)
Provision released unused	**(677)**	(1,625)
Balance at 31 March	**2,421**	**1,688**

The Group uses an allowance matrix to measure the ECLs of the trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and industry within which the customer operates.

B4. Financial instruments continued

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments.

31 March 2020

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,186,560	(1,580,316)	(25,837)	(25,696)	(51,532)	(154,738)	(1,322,513)
Bank loans	76,753	(71,182)	(2,051)	(1,844)	(10,487)	(19,711)	(37,089)
Finance lease liabilities (PPP)	108,903	(197,659)	(8,104)	(8,104)	(15,626)	(48,034)	(117,791)
Finance lease liabilities (IFRS 16)	2,257	(2,666)	(189)	(175)	(349)	(743)	(1,210)
Trade and other payables	116,707	(116,707)	(116,170)	-	-	(537)	-
Derivative financial instrument*	10,358	(10,358)	-	-	-	-	(10,358)
Total	**1,501,538**	**(1,978,888)**	**(152,351)**	**(35,819)**	**(77,994)**	**(223,763)**	**(1,488,961)**

*Derivative financial instrument is related to the secured bank loan to fix the variable interest rate to a fixed interest rate.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2019

	Group						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,146,560	(1,582,616)	(25,524)	(25,524)	(50,908)	(152,863)	(1,327,797)
Bank loans	82,758	(76,692)	(2,891)	(2,564)	(8,535)	(18,162)	(44,540)
Finance lease liabilities (PPP)	112,654	(213,588)	(7,964)	(7,964)	(16,208)	(47,678)	(133,774)
Trade and other payables	119,960	(119,960)	(118,460)	-	-	(1,500)	-
Derivative financial instrument*	9,846	(9,846)	-	-	-	-	(9,846)
Total	**1,471,778**	**(2,002,702)**	**(154,839)**	**(36,052)**	**(75,651)**	**(220,203)**	**(1,515,957)**

*Derivative financial instrument is related to the secured bank loan to fix the variable interest rate to a fixed interest rate.

Details of the timing of the cash outflows in respect of provisions are set out in Note D3.

B4. Financial instruments continued

31 March 2020

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,186,560	(1,580,316)	(25,837)	(25,696)	(51,532)	(154,738)	(1,322,513)
Finance lease liabilities (PPP)	191,307	(320,848)	(12,649)	(12,649)	(25,327)	(79,322)	(190,901)
Finance lease liabilities (IFRS 16)	2,128	(2,533)	(160)	(154)	(308)	(700)	(1,211)
Trade and other payables	118,071	(118,071)	(117,534)	-	-	(537)	-
Total	**1,498,066**	**(2,021,768)**	**(156,180)**	**(38,499)**	**(77,167)**	**(235,297)**	**(1,514,625)**

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 March 2019

	Company						
	Carrying amount £000	Contractual cash flows £000	6 months or less £000	6-12 months £000	1-2 years £000	2-5 years £000	More than 5 years £000
Capital loan notes	1,146,560	(1,582,616)	(25,524)	(25,524)	(50,908)	(152,863)	(1,327,797)
Finance lease liabilities (PPP)	198,004	(345,760)	(12,456)	(12,456)	(25,297)	(78,122)	(217,429)
Trade and other payables	121,767	(121,767)	(120,267)	-	-	(1,500)	-
Total	**1,466,331**	**(2,050,143)**	**(158,247)**	**(37,980)**	**(76,205)**	**(232,485)**	**(1,545,226)**

Details of the timing of the cash outflows in respect of provisions are set out in Note D3.

B4. Financial instruments continued

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group	
	Carrying amount	
	At 31 March 2020 £000	At 31 March 2019 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,333,824)**	(1,298,132)
Total	**(1,333,824)**	(1,298,132)
Variable rate instruments		
Financial assets	**14,862**	18,777
Financial liabilities*	**(40,649)**	(43,840)
Total	**(25,787)**	(25,063)

*Financial liabilities of £40,649k is at variable rate but the Group has entered into a derivative financial instrument contract to fix the interest rate payable.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Company	
	Carrying amount	
	At 31 March 2020 £000	At 31 March 2019 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,379,995)**	(1,344,564)
Total	**(1,379,995)**	(1,344,564)
Variable rate instruments		
Financial assets	**3,080**	7,731
Financial liabilities	**-**	-
Total	**3,080**	7,731

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss or cash flow.

B4. Financial instruments continued

Fair values versus carrying amounts

The following tables show the carrying amounts and fair values of financial assets and liabilities including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Group					
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2020						
Financial assets not measured at fair value						
Cash and cash equivalents	A8	-	14,862	-	-	**14,862**
Trade and other receivables	C5	-	9,985	-	-	**9,985**
Unbilled income	C5	-	12,732	-	-	**12,732**
Financial assets measured at fair value						
Investment securities - Equity securities	A6	15	-	-	-	**15**
Total		**15**	**37,579**	**-**	**-**	**37,594**
Financial liabilities not measured at fair value						
Finance lease liabilities (PPP)	B1	-	-	(108,903)	-	**(108,903)**
Finance lease liabilities (IFRS 16)	B1	-	-	(2,257)	-	**(2,257)**
Trade payables	D2	-	-	(100,854)	-	**(100,854)**
Other payables	D2	-	-	(15,853)	-	**(15,853)**
Loans and borrowings	B1	-	-	(1,186,560)	-	**(1,186,560)**
Bank loans	B1	-	-	(76,753)	-	**(76,753)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(10,358)	**(10,358)**
Total		**-**	**-**	**(1,491,180)**	**(10,358)**	**(1,501,538)**

B4. Financial instruments continued

	Group					
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Fair value - hedging instruments £000	Total carrying amount £000
31 March 2019						
Financial assets not measured at fair value						
Cash and cash equivalents	A8	-	18,777	-	-	**18,777**
Trade and other receivables	C5	-	10,444	-	-	**10,444**
Unbilled income	C5	-	12,687	-	-	**12,687**
Financial assets measured at fair value						
Investment securities - Equity securities	A6	15	-	-	-	**15**
Total		**15**	**41,908**	**-**	**-**	**41,923**
Financial liabilities not measured at fair value						
Finance lease liabilities (PPP)	B1	-	-	(112,654)	-	**(112,654)**
Trade payables	D2	-	-	(104,124)	-	**(104,124)**
Other payables	D2	-	-	(15,836)	-	**(15,836)**
Loans and borrowings	B1	-	-	(1,146,560)	-	**(1,146,560)**
Bank loans	B1	-	-	(82,758)	-	**(82,758)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(9,846)	**(9,846)**
Total		**-**	**-**	**(1,461,932)**	**(9,846)**	**(1,471,778)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings, which includes third party borrowings, is £1,502m (2019: £1,422m). Accounting policy 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred in relation to the capital loan notes of loans and borrowings because all loans and borrowings are provided by the Shareholder and the Group has no access to external finance markets for existing or future borrowings. Included within the £1,502m fair value of loans and borrowings are £77m in respect of bank loans which were fair valued on acquisition. As the bank loans were fair valued at the point of acquisition, the fair value is equivalent to the carrying amount. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The derivative financial instrument (interest rate swap) is categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Loans and borrowings*	Discounted cash flows	Not applicable
Interest rate swaps	Swap models	Not applicable

*Loans and borrowings include capital loan notes issued to the Company's sponsoring department, DfI, and third party bank borrowings.

