northern ireland water

Annual Integrated Report & Accounts 2020/21

Northern Ireland Water

Annual Integrated Report and Accounts
For the year ended 31 March 2021

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 27 July 2021

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 28). 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, the corporate governance arrangements within our Management Statement and Financial Memorandum, 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

This Annual Integrated Report and Accounts 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
Chair of the Board
23 June 2021

Any enquiries regarding this publication should be addressed to the Business Reporting Manager using the contact details on the back cover of this 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 204 for details on which areas of this report have been subject to audit.

P7 St Patrick's Primary School Mayobridge, Fofanny area, climate competition winning poster

Read more at
https://www.niwater.com/climatechange/news/local-school-engagement/

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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.

Sewer improvement work in West and South Belfast

Welcome

Building back better

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. It's time to start properly funding our critical infrastructure to build back better.

Delivering despite COVID-19

The COVID-19 pandemic is a stark reminder of the fragility of our societal and economic systems, and challenges us to think about becoming more resilient not just to pandemics but to other threats, known and unknown.

Like most organisations, NI Water faced limitations to usual ways of working following the introduction of lockdown restrictions. This challenge was coupled in 2020/21 with the driest Spring on record and an increase in household demand for drinking water. We activated our major incident and business continuity plans to ensure that over 700 staff were able to switch to working from home. Protocols were initiated for staff deemed essential to frontline operations, within the laboratories, networks or treatment works to ensure a safe working environment. Our role in ensuring that drinking water continued to flow to hospitals, care homes and for food productions was crucial. The Government's public health advice centres on key messages such as regular hand washing and keeping hydrated, again highlighting the importance of a clean, safe and reliable water supply. I would like to thank all our staff, contractors and suppliers for their continued commitment and dedication to delivering what matters.

It's time to properly fund our critical infrastructure

In 2007/08 the Independent Water Review Panel highlighted the need to take difficult decisions to properly fund our critical infrastructure. The failure of Government to provide proper funding has led to a generational underinvestment in our wastewater 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.

NI Water's goal is to ensure we have a modern, efficient and sustainable business. While chronic underfunding of NI Water is an urgent issue, we are working hard at a local level to find solutions to enable Councils and developers to progress their vision and facilitate future economic development. NI Water is ready to provide engineering solutions to short-term constraints where possible, however we must face the inescapable reality that our infrastructure needs to be properly funded over the next quarter of a century to address this problem. Over £2 billion is required in our next business plan period PC21 (2021-27), including £0.5 billion for the Living With Water Programme to address strategic drainage in Belfast. This investment is required to start to address the problems of economic development constraints facing our towns and cities. This is not a 'wish list' or a 'nice to have'; this is the plan that will help us ensure NI Water can deliver in a strong, modern regional economy.

The Utility Regulator's Final Determination on NI Water's PC21 Business Plan (2021-27) was published in May 2021 and NI Water has until 13 July 2021 to decide on acceptability. The Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the Department for Infrastructure and the Northern Ireland Executive. The Board is in discussion with the Department for Infrastructure and other Government Departments to ensure that, in order to accept the PC21 Final Determination, there is support and continuing commitment to fund the determination.

The Northern Ireland Executive gave NI Water high profile within the New Decade, New Approach deal, stating that it will invest urgently in wastewater infrastructure. We have also been encouraged by the Ministerial Advisory Panel on Infrastructure's Report which highlighted the need to reform infrastructure planning and delivery and we can directly support delivery of seven of the nine outcomes in the Programme of Government draft outcomes framework. We also understand that the NI Audit Office is preparing a public interest report on NI Water to inform future infrastructure delivery. It's time to take the difficult decisions to properly fund our critical infrastructure.

Supporting a sustainable revolution

Like the industrial revolution which fundamentally changed our economy and wider society in previous centuries, the changes required to decarbonise our economy, become climate resilient and restore biodiversity over this century represent nothing short of a sustainable revolution. This will require a colossal joined up effort across the public, private and voluntary sectors to rethink policy development, decision making and funding in order to help our society meet these challenges and address our inherent blind spot for nature. Otherwise our planet earth may not be sustainable for those who come after us by the end of this century.

Northern Ireland's economy, like many other countries, has stalled. Governments are highlighting the importance of investing in infrastructure to stimulate economic recovery and address climate change. We believe that the much needed investment in our infrastructure presents an opportunity to grow our economy in a way that restores rather than depletes our natural environment on which we all depend.

As a natural capital business, with infrastructure entwined with the natural water cycle, NI Water is at the forefront of the shift to a green economy. We are determined to harness the huge and largely unseen potential for NI Water to address climate change and restore biodiversity. We believe that our infrastructure, which includes significant land holdings and over 3,000 grid connected sites across Northern Ireland, can play a strategically important role in helping society to meet these challenges. Our big, bold ideas were launched in 2020/21 and include nature based solutions such as planting one million trees and restoring our peat bogs; building more renewables on our land; kick-starting our hydrogen economy; and providing sources of warmth for district heating schemes.

Crystallising the full benefits from these ideas will require changes to Government policy, funding and regulation to rethink infrastructure as a total interconnected system rather than isolated silos. These benefits include ensuring that our economy is productive and competitive in a decarbonised world.

Creating a more prosperous society

As society begins to contemplate what 'normal' may now look like, the sustainable delivery of clean water and sanitation remains vital in the face of rising challenges such as health pandemics, climate change and the loss of biodiversity.

NI Water stands ready to deliver. Our plan will start to address the underinvestment in our infrastructure and the damage it has caused to our economy and the natural environment. We have consistently demonstrated the importance of this investment to enable a healthy and thriving population, a growing economy and a flourishing natural environment. We need a multi-year funding settlement from Government to efficiently deliver our multi-year plan. So much, which is so very important, to so many, now depends on it.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
23 June 2021

Big, bold, positive ideas on how NI Water can help society address the climate emergency

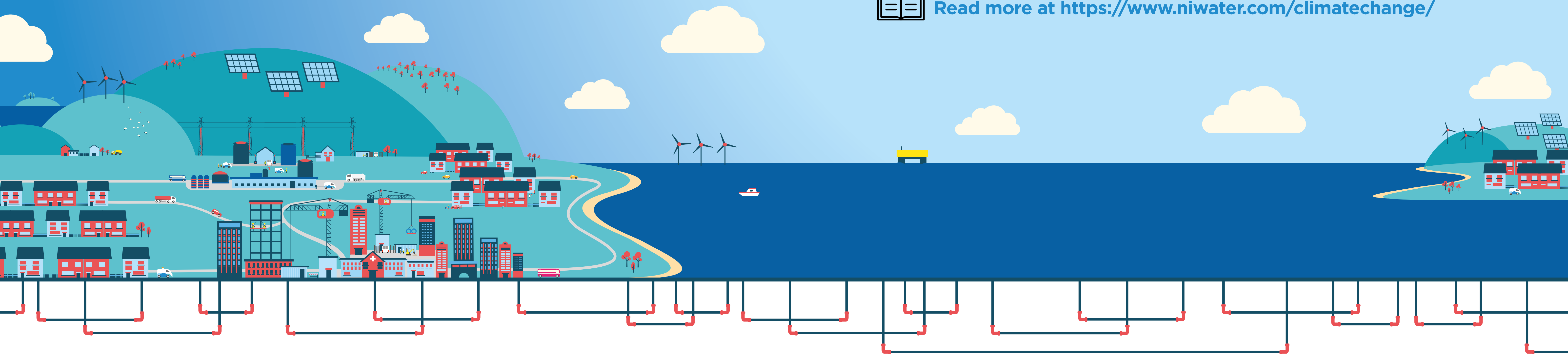
Overview

We are facing a climate emergency and now more than ever we need to take action. NI Water supports a healthy population, flourishing natural environment and a growing economy, so what can we do to help address the serious threat that the climate crisis poses?

We can play a strategically important role in helping society to decarbonise and restoring biodiversity by:

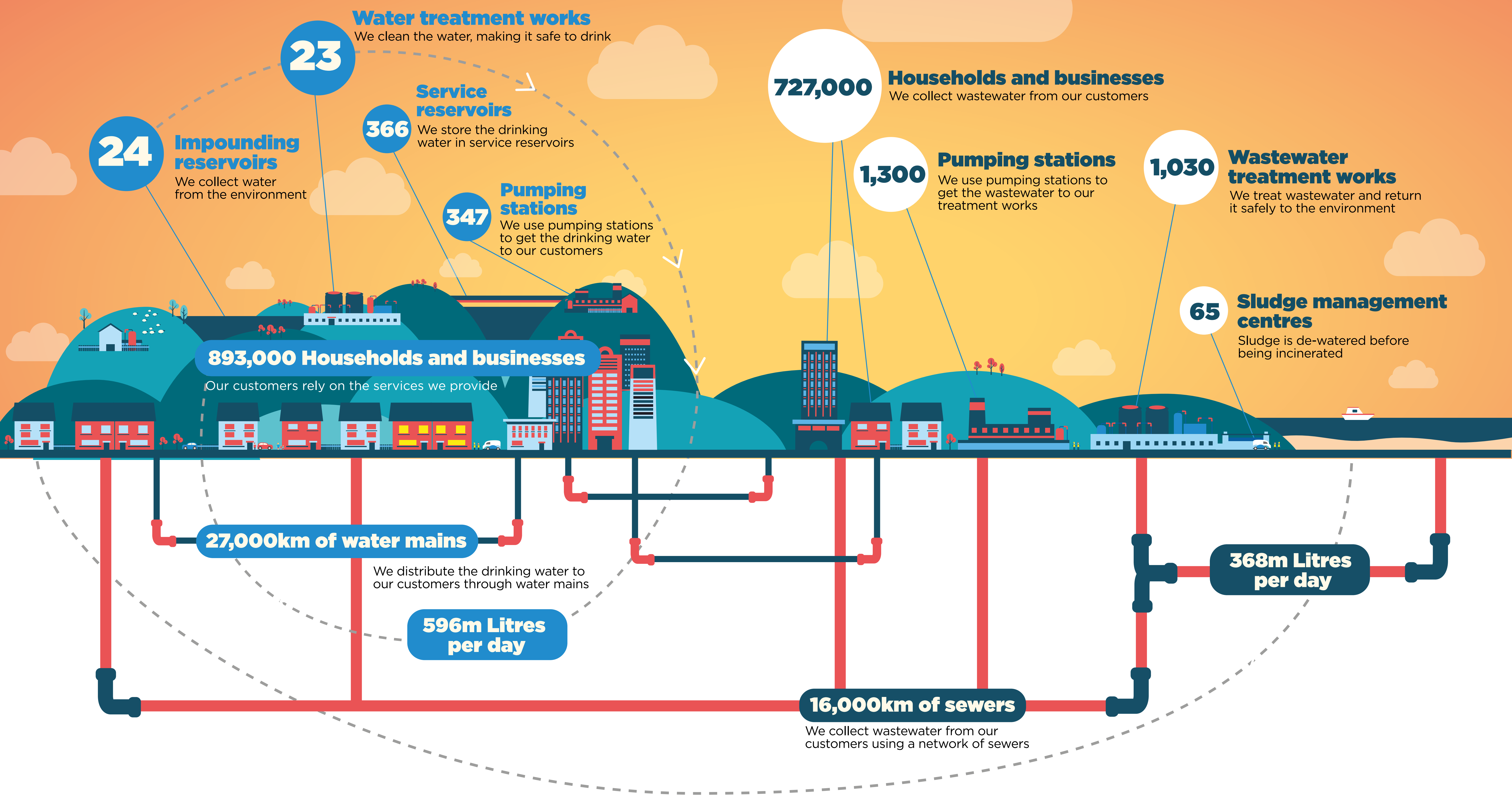
- Planting 1 million trees and restoring our peat bogs
- Helping to reduce Northern Ireland's requirement for fossil fuel generated electricity by building more renewables on our land
- Playing a pivotal role in doubling Northern Ireland's renewable generating capacity
- Opening a network of green fuel stations to kick-start our hydrogen economy
- Helping the gas network remain relevant in a decarbonising world
- Providing sources of warmth for district heating schemes

Read more at https://www.niwater.com/climatechange/



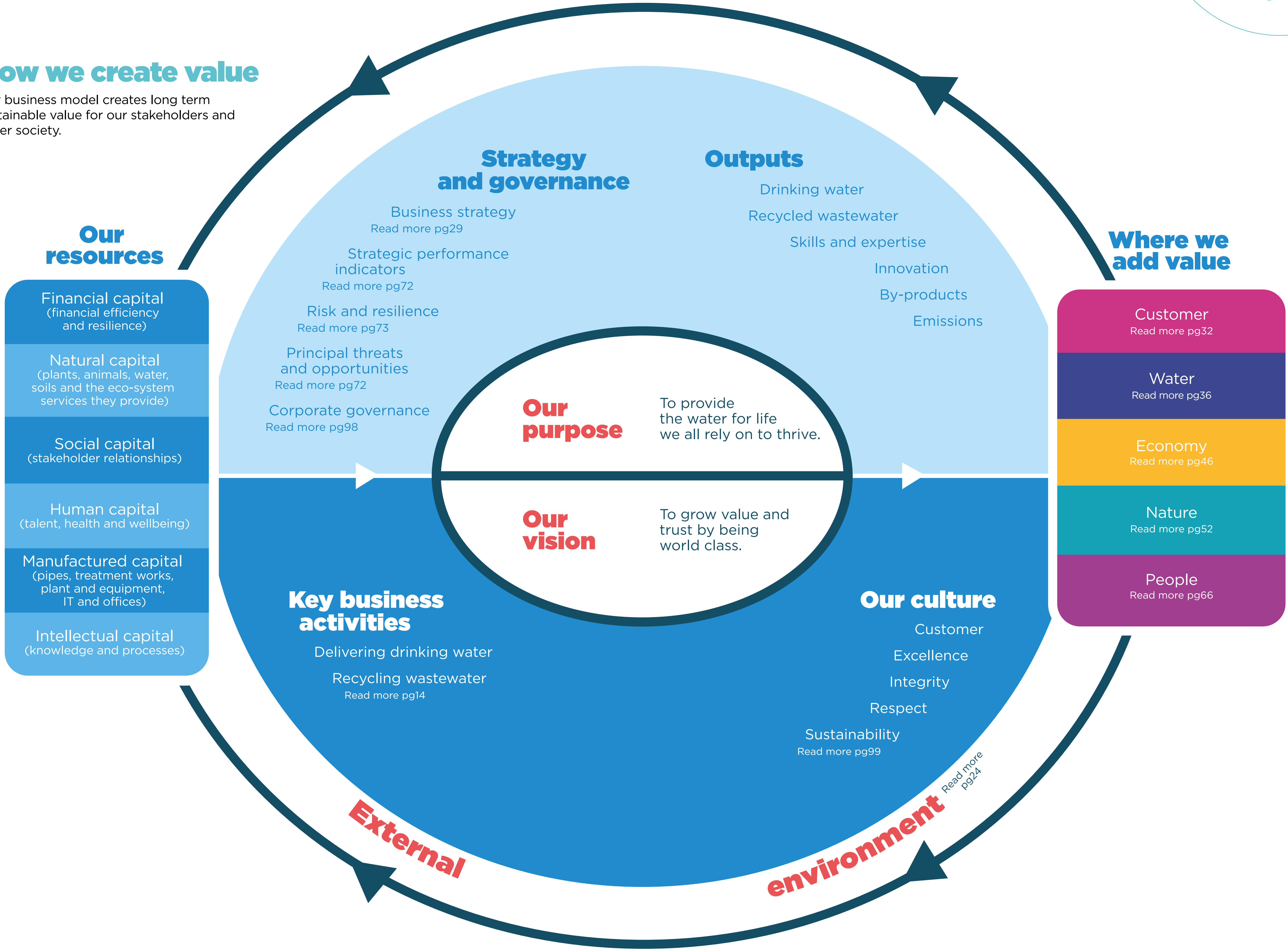
About NI Water

It costs around £680m 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

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

Despite this progress, Northern Ireland is facing unprecedented risks to the environment and to the economy arising from its aging water and sewerage infrastructure, the climate emergency and the biodiversity crisis. We must also protect our safe, resilient drinking water supplies and distribution systems.

Our PC21 Business Plan (2021-27) 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. This plan also sets out the performance improvements we are committing to deliver for our customers, building on our PC15 Business Plan (2015-21) and continuing to drive efficiency and innovation. The independent Utility Regulator has given its endorsement for our PC21 Business Plan investment. We are working with our Shareholder and other Government Departments to secure the necessary funding.

Some of the notable highlights over 2020/21, the final year of our PC15 Business Plan, 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 2020/21.

Over 2020/21 we enhanced our social media service, introduced live webchat and optimised our automated chatbot to answer even more customer enquiries. We upgraded our incident management system to improve the information on our website when our customers experience an interruption to water supply and introduced the ability for customers requiring additional support to easily register online. Our new digital services platform will offer a range of further service improvements. The first phase was completed in March 2021 and focuses on improving how customers can manage their accounts and perform activities such as paying bills or checking consumption.

P32 Read more about delivering an exceptional customer experience.

Clean and safe water when you need it

Great products start with great raw materials. Our sustainable catchment management programme is a key driver of improved raw water quality. One of our largest projects is the EU INTERREG VA Programme funded investment of €5m under the Source to Tap project to improve the Erne and Derg cross border river catchments.

Peatlands are one of nature's superstars, storing more terrestrial carbon than all other vegetation types in the world combined. They also improve our water quality, support an array of species and provide places for people to enjoy. Our peat bog restoration work under the Source To Tap project in 2020/21 included 30 hectares of formerly afforested land on the Pettigoe Plateau, County Fermanagh. We also commenced a new peatland restoration project on the shores of Lough Bradan, County Tyrone.

NI Water takes water from a number of lowland lakes and rivers to supply the wholesome water that we all rely on to drink. Trees help us to protect these water courses. Our 10-year partnership with The Woodland Trust Northern Ireland and other partners has resulted in the planting of over 150,000 trees in our drinking water catchments. Over 2020/21 we provided resources for a 'wet wood' flood alleviation project alongside the Faughan River, County Derry/Londonderry. Our ambition over the next decade is to plant 1 million of the right trees in the right place.

Our changing climate is bringing more frequent and severe weather events such as heavy rainfall, heatwaves and extreme cold. With many people based at home from early April 2020, we saw a significant increase in household water use during periods of warmer weather. A combination of our response and a period of cooler, wetter weather saw reservoir levels restore from June 2020. We are also focussed on securing future water supplies, with over £25m being pumped into water resilience for the North West, County Down and Belfast.

Overall drinking water quality compliance in 2020 was above the target of 99.79%. COVID-19 has had an impact on regulatory sampling with some reduction in sampling and suspension of samples at customer taps. Another notable development over 2020/21 included the activation of resilience measures in November 2020 to ensure that the drinking water supply was not impacted by the peatland landslide in County Donegal.

Reducing leakage continues to be a top priority, but with a network of around 27,000 km of underground water pipes, it can be a complex and costly job finding the leaks. Our leakage teams continued to work around the clock to locate and repair leaks. In 2020/21 we reduced leakage by over 3 million litres (enough to fill over one olympic size swimming pool) per day (Ml/d) to 158Ml/d. However, this reduction was not enough to meet our target of 155 Ml/d. To address this we have tested a number of innovative approaches to detect more leaks such as acoustic listening devices and satellites. Around a quarter of this leakage is on customer properties, so we need our customers to help us by getting any leaks fixed quickly. In PC21 we are setting ourselves the challenge of achieving the sustainable economic level of leakage (150Ml/d), which is the point at which the cost of fixing a leak outweighs the benefit.

Every minute counts when it comes to fixing water supply problems. Over 2020/21, we deployed water tankers and laid temporary supplies to achieve our supply interruption target. Our PC21 Business Plan includes capital investment to reduce the minutes lost per property by 50%, aiming for zero lost minutes per property by 2050.

P36 Read more about supporting a healthy and thriving population.

Sustainable economic growth

During 2020/21, we continued our engagement with Local Councils and other stakeholders on wastewater capacity constraints. Our PC21 Business Plan sets out the investment required to start to address the wastewater capacity constraints. We anticipate that it will take a sustained increase in investment over the next quarter of a century to solve the problem of development constraints.

The gap between us and the most efficient water companies in England and Wales has reduced from 49% in 2007/08 to just 5.7% in 2018/19. We are committed to reducing annual operating costs by a further £13m to eliminate this efficiency gap by 2027.

These significant sustainable cost efficiencies have helped us keep any increase in non-domestic water and sewerage charges at or below inflation.