B4. Financial instruments continued

	Company				
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2020					
Financial assets not measured at fair value					
Cash and cash equivalents	A8	-	3,080	-	**3,080**
Trade and other receivables	C5	-	40,369	-	**40,369**
Unbilled income	C5	-	12,732	-	**12,732**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	15	-	-	**15**
Total		**15**	**56,181**	**-**	**56,196**
Financial liabilities not measured at fair value					
Finance lease liabilities (PPP)	B1	-	-	(191,307)	**(191,307)**
Finance lease liabilities (IFRS 16)	B1			(2,128)	**(2,128)**
Trade payables	D2	-	-	(102,695)	**(102,695)**
Other payables	D2	-	-	(15,376)	**(15,376)**
Loans and borrowings	B1	-	-	(1,186,560)	**(1,186,560)**
Total		**-**	**-**	**(1,498,066)**	**(1,498,066)**

B4. Financial instruments continued

	Company				
	Note	FVOCI - Equity instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000	Total carrying amount £000
31 March 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	A8	-	7,731	-	**7,731**
Trade and other receivables	C5	-	45,492	-	**45,492**
Unbilled income	C5	-	12,687	-	**12,687**
Financial assets measured at fair value					
Investment securities - Equity securities	A6	15	-	-	**15**
Total		**15**	**65,910**	**-**	**65,925**
Financial liabilities not measured at fair value					
Finance lease liabilities (PPP)	B1	-	-	(198,004)	**(198,004)**
Trade payables	D2	-	-	(105,991)	**(105,991)**
Other payables	D2	-	-	(15,776)	**(15,776)**
Loans and borrowings	B1	-	-	(1,146,560)	**(1,146,560)**
Total		**-**	**-**	**(1,466,331)**	**(1,466,331)**

The carrying amount of all financial assets and liabilities not measured at fair value, with the exception of loans, borrowings and finance lease liabilities, is considered to be a reasonable approximation of fair value. The fair value of loans and borrowings is £1,425m (2019: £1,339m). Accounting policy 1(c) outlines the background to PC15. The uncertainty in relation to this would normally have an impact on the credit rating of loans and borrowings and the interest rate used to calculate fair values. It has been assumed that no change in the credit risk premium has occurred because all loans and borrowings are provided by the Shareholder and the Company has no access to external finance markets for existing or future borrowings. Further details on the terms and year end balances can be found in Note B1. The loans and borrowings are categorised within Level 2 in the fair value hierarchy as set out in the accounting policies. The investment securities are categorised within Level 1 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs
Loans and borrowings*	Discounted cash flows	Not applicable

*Loans and borrowings include capital loan notes issued to the Company's sponsoring department, DfI.

C. Revenue and receivables

This section sets out the income which NI Water receives from its customers and the amounts owed to it at year end. In accordance with the policy set by the Northern Ireland Executive the Group and Company does not bill its domestic customers and in lieu receives a subsidy from the DfI. Non domestic customers are charged for our services. In addition we adopt assets (mainly underground sewers) and their value is included as income. For more information on our income see page 77.

For further information on the relevant accounting policies applied in this section please see section G1.

C1. Revenue

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Customer subsidy provided by DfI	**309,894**	299,926
Customer income	**80,519**	79,207
Road drainage income provided by DfI	**22,556**	21,861
Transfers of assets from customers	**3,250**	3,145
Connection and infrastructure charges	**9,796**	10,510
Other third party contributions	**3,099**	1,793
Total	**429,114**	416,442

Customer subsidy provided by DfI

The customer subsidy provided by DfI primarily relates to the deferment of the introduction of domestic charges.

Customer income

The revenue has been received (excluding VAT) in the ordinary course of business for services provided and in respect of unbilled charges. These unbilled charges relate to measured customers who at the end of the financial year have consumed supplies that have not yet been billed. An estimate is made of the value of the outstanding charges at year end and this is recognised in revenue.

Road drainage income provided by DfI

This revenue from DfI Roads represents the recovery of the costs incurred by the Company in dealing with the run-off of water from roads and footpaths.

Transfers of assets from customers

In 2018/19 the Group and Company adopted IFRS 15 and changed its accounting policy such that the value of transfers of assets from customers £46,713k (2019: £34,295k) has been taken to a deferred credit reserve and amortised over the life of the related asset. The amount recognised as income in the current year is £3,250k (2019: £3,145k).

Connection and infrastructure charges

Connection charges relate to the cash charge to customers to connect a property to the water or sewerage network. This charge covers the capital cost of the connection. Infrastructure charges are also levied at the point of connection to the network.

Infrastructure charges income is used to partly fund the overall capital programme. Connection and infrastructure charges are recognised in revenue when services have been supplied to the customer.

Other third party contributions

This includes customer contributions towards requisitioning of water or sewerage network pipes. The customer will only make a contribution when the scheme would be considered uneconomical without this contribution. Other third party contributions also include fees charged for the transfer of assets from customers ('adoption' of assets). Contributions in relation to requisitioning and other third party fees are recognised on receipt.

C2. Deferred income

Deferred income classified as current consists of deferred revenue associated with the annual unmeasured water bill cycle and the portion of deferred government grants that will be recognised as income in the next year. Deferred income classified as non-current consists of the non-current portion of deferred government grants and adopted assets which have been recognised as deferred income under IFRS 15 Revenue.

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Government grants	**21,293**	8,242	**21,293**	8,242
Customer billing in advance	**3,715**	2,411	**3,715**	2,411
Adopted assets	**462,106**	418,643	**462,106**	418,643
Total	**487,114**	429,296	**487,114**	429,296
Non-current	**483,165**	426,504	**483,165**	426,504
Current	**3,949**	2,792	**3,949**	2,792
Total	**487,114**	429,296	**487,114**	429,296

The Group and Company credited £13,075k (2019: £1,503k) to capital grants during the year. The balance of grants noted above relates to awards made previously to Water Service. All grants have been recognised as deferred income, and are being amortised over the expected useful economic life of the related asset. New grants received during the year of £13,075k relates to assets in the course of construction (AICC) and are expected to be amortised over the expected useful economic life of the related assets when the assets are expected to be commissioned from April 2022. An amount totalling £98k was commissioned in October 2019.

C3. Other income

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Net gain on sale of property, plant and equipment	**467**	551
Amortisation of deferred grants and contributions	**23**	360
Total	**490**	911

C4. Trade and other receivables

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Trade and other receivables from related parties (see Note G4)	**1,883**	1,959	**1,883**	1,959
Trade and other receivables from subsidiaries	**-**	-	**30,384**	35,048
Trade receivables	**8,102**	8,485	**8,102**	8,485
Other receivables	**18,265**	10,529	**18,259**	10,522
Total	**28,250**	20,973	58,628	56,014
Current	**28,250**	20,973	**58,628**	56,014

At 31 March 2020 other receivables include VAT receivable of £5,307k (2019: £5,579k) for the Parent Company.

C5. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	**At 31 March 2020 £000**	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Trade and other receivables	B4	**9,985**	10,444	**40,369**	45,492
Unbilled income	B4	**12,732**	12,687	**12,732**	12,687
Cash and cash equivalents	A8	**14,862**	18,777	**3,080**	7,731
Total		**37,579**	41,908	**56,181**	65,910

The total exposure to credit risk at the reporting date is with UK counterparties, and these are GBP denominated. All financial assets, which are subject to credit risk, are measured at amortised cost.

The maximum exposure to credit risk for trade and other receivables and unbilled income at the reporting date by type of counterparty was:

	Group		Company	
	Carrying amount			
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
End-user customers	**22,717**	23,131	**53,101**	55,574

The maximum exposure to cash and cash equivalents (Note A8) is £14,862k (2019: £18,777k). The majority of this balance relates to monies held at the Company's principal banker, Danske Bank, and monies held at Dalriada Water Limited's principal banker, Natwest Plc.

Statutory Accounts

D. Purchases and payables

This section sets out the costs incurred by NI Water to provide its services. In addition, it provides the notes to the accounts for the SOFP on creditors, provisions and leases.

For further information on the relevant accounting policies applied in this section please see section G1.

D1. Operating expenses

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Depreciation and other amounts written off tangible and intangible assets	**84,458**	82,197
Hire and contracted services	**57,395**	55,525
Staff costs	**69,623**	65,478
Power	**32,225**	34,275
Rates	**27,479**	26,940
Raw materials and consumables	**16,134**	14,501
Sundry operating expenses	**10,704**	10,702
Own work capitalised*	**(16,003)**	(15,172)
Impairment of goodwill	**-**	1,014
Total operating expenses	**282,015**	275,460

*Own work capitalised includes payroll costs (see Note E1), materials and overheads.

Refer to page 139 for expenditure on research and development.

The net increase in inventories for the year was £632k (2019: £453k increase).

Impairment losses above are included within the 'operating expenses' line of the SOCI. The events and circumstances leading to the recognition of the impairment losses in investment properties are outlined in Note A3.

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**62**	62
Fees payable to the Company's auditor for other services: Audit of the accounts of subsidiaries	**20**	20
Audit of regulatory financial statements	**11**	11
Other assurance opinions (Group)	**22**	22
Total	**115**	115
Amounts receivable by the auditor in respect of:		
Accounting and regulatory advice (Group)	**11**	11
Total	**11**	11
Total fees paid to the Group auditor	**126**	126

D2. Trade and other payables

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Payments received on account	**952**	1,539	**952**	1,539
Trade payables	**4,588**	2,302	**3,066**	1,027
Taxation and social security	**2,376**	2,237	**2,376**	2,237
Accruals – operating expenditure	**43,879**	46,070	**43,557**	45,896
Accruals – capital expenditure	**46,089**	49,516	**46,089**	49,516
Accruals relating to related parties (see Note G4)	**2,970**	2,460	**2,970**	2,460
Accruals relating to subsidiaries	**-**	-	**3,685**	3,316
Total	**100,854**	104,124	**102,695**	105,991

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note B4.

Other payables

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Non-current – interest rate swap	**10,358**	9,846	**-**	-
Non-current – others	**537**	1,500	**537**	1,500
Current	**15,316**	14,336	**14,839**	14,276
Total	**26,211**	25,682	**15,376**	15,776

Non-current other payables relate to retentions from capital projects all of which will fall due within two to five years and interest rate swap.

Exposure to currency risk

The Company is not exposed to any significant currency risks.

D3. Provisions

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2019	1,909	306	-	1,955	**4,170**
New Provisions	1,067	43	-	-	**1,110**
Utilised	(927)	(228)	-	(69)	**(1,224)**
Transferred to accruals	-	-	-	-	**-**
Amounts released unused	(261)	65	-	130	**(66)**
Balance at 31 March 2020	**1,788**	**186**	**-**	**2,016**	**3,990**
Non-current	1,073	139	-	1,107	**2,319**
Current	715	47	-	909	**1,671**
Total	**1,788**	**186**	**-**	**2,016**	**3,990**

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Balance at 1 April 2018	2,102	350	106	2,891	**5,449**
New Provisions	760	40	-	-	**800**
Utilised	(578)	(54)	-	130	**(502)**
Transferred to accruals	-	-	-	(1,000)	**(1,000)**
Amounts released unused	(375)	(30)	(106)	(66)	**(577)**
Balance at 31 March 2019	**1,909**	**306**	**-**	**1,955**	**4,170**
Non-current	1,146	229	-	1,115	**2,490**
Current	763	77	-	840	**1,680**
Total	**1,909**	**306**	**-**	**1,955**	**4,170**

Public and employer liability claims

The public liability and employer liability claims at 31 March 2020 relate to unsettled claims. The public liability claims principally relate to previous operational incidents and contractors' business interruption incidents in prior years. The provisions represent potential liabilities on these claims above the amount of insurance cover in place. Professional advice has been sought on the potential liability for individual claims. Claims submitted against the Group and Company are in excess of the provisions made as management have made best estimates of the required provisions based on past experience of similar claims. Until claims are progressed through the formal claims process some degree of uncertainty will remain as to the amount and timing of any final settlement figure. The employer liability claims principally relate to incidents incurred by employees on Group and Company premises. A related contingent liability has also been disclosed at Note D4. The contingent liability for public and employer liability of £0.6m (2019: £0.7m) represents an amount relating to the value of claims received above the provision included in the financial statements.

Early retirement provisions

The early retirement provision relates to those retirement benefits accruing to those members who took early retirement prior to 1 April 2007. The provision represents the total of retirement benefits due to those members from 31 March 2020 to their official date of retirement. These payments are made on a monthly basis to Department of Finance (DoF) and the amounts and timing of these should not be subject to any uncertainty.

D3. Provisions continued

Other provisions

Other provisions relate to management's best estimates of the value of entitlement in relation to holiday pay totalling £2,016k (2019: £1,955k).

The expected timing of any resulting outflows of economic benefits is as follows:

31 March 2020

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	715	47	-	909	**1,671**
In the second to fifth years	1,073	139	-	1,107	**2,319**
Over five years	-	-	-	-	**-**
Total	**1,788**	**186**	**-**	**2,016**	**3,990**

31 March 2019

	Group and Company				
	Public liability claims £000	Employer liability claims £000	Early retirement provisions £000	Other provisions £000	**Total £000**
Within one year	763	77	-	840	**1,680**
In the second to fifth years	1,146	229	-	1,115	**2,490**
Over five years	-	-	-	-	**-**
Total	**1,909**	**306**	**-**	**1,955**	**4,170**

Provisions greater than one year are not discounted on the basis of materiality.

D4. Contingencies

The Group and Company is disputing liability in some public and employer liability cases. The estimate of the financial effect is £0.6m (2019: £0.7m). It has been estimated that there is less than a 50% chance of these cases leading to a loss. If such a loss should arise there is no possibility of any reimbursement. In addition, the Group and Company is disputing a number of claims from contractors amounting to £10.800m (2019: £23.129m) which the Directors consider there is less than a 50% likelihood of a loss. A summary of contingent liabilities is set out below:

	Group		Company	
	At 31 March 2020 £000	At 31 March 2019 £000	**At 31 March 2020 £000**	At 31 March 2019 £000
Public and employer liability	**645**	710	**645**	710
Contractor claims	**10,800**	23,129	**10,800**	23,129
Total	**11,445**	23,839	**11,445**	23,839

D4. Contingencies continued

Debenture to DfI

DfI has entered into deeds of guarantee with the concessionaires of the Alpha and Omega PPP contracts to guarantee all future liabilities of the Company under these contracts.

The Group and Company has entered into an environmental indemnity with DfI and the Department of the Environment (from 9 May 2016 Department of Agriculture, Environment and Rural Affairs (DAERA)) in respect of any future environmental liabilities arising for NI Water. The Group and Company has registered a debenture to counter indemnify DfI in relation to these three guarantees. Under this debenture the Group and Company pledges to DfI by way of first floating charge and as a continuing security for the payment and discharge of the secured liabilities all of the Group and Company's rights to and title, and interest on property, assets rights and revenues. No provision has been made in the financial statements in respect of this guarantee as the conditions under which the liability would crystallise have not been breached.

Parent Company guarantee

In accordance with the share acquisition by the Group of: (i) Dalriada Water (Holdings) Limited; and (ii) Northern Ireland Water Alpha Limited (formerly named Kelda Water Services (Alpha) Limited) (the "OpCo"), a Parent Company guarantee to Dalriada Water Limited (the "ProjectCo"), previously provided by Kelda Group Limited, has novated to Northern Ireland Water Limited. The guarantee guarantees the performance by the OpCo of the OpCo's obligations and liabilities under the terms of a principal sub-contract between the ProjectCo and the OpCo. Under the terms of the project agreement, the ProjectCo earns a Unitary Charge from Northern Ireland Water Limited in return for providing the required quantity of water to Northern Ireland Water Limited at each of the specified sites to the specified water quality standards.

Contingent assets

The Group and Company receives performance bonds from customers in relation to requisition of water mains and sewerage services. The balance of cash bonds held at 31 March 2020 is £13.4m (2019: £12.1m) and this balance is included in accruals (see Note D2). Bonds are only recognised as a capital contribution if customers are in default of agreed conditions. The Group and Company has also received a number of paper performance bonds issued by various financial institutions. These are not recognised in the financial statements. Value placed on paper bonds held at 31 March 2020 is £31.0m (2019: £26.7m). These items are considered contingent assets as an inflow of economic benefits is considered to be remote.

Contingent liability

A legal ruling has been made regarding age discrimination arising from pension scheme transitions arrangements. Court of appeal judgements were made in cases affecting Judges' pensions (McCloud) and firefighter pensions (Sergeant) which had previously been considered by employment tribunals. The ruling may have implications for other pension schemes, including the NI Water Pension Scheme, which have implemented transitional arrangements for benefits changes. In 2019/20 pension service costs have been increased by £3m to reflect the likely outcome for the Scheme. In 2018/19 no adjustment was made to pension costs and it was disclosed as a contingent liability.