P46 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. There are 108 properties on the register of properties at risk of internal flooding as a result of the capacity of the sewerage system being exceeded and we propose to remove 57 properties from the register through defined projects over PC21. In 2020/21, we commenced a £0.5m programme of essential sewer improvement work in the Dunmurry and wider West and South Belfast areas to reduce the risk of out of sewer flooding.

Reducing the amount of surface water reaching the sewers can help reduce the risk of sewer flooding due to overcapacity. We removed an impermeable surface area equivalent to around 42 football pitches from the sewer network over PC15. We plan to significantly increase the level of area removed, to the equivalent of around 52 football pitches in 2021/22 alone, and a similar area in each of the five remaining years of PC21.

We are working with the NIEA and other stakeholders to reform the wastewater compliance model to improve compliance across the whole wastewater system. Over 2020/21 we installed event and duration monitors on our sewer network to better understand spills from combined sewer overflows and enable regulatory reporting on spills over 2021/22. Our plans over PC21 include installing flow meters and doubling the number of event and duration monitors.

Over 2020/21 we commenced a £10m programme of work at Belfast wastewater treatment works to ensure wastewater treatment for Belfast remains compliant. We also commenced a £6m upgrade of Warrenpoint wastewater treatment works to improve water quality in Carlingford Lough.

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 2020/21, we upgraded the existing wastewater treatment works in Ballykelly, County Derry/Londonderry by developing a sustainable integrated constructed wetland to enhance the traditional treatment works and reduce energy and carbon. We are continuing to invest in replacing our existing treatment assets with lower energy solutions as part of our part of our £47m rural wastewater investment programme. Further work is ongoing to identify opportunities for lower carbon treatment solutions, with a target of seven wastewater treatment sites within our PC21 Business Plan.

We deal with around 15,000 blockages of our sewers each year, over 11,000 of which could have been prevented. Our 2020/21 campaign employed a COVID-19 related strand due to the rise in toilet roll purchased and the increased use of wet wipes. Our Refillution campaign also continues at pace to support the reduction in single use plastics.

We are committed to decarbonise our business before 2050 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. We believe that our infrastructure, which includes significant land holdings and over 3,000 grid connected sites across Northern Ireland, can be used in innovative ways such as doubling Northern Ireland's renewable generating capacity and producing hydrogen fuel. In 2020/21, we increased our electricity consumption from renewable sources such as solar and hydro power to over 40%, rising to 100% by 2027. We also unveiled a ground breaking concept to help kick start the hydrogen economy in Northern Ireland.

P52 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.

We launched a new Emerging Leaders programme over 2020/21, developing 44 aspiring leaders to fulfil their leadership potential and a new Apprenticeship Academy through which we hired 30 new water apprentices. 13% of our apprenticeship intake are female, enhancing the proportion of females within our industrial workforce. Our 2021/22 plans include the development of an immersive management development programme for all middle managers; a significant programme of work to define and develop our corporate values into everyday behaviours and actions; modernising our total reward strategy; and the development of hybrid working for office based staff as we re-invent our workplace.

Pulse surveys were used over 2020/21 as a quick and agile way of staying connected with all our people and to understand the sentiment of our workforce throughout the pandemic. We also held our third Microsoft Teams Live broadcast in March 2021. Over 300 colleagues participated in the session and received updates from myself and other Executive Directors on various topics linked to the survey results.

Our award winning health and wellbeing strategy helps staff 'live well' through a range of initiatives to support mental, physical, financial and social health such as our Live Well Roadshow, Winter Wellness Programme and new Spring Forward programme.

We had to put our fantastic Cares Challenge/ Little Ripples programmes temporarily on hold over 2020/21. A number of colleagues got involved in digital volunteering, helping local community charities host short virtual training sessions on a digital topic.

Our partnership with WaterAid continued over 2020/21 by hosting the first virtual fundraising ball in the UK, which raised over £47,000.

We also had to adapt our unique education programme over 2020/21 due to COVID-19. A home-schooling pack was developed, for our 'water-whizz' school kids in place of face to face learning on our Waterbus.

P66 Read more about helping our people and communities to thrive.

Sara Venning
Chief Executive
23 June 2021

Delivering what matters despite COVID-19

Water plays an essential role in the battle against COVID-19 with regular, thorough handwashing and staying hydrated being advised as two of the main ways to fight it. The implementation of our business continuity plans and pandemic major incident plan have helped us to protect the delivery of our water and wastewater services since the start of the pandemic in late 2019/20. This has required us to change and adapt our ways of working.

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


Mechanical and electrical operatives carrying out repairs


Tankering duties at a fast fill point during the high demand event in May 2020


Mechanical and electrical operative repairing a screen


Submersible pump removal from 11 metre wet well at a wastewater pumping station


Networks Distribution technician on pumping duties during the high demand event in May 2020


Mechanical and electrical operative fitting a greaser

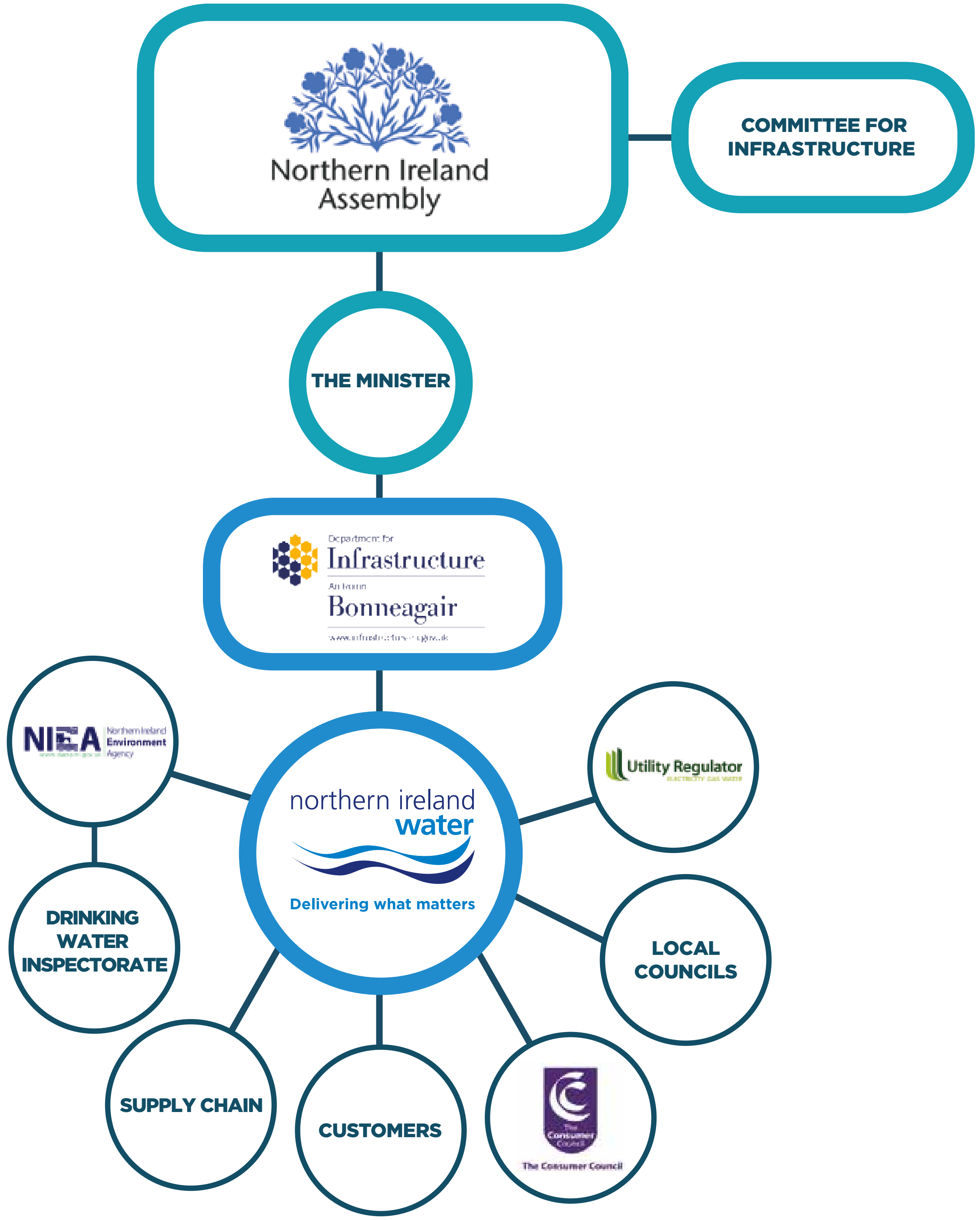

Analytical chemist in our clean water laboratory


Mechanical and electrical operative checking return liquor pumps


NI Water staff manning the hand sanitiser production line

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 893,000 households and businesses and wastewater services to around 727,000 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).

9,000+
Twitter followers.

18,000+
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.

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:

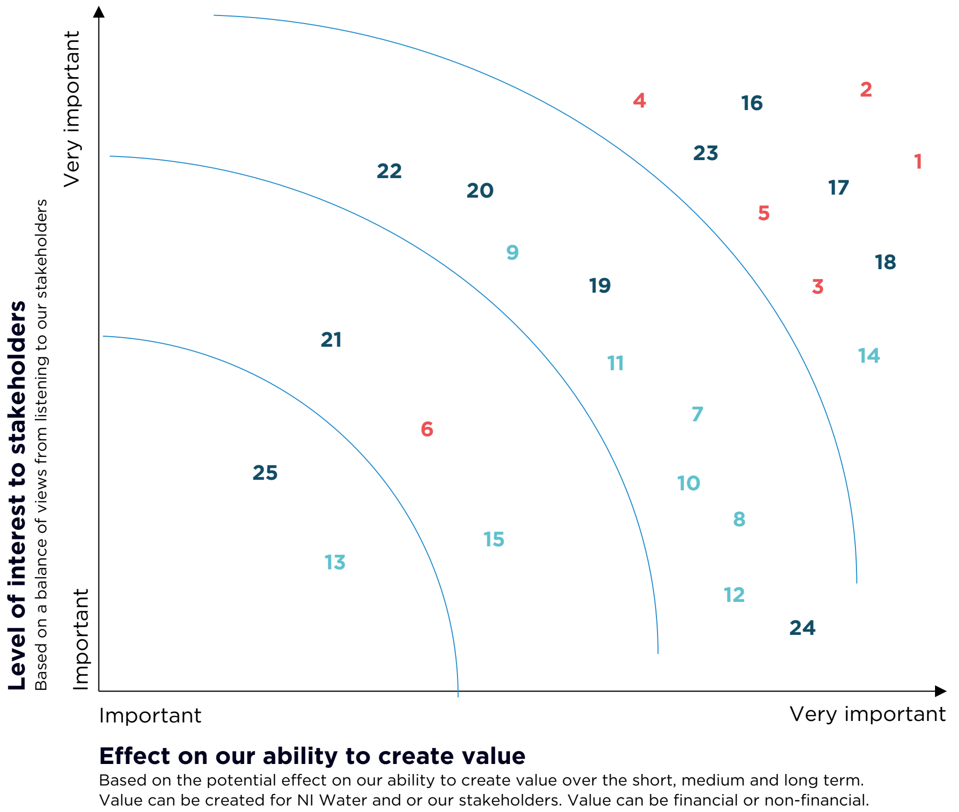
- value water services which are reliable and resilient;
- expect problems to be fixed quickly and to be kept informed of progress;
- wish to see investment to reduce flooding from sewer 'hot-spots' and target interruptions to water supplies;
- want us to invest in infrastructure to meet the economic 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/sites/default/files/original/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 119. We have aligned these issues with our principal threats and opportunities on page 72.



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

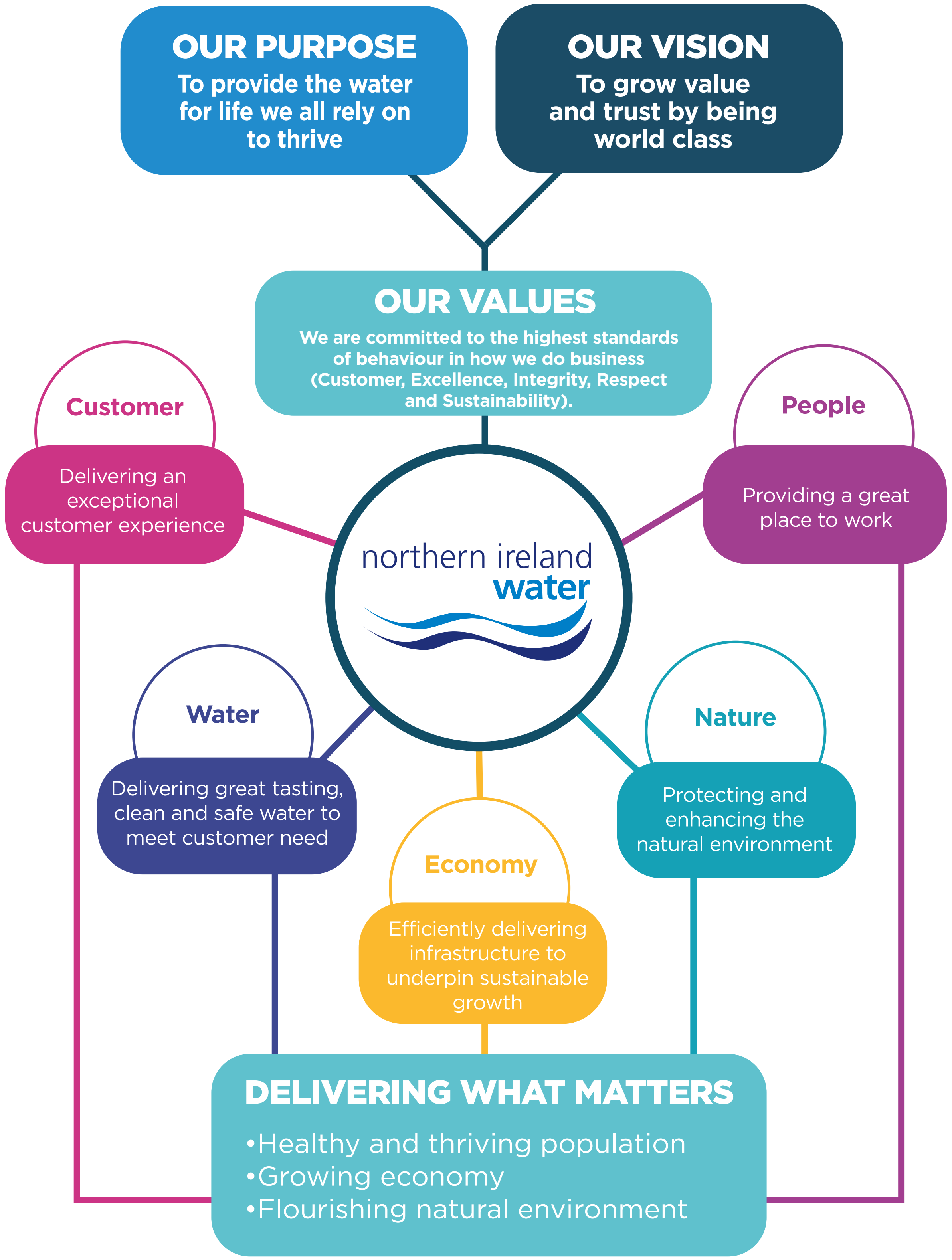
Internal matters
7. Resilience
8. Risk management
9. Corporate governance and business conduct
10. Innovation
11. Data security
12. Energy use
13. Responsible supply chain
14. Health, safety and wellbeing
15. Employee relations

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

360° image of Lough Macrory water treatment works, Loughmacrory, County Tyrone.
Image by Jason Devine

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

One of our younger customers enjoying a bottle of world class water from the tap

Strategic areas of focus

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

Sustainable development goals

3 GOOD HEALTH AND WELL-BEING
6 CLEAN WATER AND SANITATION
8 DECENT WORK AND ECONOMIC GROWTH
11 SUSTAINABLE CITIES AND COMMUNITIES

Principal threats/opportunities

PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO3 PO4

Page 72 Read more about principal threats and opportunities.

Strategic performance indicators

Customer	Unit of measurement	Target 2020/21	Actual 2020/21	Pass/ Fail	Target 2021/22
Reduction in customers reporting service failures	Number	75,000	70,204	Pass	74,000
First point of contact resolution	%	82	90	Pass	84
More customers singing our praises (Net Promoter Score)	Number	15	42	Pass	32

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. Over 2020/21 we enhanced our social media service, which now covers 08:00-20:00, seven days a week. Followers have increased by around 450 on Facebook and 60 on Twitter per month. We have also introduced live webchat, which customers have embraced. We undertook a review of our website to make it more customer friendly and to encourage greater use of digital channels, such as optimising our automated chatbot to answer even more customer enquiries. We have also upgraded our incident management system to improve the information on our website when our customers experience an interruption to water supply. Further improvements to customer experience will be made as part of our new digital services platform.

Read more at page 35.

Caring for you

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. We have worked closely with Health Trusts and Councils to garner support for promotion of our Register and developed ways in which customers can register by introducing online and postal services. Over 2020/21, we introduced the ability for customers requiring additional support to easily register online for our Register. Customers can also provide details of leaks and blocked sewers through this channel. We will continue our engagement with stakeholders to identify other avenues to grow the numbers on our Register.

We have been particularly focussed through COVID-19 on providing support for our non-domestic customers who experience difficulty in paying their bills by working with them to agree repayment plans.

Our 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.

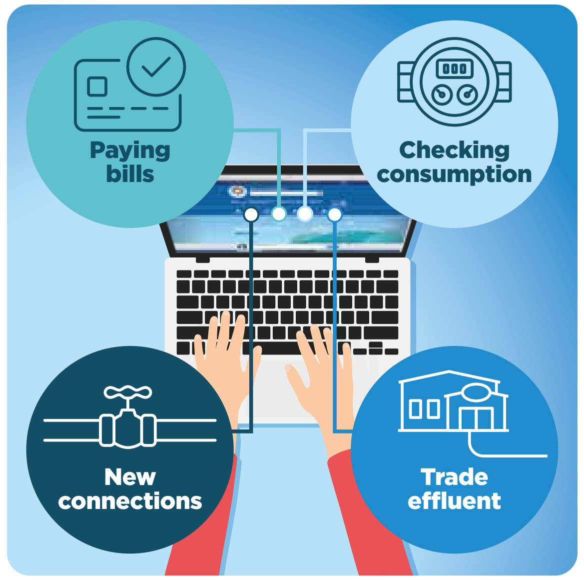
NI Water staff member providing photographic ID to a customer

Getting smarter

In 2020/21 we started work on our new digital services platform. The first phase was completed in March 2021 and focuses on improving how customers can manage their accounts and perform activities such as paying bills or checking consumption.

Our customers tell us they want a modern, interactive web-based platform where they can submit applications for our services, track progress, make payments and digitally sign documents without the need for paper or telephone contact. Over 2021/22, we will offer digital applications for connections to our water or wastewater network for housing developers and applications for trade effluent. The scope of services offered on the platform will continue to grow in future years.

We are also applying digital across other areas of the business. Within PC21 we are implementing a number of innovative strategic planning and business case processes, including combining a number of computer modelling programmes to replicate the outside environment, inside. This is commonly referred to as a 'digital twin' and incorporates our sewerage and storm systems, rivers and streams, overland flow of water and the analysis of how these impact upon our environment. This analysis will allow us to participate in modelling potential multi agency solutions to deliver cleaner water, reduce the risk of flooding and improve local amenity, whilst also increasing biodiversity within our towns and cities, working in partnership with other Government agencies and Local Councils.

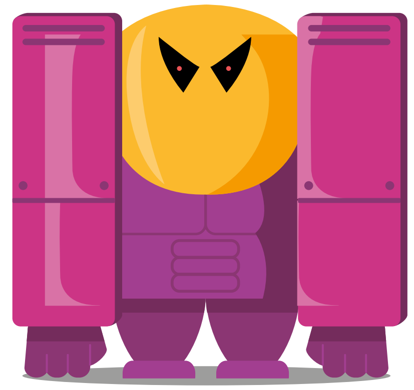


Our new digital services platform

Protecting you

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. In 2020/21 we continued our simulated phishing campaigns to test our awareness of phishing email attacks and to help educate users in how attackers attempt to gain access to our systems. In 2021/22 we will continue to liaise and collaborate with the National Cyber Security Centre to keep at the forefront of an ever changing threat landscape and be aware of new methods of attack as they develop.