D5. Operating leases

Leases as lessee

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	At 31 March 2020 £000	*At 31 March 2019 £000	**At 31 March 2020 £000**	*At 31 March 2019 £000
Less than one year	**35**	238	**35**	238
Between one and five years	**55**	887	**55**	887
More than 5 years	**-**	-	**-**	-
Total	**90**	1,125	**90**	1,125

*The Group and Company leases building and photocopiers which were previously recognised as operating leases under IAS 17. Under IFRS 16 in 2019/20, these assets are recognised as finance leases (see Note A10).

The Group and Company leases lands, vehicle GPS and motor vehicles which are recognised as operating leases as they fall within the following IFRS 16 exemptions:

- lease term ends within 12 months of the date of initial application;
- leases of low value assets.

During the year ended 31 March 2020 an amount of £22k (2019: £238k) (Company: £16k, 2019: £238k) was recognised as an expense in profit or loss in respect of operating leases.

E. Our employees

This section sets out information about employee numbers and costs and then provides information on the Group and Company's main pension scheme. The analysis provided in the pension notes is based on IAS 19 estimate of the scheme's assets and liabilities as at 31 March 2020. The value shown in the SOFP calculated on IAS 19 Employee Benefits basis is subject to a number of factors. In this section we provide information to explain the following:

- why the pension liabilities on the balance sheet have changed from one year to another;
- what makes up the charge in the income statement in the year; and
- the amount of the scheme assets and liabilities totalling the net defined benefit pension liability on the balance sheet.

The movement in the IAS 19 Employee Benefits estimate of the defined benefit scheme liability during the year, is the item which singularly has the greatest impact on the SOFP.

The most recent actuarial valuation of the pension scheme completed in 2018 showed a funding deficit of £9m at 31 March 2017. The actuarial valuation of the pension scheme was carried out by Mercers on behalf of the Pension Trustees. The valuation was carried out on a different basis than IAS 19. The Group and Company has agreed with the Trustees to increase its contributions to the Scheme and keep the funding of the Scheme under review.

Most of our employees are members of the NI Water Pension Scheme which is a defined benefit scheme. A number of our employees are members of a defined contribution scheme.

Further information on the analysis of the NI Water Pension Scheme assets and the assumptions underlying the liabilities are set out in Note G3. For more information on Our People see pages 55 to 58.

For further information on the relevant accounting policies applied in this section please see section G1.

E1. Personnel numbers and expenses

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Group		Company	
	No. of employees Year to 31 March 2020	No. of employees Year to 31 March 2019	**No. of employees Year to 31 March 2020**	No. of employees Year to 31 March 2019
Directors	**7**	13	**7**	13
Non-industrial staff	**852**	837	**822**	806
Industrial staff	**456**	458	**456**	458
Total staff	**1,315**	1,308	**1,285**	1,277

The gender of persons employed by the Group (including Directors) during the year ended 31 December 2019, analysed by category, was as follows*:

	Group					
	No. of employees Year to 31 December 2019			No. of employees Year to 31 December 2018		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**47**	**19**	**66**	54	19	73
Non-industrial staff	**548**	**263**	**811**	545	249	794
Industrial staff	**458**	**2**	**460**	459	1	460
Total staff	**1,053**	**284**	**1,337**	1,058	269	1,327

*Based on statutory returns made to the Equality Commission on a calendar year basis.

E1. Personnel numbers and expenses continued

The gender of persons employed by the Company (including Directors) during the year ended 31 December 2019, analysed by category, was as follows*:

	Company					
	No. of employees Year to 31 December 2019			No. of employees Year to 31 December 2018		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**47**	**19**	**66**	54	19	73
Non-industrial staff	**520**	**261**	**781**	516	247	763
Industrial staff	**458**	**2**	**460**	459	1	460
Total staff	**1,025**	**282**	**1,307**	1,029	267	1,296

*Based on statutory returns made to the Equality Commission on a calendar year basis.

The aggregate payroll costs for the Group of these persons were as follows:

	Group	
	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Wages and salaries	**47,074**	47,064
Social security costs	**4,976**	4,794
Other pension costs	**17,573**	13,620
Total payroll costs	**69,623**	65,478

An amount of £13,976k (2019: £13,064k) of the above payroll costs has been capitalised as it relates to work carried out by the Group that adds to the value of property, plant and equipment and intangible assets.

E1a Key management personnel short term employee benefit

Detailed information concerning key management personnel's remuneration, bonus payments and pensions is included in the Directors' remuneration report on pages 110 to 113. Key management includes all Board and Executive Committee members. Apart from NI Water Limited, the Directors of the Companies in the Group did not receive any emoluments for their services from the date of acquisition.

In summary, key management personnel compensation comprised:

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Short term employee benefits	**959**	962
Post-employment benefits	**241**	241
Total benefits	**1,200**	1,203

The emoluments of the highest paid Director were £159k (2019: £154k).

There are amounts included in the SOCI in respect of actuarial gains and losses attributable to key management personnel, however, it is considered impractical to provide a breakdown of the actuarial gains/losses relating to individual members. While some elements resulting in gains/losses are easy to measure on an individual basis e.g. the effect of salary increases, others would involve allocating a share in investment returns and other scheme experience (deaths/retirements) which cannot be attributed to individual members.

E1. Personnel numbers and expenses continued

E1b Exit packages

The exit packages for employees who left the Company during the year are reported below. The majority of the exit packages relate to the Voluntary Exit schemes which were used to facilitate the targeted reduction in headcount. The Voluntary Exit schemes are similar to the Northern Ireland Civil Service (NICS) scheme and incorporate the provisions of relevant age discrimination legislation. All applications are considered in terms of overall cost and business need. Overall cost in individual cases is based on length of service and pensionable pay figures. Ill-health retirement costs are met by the pension scheme and are not included in the exit packages.

Exit package cost band £000	Number of compulsory redundancies 31 March 2020	Number of other departures agreed 31 March 2020	Total number of exit packages by cost band 31 March 2020	Number of compulsory redundancies 31 March 2019	Number of other departures agreed 31 March 2019	Total number of exit packages by cost band 31 March 2019
0 – 10	-	1	1	-	1	1
10 – 25	-	16	16	-	13	13
25 – 50	-	4	4	-	4	4
50 – 100	-	-	-	-	1	1
Above 100	-	-	-	-	-	-
Total number	-	21	21	-	19	19
Total cost (£'000)	-	417	417	-	421	421

E1c Off-payroll engagements

In accordance with DoF disclosure guidance - FD (DoF) 02/20, the Company had the following 'off-payroll' engagements at a cost of over £245 per day and engaged for over six months. None of the subsidiaries in the Group had off-payroll engagements as defined by the DoF guidance in the year.

	Year to 31 March 2020 number
Number of off-payroll engagements as at 1 April 2019	-
Those caught by IR35: Number engaged directly (via Personal Service Company (PSC) contracted to the Company) and are on the Company's payroll	5
Number of engagements which have come onto the payroll	(4)
Number of engagements which have come to an end	(1)
Number of off-payroll engagements as at 31 March 2020	-

E2. Employee benefits

The net pension expense before tax recognised in the income statement in respect of the defined benefit scheme is summarised as follows:

Components of defined benefit cost

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
Service cost		
Current service costs (operating costs - staff costs)	**13,314**	11,900
Past service costs (operating costs - staff costs)	**2,484**	37
Total service cost	**15,798**	11,937
Net interest cost:		
Interest expense	**6,759**	6,580
Interest income	**(6,024)**	(6,120)
Net interest cost	**735**	460
Administration expenses and taxes	**1,000**	1,000
Defined benefit cost included in profit	**17,533**	13,397

The reconciliation of the opening and closing net pension obligations included in the statement of financial position is as follows:

Net defined benefit liability/(asset) reconciliation

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
Opening defined benefit liability	**35,632**	22,789
Defined benefit cost included in profit	**17,533**	13,397
Total measurements included in Other Comprehensive Income	**858**	11,341
Cash flows – employer contributions	**(11,509)**	(11,895)
Closing defined benefit liability	**42,514**	35,632
Actual return on plan assets	**(9,338)**	9,352

Remeasurement gains and losses are recognised directly in the statement of comprehensive income

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**-**	-
Effect of changes in financial assumptions	**(14,504)**	14,573
Effect of experience adjustments	**-**	-
Return on plan assets excluding interest income	**15,362**	(3,232)
Total remeasurements included in Other Comprehensive Income	**858**	11,341

E2. Employee benefits continued

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2020	Conditions at 31 March 2019
Rate of increase in salaries	**2.00% for 3 yrs., 3.00% thereafter**	2.10% for 4 yrs., 3.10% thereafter
Rate of increase in pensions in payment and deferred pensions	**2.50%**	3.15%
Discount rate	**2.30%**	2.50%
Inflation assumption - RPI	**2.40%**	3.10%
Inflation assumption - CPI	**2.00%**	2.10%

For more information in relation to the Company's defined benefit pension scheme, see Note G3.