Read more about managing cyber risk at page 82.



Water

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

Sampling of fresh water at Ballinrees reservoir, County Derry/Londonderry

Strategic areas of focus

- Improve at source
- Enough water for all
- Tasty, clean and safe
- Drive down leakage
- Always on

Sustainable development goals

Principal threats/opportunities

PT1 PT2 PT3 PT4 PT5 PT6 PT7 PO1 PO4

Page 72 Read more about principal threats and opportunities.

Strategic performance indicators

Water	Unit of measurement	Target 2020/21	Actual 2020/21	Pass/ Fail	Target 2021/22
Water quality compliance*	%	99.79	99.94	Pass	99.83
Reduction in leakage	Ml/d (Million litres/day)	153.00	157.71	Fail	155.00
Reduction in supply interruptions in excess of: • 6 hours • 12 hours • 24 hours	%	0.792 0.146 0.009	0.205 0.000 0.000	Pass	0.710 0.130 0.010

*Calendar year target

Strategic areas of focus

Improve at source

NI Water is one of the largest land owners in Northern Ireland. The forests and peat bogs in our water catchments are amongst nature's superstars, providing a range of eco-system services. They provide a natural form of water purification, protect against floods, help reduce greenhouse gas emissions by removing and storing carbon and enable us to restore our biodiversity.

Since 2017 we have been carrying out an EU INTERREG VA Programme funded investment of €5m under the Source to Tap project 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. Over 200 farm visits have been carried out to identify where improvements can be made to support both the farm business and the water environment through a land incentive scheme pilot. They will pilot initiatives to trial measures to improve water quality by working with land managers and farmers, which will help the project to deliver its objectives of improving freshwater quality. The project officers also work with volunteers and local communities and raise awareness of the importance of protecting our precious drinking water resources. It is hoped these initiatives will help restore nature and improve the water quality before it reaches our treatment works.

Restoring peat bogs - one of nature's superstars

Peatlands store more carbon than all other vegetation types in the world combined. They can improve our water quality, provide natural flood management and support an array of species and provide wild places for people to enjoy. It is crucial for us to restore our natural habitats so they can play their role in the climate emergency and restoring biodiversity.

Peatlands cover 12% of the land area in Northern Ireland. Unfortunately 86% of peatlands have been damaged to make way for farming and construction. As a result, many of our peatlands are net emitters of greenhouse gases. Only about 1% of the peatland area has been restored over the last 30 years.

Peat bogs restoration work under the Source To Tap project in 2020/21 included 30 hectares of formerly afforested land on the Pettigoe Plateau, County Fermanagh. This pilot project involves the conversion of a previous commercial conifer plantation to a functioning bog. The pilot is trialling a technique called cell bunding where low peat embankments are constructed in order to enclose 'cells' of variable shapes and sizes on both high bog and cutover. The aim is to establish peat-forming conditions within each cell by raising the water table within it to support Sphagnum Moss (also known as 'The Bog Builder') development. We will be comparing the recovery of the water table in the bog to other areas where, rather than building cell bunds, only the drains are blocked.

In 2020/21 we commenced a new peatland restoration project on the shores of Lough Bradan, County Tyrone. We are exploring opportunities for EU PEACE PLUS funded catchment projects: the 'IDEALS' Project to build on the Source to Tap project; and Killylane catchment restoration project in County Antrim.

Pilot forest-to-peatland restoration project at Pettigoe Plateau Tullychurry forest, County Fermanagh

Branching out

NI Water takes water from a number of lowland lakes and rivers to supply the wholesome water that we all rely on to drink. It is important for NI Water to protect these areas from bankside erosion and livestock encroachment as much of the water used for our drinking water comes from watercourses. Trees help us to do this. Our 10-year partnership with The Woodland Trust Northern Ireland and other partners has resulted in the planting of over 150,000 trees in some of NI Water's 24 drinking water catchments from Counties Antrim to Armagh. This partnership is helping to restore our forests - Northern Ireland is one of the least wooded regions in Europe, with just 8% woodland cover compared with 13% in the UK and 37% in Europe.

Over 2020/21 NI Water provided resources for a 'wet wood' flood alleviation project alongside the Faughan River, County Derry/ Londonderry. Tree species planted together include Alder, Aspen, Sessile Oak, Downy Birch and Willows. The planting of 2,000 trees and creation of ponds within the private land will improve water quality, remove and store carbon, increase biodiversity by providing new havens for wildlife and have wider health and contribute towards societal well-being. Our ambition over the next decade is to plant 1 million of the right trees in the right place. We look forward to our partnership with stakeholders continuing to grow and flourish, just like the trees.

A 'wet wood' flood alleviation project alongside the Faughan River, County Derry/ Londonderry. Image provided by Woodland Trust Northern Ireland

Strategic areas of focus

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.

Low water levels at the Silent Valley reservoir, County Down in May 2020

Demand surge and driest Spring on record

Water plays an essential role in the battle against COVID-19 with regular, thorough handwashing and staying hydrated being advised as two of the main ways to fight it. With many people based at home from early April 2020, we saw a significant increase in household water use during periods of warmer weather. Overall average demand has increased by over 10 million litres per day in 2020/21 compared to the previous year.

In parallel with the first lockdown Northern Ireland experienced its driest spring since records begin with a number of impounding reservoirs (store raw water prior to treatment) at their lowest level since 1995. Demand surges were experienced and on 29 May 2020 alone, NI Water had to increase production of treated water by 120 million litres to over 700 million litres to keep everyone supplied, thus increasing pressure on the network and water treatment works.

Water supply was increased to maximum levels and supported by extensive tankering to vulnerable points in the network. To keep customers engaged the media campaign was wide ranging from interactive videos on social media, to TV and radio advertisements. One strand focused on what each person could do to save water and made saving water sound easy, simple and something we could all achieve. For example, we encouraged everyone to save just 30 litres of water per day with three simple steps. We also developed a live interactive map on our website where a simple click would display where your water comes from and what level the reservoir was sitting at. In addition as part of our Drought Plan, the Drought Order application process was instigated for the first time with a Drought Order implemented for an emergency abstraction to supplement a raw water source. This was despite the impounding reservoirs being full at the start of March 2020. A combination of our response and a period of cooler, wetter weather saw reservoir levels restore from June 2020.

Tankering operations during the high demand event in May 2020

Pumping over £25m into water resilience for the North West, County Down and Belfast

Three key projects totalling £14m are being progressed in the North West to support future resilience of the water supply infrastructure over the next two years. The first project involves the replacement of a 4km water main, which supplies a large rural area outside Coleraine. The second project involving the construction of temporary water pumping stations at Moys in Limavady will help supply additional water from Ballinrees water treatment works in Coleraine to Carmoney water treatment works, which serves the city of Derry/ Londonderry. This will increase the capacity of the water supply infrastructure and provide additional resilience, particularly during emergency situations and extreme weather conditions. The third project involves an upgrade to the existing River Faughan raw water pumping Station at Carmoney water treatment works. This will include replacement of the weir gates to provide extra security and resilience.

Another significant investment is a £13m scheme to improve the security of the water supply at Drumaroad water treatment works, Castlewellan, County Down. This major programme of work will continue until Summer 2021 and involves the construction of a new water storage tank. This treatment works is supplied by water from Silent Valley reservoir and delivers around 140 million litres of water every day to over 200,000 homes in County Down and Belfast. Once complete this will have a positive impact on the lives of up to 540,000 people, a quarter of the Northern Ireland population, who can benefit from increased resilience and security of the water supply, particularly in emergency situations. This will make a real difference to people's daily lives.

New water storage tank under construction at Drumaroad water treatment works, Castlewellan, County Down

Strategic areas of focus

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.

Sampling and analysis is carried out 365 days per year to ensure that our drinking water is tasty, clean and safe. Samples are analysed by our scientists based in laboratories at Belfast and Altnagelvin. Overall drinking water quality compliance in 2020 was above the target of 99.79%. COVID-19 has had an impact on regulatory sampling with sample numbers at reduced frequency for all parameters from the end of April to the middle of May 2020. Sampling at customer taps was also suspended, in line with social distancing guidelines, with samples being taken at designated fixed points, service reservoirs (which store treated water) and sampler addresses.

In 2020/21 we trialled 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. We are working towards the delivery of treatment process at Derg water treatment works, Co Tyrone, for herbicide (MCPA) removal to be completed by 31 March 2022.

Meenbog landslide

The pollution incident caused by a peatland landslide in County Donegal in November 2020 had a devastating impact on the Mournebeg River in County Tyrone from which we abstract raw water. It is extremely disappointing for all the stakeholders and the local community who have been working hard to improve and protect the water quality in the area. We had to react quickly to this incident in order to protect customers served by the Derg water treatment works. Resilience measures were activated to ensure that the drinking water supply was not impacted. These measures included taking raw water from the Strule River to feed the Derg water treatment works. The alternative water abstraction arrangements and enhanced monitoring will remain in place until it is safe to recommence abstraction of raw water from the River Derg. NI Water plays a key role in the Inter-Agency group which is aiming to remediation work to restore the Mournebeg and Derg Rivers.

Meenbog peatland landslide in Ballybofey, County Donegal

Real time analysis

In 2020/21 we successfully trialled an innovative mobile testing facility at Derg water treatment works, County Tyrone. This pilot provides real time analysis to inform decision making on the optimal type of capital expenditure at the treatment works. The system has been running in parallel with the existing treatment works, using a number of different processes and technologies to improve how we treat raw water, and will be used across our treatment works to reduce energy, chemicals and carbon while maintaining tasty, clean and safe drinking water for our customers.

We are also planning to increase the amount of monitoring and automated flow control at our water abstraction points across PC21. This increase in data will allow us to more sustainably manage how we abstract raw water from the environment, helping us manage our natural capital. We anticipate that this work will support the need for additional environmental measures to be introduced, such as compensation flows to minimise environmental impact of abstraction and fish passes, help us lower day to day running costs and comply with the Water Framework Directive.

Mobile testing facility

Tackling lead pipes

The water leaving our water treatment works and in the distribution systems contains only trace amounts of lead. However, where lead has been used for supply pipes between the water main and the kitchen tap or in domestic plumbing, there is a risk of non-compliance at the customers' tap. So even with the removal of all lead pipes within our network there will be a risk to lead compliance from lead pipe remaining within customer properties.

Over the PC15 period, we replaced over 11,000 lead communication pipes at consumer properties in addition to lead pipe replacement under water main rehabilitation and in response to sample failures. We plan to replace over 11,000 lead communication pipes in PC21. We are also taking part in an UKWIR project looking at the water chemistry of lead. This project is focused on advancing the water industry's understanding of the chemistry that controls the solubility of lead and how to achieve compliance with the proposed reductions in the lead standard. Find out more about reducing the risk of lead at: www.niwater.com/lead-pipes/

https://www.youtube.com/watch?v=9k9FI0_FcZE

Strategic areas of focus

Drive down leakage

Every day we lose around a quarter or 157 million litres of water (over 60 olympic size swimming pools) 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.

In 2020/21 we reduced leakage by over 3Ml/d (over one olympic size swimming pool per day) to 157Ml/d. Our leakage teams continued to work around the clock to locate and repair approximately 220 leaks per week. On occasions, this can be very challenging so our highly skilled technicians need to use a variety of leakage detection methods to find the leaks, whether they are on burst water mains or in customer properties. Some of these techniques involve using a listening stick, a tried and tested way of detecting a leak. Another method of detection is using ground microphones.

In 2020/21 we tested a number of initiatives to detect leakage such as acoustic loggers and satellites. 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. Satellite technology uses various wavelengths of the visible and invisible light spectrum to locate leaks.

In PC21 we are setting ourselves the challenge of achieving the sustainable economic level of leakage (150Ml/d) which is the point at which the cost of fixing a leak outweighs the benefit.

Customers can also help us if they see a leak on the footpath or on the road, from a trickle of water to a gushing burst by letting us know by using our free Leakline number (0800 028 2011) which is open 24 hours a day, every day; visiting www.niwater.com/report-a-leak-or-burst-pipe/; or using the contact details on the back cover of this report. If you spot a leak, we'll find it and fix it. Approximately a quarter of leakage is on customer properties and we would encourage those with a leak on their property to get it fixed quickly. Even a dripping tap can waste more than 60 litres of water a week.

Water leaking from a burst pipe

Repair to a burst pipe

https://www.niwater.com/news-detail/11983/our-leakage-team-driving-leakage-down/

Always on

Every week we repair around 350 customer related bursts that occur on our water network of 27,000km operational distribution and trunk mains. Many of these bursts can result in interruptions to customers' supply or customers experiencing low water pressure.

We have embraced an 'Every minute counts' ethos in response to supply interruptions. We are always looking at ways to improve our performance and are exploring innovative solutions to help us identify problems on our water network before customers are affected.

During 2020/21, we implemented key initiatives such as new planned work procedures and deploying water tankers and laying temporary supplies in order to minimise interruptions during planned and unplanned operations. These initiatives have helped us reduce lost minutes per property for our customers and achieve our supply interruption target for 2020/21. Our PC21 Business Plan includes capital investment to reduce the minutes lost per property by 50%, aiming for zero lost minutes per property by 2050.

NI Water staff repairing supply interruptions

Filling tankers during the high demand event in May 2020

Economy

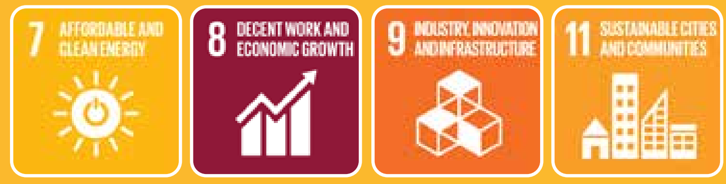
Efficiently delivering infrastructure to underpin sustainable growth

Construction of new wastewater pumping station at Bangor, County Down

Strategic areas of focus

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

Sustainable development goals



Principal threats/opportunities

PT1 PT2 PT3 PT5 PT6 PO1 PO3 PO4

Page 72 Read more about principal threats and opportunities.

Strategic performance indicators

Economy		Unit of measurement	Target 2020/21	Actual 2020/21	Pass/ Fail	Target 2021/22
Increase/(decrease) in customer tariffs excluding inflation		%	2.25	1.8	Pass	0.9
Number of economic constraint areas removed*		Number	n/a	n/a	n/a	0
Number of serious development restrictions removed*		Number	n/a	n/a	n/a	4
Bathing water quality**	Excellent		Majority excellent or good	12	Pass	Majority excellent or good
	Good			5		
	Sufficient			5		
	Poor			1		

* New target for PC21

**Other major contributors to bathing water quality include agriculture, wider industry and consumer behaviour (flushing inappropriate items). Targets for 2020/21 and beyond changed to be 'majority excellent or good'.

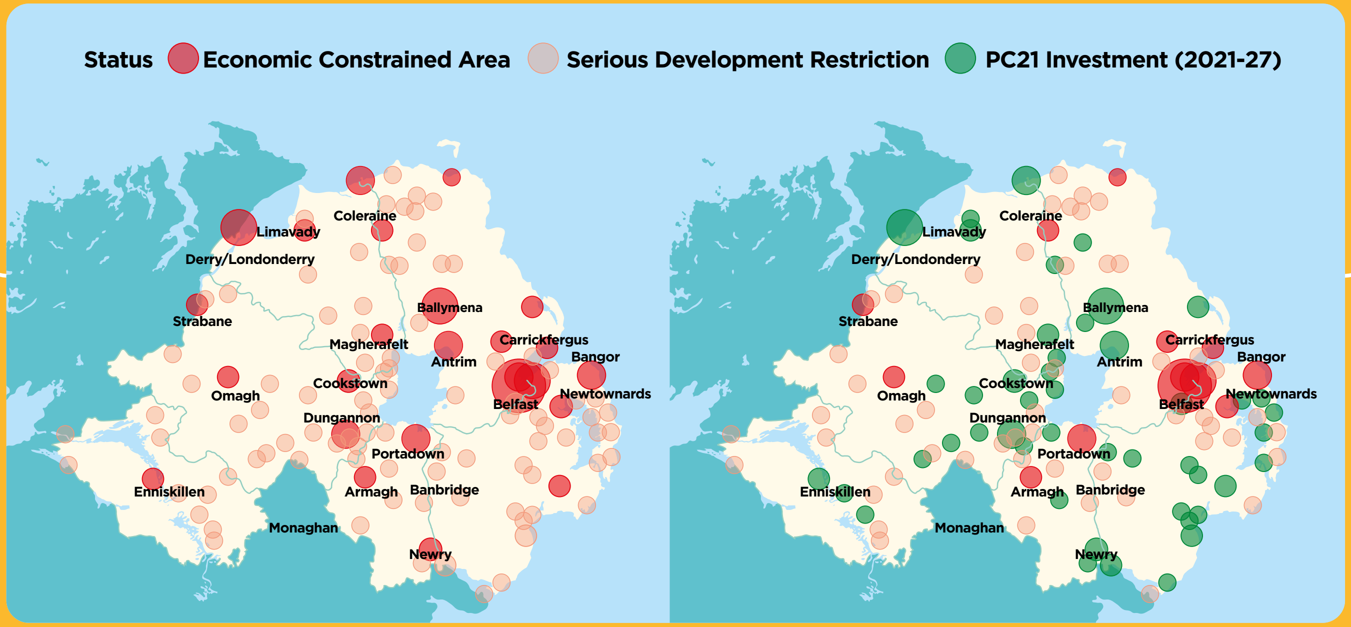
Strategic areas of focus

Funding world class economic infrastructure

Over the past 15 years the public expenditure made available from Government for investment in wastewater 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 wastewater 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.

During 2020/21, we continued our engagement with local councils and other stakeholders on wastewater capacity constraints. We are also developing tools to help us further prioritise and target investment on wastewater capacity constraints across Northern Ireland.

Our PC21 Business Plan sets out the investment required to start to address the wastewater capacity constraints. We anticipate that it will take a sustained increase in investment over the next quarter of a century to solve the problem of development constraints.



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

Development constraints across Northern Ireland at the end of PC21 (2027)

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 5.7% in 2018/19. We are committed to reducing annual operating costs by a further £13m to eliminate this efficiency gap by 2027.

One of the ways in which we drive efficiencies is by working closely with our supply chain. Over 2020/21 we procured a number of services, including a £14m contract to local firms, Connect, Transform, Sustain (CTS) and Lowry Building & Civil Engineering. This contract will deliver building's maintenance and repair services across our sites, enabling us to work together to continue to efficiently provide essential water and wastewater services to our communities, 24 hours a day, 7 days a week.

Two of our supply chain partners pictured with our Director of Finance and Regulation

Strategic areas of focus

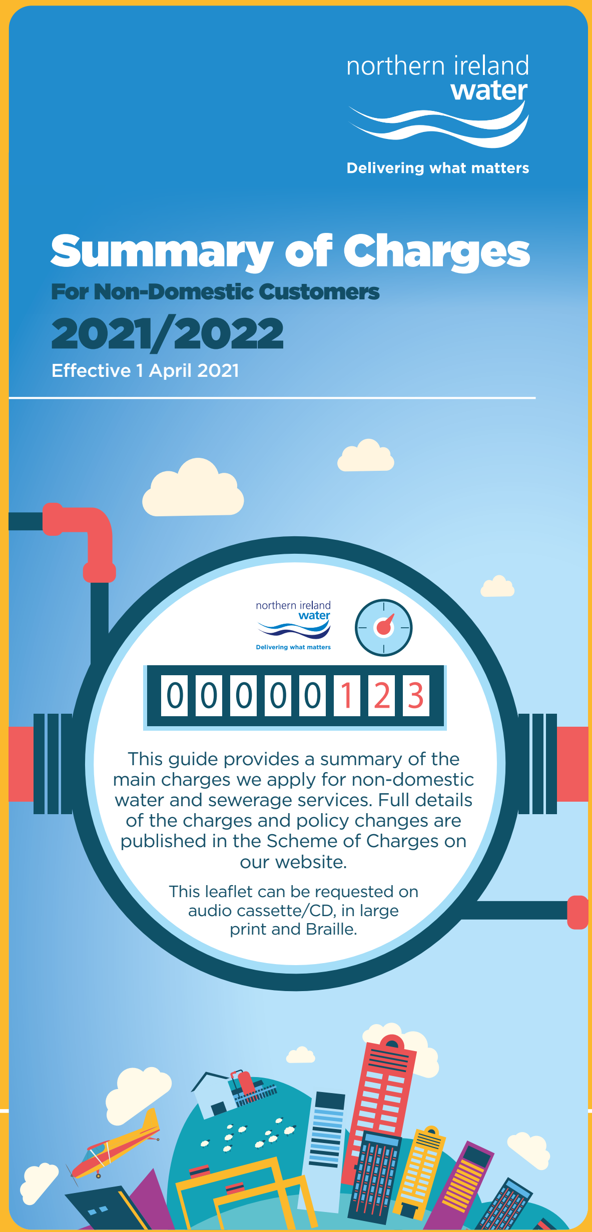
Efficient and affordable service (continued)

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.

In response to COVID-19, the below inflation planned 1.8% increase in non-domestic water and sewerage charges from 1 April 2020 was deferred to minimise the burden on business customers. The 1.8% increase applied from 1 October 2020 to 31 March 2021. Non-domestic water and sewerage charges rose by 0.9% from 1 April 2021 in line with inflation.

Our PC21 Business Plan proposes that average tariffs remain stable in real terms over the PC21 period despite a significant increase in the level of capital investment planned. We hope that this position can be sustained although the impact of COVID-19 could put pressure on this position.

Read more at https://www.niwater.com/sitefiles/resources/news/2021/march/niwsummaryofchargesleaflet21_22.pdf



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.

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

Greyabbey wastewater treatment works, County Down

Over 2020/21, we also completed construction of a £1.4m scheme in Armagh to complete a new pumping station and essential sewer upgrades. The improvement work will significantly reduce the risk of out-of-sewer flooding and will bring environmental improvements by enhancing the water quality in the Callan River.

New wastewater pumping station in the west of Armagh City, County Armagh

Nature

Protecting and enhancing the natural environment

Woodburn reservoir, Carrickfergus, County Antrim. Image by Bronagh Coughlan

Strategic areas of focus

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

Sustainable development goals

Principal threats/opportunities

PT1 PT2 PT3 PT4 PT5 PT6 PO1 PO3 PO4

Page 72 Read more about principal threats and opportunities.

Strategic performance indicators

Nature	Unit of measurement	Target 2020/21	Actual 2020/21	Pass/ Fail	Target 2021/22
Reduction in pollution incidents - sewage (high and medium)*	Number	23	7	Pass	12
Wastewater compliance (% population equivalent served)**	%	99.16	99.5	Pass	99.18
Reduction in number of properties at risk of out of sewer flooding (cumulative over 2015-21 period)	Number	62	52	Fail	0
Reduction in carbon footprint. Relates to reduction in net operational carbon emissions measured in tonnes of carbon dioxide equivalent (tCO_2e)	%	***	0.64	***	***

*Calendar year target.

**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.

*** Target to be set following development of net zero carbon route map in 2021/22.

Strategic areas of focus

More resilient network

Reducing sewer flooding

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 include '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.

We understand that internal sewer flooding is one of the worst things that can happen to our customers' properties. We maintain a register which defines properties verified to be at risk of internal flooding as a result of the capacity of the sewerage system being exceeded. We aim to continually remove properties from this register. Unforeseen complexities for one of our sewer rehabilitation schemes in Belfast resulted in the removal of a lower number of properties at risk of out of sewer flooding than targeted over PC15. There are 108 properties on the register and we propose to remove 57 properties from the register through defined projects over PC21.

Reducing the amount of surface water reaching the sewers can help reduce the risk of sewer flooding due to overcapacity. We removed an impermeable surface area equivalent to around 42 football pitches from the sewer network over PC15. The Ravenhill Avenue flood alleviation project commenced in 2021/22 and will remove an impermeable area, equivalent to around 12 football pitches, which discharges rainwater into the Belfast sewerage network. We plan to significantly increase the level of area removed, to the equivalent of around 52 football pitches in 2021/22 alone, and a similar area in each of the five remaining years of PC21.

Trenchless sewer technology

In 2020/21, we commenced a £0.5m programme of essential sewer improvement work in the Dunmurry and wider West and South Belfast areas. This work will mainly be undertaken using underground trenchless techniques to reline the sewers, which significantly reduces the duration and disruption of the works to the public. It is a more environmentally friendly approach as it helps us avoid waste material from digging up the roads. This is part of an overall programme of work to improve the existing sewers in these areas, which will enhance the local sewerage infrastructure and reduce the risk of out of sewer flooding.

Sewer relining technology being used in wider West and South Belfast

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

Completing the picture on wastewater compliance

We recognise the need to improve how we measure wastewater compliance. The current regulatory monitoring programme is based on pre-announced rather than unannounced 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 NIEA and other stakeholders to reform the wastewater compliance model to improve compliance across the whole wastewater system. This is known as the water regulation reform programme.

The water regulation reform programme involves a review of discharge standards. To assist this, we are undertaking an unannounced sampling programme to get a better understanding of wastewater treatment works' performance. The unannounced sampling programme was paused in the period April to July 2020 due to COVID-19 restrictions, and recommenced from August 2020. We are also installing event and duration monitors on our sewer network to better understand spills from combined sewer overflows and enable regulatory reporting on spills.

There are a number of key projects proposed for PC21 which will improve wastewater compliance and support the water reform programme. These include delivery of capital investment schemes to upgrade wastewater treatment works and parts of the network, doubling the number of event duration monitors to around 650, installing flow meters and improving our environmental models.

Building back better in Belfast

A £10m programme of work commenced during 2020/21 at Belfast wastewater treatment works. The extensive project involves the construction of two new treatment tanks at – equivalent in volume of six olympic-size swimming pools – to cope with current and short-term future wastewater requirements. The two new treatment tanks will provide much-needed additional secondary treatment capacity and will facilitate essential improvements within the associated sewerage networks, ensuring wastewater treatment for Belfast remains compliant, in advance of the Living With Water Programme commencing.

Construction of new treatment tanks at Belfast wastewater treatment works

Strategic areas of focus

Restoring water quality in Carlingford Lough and Lough Foyle

A major cross-border project, aimed at improving water quality in Carlingford Lough and Lough Foyle through enhanced wastewater treatment, has seen the completion of four of its eight wastewater upgrades over 2020/21 as the project reaches the halfway stage. The Shared Waters Enhancement and Loughs Legacy (SWELL) project - which is being led by NI Water working in partnership with Irish Water, the Agri-Food & Biosciences Institute (AFBI), Loughs Agency and East Border Region - was awarded €35m in 2018/19, as part of the EU's INTERREG VA Programme. The four-year project involves the construction of new wastewater treatment works as well as upgrades to sewerage networks at strategic locations on both sides of the border to address wastewater pollution in Carlingford Lough and Lough Foyle.

The four wastewater upgrades included new wastewater infrastructure at Warrenpoint wastewater treatment works and Newpoint wastewater pumping station (Newry) located in the Carlingford Lough drainage basin and at Strabane wastewater treatment works and Donemana wastewater treatment works located in the Lough Foyle drainage basin. SWELL partner, Irish Water will deliver a further four projects in 2021/22 at Lifford, Killea and Carrigans in County Donegal and in Omeath, County Louth.

With match-funding for the SWELL project provided by the Department of Housing, Local Government and Heritage in Ireland and the Department of Agriculture, Environment and Rural Affairs in Northern Ireland, the SWELL project will culminate in the development of an innovative ecosystem legacy model. The model will link various aspects of environmental modelling such as urban drainage models, catchment models, coastal models and ecological models, undertaken within the catchments and the respective loughs over the lifecycle of the project. This will enable tracking the pathways of nutrients and contaminants of wastewater, industrial or agricultural sources to determine their impact on the receiving waters. Importantly, this legacy model will assist the water utilities and regulatory bodies on both sides of the border by identifying best approaches to achieving further improvement of overall water quality in the future.

Completed SWELL wastewater treatment works at Donemana, County Tyrone

Sustainable solutions

Every day we recycle wastewater from 727,000 homes and businesses before safely returning it to the rivers and sea. Traditional treatment works are carbon intensive, requiring a lot of energy, concrete and chemicals to ensure treated wastewater can be safely released back to the environment.

Working with wetlands

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, and support biodiversity.

In 2020/21, we upgraded the existing wastewater treatment works in Ballykelly, County Derry/Londonderry by developing a sustainable integrated constructed wetland to enhance the traditional treatment works and reduce energy and carbon. We are also examining the potential of solar power to provide half of the energy needs for the works, lowering our electricity costs and carbon emissions.

We are continuing to invest in replacing our existing treatment assets with lower energy solutions as part of our £47m rural wastewater investment programme. The recently completed Lisnagunogue rural wastewater treatment works in County Antrim involved replacing an existing aeration process with a lower energy process, and with the addition of solar panels, is delivering a 75% reduction in energy consumption at the site. Further work is ongoing to identify opportunities for lower carbon treatment solutions, with a target of seven wastewater treatment sites within our PC21 Business Plan.

Ballykelly integrated constructed wetland, County Derry/Londonderry

Strategic areas of focus

Busy bees

We are now formal partners in the All-Ireland Pollinator Plan, an island-wide initiative to reverse the decline of precious pollinating insects. We already have some beautiful pollinator areas across our land bank such as Ballynacor wildflower meadow, Co Armagh constructed on former sludge lagoons. Hedgerows and grass verges beside our buildings are also important havens for biodiversity, all of which we will be mapping on the Biodiversity Ireland webpage.

Read more at https://pollinators.ie/wp-content/uploads/2021/03/FINAL-All-Ireland-Pollinator-Plan-2021-2025-WEB.pdf

All-Ireland Pollinator Plan www.pollinators.ie

National Biodiversity Data Centre A Heritage Council Programme

Putting nature at the heart of decision making

The Water Industry Forum, working with Water UK's Environment Policy Advisory Group members including NI Water, has produced a set of principles on using natural capital type approaches in investment decision making. The principles are seen as a best practice guide for water companies and regulators to help design and apply natural capital type tools, ultimately with the aim of making more sustainable investment decisions and delivering better outcomes for customers and the environment. We are piloting the use of multi-capitals decision making on the Living With Water Programme and plan to roll out the new approach across our investment programme to inform our next business plan in PC27 (2027-33).

The full list of principles can be found at http://www.waterindustryforum.com/documents/uploads/WIF_Natural_Capital_Principles_for_the_Water_Industry.pdf

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.

Our 2020/21 campaign employed a COVID-19 related strand due to the increased use of wet wipes. Further customer campaigns focussed on rubble blocking a sewer, historic seabed wet wipes, sewer related debris in Lough Erne, County Fermanagh and fatbergs in Portrush, County Antrim. We continued the seasonal campaigns around bag it and bin it and FOG over Christmas and Easter. This was accompanied with bag it and bin it messages in specific geo-located areas through social media and working with a variety of stakeholders to highlight the issue. This was in turn supported by the work of our education team who engage school children and the community to support and spread the message. Over 2021/22, our campaigns will continue to highlight the reasons behind out of sewer flooding and pollution incidents.

Join the refillution

NI Water is 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. 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. Over 200 primary and secondary schools have also 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 world class tap water.

Strategic areas of focus

Towards zero carbon

Operational emissions from the water industry account for nearly 1% of the UK's total carbon emissions. This is because water and wastewater 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. We are determined to harness the huge and largely unseen potential for NI Water to address climate change. Not only are we committed to becoming carbon neutral by 2050, we can also play a strategically important role in helping society to decarbonise by planting one million trees; building more renewables on our land; kick-starting our hydrogen economy; and providing sources of warmth for district heating schemes.

There have been a number of significant developments over 2020/21 including the move towards mandatory climate change reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) for large sections of the UK economy by 2025, proposals on a Climate Change Bill for Northern Ireland and the publication of Water UK's net zero carbon route map.

We have undertaken a gap analysis with TCFD and identified a number of actions to take in advance of mandatory TCFD reporting for large companies in 2023/24. Over 2021/22, we plan to develop a climate change strategy in liaison with key stakeholders such as the DfI and the Utility Regulator covering mitigation and adaptation measures. The strategy will outline the governance arrangements, include a net zero carbon route map to 2050 and address climate resilience.

NI Water is Northern Ireland's single, largest electricity consumer

100% electricity consumption from renewables by 2027

Carbon neutral by 2050

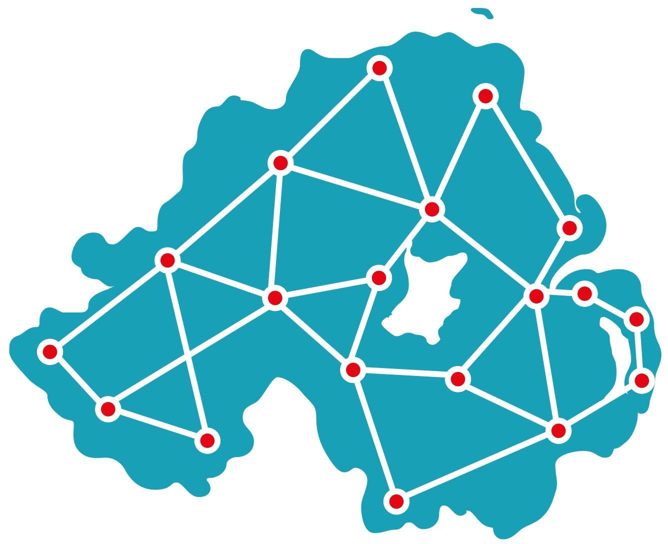
Building more renewables on our land

In 2020/21, we increased our electricity consumption from renewable sources such as solar and hydro power to 43%, rising to 100% by 2027. NI Water can help reduce Northern Ireland's requirement for fossil fuel generated electricity and cut society's carbon footprint. This can be done by working with planners and the local community to place renewable generation at a select number of suitable sites.

With third party expertise and funding, this could deliver as much as 200 megawatts of output – equivalent to one third of a typical power station's capacity. The income from leasing the associated land will also generate around £2m of income per annum, helping to keep the cost of water services down and easing the funding-pressure for government.

Doubling Northern Ireland's renewable generating capacity

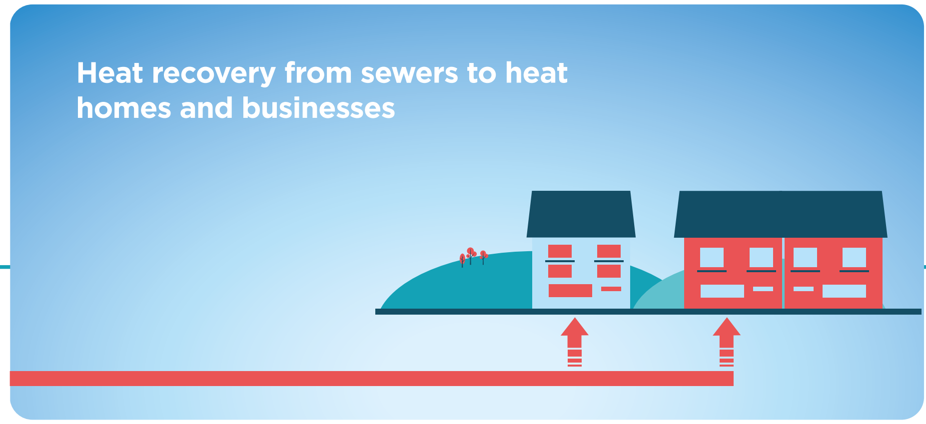
To provide the green power for the increasing adoption of electric vehicles and to start to decarbonise the heating for homes and places of work, Northern Ireland needs to double its renewable generating capacity in the next ten years. To do so effectively will require the intermittency of supply that accompanies renewables to be addressed. This can be done by deploying large scale batteries across the province. The sites selected will need to have major electricity grid connections. These are hard to obtain and expensive to create but the good news is that NI Water already owns over 3,000 widely distributed grid connected sites. The major sites could also be used to deploy batteries.



3,000 widely distributed grid connected sites

Providing sources of warmth for homes and businesses

The heat that comes from the organic matter at a wastewater works combined with hot water from showers, baths, dishwashers, and washing machines, could provide a valuable source of warmth. For example, our Belfast wastewater sites are close to housing, government buildings, the harbour estate and other potential customers with an interest in decarbonising their source of heating. In Great Britain heat obtained in this way is also being used in the agri-food sector to reduce carbon emissions, create jobs and increase resilience by bringing overseas food production to the UK. The electrolysis process required to produce hydrogen also creates heat that can be captured and used to feed a district heating scheme. For example, producing hydrogen at scale for buses and heavy goods vehicles, could supply heating to many of cities' key buildings.



Strategic areas of focus

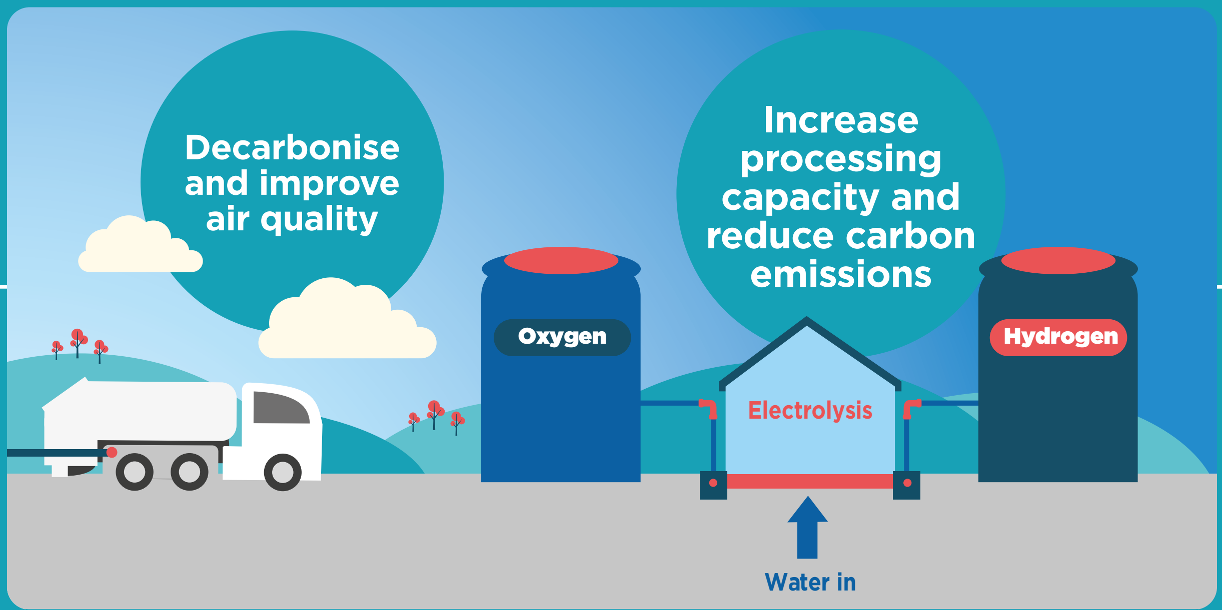
Hydrogen'ius'!!

Producing and storing hydrogen could be central to our decarbonisation journey in Northern Ireland. The key to producing hydrogen is accessing on-site generated renewable electricity during the day and low cost wind farm energy at night when overall electricity demand is limited.
The early production of hydrogen at a wastewater treatment works could help improve processing capacity, reduce carbon emissions and improve flexibility in the electricity grid. Electrolysis splits hydrogen from oxygen and it may be possible to use that oxygen as a replacement or to compliment the aeration process (pumping of air) to provide oxygen for bacteria growth, with a reduction in aeration being required.

Producing hydrogen is also a good fit for our society's ambition to see renewable generation in Northern Ireland double by 2030. 85% of our green electricity comes from wind today and this is likely to remain so as renewable capacity expands. The challenge is what to do at night time when the requirement for electricity is low. Already 15% of wind generating capacity at night is curtailed. This means that expensive wind turbines are turned off. Electrolysis capacity at night time could use this surplus electricity to produce hydrogen more affordably. Rather than paying for the curtailment of wind turbines, electrolysers could be key in building wind farm investor confidence as hydrogen becomes more important.

The supply of green hydrogen from NI Water sites could help the gas network to signal how it might migrate and remain relevant in a decarbonising world. We are assessing how many of our sites are adjacent to the gas network. Natural gas, which is mainly methane, is not green and will need to be phased-out or replaced with a green alternative. Historically, town gas had significant quantities of hydrogen, around 60%, so we know that hydrogen can meet our household needs if the distribution system is configured appropriately. Work is now underway by Keele University to confirm that up to 20% of the gas for our homes could become hydrogen without changing our current gas fittings.