F. Taxation

This section sets out information about the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the accounting and tax bases of profit.

For further information on the relevant accounting policies applied in this section please see section G1.

F1. Taxation

Group Income tax expense

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Tax recognised in profit or loss current tax expense		
Current year	**(977)**	-
Adjustment for prior years	**-**	-
Total	**(977)**	-
Deferred tax		
Origination of temporary differences	**(15,254)**	(16,041)
Adjustment to prior years	**298**	(143)
Tax rate changes/differences	**(20,089)**	1,688
Total	**(35,045)**	(14,496)
Total income tax (expense)/credit	**(36,022)**	(14,496)

Tax recognised in other comprehensive income for the year ended 31 March

	Group					
	Year to 31 March 2020			Year to 31 March 2019		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax (expense)/ benefit £000	Net of tax £000
Defined benefit plan actuarial (losses)/gains	**(858)**	**505**	**(353)**	(11,341)	1,928	(9,413)
Shares not held for trading – revaluation (losses)/gains	**-**	**-**	**-**	(13)	-	(13)
Total	**(858)**	**505**	**(353)**	(11,354)	1,928	(9,426)

F1. Taxation continued

Reconciliation of effective tax rate

	Group			
	%	Year to 31 March 2020 £000	%	Year to 31 March 2019 £000
Profit for the year	-	48,444	-	66,174
Total income tax expense/(credit)	-	36,022	-	14,496
Profit before income tax		**84,466**		80,670
Income tax using the Company's domestic tax rate	19.00	16,048	19.00	15,326
Non-deductible goodwill	0.00	-	0.23	193
Other Non-deductible expenses	0.22	183	0.65	522
Tax rate changes/differences	23.78	20,089	(2.09)	(1,688)
Other timing differences	-	-	-	-
Adjustment to prior years	(0.35)	(298)	0.17	143
Total		**36,022**		14,496

Factors affecting Group future tax charge

The corporation tax enacted at the balance sheet date is 19% and the deferred tax for 2019/20 has been calculated at the appropriate tax rate which is expected to apply when the assets are realised or liabilities settled.

In the 2020 Budget the government announced that the tax rate would not reduce from 19% to 17% on 1 April 2020. The deferred tax liability has therefore been increased by an amount of £20m to reflect the enacted rate of 19%.

The future tax charge may be impacted by the following:

- A restriction on the use of brought forward losses (including capital losses) may affect Groups that were previously loss making that become profit making, and have profits over £5m. This measure may result in cash tax being payable before all of the trading losses brought forward have been utilised.
- There has been a reduction in the annual writing down allowance available for assets in the special rate pool, from 8% to 6%.
- A new allowance for capital expenditure, a Structures and Buildings Allowance was introduced for eligible costs incurred where all contracts were entered on or after 29th October 2018. Structures and Buildings allowances will be available when the asset is brought into use.

The Group considers itself to be a qualifying infrastructure company for the Public Infrastructure Exemption and does not anticipate that the corporate interest restriction rules will impact on the deductibility of interest payable by members of the Group.

F1. Taxation continued

Deferred tax assets and liabilities

The following are the deferred tax assets and liabilities recognised by the Group and Company and movements thereon during the current and prior reporting periods:

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group					
	Assets		Liabilities		Net	
	At 31 March 2020 £000	At 31 March 2019 £000	At 31 March 2020 £000	At 31 March 2019 £000	At 31 March 2020 £000	At 31 March 2019 £000
Property, plant and equipment	-	-	222,184	185,532	222,184	185,532
Transfers of assets from customers*	(87,800)	(71,169)	87,800	71,169	-	-
Intangible assets	(2,525)	(2,702)	-	-	(2,525)	(2,702)
Employee benefits	(8,081)	(6,061)	-	-	(8,081)	(6,061)
Provisions	(587)	(538)	-	-	(587)	(538)
Tax losses carried forward	(6,340)	(6,432)	-	-	(6,340)	(6,432)
Fair value adjustment to senior debt	(1,048)	(1,031)	-	-	(1,048)	(1,031)
Financial instruments	(1,968)	(1,673)	-	-	(1,968)	(1,673)
Net tax (assets)/ liabilities	**(108,349)**	(89,606)	**309,984**	256,701	**201,635**	167,095

*Transfers of assets from customers form part of property, plant and equipment in the SOFP.

	Company					
	Assets		Liabilities		Net	
	At 31 March 2020 £000	At 31 March 2019 £000	At 31 March 2020 £000	At 31 March 2019 £000	At 31 March 2020 £000	At 31 March 2019 £000
Property, plant and equipment	-	-	213,710	177,735	213,710	177,735
Transfers of assets from customers*	(87,800)	(71,169)	87,800	71,169	-	-
Intangible assets	(2,525)	(2,702)	-	-	(2,525)	(2,702)
Employee benefits	(8,078)	(6,057)	-	-	(8,078)	(6,057)
Provisions	(587)	(538)	-	-	(587)	(538)
Tax losses carried forward	(4,012)	(4,455)	-	-	(4,012)	(4,455)
Net tax (assets)/ liabilities	**(103,002)**	(84,921)	**301,510**	248,904	**198,508**	163,983

*Transfers of assets from customers form part of property, plant and equipment in the SOFP.

F1. Taxation continued

Movement in deferred tax balance during the year

	Group				
	Balance at 31 March 2019 £000	Acquisition £000	Recognised in profit £000	Recognised in other comprehensive income £000	Balance at 31 March 2020 £000
Property, plant and equipment	185,533	-	36,649	-	**222,182**
Intangible assets	(2,702)	-	177	-	**(2,525)**
Employee benefits	(6,061)	-	(1,515)	(505)	**(8,081)**
Provisions	(538)	-	(49)	-	**(587)**
Tax losses carried forward	(6,433)	-	93	-	**(6,340)**
Fair value of adjustment to senior debt	(1,031)	-	(16)	-	**(1,047)**
Financial instruments	(1,673)	-	-	-	**(1,673)**
Re-categorisation	-	-	(294)	-	**(294)**
Total	**167,095**	**-**	**35,045**	**(505)**	**201,635**

	Company				
	Balance at 31 March 2019 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Reclassification £000	Balance at 31 March 2020 £000
Property, plant and equipment	177,735	35,975	-	-	**213,710**
Intangible assets	(2,702)	177	-	-	**(2,525)**
Employee benefits	(6,057)	(1,516)	(505)	-	**(8,078)**
Provisions	(538)	(49)	-	-	**(587)**
Tax losses carried forward	(4,455)	443	-	-	**(4,012)**
Total	**163,983**	**35,030**	**(505)**	**-**	**198,508**

Confirmation over income tax treatments

Dalriada Water Limited has moved to a financial asset basis of accounting for its PFI contract with NI Water Limited. The tax impact has been calculated on the basis that the Company will continue to be entitled to capital allowances, which has been agreed with HMRC in 2018/19.

G. Supplementary notes to the accounts

This section sets out supplementary notes to the accounts. This includes our accounting policies (note that key accounting policies are included at pages 128 to 131), financial risk, details on retirement benefits, related party information and events subsequent to the year end date.

G1. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a) (ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets/liabilities acquired. Any goodwill that arises is tested annually for impairment (see (i) (i)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see (b)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. (see Note A5 – List of subsidiaries).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

G1. Significant accounting policies continued

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objectives is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL – these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. Financial assets at amortised cost – these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI – these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI – these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group: and
- where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

G1. Significant accounting policies continued

(iii) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

(iv) Impairment

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with significant financing component are measured using the general model described above.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 360 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to the credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

G1. Significant accounting policies continued

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(c) Impairment of financial assets

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, that the loss event had a negative effect on the estimated future cash flows of that asset and it can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group and Company on terms that the Group and Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. The bad debt provision is based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile. For other investments (equity shares) any impairment is initially recognised through other comprehensive income and the cumulative loss is reclassified to profit or loss if impairment occurs for a second consecutive year.

(ii) Receivables

The Group and Company considers evidence of impairment for receivables. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group and Company uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment was determined by reference to a previous UK GAAP revaluation. The Group and Company elected to apply the optional exemption to use this previous revaluation as deemed cost at 1 April 2009, the date of transition (see Note A1). Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located (when there is an obligation to remove the asset), and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Assets in the course of construction

Assets in the course of construction are separately classified within property, plant and equipment until the date of commission at which stage they are transferred. Depreciation on these assets is not charged until they are brought into use.

(iii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

G1. Significant accounting policies continued

(iv) Infrastructure assets

The infrastructure assets comprise a network of water and wastewater systems including mains, sewers, impounding and pumped fresh water storage reservoirs, dams, sludge pipelines and sea outfalls. All items of property, plant and equipment within infrastructure assets are subject to depreciation. In accordance with the transition provisions of IFRS 1 (revised), the Group and Company identified the carrying value of these assets as at the inception of the Group and Company and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, have been subject to depreciation over their useful economic lives. All subsequent maintenance expenditure is chargeable directly to the SOCI.

(v) Transfers of infrastructure assets from customers (adopted assets)

The Group and Company adopts infrastructure assets from customers, e.g., water and sewer pipes from property developers, which it must then use either to connect the customers to the network or to provide the customers with on-going access to a supply of services. In some cases, the Group and Company receives cash from customers that must be used only to acquire or construct an infrastructure asset in order to connect the customer to the network or provide the customer with on-going access to a supply of services.

Adopted assets are valued using the unit costs set during the relevant price control period (currently termed 'PC15').

The value of assets transferred from customers is taken to a deferred credit reserve and amortised over the life of the assets.

(vi) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group and Company will obtain ownership by the end of the lease term. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The estimated useful lives for the current and comparative periods are as follows:

Asset Type	Asset Life
Infrastructure assets	100 - 150 years
Operational assets	40 - 80 years
Buildings	30 - 60 years
Fixed plant	3 - 40 years
Vehicles, mobile plant and equipment	4 - 10 years
Office equipment	3 - 10 years

(e) Investment properties

Investment properties are properties held as surplus to operational requirements or for capital appreciation; but not for immediate sale, use in the supply of services, or for administrative purposes. As permitted by IAS 40, investment properties are measured using the cost model specified in IAS 16 whereby properties are recorded initially at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses. When property changes use from operational, or occupied, to surplus property it is reclassified from property plant and equipment to investment property. Transfers between classes do not change the carrying amount of the property transferred or the cost of the property for measurement or disclosure purposes (see (i) for further details).

(f) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group and Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure

G1. Significant accounting policies continued

capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 April 2009.

Other development expenditure is recognised in profit or loss as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group and Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Intangible assets in the course of development

Intangible assets in the course of development, e.g., internally generated software, are separately classified within intangible assets, as assets in the course of construction, until the date of commission at which stage they are transferred. Amortisation on these assets is not charged until they are brought into use.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as occurred.

(vi) Amortisation

Amortisation is based on the cost of the asset, less its residual value. Amortisation is recognised in the 'operating expenses' line of the SOCI on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

The useful lives are finite and are as follows for the current and comparative periods:

Asset Type	Asset Life
Computer software	3 - 7 years
Capital studies infrastructure	10 years

(g) PPP leased assets

Leases in terms of which the Group and Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Public Private Partnership (PPP) transactions

Where public service obligations are met in conjunction with other operators through a partnership arrangement the principles of IFRIC 12 are applied. Assets are included within property, plant and equipment and amounts due to PPP partners are included in PPP credits. Assets included in property plant and equipment are depreciated in accordance with normal accounting policies. The present value of the PPP financing is included within loans and borrowings and payments made are split between capital repayments and interest.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment of non-financial assets

(i) Non-financial assets

The carrying amounts of the Group and Company's non-financial asset, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset, or its related cash-generating unit (CGU), exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped

G1. Significant accounting policies continued

together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The Company's corporate assets do not generate separate cash inflows.

If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. However, an impairment loss recognised for goodwill cannot be reversed.

(j) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. The principal assets within this category are non-operational land and buildings. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group and Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial asset, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Group and Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Defined benefit plans

The Company operates a defined benefit pension scheme for all employees. The assets of the scheme are held separately from those of the Company. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. To calculate the present value of economic benefit, consideration is given to any applicable minimum funding requirements. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring, in line with the policy on provisions (see (l) for further details). If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(iv) Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

G1. Significant accounting policies continued

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(m) Revenue recognition

Revenue is recognised when the risks and rewards of ownership are transferred to the customer, recovery of consideration is probable and the amount of revenue can be reliably measured. Revenue is not recognised until the service has been provided to the customer and is shown net of value added tax. Where services have been provided, but for which no invoice has been raised at the year end, an estimate of the value is included in revenue. For measured customers, this includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year end. For unmeasured customers billed in advance, income is deferred and released to the income statement throughout the year.

Revenue comprises: the customer subsidy provided by DfI primarily relating to the deferment of the introduction of domestic charges that were planned for 1 April 2007; charges to customers for water and wastewater services and related services; road drainage income from DfI; transfers of assets from customers, e.g., sewer adoptions from developers; connection and infrastructure charges; other third party contributions and sundry income sources e.g. aerial site rentals.

(n) Government grants

New government grants and legacy grants to Water Service (pre 1 April 2007) were credited to 'deferred income' within liabilities at fair value and are released to profit or loss evenly over the expected useful life of the relevant asset, in accordance with the provisions of the Companies Act 2006. The Company receives government assistance, in the form of a customer subsidy, provided by DfI primarily in relation to the deferment of the introduction of domestic charges that were planned for 1 April 2007. The customer subsidy is presented in revenue in the SOCI (see Note C1). A capital subsidy is received from DfI in relation to requisitioning of water and sewerage infrastructure for older properties. Similarly to all capital contributions from customers, and in accordance with IFRIC 18, this is credited directly to revenue within the SOCI (see Note G4 - Related parties).

(o) Leases (policy applicable from 1 April 2019)

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 April 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

G1. Significant accounting policies continued

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note G1(b)(ii)(b)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

G1. Significant accounting policies continued

(p) Leases (policy applicable before 1 April 2019)

For contract entered into before 1 April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(q) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise: interest expense on borrowings and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(r) Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

G1. Significant accounting policies continued

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

For investment property that is measured at depreciated cost, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax is charged or credited in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity in which case the current or deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(s) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences are taken to profit or loss.

(t) Determination of fair values

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A number of the Company's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities. Management have established a control framework with respect to the measurement of fair values and regularly review significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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G1. Significant accounting policies continued

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group and Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note B4 – financial instruments.

(u) Application of new and revised International Financial Reporting Standards (IFRSs)

At the date of authorisation of these consolidated financial statements, the following standards and amendments have been adopted for the first time, none of which had a material impact on the consolidated or Company's financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

The accounting policies set out above have, unless otherwise stated, been applied consistently in the consolidated and company financial statements to all periods presented. The following accounting policies have been adopted for the first time and had an impact on the Group and Company financial statements:

- IFRS 16 Leases

The impact of this standard is set out in Note 1(e) and A10.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2019 and have not been applied in preparing these financial statements. The standards and interpretations not adopted are outlined below:

	Effective Date - periods beginning on or after
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption/effective date deferred indefinitely

The Directors do not expect that the adoption of the standards and interpretations listed above will have material impact on the Group and Company financial statements.