Over 2020/21, NI Water unveiled a ground breaking concept to help kick start the hydrogen economy in Northern Ireland. We were awarded £5m of funding from the Department for the Economy (DfE) to undertake an innovative oxygen and hydrogen demonstrator project that will deploy a state-of-the-art, 1 Megawatt electrolyser at a major wastewater treatment works. This will be the first in the UK and Ireland to demonstrate how electrolysis can help to increase processing capacity, reduce carbon emissions and improve flexibility in the electricity grid.



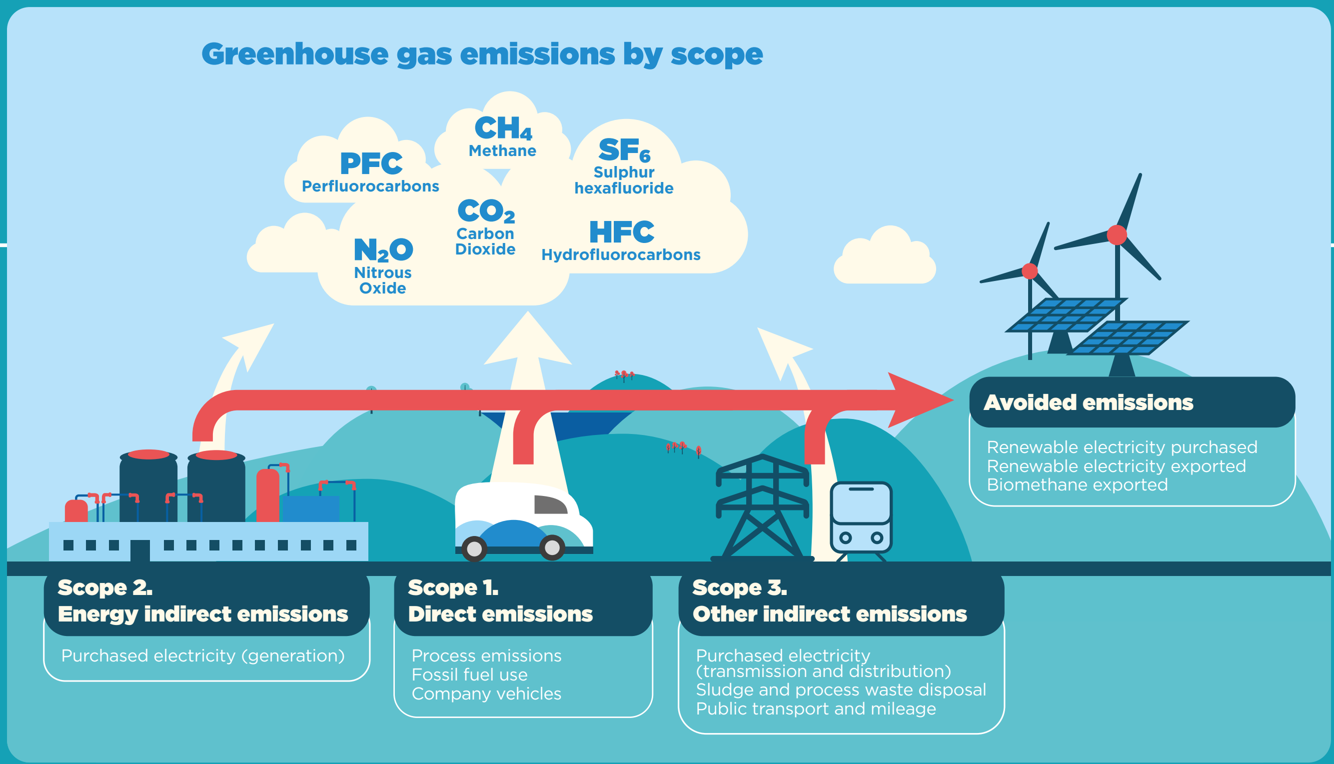
https://www.youtube.com/watch?v=IEKebw_qjrl

Electrolyser at Kinnegar wastewater treatment works, Holywood, County Down

Strategic areas of focus

Greenhouse gas emissions

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 and are working towards TCFD compliance. We are liaising 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 carbon dense concrete used to construct our infrastructure or in the carbon stored in our land.



Greenhouse gas emissions
(continued)

NI Water greenhouse gas emissions	2020/21 tCO_2e	2020/21 kWh	2019/20 tCO_2e	2019/20 kWh
Scope 1 direct emissions				
Direct emissions from burning of fossil fuels	4,520	19,387,492	7,151	27,978,365
Process emissions from our treatment plants	13,100	*	8,701	*
Transport: Company owned or leased vehicles	2,569	11,019,559	2,733	10,692,997
Total scope 1 direct emissions	**20,189**	**30,407,052**	**18,585**	**38,671,362**
Scope 2 energy indirect emissions				
Grid electricity purchased	69,300	297,246,290	75,111	293,862,324
Total scope 2 energy indirect emissions	**69,300**	**297,246,290**	**75,111**	**293,862,324**
Scope 3 other indirect emissions				
Business travel on public transport and private vehicles used for Company business	68	292,614	216	845,188
Emissions from sludge and process waste disposal	12,400	-	11,841	-
Grid electricity purchased - transmission and distribution	5,960	25,564,039	6,377	24,948,396
Total scope 3 other indirect emissions	**18,428**	**25,856,653**	**18,433**	**25,793,584**
GROSS OPERATIONAL CARBON EMISSIONS	**107,917**	**353,509,995**	**112,130**	**358,327,269**
Avoided emissions from renewable electricity exported	(605)	(2,595,007)	(927)	(3,627,778)
Avoided emissions from biomethane exported	-	-	-	-
Avoided emissions from renewable electricity purchased	(28,490)	(122,201,252)	(31,875)	(124,706,182)
Total avoided emissions	**(29,095)**	**(124,796,260)**	**(32,802)**	**(128,333,960)**
NET OPERATIONAL CARBON EMISSIONS	**78,822**	**228,713,735**	**79,328**	**299,993,310**

NI Water greenhouse gas emissions intensity	2020/21	2019/20
Operational emissions per megalitre of treated water (tCO_2e/Ml)	0.175	0.118
Operational emissions per megalitre of sewage water (tCO_2e/Ml)	0.501	0.386

*Figures have been updated in line with the most recent SECR guidelines.

The net operational carbon emissions reduced from 79,328 tCO2e in 2019/20 to 78,822 tCO2e in 2020/21, a reduction of 0.64%. There was an increase in greenhouse gas emissions intensity as a result of an increase in energy consumption in 2020/21.

We are developing a net zero carbon route map in 2020/21 which will set out the pathway and targets to reach net zero carbon by 2050. Progress in reducing our greenhouse gas emissions is shown below:

BUSINESS IN THE COMMUNITY

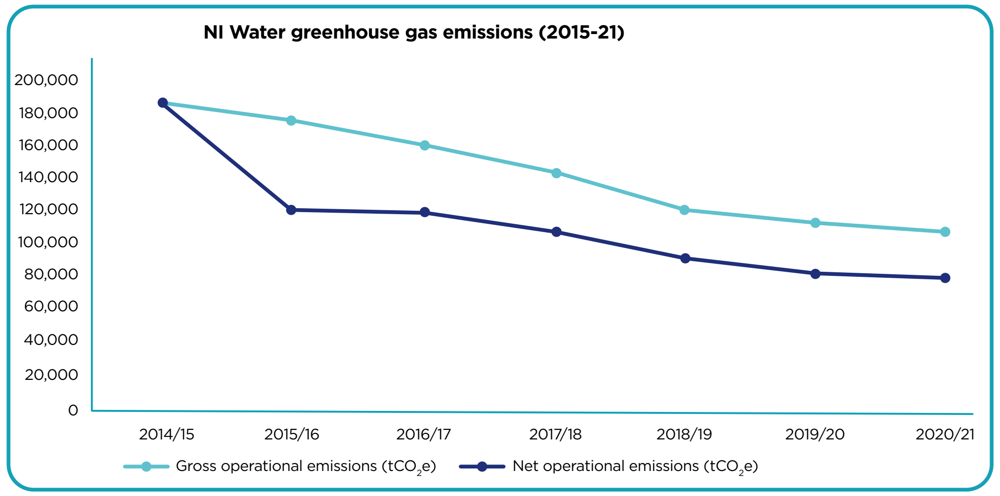
Signatory Climate Action Pledge NI

NI Water has signed the Climate Action Pledge

We've committed to reducing our greenhouse gas emissions by 50% by 2030.

For further information please visit **niwater.com/climatechange**

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



https://www.youtube.com/watch?v=L9XMgsGZJtQ&feature=youtu.be

People

Providing a great place to work

NI Water's Apprenticeship Academy graduates

Strategic areas of focus

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

Sustainable development goals

- 3 GOOD HEALTH AND WELL-BEING
- 4 QUALITY EDUCATION
- 5 GENDER EQUALITY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 11 SUSTAINABLE CITIES AND COMMUNITIES

Principal threats/opportunities

PT1 PT2 PT3 PT4 PT5 PT6 PT7 PT8 PO1 PO2 PO4

Page 72 Read more about strategic threats and opportunities.

Strategic performance indicators

People	Unit of measurement	Target 2020/21	Actual 2020/21	Pass/ Fail	Target 2021/22
Employee engagement score	%	65	70*	Pass	65
Reduction in health and safety incidents	Number	7	5	Pass	7

* Based on average completion rate for three COVID-19 pulse surveys

Strategic areas of focus

Powered by talent

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.

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 2020/21 we launched a new Emerging Leaders programme, developing 44 aspiring leaders to fulfil their leadership potential and a new Apprenticeship Academy through which we hired 30 new water apprentices. 13% of our apprenticeship intake are female, enhancing the proportion of females within our industrial workforce. The apprentices will complete a four year combined water and wastewater apprenticeship.

Our 2021/22 plans include the development of an immersive management development programme for all middle managers; a significant programme of work to define and develop our corporate values into everyday behaviours and actions for which we will hold ourselves accountable; modernising our total reward strategy; and the development of a hybrid working for office based staff as we re-invent our workplace.

Read more about our work on diversity and inclusion at page 127.

NI Water apprentice, Erin, who was motivated to apply for an apprenticeship while studying the water quality of Lough Neagh at university

Strategic areas of focus

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.

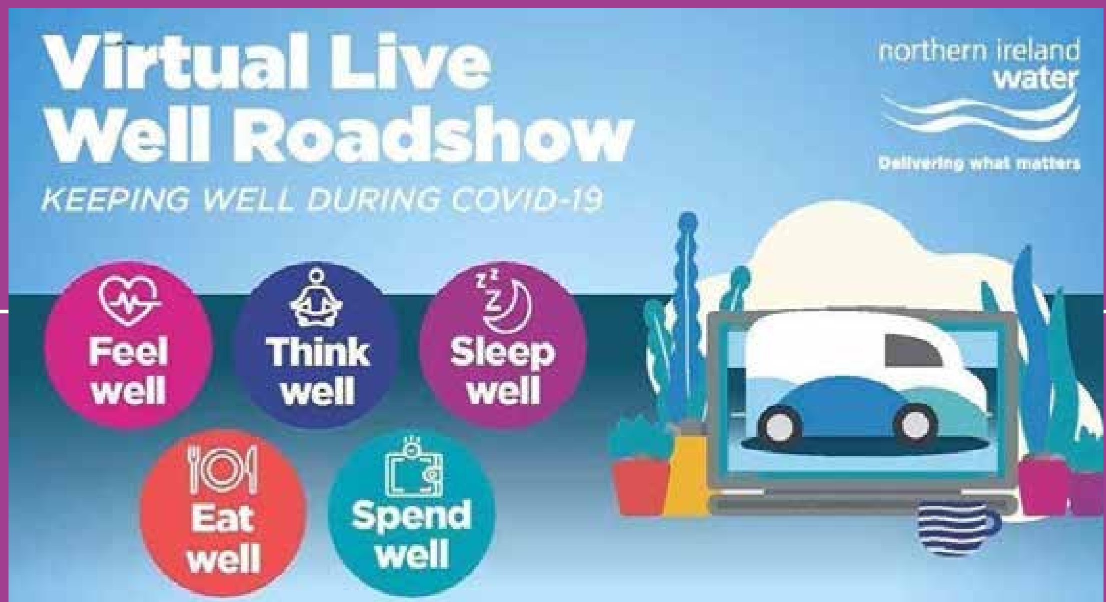
Our award winning health and wellbeing strategy helps staff 'live well' through a range of initiatives to support mental, physical, financial and social health such as our Live Well Roadshow, Winter Wellness Programme and new Spring Forward Programme. Example activities included virtual gym sessions, advice on improving sleeping habits and how to manage personal finances.

We introduced pulse surveys over 2020/21 as a quick and agile way of staying connected with all our people and to understand the sentiment of our workforce throughout the pandemic. Three pulse surveys were issued throughout the year and have been highly effective in identifying clear areas of strength and further focus. Feedback received has been used to inform our ongoing COVID-19 response.

We held our third Microsoft Teams Live broadcast in March 2021. Over 300 colleagues participated in the session. A number of Executive Directors spoke on various topics including how we're continuing to 'deliver what matters' while dealing with COVID-19, stepping up to manage operational challenges, our plans for hybrid working arrangements post COVID-19, highlights over PC15 and plans for PC21.

In 2020/21 we introduced a new health and safety software system called 'Assure', which makes it much easier for all our employees and contractors to report incidents, hazard observations and safety suggestions. Reports can be made via laptop, tough book and mobile phone. Enabling everyone to make it easier to report safety concerns will allow us to more accurately assess key areas of improvement that we need to focus on. Employees can also easily add photos, video and audio files to their records using their mobile phones.

In 2021/22 we intend to go live with both the audit and risk modules on our Assure system. The audit module will help NI Water identify key health and safety trends across all of our sites and activities.



Creating a legacy for our communities

Giving back

We had to put our fantastic Cares Challenge/Little Ripples programmes temporarily on hold over 2020/21. A number of colleagues got involved in digital volunteering, helping local community charities host short virtual training sessions on a digital topic. This included anything from helping an individual set up a Zoom call, to online shopping tips for families. Our volunteers helped the more vulnerable in our communities to feel more connected and confident in a daunting digital age.

We were able to recommence some of our usual volunteering activities. Our people helped Marie Cure deliver essential items to their teams across Northern Ireland. We also supported the Simon Community to deliver Christmas hampers. A number of initiatives are planned for 2021/22 to support charities such as Tiny Life, Simon Community and Age NI, with a view to resuming our full volunteering activities when government advice allows.


One of our digital volunteers

WaterAid

We are really proud to be helping WaterAid in achieving its goal - working towards a world where everyone, everywhere has clean water and decent sanitation. Our partnership with WaterAid continued over 2020/21 by hosting the first virtual fundraising ball in the UK, which raised over £47,000. This will go a long way in helping bring safe water, sanitation and toilets to many people in our link country projects in Malawi.

WaterAid

Water-whizz kids

We are really proud of our unique education programme, which includes the Waterbus mobile classroom initiative. We have educated over 200,000 'water-whizz' school kids about the value of water for health, the economy and nature. We had to adapt our approach over 2020/21 due to COVID-19. We developed a home-schooling pack, in place of face to face learning on our Waterbus, and produced a number of lessons to support over 270 virtual school visits.

NI Water's on-line education presentations

Principal 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)	Principal threat (PT) /Principal opportunity (PO) Read more pg76
Customer – delivering an exceptional customer experience Read more pg32	• Reduction in customers reporting service failures • First point of contact resolution • More customers singing our praises (Net Promoter Score)	PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO3 PO4
Water – delivering great tasting, clean and safe water to meet customer need Read more pg36	• Water quality compliance • Reduction in leakage • Reduction in supply interruptions	PT1 PT2 PT3 PT4 PT5 PT6 PT7 PO1 PO4
Economy – efficiently delivering infrastructure to underpin sustainable growth Read more pg46	• Increase/(decrease) in customer tariffs excluding inflation • Number of economic constraint areas removed • Number of serious development restrictions removed • Bathing water quality	PT1 PT2 PT3 PT5 PT6 PO1 PO3 PO4
Nature – protecting and enhancing the natural environment Read more pg52	• Reduction in our pollution incidents • Wastewater compliance • Reduction in number of properties at risk of out of sewer flooding • Reduction in our carbon footprint	PT1 PT2 PT3 PT4 PT5 PT6 PO1 PO3 PO4
People – providing a great place to work Read more pg66	• Employee engagement score • Reduction in health and safety incidents	PT1 PT2 PT3 PT4 PT5 PT6 PT7 PT8 PO1 PO2 PO4

Principal threat (PT)	Principal opportunity (PO)
PT1 Governance model and funding	PO1 Customer service and innovation
PT2 COVID-19	PO2 Wellbeing
PT3 Brexit	PO3 Living with Water Programme
PT4 Health and safety	PO4 Stakeholder engagement and sustainable development
PT5 Climate change	
PT6 Asset resilience	
PT7 Data integrity and cyber risks	
PT8 Pension fund	

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).

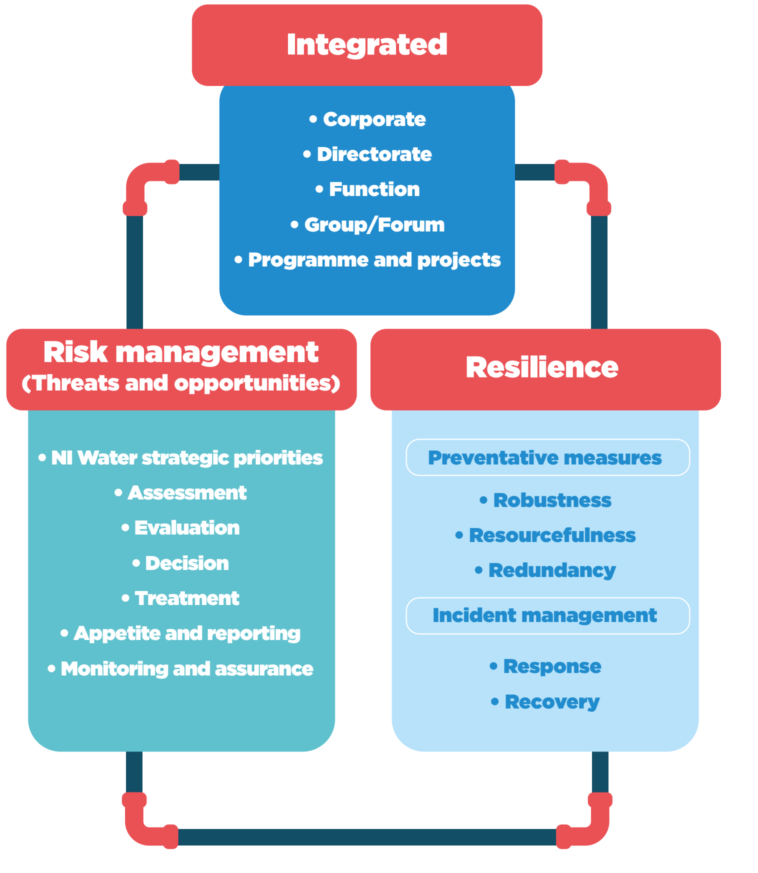
Resilient

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'.

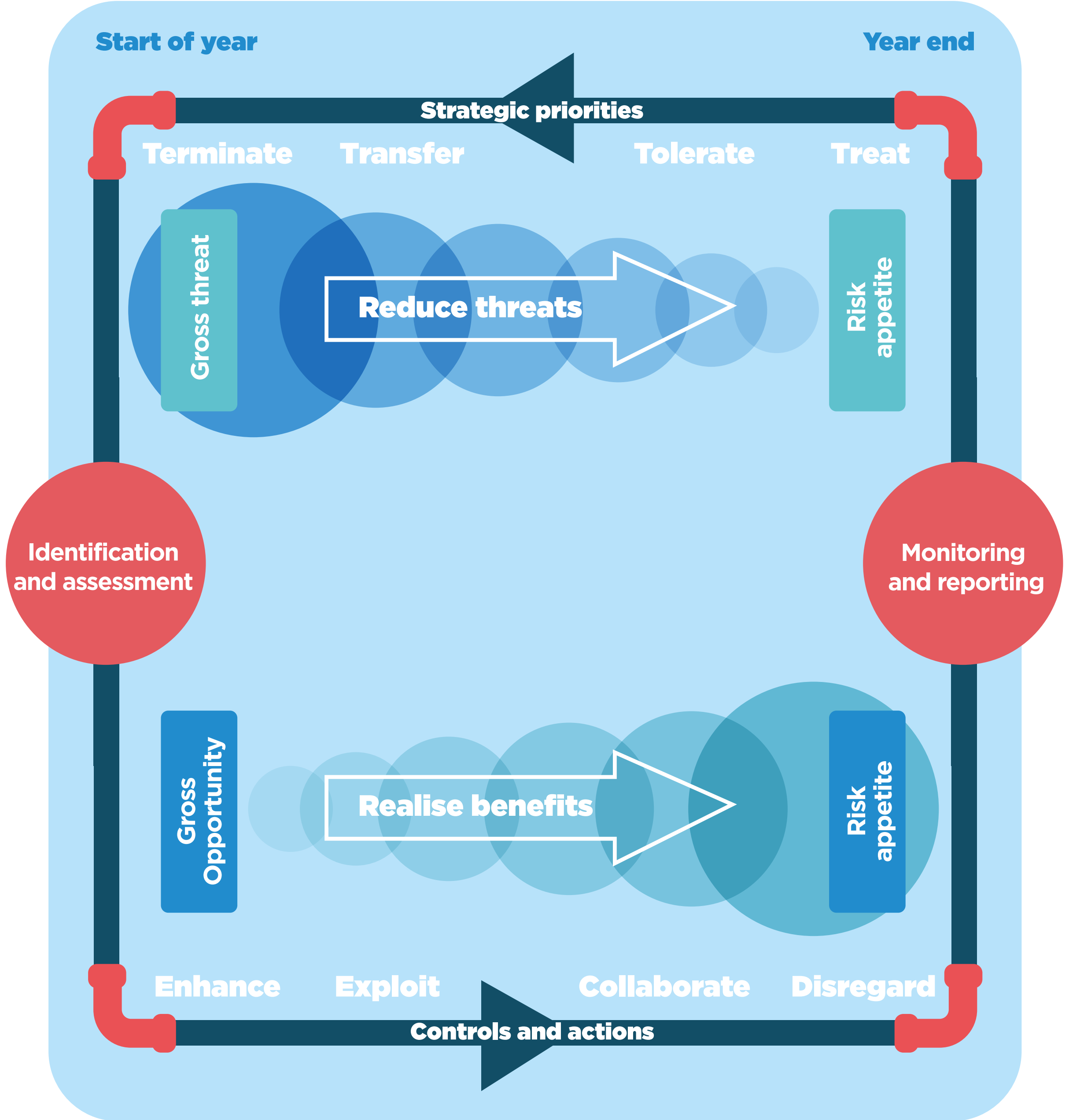
A resilience culture within NI Water means that all employees are united in purpose and are clear on the need to be prepared for when that incident does occur rather than simply thinking that it might occur. This is demonstrated by putting plans in place in advance and then being adaptive when an incident 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 principal risk themes. The movement of the current risk position against each of these seven principal 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 108 and 110.

Emerging from the corporate threat and opportunity maps are a number of significant principal threats and opportunities. For each principal threat or opportunity, we have identified the related strategic priority and the change in the level of threat or opportunity over 2020/21.

Principal threat	Strategic priority	Change in threat level*
PT1 Governance model and funding	Customer, Water, Economy, Nature, People	▲
PT2 COVID-19	Customer, Water, Economy, Nature, People	=
PT3 Brexit	Customer, Water, Economy, Nature, People	▼
PT4 Health and safety	Water, Nature, People	=
PT5 Climate change	Customer, Water, Economy, Nature, People	▲
PT6 Asset resilience	Customer, Water, Economy, Nature, People	▲
PT7 Data integrity and cyber risks	Customer, Water, People	=
PT8 Pension fund	People	=

Principal opportunity	Strategic priority	Level of Opportunity**
PO1 Customer service and innovation	Customer, Water, Economy, Nature, People	=
PO2 Wellbeing	People	▲
PO3 Living with Water Programme	Customer, Economy, Nature	=
PO4 Stakeholder engagement and sustainable development	Customer, Water, Economy, Nature, People	▲

*This column shows the change in the threat level compared to what was reported in 2019/20. 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 2019/20. An upward arrow means that the potential benefits to NI Water from the opportunity have increased.

Principal risks

PT1 Governance model and funding

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

Background to the threat

NI Water seeks to efficiently deliver infrastructure to underpin sustainable growth. In order to deliver this, NI Water requires a sustainable funding model which will ensure access to secure and resilient finances. The absence of a sustainable funding model has been recognised as the top principal threat to the delivery of our strategy in PC15 and the threat remains for PC21.

The current sub-optimal funding model is a result of the dual status of NI Water as both a regulated Government Owned Company (GoCo) and a Non-Departmental Public Body (NDPB). As a regulated company, NI Water prepares a six year Business Plan, to inform the Utility Regulator's price setting process, setting out the investment required to address the most critical needs and enable Northern Ireland to thrive from its water and sewerage infrastructure. The medium-term funding settlement required to enable NI Water to efficiently deliver that plan does not align with the annual cycle of public sector funding which NI Water faces as a NDPB.

NI Water is an asset intensive business and medium and long term planning is essential to improve services for customers today while investing to safeguard services for future customers. The uncertainty over funding adds complexity and inefficiency to longer-term asset resilience as NI Water cannot take a multi-year view of its investment profile and this makes it 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 downturns in the economy which could adversely impact on business performance. The timing and impact of these are dependent on the nature of the threat. NI Water does not have a contingency fund to deal with such financial shocks. This could potentially impact on the recovery actions which NI Water could take.

Managing the threat

NI Water continues to work with the Utility Regulator and DfI to make the case for certainty of funding, 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.

This threat will be brought into sharp relief as NI Water seeks to secure a medium-term funding settlement for PC21 from DfI. The Utility Regulator's Final determination on NI Water's PC21 Business Plan (2021-27) was published in May 2021 and NI Water has until 13 July 2021 to decide on acceptability. The Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the Department for Infrastructure and the Northern Ireland Executive. The Board is in discussion with the Department for Infrastructure and other Government Departments to ensure that, in order to accept the PC21 Final Determination, there is support and continuing commitment to fund the determination.

The COVID-19 pandemic is having implications on funding and cash flow for NI Water. The additional personal protective equipment and IT requirements, together with delays in capital projects have resulted in higher costs. Personal protective equipment requirements will likely continue 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. NI Water has operated with higher cash balances to manage cash flow impact.

PT2 COVID-19

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

Background to the threat

In late 2019/20, we faced one of our biggest challenges with the onset of COVID-19. As an essential service provider, NI Water needs to ensure that it can continue to deliver water and wastewater services to protect public health. 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.

NI Water has stepped up preparations to protect its employees and minimise disruption to business. There is the potential for significant impacts as a result of COVID-19 including staff and resource availability, increased potential for cyber-attacks, additional financial spend for purchase of personal protective equipment, human resource management, incident management and IT infrastructure and resources.

The threats arising from the COVID-19 pandemic are included within each of the other principal threats and opportunities where appropriate and managed as part of NI Water's overall risk management process.

Managing the threat

NI Water is working within the remit of its Pandemic Flu Incident Plan and has implemented Business Continuity Plans.

NI Water has established two special COVID-19 projects to ensure the safety, health and wellbeing of employees in line with government guidelines. The first project is responsible for the provision of appropriate personal protective equipment, ensuring that working environments are clean and safe for employees who are continuing to work in their normal places of work, and getting workplace accommodation into a state of readiness for the return of home workers. The second project is focused on supporting employees through a range of measures including physical and mental health initiatives to safely return to offices under new hybrid working arrangements when government guidelines permit.

To keep our colleagues informed and engaged while remote working, new communications channels were put in place including Microsoft Teams. A dedicated COVID-19 website was established, and additional virtual health and wellbeing plans delivered including a series of guides covering everything from home schooling to mental health.

A detailed stakeholder and media engagement plan was put in place to keep our stakeholders informed. Liaison with other water utilities was also undertaken to draw on best practice.

We are conscious that the risk impact and scale of the COVID-19 pandemic will likely continue into the foreseeable future. NI Water will continue to engage our colleagues, business partners and stakeholders to manage emerging risks as we learn to live with COVID-19.

PT3 Brexit

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

Background to the threat

The UK's exit from the European Union ('Brexit'), including the more recent implementation of the Northern Ireland Protocol, has added complexity to how NI Water provides its services.

Our preparations have focussed on addressing potential difficulties such as obtaining chemicals or spare parts to keep treatment works operating; identifying possible knock-on disruption from other infrastructure services like power, fuel supplies and transport; and determining any associated costs and providing assurance to stakeholders that NI Water had robust plans in place.

The threats arising from Brexit are included within each of the other principal threats and opportunities where appropriate and managed as part of NI Water's overall risk management process.

Managing the threat

Our Brexit preparations focused on having well developed and tested plans to address potential difficulties, the aim of which was to increase our resilience and provide assurance to key stakeholders.

To prepare for and manage the threat of Brexit, particularly the impact of any 'no deal' departure, NI Water established a Brexit Incident Management Group and has been working in collaboration with DfI and WaterUK. WaterUK implemented its Platinum Incident Management and National Chemical Specialist Group, which involved regular meetings with senior management from all UK Water companies, working together at a national level to address any risks to the UK Water Industry's ability to provide services. We also engaged with local government, stakeholders and community groups to improve resilience.

The risk of supply chain issues was mitigated by storing additional stocks of many of the key chemicals required for water and wastewater treatment. This additional stock holding extended to spare parts for use across our assets.

We engaged with WaterUK and Irish Water to understand their plans and how we could support each other.

We identified the key supply chains and routes, engaged suppliers on their preparedness for Brexit and their contingency plans. The number of suppliers on our frameworks was increased and consideration was given to opportunities for different supply routes.

A Brexit Readiness Group has been established to address issues such as tendering post Brexit, customs declarations, transactional impact brought about by the NI Protocol and cost implications for our supply chain.

PT4 Health and safety

Strategic priorities: Water, 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'. We are committed to ensuring that all work activities are conducted in compliance with the Health and Safety at Work (NI) Order.

NI Water has a Health and Safety Strategy and Action Plan for 2020 – 2025. Following significant actions undertaken during the year, including internal site visits and specialist surveys and assessments, 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.

The Safety, Health and Environment Team is key in ensuring NI Water complies with relevant legislation and best practice. The Health and Safety Focus Group, made up of representatives 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 COVID-19 pandemic has presented challenges to NI Water in terms of the health and safety of our employees. We continue to undertake significant work to adequately control the health and safety risks that frontline workers and homeworking staff may be exposed to and continue to provide additional health and wellbeing support to colleagues and their families. We continue to manage the risks associated with a return to office when appropriate and have undertaken a significant 'office safety readiness' project involving many teams across the business.

PT5 Climate change

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

Background to the threat

As a natural capital business, with infrastructure entwined with the natural water cycle, we are committed to playing our part in addressing climate change. The changes required to decarbonise our economy and restore biodiversity over this century will require a colossal joined up effort across the public, private and voluntary sectors to rethink policy development, decision making and funding in order to help our society meet the challenges of the 21st century.

There have been a number of significant developments over 2020/21 including the move towards mandatory climate change reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) for large sections of the UK economy by 2025, proposals on a Climate Change Bill for Northern Ireland and the publication of Water UK's net zero carbon route map.

Managing the threat

NI Water's strategy (2021-46) 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 centred around nature based solutions. We believe that our infrastructure, which includes significant land holdings and over 3,000 grid connected sites across Northern Ireland, can be used in innovative ways to deliver game changing actions such as:

- delivering 'blue green' infrastructure, which utilises nature's ecosystem services to filter our raw water, slow flood water, store carbon and restore biodiversity. As part of this work, we are piloting multi-capitals decision making on the £1bn Living with Water Programme to address strategic drainage in Belfast;
- better 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. This could reduce the total demand for drinking water by 25% and help alleviate the amount of water returned to the wastewater network, which is at or near capacity in many areas;
- as Northern Ireland's largest user of electricity, we are targeting 100% renewable energy usage by 2027. In doing so, we can play a pivotal role in doubling Northern Ireland's renewable generating capacity. In addition our large volume, distributed load base will undoubtedly have a key role to play in supporting electricity grid services;
- we are the first water company in the UK and Ireland to pilot the production of hydrogen fuel from wastewater. This presents the opportunity to open a network of green fuel stations at our wastewater treatment works across Northern Ireland to kick-start our hydrogen economy and help the gas network remain relevant in a decarbonising world;
- our 16,000km sewer network can be used to provide sources of warmth for district heating schemes; and
- we have successfully demonstrated the use of natural wetlands for low carbon wastewater treatment.

We have undertaken a gap analysis with TCFD and identified a number of actions to take in advance of mandatory TCFD reporting for large companies in 2023/24. Over 2021/22 we plan to develop a climate change strategy in liaison with key stakeholders such as the DfI and the Utility Regulator covering mitigation and adaptation measures. The strategy will outline the governance arrangements, include a net zero carbon route map to 2050 and address climate resilience.

PT6 Asset resilience

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

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 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 very real threat 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.

Managing the threat

NI Water continues to work with the Utility Regulator and DfI on medium and long term funding arrangements in order to be able to make 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 line with the Integrated Risk and Resilience Framework, NI Water continues to identify and implement actions to improve resilience.

NI Water's business continuity management framework and major incident plan are continually being updated to reflect best practice and key learning points from annual testing, exercises and previous major incidents. An IT disaster recovery plan is in place to reduce the impact of adverse events and to manage recovery to 'business as usual'.

PT7 Data integrity and cyber risks

Strategic priorities: Customer, Water, 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 (GDPR) brings increasing regulatory requirements in respect of privacy and the processing, storage and retention of personal information. The Network and Information Security (NIS) Regulations, mandatory for Operators of Essential Services, establishes a set of principles to improve the security and resilience 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.

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. In 2020/21 we continued our 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 2021/22 we will continue to liaise and collaborate with the National Cyber Security Centre to keep at the forefront of an ever changing threat landscape and be aware of new methods of attack as they develop.

For operational technology (OT) which is the technology used to run the NI Water sites, a Cyber Resilience Programme was created in 2018/19 in response to an external report on cyber security readiness. Significant work has been ongoing to deliver this Programme and a follow-up to the initial report, undertaken during 2020/21, demonstrated that good foundations have been laid with improvements made in key areas.

With a high number of our employees working from home as a result of the COVID-19 pandemic, 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.

PT8 Pension fund

Strategic priorities: 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.

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.

The COVID-19 pandemic has caused disruption in the markets and as a result the funding level has fallen.

Managing the threat

The Pension Trustee's investment strategy is to invest the Scheme's assets across a diversified portfolio of investment classes, including, equities, diversified growth funds, secured finance, infrastructure funds, high lease value property, corporate bonds and index linked gilts. 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 2020 was completed by the Pension Scheme Trustees. The valuation has reported a higher deficit in the funding of the scheme. The Company agreed to pay a one off top-up to the scheme in March 2021 to avoid higher employer's contributions to the Scheme and deficit recovery payments.

Further information on accounting for the pension scheme is provided at page 201 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.

With continued uncertainty in the markets as a result of the COVID-19 pandemic there remains the potential for further significant deficit contributions in the future.

Principal opportunities

PO1 Customer service and innovation

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

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 machines 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 2020/21, 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 also being considered for an Intelligent Operations Centre.

PO2 Wellbeing

Strategic priorities: People

Background to the opportunity

NI Water is committed to providing a great place to work. Attracting, developing, retaining and partnering with the best talent is fundamental to the success of our business and therefore, we want to be recognised as a local employer of choice that champions diversity and puts people first.

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 that our business has happier, healthier and safer employees by focusing on training, processes and procedures and developing a strong health and safety culture.

We recognise the link between wellbeing and performance and our award-winning Health and Wellbeing Strategy encourages and supports employees to prioritise their health to 'live well', enabling a culture of attendance and high performance.

We want to involve people in the decisions that affect them and ensure that our people strategies are focused in the areas that matter most. Over the course of the pandemic, we introduced pulse surveys as a quick and agile way of staying connected with all our people and to understand the sentiment of our workforce. Three pulse surveys have been issued and these have been highly effective in identifying clear areas of strength and further focus. Feedback received has been used to inform NI Water's ongoing COVID-19 response.

Exploiting the opportunity

Our award-winning Health and Wellbeing Strategy helps staff 'live well' through a range of initiatives to support mental, physical, financial and social health such as our Live Well Roadshow, Winter Wellness Programme and new Spring Forward programme. Each month launches a fresh programme of events centred around several wellness pledges to help people manage their wellbeing. The strategy uses absence data, survey feedback and best practice benchmarking to ensure that it is targeted in the right places and brings to NI Water the very best in corporate wellness practice.

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 Well-being Initiative award at the CIPD business awards. NI Water were also recognised as a 2020 Responsible Business Champion in Health and Wellness through the Business in the Community responsible business awards.

NI Water has undertaken significant work in relation to diversity and inclusion. Our roadmap includes investment in inclusive leadership training for the Executive Committee and Board members, a Choose to Challenge campaign recognising International Women's day and the creation of a new working group made up of employee champions from across the business.

In recognition of our commitment and progress in this area, NI Water was awarded the Bronze Diversity Charter Mark for the third year.

We are currently advancing our efforts in supporting social mobility post COVID-19 by becoming the first company in Northern Ireland to participate in the UK Levelling Up Campaign.

Read more about diversity and inclusion at page 127.

PO3 Living With Water Programme

Strategic priorities: Customer, Economy, Nature

Background to the opportunity

In July 2014 the NI Executive agreed to develop a strategic drainage infrastructure plan for greater 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' (LWWP) and is led by DfI.

NI Water has been a key partner in the LWWP since inception as the plan strongly aligns with NI Water's strategic priority of protecting and enhancing the natural environment and building a more resilient network. Implementation of the programme will provide an opportunity to deliver significant investments that will help to improve the drainage networks and wastewater treatment works that discharge into Inner Belfast Lough.

The LWWP is currently overseen by a Board that includes DfI, NI Water, the Utility Regulator, Department for Agriculture, Environmental and Rural Affairs (DAERA), NIEA and Belfast City Council.

The LWWP was referenced in the draft Programme for Government and the 'New Decade, New Approach' deal which accompanied the restoration of devolved government for Northern Ireland in January 2020. DfI led a public consultation on the draft LWWP Belfast Strategic Drainage Infrastructure Plan, which ended in January 2021. The consultation responses received were overwhelmingly positive, and welcomed the objectives and approach taken, both in terms of the partnership working proposed and the whole catchment methodology. DfI plans to submit the final plan to the NI Executive in Summer 2021 for approval.

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 commenced in 2015 and during 2020/21 over £9m was invested in planning and preliminary works, which included the commencement of an interim upgrade to the capacity of Belfast wastewater treatment works. The main capital delivery stage will commence in 2021/22 and take 12 years to complete, during which NI Water will invest around £1bn.

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

PO4 Stakeholder engagement and sustainable development

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

Background to the opportunity

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 is engaged in numerous and wide-ranging sustainable development projects to safeguard public health, underpin economic growth and restore nature. Our work positions us as custodians of the natural environment. In 2019/20 NI Water was awarded the prestigious Queen's award for Enterprise in Sustainable Development which is the highest award for UK businesses and recognises organisations that have demonstrated outstanding commitment to sustainable development.

We had to put our fantastic Cares Challenge/ Little Ripples programmes temporarily on hold over 2020/21, replacing them with digital volunteering for local charities. We were able to recommence some of our usual volunteering activities supporting Marie Cure deliver essential items to their teams across Northern Ireland and the Simon Community to deliver Christmas hampers. A number of initiatives are planned for 2021/22 to support charities such as Tiny Life, Simon Community and Age NI, with a view to resuming our full volunteering activities when government advice allows.

We are really proud of our unique education programme, which includes the Waterbus mobile classroom initiative. We have educated over 200,000 'water-whizz' school kids about the value of water for health, the economy and nature. We had to adapt our approach over 2020/21 due to COVID-19. We developed a home-schooling pack, in place of face to face learning on our Waterbus, and produced a number of online video lessons to support over 270 virtual school visits.

Our finances explained

Revenue

Government subsidy

We receive subsidy from the DfI in lieu of deferred domestic charges. In 2020/21 we received a subsidy of £314.2m.

Bills

We bill non-domestic customers which generated £68.5m of revenue in 2020/21 and road drainage charges of £22.8m from DfI.

Other income

Other forms of income were £13.4m in 2020/21.

Day-to-day operating costs

Our day-to-day running costs totalled £301.9m in 2020/21. These costs include staff, power, rates, hired and contracted services.

Government loans

We borrow from the DfI to help fund our capital investment programme. £83.0m was borrowed in 2020/21.

Investment

Investment in new assets and on our network totalled £187.2m in 2020/21.