G2. Financial risk management

Overview

This note presents information about the Group and Company's exposure to financial risks. These risks are managed within the risk management framework of the Group and Company as described below.

Further quantitative disclosures are included throughout these financial statements.

Credit risk

Credit risk is the risk that the Group and Company is exposed to loss if a customer or counterparty to a financial instrument fails to meet its financial obligations, and arises principally from the Group and Company's receivables from customers and banking relationships for deposits and interest rate swaps.

Trade and other receivables

NI Water has a statutory obligation to provide water and sewerage services to customers within its region. Approximately 72% of the Group and Company's revenue is in the form of a customer subsidy provided by DfI. This primarily relates to the deferment of the introduction of domestic charges that were planned for 1 April 2007. Excluding the subsidy from DfI, there is no concentration of credit risk with respect to trade receivables.

The credit risk in relation to the remaining 28% is mitigated by the application of credit control policies and procedures determined by the Group and Company and applied by a third party collection agent. Regular reviews of receivables are carried out together with prompt follow-up of unpaid invoices. Depending upon the customers' circumstances, repayments plans can be offered up to a period of 12 months. Further information on aging of receivables and bad debt provision is set out in Note B4.

Banking relationships: Investment Deposits and Interest Rate Swaps

The Group and Company may be exposed to credit-related loss in the event of non-performance by bank counterparties. In accordance with Shareholder Governance Arrangements banking services are primarily transacted through the NICS contract. As approved by DfI, and by DoF, other banking relationships have been used to manage counterparty risks which arise from deposits of funds available for short term investment and the use of Swaps to fix interest rates on borrowings in Dalriada Water Limited. The interest rate swaps are in place in Dalriada Water Limited for the period between 2006 and 2030 for notional principal amounts which equate to the portion of expected bank debt which is at variable interest rates.

Financial counterparty risks are managed by employing credit limits and continuous monitoring procedures. Deposits in the Company are only placed with banks other than the main relationship bank (MRB) if the counterparty holds an investment grade credit rating as issued by the main credit rating agencies of Standard & Poors, Moody's or Fitch. The maximum exposure with any bank other than the MRB is limited to £30m and no more than 50% of total cash balances may be held with any bank other than the MRB. The MRB may hold up to 100% of cash balances. In Dalriada Water Limited, in accordance with the contract, the "Account Bank" must meet certain credit ratings as issued by Standard & Poor's or Moody's. This is reviewed annually and approved by the funders.

Liquidity Risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group and Company's approach to managing liquidity is to ensure, as far as possible, that sufficient liquidity exists to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and Company's reputation.

The Treasury Function employs a continuous forecasting and monitoring process to manage cash, funding and liquidity risks.

The Group and Company is financed through a combination of retained earnings, Capital Loan Instruments provided by DfI and long term bank borrowings in Dalriada Water Limited.

Funds available for deposit based on forecasted liquidity requirements and in accordance with the Shareholder governance arrangements and Group and Company Treasury policies are invested by the Treasury Function in short term bank deposits. Dalriada Water Limited is restricted contractually to no longer than 6 monthly bank deposits to satisfy the scheduled calculation dates (30 September and 31 March) and with approved banks at certain credit rating levels.

The Capital Loan Note provided by DfI provides the Company with the ability to draw funds until 31 March 2022. The Company also maintains a £20m working capital facility provided by DfI available for the period to 31 March 2022. Borrowings on the facility are repayable on demand. This facility was not utilised at 31 March 2020.

G2. Financial risk management continued

In Dalriada Water Limited liquidity risk is principally managed through the use of long term borrowings with an amortisation profile that matches the expected availability of funds from the Company's operating reserves. Additionally, in accordance with contractual requirements Dalriada Limited maintains reserve bank accounts to provide short term liquidity against future debt service and capital maintenance expenditure requirements.

The Group and Company's net current liabilities can be met using the existing loan facilities (see Note B1). The Group and Company recognises that to maintain liquidity new borrowings facilities will be required for the period post 31 March 2022 and discussions have been opened with DfI. The Company also recognises the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027. This also forms part of the discussions with DfI.

Further investigation in respect of liquidity risk is set out in Note B4.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group and Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign Exchange Risk

The Group and Company are not generally exposed to significant foreign exchange transactions with the majority of transactions, assets and liabilities being in the domestic currency.

The Company is engaged in two EU Interreg applications denominated in Euros which may expose it to foreign exchange risk. Grant receipts in Euros are exchanged to the domestic currency as close to the day of receipt as possible. Grant receipts for partners in the EU Interreg grants are transacted in Euro.

Interest Rate Risk

Investment Deposits

Interest rates on fixed term deposits are fixed for the period of investment. The average period of deposit is less than one month. The Group and Company also maintains instant access investment accounts on which interest is earned at rates based on the Bank of England Base rate.

Borrowings

Borrowings by Dalriada Water Limited are at fixed rates either agreed directly with the lender EIB or through the use of interest rate swaps agreed at the start of the loan. The use of swaps only applies to the secured bank loan with Royal Bank of Canada.

The Group and Company has a committed borrowing facility available but unused at the year end on which interest is charged at floating rates based on LIBOR plus a margin as set out above. Interest is payable at a floating rate of the London Interbank Offered Rate (LIBOR) + 0.35%.

Capital management

The Company's capital consists of 500 million £1 ordinary shares, a statutory distributable reserve and a retained earnings reserve. A report on capital is prepared for the Board on an annual basis to ensure adequate cover exists for the payment of the Company's dividend.

Other risks

Further details on risks are contained on pages 60 to 74, 152 and 161.

G3. Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme

The Company operates a defined benefit pension scheme, the Northern Ireland Water Limited Pension Scheme (NIWLPS), which is open to all employees. Members had the option of transferring their pensionable service from the Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS (NI)) and a bulk transfer was paid in respect of liabilities transferred in August 2010. The Scheme has a number of different benefit structures applying to different categories of members. All but one of these are closed to new entrants.

Composition of the Scheme

The scheme is open to new entrants and therefore the service cost as a percentage of pensionable salaries is expected to remain broadly steady over time (subject to changes in market conditions). Accrued liabilities are based on calculations carried out by a qualified independent actuary. A full calculation of the liabilities was carried out at the date of the Scheme's latest actuarial valuation (31 March 2017) for IAS 19.

Assumed life expectancies on retirement at age 60

	31 March 2020				31 March 2019			
	Non-industrial		**Industrial**		Non-industrial		Industrial	
	Male	**Female**	**Male**	**Female**	Male	Female	Male	Female
Retiring today (member aged 60)	**27.2**	**29.2**	**25.5**	**27.5**	27.1	29.1	25.4	27.4
Retiring in 20 years (member age 40)	**29.2**	**31.2**	**27.4**	**29.4**	29.1	31.1	27.3	29.3

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2020	Total scheme assets at 31 March 2019
Asset category		
a. Equity instruments	**27.5%**	27.5%
b. Debt instruments:		
(i) Corporate bonds	**7.5%**	7.5%
(ii) Gilts	**7.5%**	7.5%
c. Property	**15.0%**	15.0%
d. Other	**42.5%**	42.5%
Total	**100.0%**	100.0%

	Total scheme assets at 31 March 2020 £000	Total scheme assets at 31 March 2019 £000
Fair value of plan assets		
a. Cash	**1,568**	772
b. Equities	**58,901**	66,835
c. Debt instruments:		
(i) Corporate bonds	**22,689**	19,536
(ii) Gilts	**49,170**	62,690
d. Property	**40,519**	26,384
e. Other	**61,141**	62,060
Total market value of assets	**233,988**	238,277

G3. Employee benefits continued

The Scheme's overall allocation to investment in equities is approximately 7.7% UK and 17.7% in overseas equities. Assets shown as 'Investment funds' includes allocation to the following funds: Diversified Growth, Secured Finance, Infrastructure and Sustainable Opportunities.

These investments are intended to reduce the reliance on equity markets, diversify the sources of risk to which the fund is exposed and provide exposure to a wide variety of equity, bond, currency, commodity and other alternatives markets.