Operating profit

Operating profit (revenue less day-to-day operating costs) was £117.4m in 2020/21.

Financing our investment

Interest on our borrowings from DfI £49.5m and our Public Private Partnership liabilities £11.7m comprised the majority of our net finance charges of £59.2m in 2020/21.

Profit before tax

The profit before tax was £58.2m in 2020/21.

Corporation tax

We have paid £0.2m of corporation tax in 2020/21. We have charged £11.5m for tax to be paid in future years.

Profit after tax

The profit after tax for the year was £46.7m. This is an accounting profit and provides no additional spending power either to NI Water or to DfI.

Dividend

A dividend of £29.9m was paid to the DfI in 2020/21. 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.

Financial performance

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

- Statutory Group Accounts prepared in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 ("Adopted 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 130 to 206
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 £46.7m 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) is presented on page 134 is summarised below.

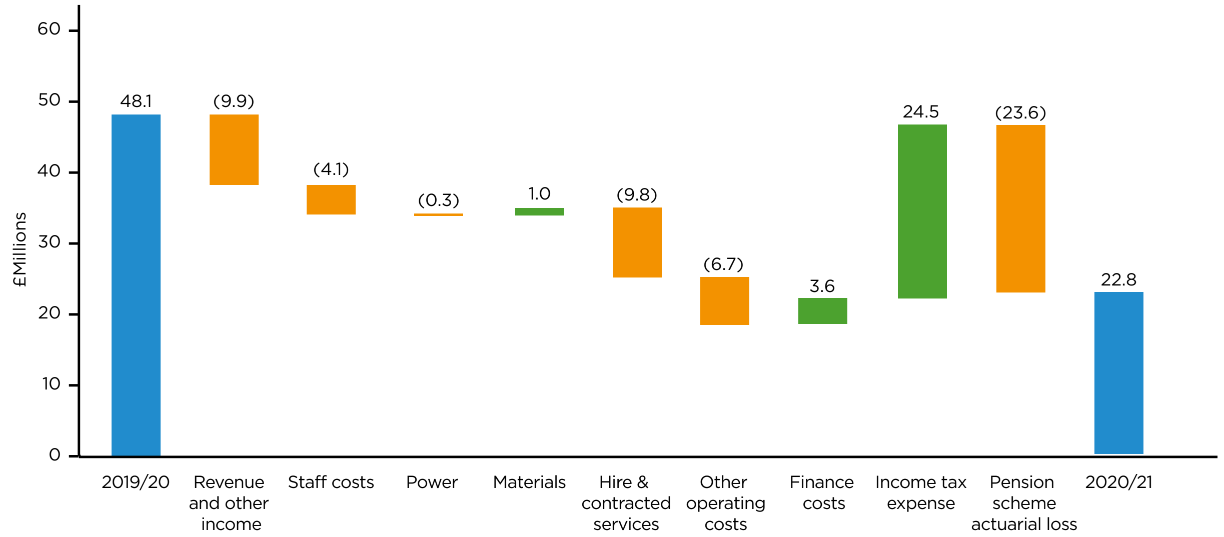
Summary Consolidated Statement of Comprehensive Income

	Year to 31 March 2021 £m	Year to 31 March 2020 £m
Revenue	**418.9**	429.1
Results from operating activities	**117.4**	147.3
Net finance charges	**(59.2)**	(62.8)
Profit before tax	**58.2**	84.5
Income tax expense	**(11.5)**	(36.1)
Profit for the year	**46.7**	48.4
Other comprehensive expenditure, net of income tax	**(23.9)**	(0.3)
Total comprehensive income for the period	**22.8**	48.1

Revenue has been stated excluding the value of adopted assets (£40.7m) (2019/20: £46.7m) 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 (£3.5m) (2019/20: £3.3m).

A reduction of £2.0m (2020: £0.8m) to Revenue was made to take account of the estimated impact of COVID-19 on our billed customers.

Movement in total consolidated comprehensive income for the period



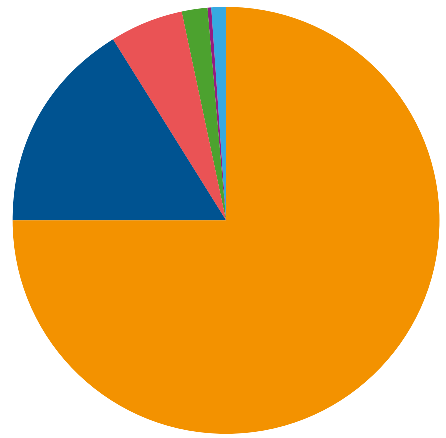
Revenue

Domestic consumers are not charged directly for water and wastewater services. As a result, NI Water is dependent on Government subsidy for around 75% 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 £418.9m for the year to 31 March 2021 (2020: £429.1m). Included in revenue was £337.0m (2020: £332.5m) received from DfI, being subsidy of £314.2m (2020: £309.9m) and road drainage charges of £22.8m (2020: £22.6m). All the revenue was in relation to NI Water Limited as subsidiary revenue was all within the Group.

Sources of revenue 2020/21 (£m)



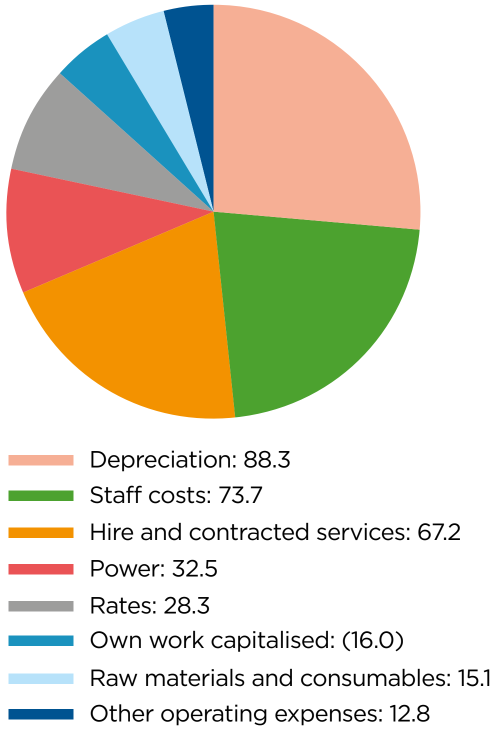
- Customer subsidy from DfI 314.2
- Customer income 68.5
- Road drainage from DfI 22.8
- Connection and infrastructure charges 8.2
- Other third party contributions 1.7
- Transfers of assets from customers 3.5

See Statutory Accounts Note C1.

Operating activities

Operating expenses in 2020/21 of £301.9m (2020: £282.0m) increased from last year. The increase primarily resulted from higher hire and contractor costs arising largely due to COVID-19, higher staff costs and higher depreciation costs as a result of the increased asset base. Results from operating activities before interest for the year was £117.4m (2020: £147.3m).

Operating expenses 2020/21 (£m)



NI Water is one of the largest users of electricity in Northern Ireland. We spent around £32.5m on power in 2020/21.

Finance income and costs

The net finance costs are primarily due to interest on our borrowings of £49.5m (2020: £50.0m); our Public Private Partnership (PPP) liabilities of £11.7m (2020: £12.2m) and net finance costs on the pension fund of £0.6m (2020: £0.7m). This was partly offset by £2.1m (2020: £nil) fair value increase in the value of financial liabilities and fair value impairment of senior loan debt and bank interest received of £0.5m (2020: £0.5m). See Statutory Accounts Note B2.

Taxation

The tax charge for the year was £11.5m (2020: £36.1m) for which payment is deferred to future years. The effective tax rate for the year to 31 March 2021 was 19.8% (2020: 42.6%). The decrease from 2020 is largely due to the increase in the rate of corporation tax by 2% to 19% experienced in 2019/20. See Statutory Accounts Note F1.

Pension scheme actuarial loss

In 2020/21 there was an actuarial loss of £24.0m (2020: £0.3m loss). See page 94 and Statutory Accounts Note E2 and G3.

Distributions

The Board will consider a proposal to declare a dividend of £31.2m in July 2021 (2020: £29.9m). 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 2021 as presented on page 132 is summarised below.

Total assets increased by 4.6% to £3,515.0m (2020: £3,359.1m).

Our net debt[1] figure was £1,416.9m at 31 March 2021 (2020: £1,370.1m).

Gearing (the ratio of net debt to equity and net debt) was 56.0% (2020: 55.0%).

Summary Consolidated Statement of Financial Position

	At 31 March 2021 £m	At 31 March 2020 £m
Total non-current assets	**3,437.8**	3,298.1
Total current assets	**77.2**	61.0
Total Assets	**3,515.0**	3,359.1
Equity	**1,115.2**	1,122.3
Total non-current liabilities	**2,243.7**	2,106.2
Total current liabilities	**156.1**	130.6
Total liabilities	**2,399.8**	2,236.8
Total equity and liabilities at 31 March	**3,515.0**	3,359.1

Liquidity

Operating activities generated a net cash inflow of £200.7m (2020: £235.3m). Net cash outflows of £159.5m (2020: £179.7m) related to investing activities. Net financing activities created a cash outflow of £16.4m (2020: £59.5m).

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 £170.9m (2020: £186.1m), proceeds from the sale of property, plant and equipment of £0.3m (2020: £1.5m), interest received of £nil (2020: £0.1m) and grants received of £11.1m (2020: £4.8m).

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 B4 in the Statutory Accounts. Net debt consists of loans from DfI of £1,269.6m (2020: £1,186.6m), external loans relating to subsidiaries of £72.3m (2020: £76.8m), derivative financial instruments of £8.2m (2020: £10.4m); and finance leases of £106.4m (on consolidation Alpha finance lease excluded) (2020: £111.2m) less cash and cash equivalents of £39.6m (including £13.4m from consolidated entities), (2020: £14.9m).

Pension funding

The pension scheme was valued at a liability of £62.6m at 31 March 2021 (2020: liability of £42.5m). This was made up of a total market value of assets of £293.6m (2020: £234.0m) less actuarial value of liabilities £356.2m (2020: £276.5m). The increase in the net liability arises primarily due to the incorporation of the 31 March 2020 Actuarial Triennial Valuation data; and a reduction in the discount rate assumption combined with an increase in inflation assumptions. This was partially offset by the reduction in liabilities due to the change in demographic assumption derivation. 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

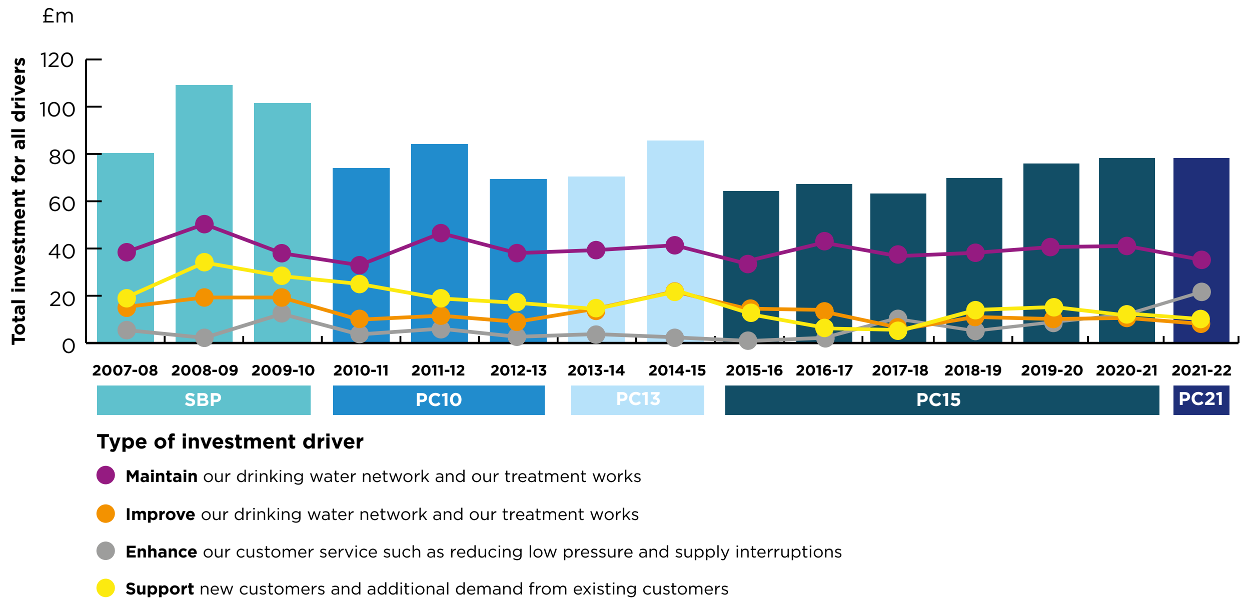
We have invested £2.6bn in Northern Ireland's water and wastewater infrastructure since our formation in 2007/08.

Around £177m of capital investment was delivered during 2020/21. £97m was invested in maintaining the current assets and a further £81m was invested to deliver quality enhancements, improve service and accommodate growth. Investment of £215m is planned for 2021/22.

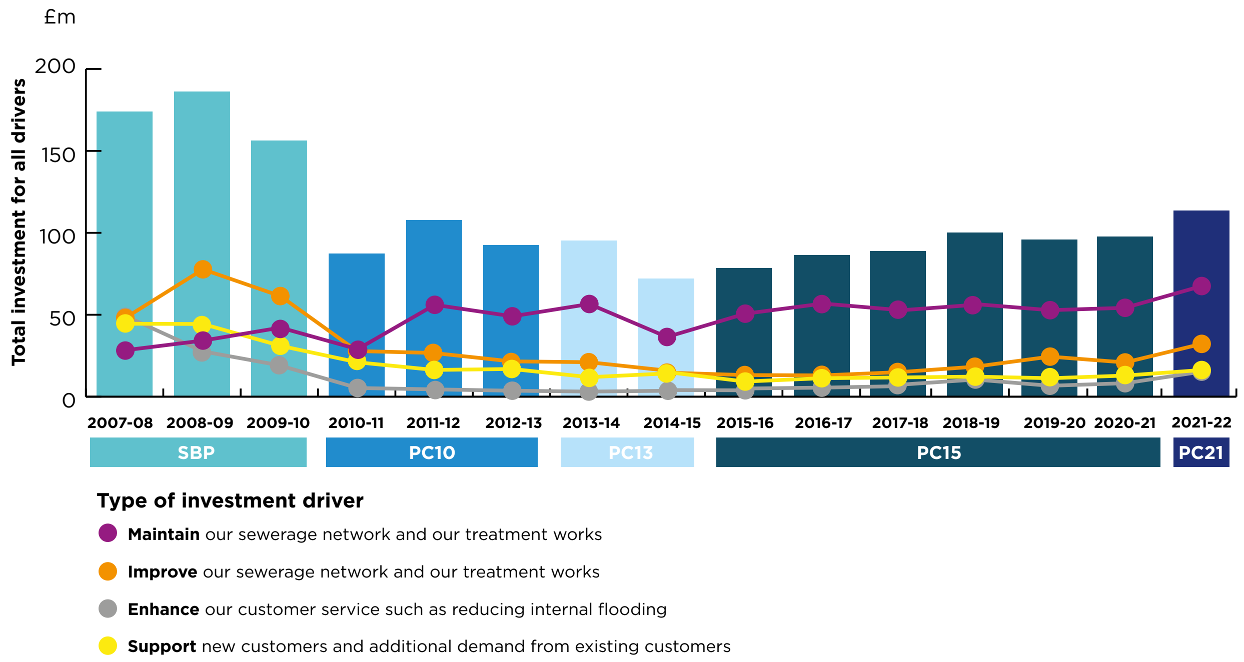
Investment in 2020/21 included the completion of three wastewater treatment works, remediation of one unsatisfactory intermittent discharges and laying approximately 104km of new, renewed and relined water mains.

Investment analysed by investment driver

Water service



Wastewater service



This Strategic Report was approved by the Board of Directors on 23 June 2021 and signed on its behalf by Mark Ellesmere, Company Secretary.

Mark Ellesmere
Company Secretary
23 June 2021

Governance

Portaferry Road wastewater pumping station, County Down

Corporate governance

Introduction by the Chair of the Board

I am pleased to present the Corporate Governance Report for 2020/21. 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. 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 119.

Putting back more than we take out

Our Strategy (2021-46) 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. 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 supporting the outcomes in the Draft Programme for Government developed by the Northern Ireland Executive. Read more at https://www.niwater.com/ourstrategy/

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. In 2020/21, NI Water's Executive Committee undertook an immersive Inclusive leadership programme lead by EY in order to model our commitment from the top in developing leaders capable of developing a culture of diversity and inclusion within teams and across NI Water. Around 140 employees will participate in a programme of work over 2021/22 to define and develop our corporate values into everyday behaviours and actions that we can all hold ourselves accountable to in how we carry out our daily work. The workforce can raise any matters of concern though our speak up (whistleblowing) policy https://www.niwater.com/speak-up/

Stakeholder engagement

Our strategy and PC21 Business Plan were co-developed with our stakeholders to ensure that customers are right at the heart of everything we do.

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 119. 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; COVID-19 pulse 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.

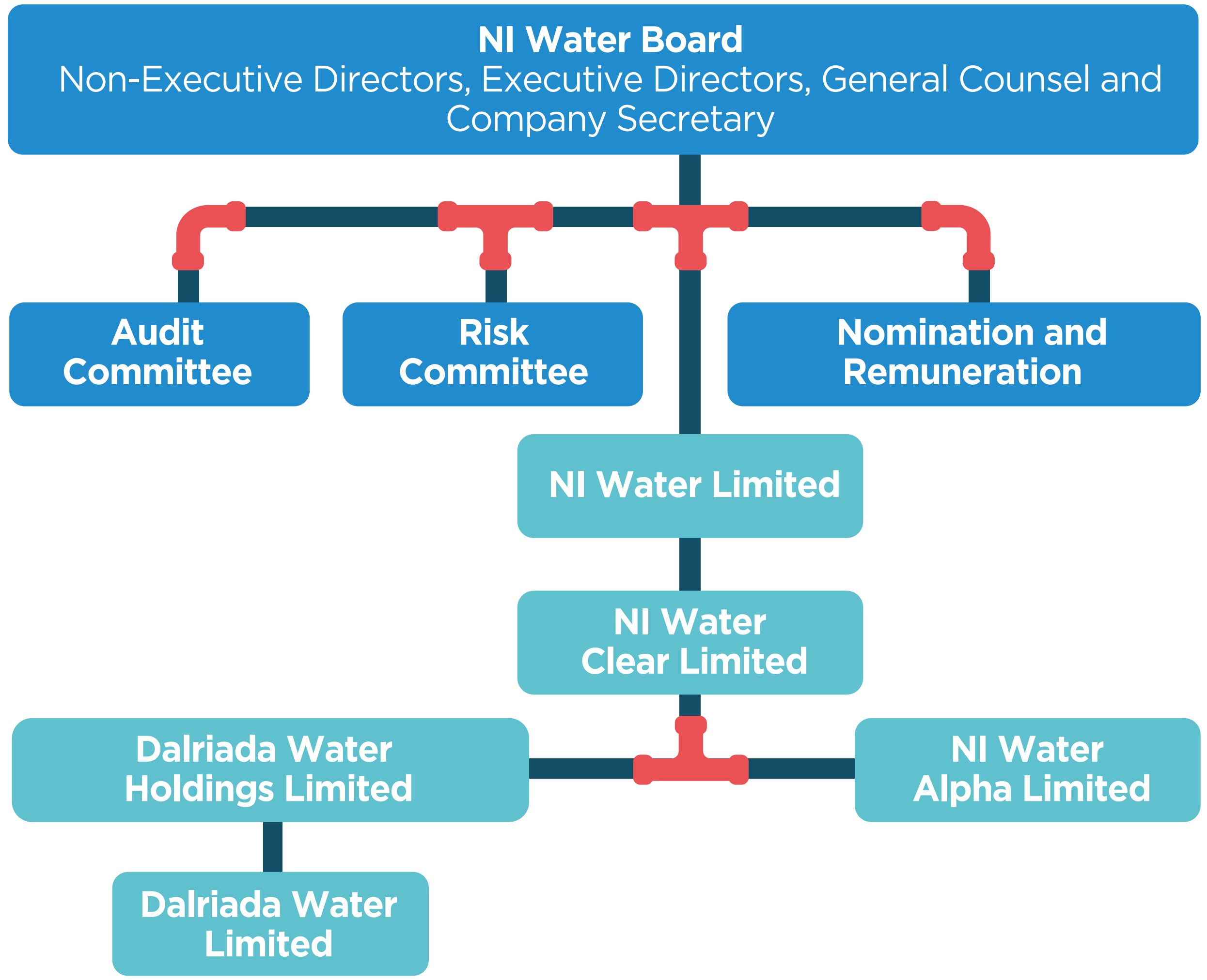
Compliance statement

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 apply to NI Water as set out within the MSFM, and which are practical for a Government owned Company. 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 is not in a position to comply with all aspects of the UK Corporate Governance Code, nor is it required to. This includes the 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