Defined benefit obligation by participant status

	Total at 31 March 2020 £000	Total at 31 March 2019 £000
Actives	**174,278**	176,867
Vested deferreds	**12,797**	13,849
Retirees	**89,427**	83,193
Total defined benefit obligation	**276,502**	273,909

Change in the fair value of plan assets

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
Fair value of plan assets at end of prior year	**238,277**	233,403
Movement in year:		
Interest income	**6,024**	6,120
Contributions by plan participants	**1,687**	1,685
Contributions by employer	**11,509**	11,895
Actuarial gain/(loss)	**(15,362)**	3,232
Benefits paid	**(7,147)**	(17,058)
Administration expenses paid from plan assets	**(1,000)**	(1,000)
Insurance premiums for risk benefits	**-**	-
Total	**233,988**	238,277

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
At the beginning of the year	**273,909**	256,192
Movement in year:		
Current service cost	**13,314**	11,900
Interest expense	**6,759**	6,580
Past service costs	**2,484**	37
Remeasurements:		
a. Effect of changes in demographic assumptions	**-**	-
b. Effect of changes in financial assumptions	**(14,504)**	14,573
c. Effect of experience adjustments	**-**	-
Contributions by plan participants	**1,687**	1,685
Insurance premiums for risk benefits	**-**	-
Benefits paid	**(7,147)**	(17,058)
Total	**276,502**	273,909

G3. Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2020 £000	Total year to 31 March 2019 £000
Defined benefit obligation	**(276,502)**	(273,909)
Fair value of plan assets	**233,988**	238,277
Deficit in the scheme – pension liability	**(42,514)**	(35,632)
Related deferred tax asset	**8,078**	6,057
Net pension liability	**(34,436)**	(29,575)

The overall return on the Scheme's assets over the year was negative with a loss of around £9.4m (2019: gain of £9.4m), equivalent to an annual return of around -4% pa (2019: +4%) ignoring cashflows. The main reason for this was the lower than expected returns on property and equities as a result of Covid-19 in the first quarter of 2020.

The total benefits paid out of the Scheme during the year ending 31 March 2020 were £7,147k (2019: £17,058k), of which £3,726k (2019: £13,715k), were in respect of individual transfers out of the Scheme for members who decided to withdraw their funds. This was a significant reduction in transfer outs and consequently total benefit payments compared to the previous year end.

Sensitivity of key assumptions

The sensitivities to assumptions shown below are broadly symmetrical, i.e., an increase or decrease in the assumption will result in a similar movement in either direction.

Impact of:

	Change in liability 2019/20 %	Change in liability 2019/20 £000	Change in liability 2018/19 %	Change in liability 2018/19 £000
+ or - 0.25% in discount rate	**5.7**	**15,800**	6.6	18,200
+ or - 0.25% in rate of inflation	**5.6**	**15,600**	6.2	17,000
+ or - 0.25% in salary inflation	**1.6**	**4,500**	0.8	2,300
Increase in life expectancy of 1 year	**3.1**	**8,700**	3.5	9,600
Reduce long term improvements to 1.25%	**(1.4)**	**(3,800)**	(1.5)	(4,100)

Expected cash flows for the following year

	£000
Expected employer contributions	**11,134**
Expected total benefit payments:	
Year 1	**7,320**
Year 2	**7,497**
Year 3	**7,679**
Year 4	**7,864**
Year 5	**8,055**
Then for next 5 years (Total)	**43,291**

G4 Related parties

Parent and ultimate controlling party

The Company is a Government owned Company and 100% owned by its ultimate controlling party, the DfI. The results of the Company will not be within the annual financial statements prepared by the DfI, nor in the financial statements of any other entity. Inter-Company debtor and creditor balances with the DfI and other government bodies will be supplied to the DfI for the Whole of Government Accounts. The Company transacts with other Government Departments, Agencies, and NDPBs, in the normal course of business and in accordance with standard business terms.

G4 Related parties continued

Related party disclosures with DfI are as follows:

	At 31 March 2020 £000	At 31 March 2019 £000
Subsidy		
Revenue subsidy from DfI (credited to revenue)	**309,894**	299,926
Revenue relating to road drainage (credited to revenue)	**22,556**	21,861
Other receivables - subsidy (included in other receivables - Note C4)	**1,540**	1,621
Other sales to DfI (credited to revenue)	**1,724**	2,529
Trade receivables - other sales to DfI (included in trade receivables - Note C4)	**343**	338
Purchases		
Purchases from DfI (included in operating costs or capital expenditure)	**1,105**	705
Accruals - purchases from DfI (included in accruals - Note D2)	**330**	379
Loans and borrowings		
Loans from DfI during the year	**40,000**	64,000
Balance on loans from DfI at year end - Note B1	**1,186,560**	1,146,560
Loan interest to DfI - Note B2*	**51,273**	49,789
Loan interest owed to DfI at year end	**2,640**	2,081
Dividends		
Dividend to Shareholder - Note B3	**28,272**	26,461

*Loan interest stated before capitalisation of £5,477k (2019: £5,014k) of interest.

No guarantees are given to or received from DfI in relation to the previous balances. There are no provisions for doubtful debts related to the amounts above and no expense recognised in the year in respect of bad and doubtful debts due from DfI.

Key management personnel's compensation

Details of the key management personnel's post-employment defined benefit plan and termination benefits are included in the Directors' remuneration report on pages 110 to 113. Key management personnel's compensation is disclosed in Note E1a.

Key management personnel's and Directors' transactions

The key personnel and Directors did not carry out any transactions with related parties of the Group.

G5 Subsequent events

During the first quarter of 2020/21 Covid-19 impacted more widely on society. This gave rise to many businesses temporarily closing. NI Water took the decision to defer billing its customers during this period to reduce the financial burden on customers who have been significantly impacted by Covid-19 with a view to recommencing billing later in the summer and backdated to April 2020. It is recognised that there will be a reduction in usage by billed customers over this period resulting in lower income and may lead to a higher instance of bad debt. At the date of approving the Annual Integrated Report the Company has experienced a reduction in payments from some of its customers. NI Water has agreed with DfI that the payment of Government subsidy be advanced during this period to make up for the reduction in customer billing receipts. DfI has also agreed that NI Water may make use of its loan draw-down facility to access additional cash should this be required.

At the start of the lock-down most of our capital contractors withdrew from construction sites. By the end of May 2020 work had recommenced on most projects as capital contractors came back on-site.

Front-line staff have been provided with PPE to enable normal services to our customers to be continued. Office based staff have been able to work largely from home whilst accessing the company IT network. The Company has provided regular updates to its stakeholders on the impact of Covid-19 and the measures taken to continue to provide services safely to its customers.

There were no other subsequent events that need to be brought to the attention of the users of the financial statements.

Independent Auditors' Report to the Members of Northern Ireland Water Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Northern Ireland Water Limited ('the Company') for the year ended 31 March 2020 which comprise the consolidated statement of financial position, company statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cashflows, company statement of cashflows and related notes, including the summary of key accounting policies set out in Note 1 and the summary of significant accounting policies set out in Note G1. The financial reporting framework that has been applied in their preparation is UK Law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In our opinion, in all material respects, the expenditure (disbursed) and income (received) have been applied to the purposes intended by the Department for Infrastructure as set out in their direction to the Company of 18 November 2010 and the financial transactions conform to the authorities which govern them.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other 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.

We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group and the Parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Parent Company will continue in operation.

Statutory Accounts

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

Other information

The Directors are responsible for the other information presented in the Annual Integrated Report together with the financial statements. The other information comprises the information included in the strategic and Directors' report, the corporate governance report, the Directors' remuneration report, and the statement of Directors' responsibilities.

The financial statements and our auditor's thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

- we have not identified material misstatements in the Directors' report or the strategic report;
- in our opinion, the information given in the Directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the Directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Respective responsibilities and restrictions on use

Responsibilities of Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 116, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent 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 they either intend to liquidate the Group and Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Poole - Senior Statutory Auditor
for and on behalf of KPMG Statutory Auditor

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26 June 2020

DRAINS AND CRANES

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Calls cost 5p per minute plus your phone Company's network access charge. Call charges for mobiles may vary.
www.niwater.com/annual-report/

Facebook: Northern Ireland Water

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YouTube: Northern Ireland Water

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Delivering what matters

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