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/who-we-are/

Summary of Board activity

The Board activity over 2020/21 is summarised below:

		Cross reference
Strategy	• Reviewed progress against delivery of the Strategy (2021-46) through monthly updates from the Executive Committee on the strategy pillars and a half year strategic report;	Page 30
	• Discussed the Group's plan in relation to Brexit;	Page 78
	• Monitored the Group's response to COVID-19;	Page 77
	• Reviewed the approach to developing a climate change strategy for NI Water including compliance requirements with TCFD;	Page 60
Governance	• Reviewed the corporate risks and the risk appetite;	Page 74
	• Reviewed the effectiveness of the risk management system and reviewed the effectiveness of the internal control systems;	Page 110
	• Reviewed the terms of reference for the Audit, Risk, Nomination and Remuneration committees;	Page 106
	• Reviewed developments in corporate governance;	Page 106
	• Reviewed the External Auditors' performance.	Page 107
Business performance	• Reviewed the Group's response to the PC21 Draft Determination and considered how to respond to the PC21 Final Determination	Page 141
	• Reviewed and approved the Annual Integrated Report and Accounts for 2020/21;	Page 106
	• Reviewed and approved the Regulatory Accounts and the Annual Information Return for 2020/21;	Page 106
	• Reviewed and approved the going concern and long term viability statements;	Page 141
	• Monitored the delivery of the Annual Operating Plan and Budget for 2020/21;	Page 106
	• Reviewed and approved the Annual Operating Plan and Budget for 2021/22;	Page 106
Employees	• Reviewed the health, safety and wellbeing activities; health and safety incidents of employees and contractors, and the Health and Safety Strategy to reinforce the zero harm ambition;	Page 70
	• Discussed the results of the COVID-19 pulse surveys. 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 70
	• Reviewed the work being taken forward on the Group wide diversity and inclusion policy;	Page 127
	• 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 119
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 meetings; and	Page 121
	• Undertook half yearly meetings with senior Shareholder representatives.	Page 121

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)
	Maurice Bullick
	Paddy Larkin
Risk Committee	Belinda Oldfield (Chair)
	Marie-Thérèse McGivern
	Paddy Larkin
Nomination and Remuneration Committee	Dr Leonard J. P. O'Hagan, CBE DL (Chair)
	Peter McNaney, CBE
	Belinda Oldfield

Length of service

The time served by Board members is shown below:

	Length of service as at 31 March 2021 (full years)	Date of appointment	Date of cessation
Dr Leonard J. P. O'Hagan, CBE DL	6	1 April 2015	31 March 2024
Peter McNaney, CBE	5	1 August 2015	31 January 2024
Paddy Larkin	1	1 February 2020	31 January 2024
Belinda Oldfield	1	1 February 2020	31 January 2024
Marie-Thérèse McGivern	1	1 February 2020	31 January 2024
Maurice Bullick	1	1 February 2020	31 January 2024
Sara Venning	10	21 May 2010	n/a
Ronan Larkin	15	19 September 2005*	n/a
Mark Ellesmere	14	26 June 2006*	n/a
Paul Harper	4	1 January 2017	n/a
Des Nevin	1	1 September 2020	n/a

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

Meetings

Details of the Board and Board Committees' meetings attended by each Director during 2020/21 are shown below:

	Board meeting			Audit Committee			Risk Committee			Joint Audit Committee and Risk Committee			Nomination and Remuneration Committee		
	Held*			Held*			Held*			Held*			Held*		
	Total	Available to attend	Attended	Total	Available to attend	Attended	Total	Available to attend	Attended	Total	Available to attend	Attended	Total	Available to attend	Attended
Dr Leonard J. P. O'Hagan, CBE DL	11	11	11	-	-	-	-	-	-	-	-	-	2	2	2
Peter McNaney, CBE	11	11	11	4	4	4	-	-	-	1	1	1	2	2	2
Paddy Larkin	11	11	10	4	4	4	4	4	4	1	1	1	-	-	-
Maurice Bullick	11	11	10	4	4	3	-	-	-	1	1	1	-	-	-
Belinda Oldfield	11	11	11	-	-	-	4	4	4	1	1	1	2	2	2
Marie-Thérèse McGivern	11	11	10	-	-	-	4	4	4	1	1	1	-	-	-
Sara Venning	11	11	11	4	4	4	4	4	4	1	1	1	2	2	2
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	2	2	2
Paul Harper	11	11	11	-	-	-	4	4	4	1	1	1	-	-	-
Des Nevin**	11	11	11	-	-	-	4	4	4	1	1	1	-	-	-

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

**Appointed as a Board member on 1 September 2020.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
23 June 2021

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, speak up (whistleblowing) and anti-bribery policies and procedures, awareness training, and the effectiveness of investigations.

The Audit Committee met with the Risk Committee to consider the Internal Audit's Annual Assurance Statement, principal and emerging risks 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 on the funding position for 2020/21, including the agreement of a budget and the revised outputs for the year as agreed with stakeholders to take account of the impact of COVID-19. The Committee was also kept appraised of the proposed Operating Plan and Budget for 2021/22, 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, changes at year end as a result of COVID-19 and the results of the triennial valuation of the pension scheme;
- **UK Corporate Governance Code:** the Audit Committee was briefed on the corporate reform agenda and the changes to 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, the new loan note instrument put in place for the last five years of PC21 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.

Following a competitive tendering exercise KPMG were appointed as external auditors under the current contract in November 2018 for three years with the option to extend for a further three years. The first set of accounts signed by the current audit partner, John Poole, was for the year ended 31 March 2016.

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 2020/21 were £11k (2019/20: £11k).

Internal Audit

The Audit Committee approved the Internal Audit Strategy, which includes reviews of corporate governance, risk management, financial and operational key processes. 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 2020/21 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 met with the Chair of the Audit Committee without management to discuss NI Water's overall control environment and as Chair of the Audit Committee, I have satisfied myself that Internal Audit has sufficient resources through those discussions. The Audit Committee assessed the safeguards in place to protect the independence of the Internal Audit Function and the Head of Internal Audit. These safeguards include the Head of Internal Audit having a primary reporting line to the Chair of the Audit Committee. 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. In addition, an External Quality Assessment of the Internal Audit function was completed by the Chartered Institute of Internal Auditors which concluded that the Internal Audit function was in full conformance with the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards. This was reported to the Audit Committee in March 2021.

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 October 2020.

As Chair of the Audit Committee, I provided a report to the Board after every Audit Committee meeting and the minutes of each meeting are circulated with Board papers.

Peter McNaney, CBE
Chair of the Audit Committee
23 June 2021

Report by Chair of the Risk Committee

The Risk Committee provided oversight on NI Water's risk and resilience management framework. The Committee met on a quarterly basis and reviewed the risk and resilience management system and processes, the corporate threats and opportunities, risk appetite, resilience prevention measures and the effectiveness of response and recovery.

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:

- **Risk governance:** over the financial year, the Risk Committee considered significant threats and opportunities to achieving strategic priorities for the year 2020/21 and emerging risks going forward. This included the impact of COVID-19 on service delivery and its effects on the workforce, customers and business partners safety and wellbeing; quality and security of water supply and wastewater management; Brexit; health and safety; sustainability and the impact of climate change; cyber risks and data security; business continuity management; asset resilience; and opportunities for further improvements to customer experience and stakeholder engagement. The Committee reviewed the completion of actions and the effectiveness of controls, considering both internal and external audit reports on specific risks and the completion of their recommendations.

  In relation to the overall effectiveness of NI Water's risk and resilience framework the Committee received an Internal Audit report with an overall opinion of 'Substantial' which means that 'there is a robust system of governance, risk management and control which should ensure that objectives are fully achieved';
- **Corporate threat and opportunity maps:** the Risk Committee considered the proposed corporate threats and opportunities at the start of the financial year and recommended these for Board approval. Risk maps with clear controls and actions to improve resilience and measurable benefits through opportunity management are reported to the Committee on a quarterly basis. Even though 2020/21 was an extraordinary year due to a combination of external risk factors such as COVID-19, Brexit, economic downturn and extreme weather events, there were no risks escalated during the financial year. This is due mainly to the effectiveness of NI Water's risk and resilience management and its ability to respond and recover from such challenges in a timely manner without impacting on service delivery or adversely affecting our colleagues and business partners to an extent that required an escalation event;
- **Risk appetite:** the Risk Committee monitored the progress towards the Board agreed risk appetite for the seven risk themes (consisting of both threats and opportunities). A Risk Appetite Workshop was held during the year to review the effectiveness of completed actions to move closer to the agreed risk appetite levels. A six-monthly update is provided to the Risk Committee and a summary report to the Board;
- **Emerging risks:** details of emerging risks based on local and global research, developments and incidents were reported to the Risk Committee along with details of the mitigating steps being taken and further action to improve resilience. For some external risk factors that are beyond the remit of NI Water, such as the uncertainties brought about by the Northern Ireland Protocol or possible easing of COVID-19 restrictions, we have and will continue to communicate with stakeholders on their implications and steps needed to improve resilience. NI Water continues to take steps to manage emerging risks through its long term viability impact analysis and has made significant improvements to service delivery, resilience and sustainability. NI Water won the 2020 Chartered Accountants Ireland 'CSR and Sustainability' award and received the 'Highly Commended' overall runner up award;
- **Business resilience:** the Risk Committee received quarterly updates regarding business continuity management, emergency and major incident management and IT disaster recovery plans. The activation of business continuity plans greatly helped to ensure continuity of services and safety at work in response to COVID-19. There was no interruption to service delivery and we have taken steps to ensure colleagues and business partners are safe whether on our sites or working from home and that our customer needs are met whether at NI Water facilities or when we make home visits;
- **Risk training and awareness:** risk and resilience workshops and risk map meetings continued on a virtual basis and risk training was conducted through e-learning and webinars. One-to-one virtual training sessions were held over the year to meet colleagues and business partners' specific needs and colleagues were continually briefed in policy changes and updates through internal emails and NI Water's (Source) intranet; and
- **Risk research, development and innovation:** the Risk Committee is very encouraged by NI Water's involvement in both local and international research activities in governance, risks and resilience management. Over the year the Committee received reports on the guest lectures provided to the Undergraduate and Masters programmes and outcome of research projects for masters' students in the Queen's University Belfast Management School and the Ulster University Business School. NI Water continues to participate in UK, European and international research through the 'Water Research Foundation' (WRF), which has helped to implement innovative ways to improve risk and resilience management.

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 content of 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 July 2020.

Belinda Oldfield
Chair of the Risk Committee
23 June 2021

Refer to the Directors' remuneration report on page 123 in relation to the work of the Nomination and Remuneration Committee.

Governance Statement

Introduction

The Governance section on pages 96 to 129 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 an integrated risk and resilience 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 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 to facilitate good governance and communication across the business and with key stakeholders. The Integrated Risk and Resilience Framework also sets out the potential impact of emerging risks and the approach to be taken by NI Water to manage these risks going forward.

The system of internal control has been in place in NI Water for the year ended 31 March 2021 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. It also takes into account the Financial Reporting Council's guidance on reporting on COVID-19, the UK's exit from the EU and sustainability reporting for the year 2020/21.

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 viewed for business units and 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 principal risks are as reported in pages 76 to 87. Risks such as funding constraints continue to place NI Water in a situation where operational service delivery could be impacted in the short to medium term and inadequate levels of capital investment can impact the economic development in Northern Ireland due to lack of asset capacity. Discussions are ongoing with the DfI on the governance funding model and the Utility Regulator's PC21 Final Determination. Risks such as COVID-19, Brexit and weather related events which have wide implications for NI Water, will continue to be managed 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 2021 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 'Principal 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
23 June 2021

Directors' report

The Directors present their report and the audited financial statements for the year ended 31 March 2021.

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 the DfI.

Going concern

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities at 31 March 2021. 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;
- following the launch of the 25 year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan was a strong, challenging and ambitious plan seeking to balance service delivery and consumer interests with continuing efficiency over both the near and longer term;
- the Utility Regulator published the PC21 Draft Determination in September 2020. While the Draft Determination recognised many of the strengths of the PC21 Business Plan, it fell short of being a balanced package, acceptable to the NI Water Board. At the request of the Utility Regulator, NI Water prepared a comprehensive, evidence-based response to allow the Utility Regulator to reach a more balanced position in its Final Determination;
- the Utility Regulator published the PC21 Final Determination on 13 May 2021 and NI Water has until 13 July 2021 to decide on acceptability; and
- the Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the Department and the NI Executive. The Board is now in discussion with the Shareholder and other Government Departments to ensure that, in order to accept, there is support and continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

Our current budget for the 2021/22 year takes into account the current COVID-19 pandemic and a significant drop in billable revenues and includes £129.5m and £216.2m for Resource Cash DEL[2] and Capital DEL respectively. This was prepared in advance of receipt of the PC21 Final Determination which includes forecasts of £122.0m and £178.6m for Resource Cash DEL and Capital DEL respectively. Whilst the PC21 Final Determination includes the impact of lower billable revenues due to the current COVID-19 pandemic, it does not include funding for additional costs. Adjustment for this reduces the Resource Cash DEL variance significantly. The difference in Capital DEL will result in a number of projects profiled later in the PC21 Final Determination being brought forward. The £129.5m and £216.2m allocations for Resource Cash DEL and Capital DEL respectively have been confirmed by 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. A new loan note instrument has been put in place which gives access to the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. In addition, the Company has access to a working capital facility of £20m.

Operating Plan targets for 2021/22 reflected the Utility Regulator's PC21 Draft Determination with some adjustment for proposals in our PC21 Draft Determination response. Performance targets for 2021/22 will be reviewed and revised, in so far as is possible, to reflect the PC21 Final Determination.

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 principal 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 principal 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 principal risks. Refer to page 72.

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 six 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 the PC21 Business Plan has been submitted to the Utility Regulator, there is information available for the six 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.

[2] Departmental Expenditure Limits (DEL) are government budgets. The budgets are split between Resource DEL (RDEL) for day-to-day spending and Capital DEL (CDEL) for investment.

Approach

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

Develop scenarios

- Risk owners identify and maintain integrated risk and resilience registers
- 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 six years x probability = annual expected monetary value
- Model the financial impacts over the next six 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 principal 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 six 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 72)
1	Underfunding	Significant underfunding of the PC21 Business Plan	PT1 PT2 PT3 PT5 PT6 PT7 PT8 PO1 PO3 PO4
2	Macro-economic	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	PT1 PT2 PT3 PT5
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	PT1 PT2 PT8 PO2
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	PT1 PT2 PT3 PT4 PT7 PO2
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	PT1 PT2 PT3 PT5 PT6 PT7 PO4
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	PT2 PT4 PO2
7	Cyber	Significant IT/cyber breach leads to major data loss (GDPR, NISD and 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	PT1 PT2 PT7 PO1 PO2 PO4
8	Drinking water	Major widespread water quality contamination event	PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO4
9	Wastewater	Severe consent failure at key wastewater treatment works (including unexpected change to PPP Omega contract)	PT1 PT2 PT5 PT6 PT7 PO1 PO3 PO4
10	Pollution	Pollution and sewer flooding incidents lead to loss of reputation with regulators, key stakeholders and damage to the natural and built environment	PT1 PT2 PT3 PT5 PT6 PT7 PO1 PO3 PO4
11	Severe weather	Multi-year dry spring/summer leads to severe drought and supply restrictions	PT1 PT2 PT5 PT6 PO1 PO4
		Severe winter followed by thaw leading to significant increase in leakage and supply interruptions	PT1 PT2 PT5 PT6 PO1 PO4
		Widespread flood inundation/coastal inundation/significant flood event including our ability to embed and transform our flood resilience	PT1 PT2 PT5 PT6 PO1 PO3 PO4
12	Net zero carbon	Significant increase in decarbonisation costs due to changes in the required rate of decarbonisation as a result of changes in legislation, technology and climate	PT1 PT5 PT6 PO1 PO3 PO4

Scenario one is unique to NI Water as all other UK water companies benefit from funded regulatory settlements. NI Water has been underfunded through PC15 regulatory settlement (2015-21). The Utility Regulator's Final determination on NI Water's PC21 Business Plan (2021-27) was published in May 2021 and NI Water has until 13 July 2021 to decide on acceptability. The Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the DfI and the NI Executive. The Board is in discussion with the DfI Shareholder Unit and other Government Departments to ensure that, in order to accept the PC21 Final Determination, there is support and continuing commitment to fund the determination to deliver the outputs and outcomes. Any underfunding of the PC21 Final Determination will increase the size and likelihood of the financial shocks across the other scenarios.

The financial shocks in relation to scenario 12 (net zero carbon) have been developed in the absence of a climate strategy and net zero carbon route map, both of which are under development.

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, severe weather and net zero carbon.

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 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;
- a mechanism is agreed with the Shareholder to address the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027;
- 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 viability assessment represents the full range of financial shocks (known and unknown) 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 93;
- the detailed financial projections developed as part of the planning process, which include the best available information about 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). The Board is in discussions with the Shareholder and other Government Departments to ensure that there is support and continuing commitment to fund the PC21 Final Determination. 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 - liaison with corporate risk owners and review by Corporate Governance, Financial Accounting and Regulation teams in Finance and Regulation Directorate. Level 1 assurance included ensuring 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 Executive Committee, 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 six 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 principal threats and opportunities (page 72) for factors which could impact on the amount of distributable profits. It is anticipated that a final dividend of £31.2m for the year ended 31 March 2021 (2020: £29.9m[3]) will be approved by the Shareholder upon the recommendation of the Board in July 2021 and paid in September 2021 to the Shareholder. However, this has not been included within the financial statements as the dividend was not declared before 31 March 2021.

[3] This dividend in respect of the year ended 31 March 2020 was paid in November 2020.

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 105.

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 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 2021, was 31.7 days (2020: 31.4 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 2021, the year to date ratio stood at 11.5 days (2020: 11.6 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 £0.4m on Research and development in 2020/21 (2020: £0.3m).

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. NI Water is recognised as a disability confident employer, as an endorsement of our commitment to recruit and retain disabled people and people with health conditions. Read more about diversity and inclusion on page 127.

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 2021, 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 65.

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 2021 (see page 102) 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. The Board reviewed the Group's response to the PC21 Draft Determination and considered the response to the PC21 Final Determination.

(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. We have updated our employees and the Trade Unions in relation to the PC21 Draft and Final Determinations.

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 variety 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 our new and existing suppliers. In March 2021, in conjunction with InterTrade Ireland, we held our first online supplier event. Participants were able to hear panel discussions on energy and analytics, attend a tips for tendering webinar and meet our lead suppliers to understand sub-contracting opportunities. We had a fantastic response with over 450 suppliers involved. The session included one to one meetings with members of our buying teams and representation from across the business. Refer to page 118 regarding payment of creditor policy.

https://www.youtube.com/watch?v=DsvYhpHg9PQ

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[4] 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

[4]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.

Further details on engaging with our stakeholders is contained in the 'Listening to you' section on page 26.

Local Councils

We have presented the current status of water and wastewater infrastructure, capacity constraints and our PC21 capital investment programme to all 11 Local Councils in the context of their Local Development Plans and the 'hub' towns and cities that are central to their growth plans. We have also engaged with the Northern Ireland Local Government Association (NILGA), the Society of Local Authority Chief Executives (SOLACE) as well as the Northern Ireland Housing Council and The Chartered Institute of Housing. Our engagement over 20202/21 highlighted that our PC21 Business Plan will only begin to address current development constraints and further investment will be required in future price controls; that an increase of investment can only be delivered successfully if there is a commitment by Government to medium term funding; and the need for long term tariff stability.

Business organisations

This year we focused on engaging with industry groups on our Strategy and PC21 Business Plan. These groups included construction, manufacturing and agri-food. We liaised with key stakeholders and groups such as the Construction Employers' Federation, NI Food and Drink Association and the Ulster Farmers Union.

Political parties

We held briefings on our Strategy and Business Plan with Party Leaders, Party Infrastructure Spokespersons and Party Policy Advisors to ensure that local elected representatives are all fully aware of the current status of water and wastewater infrastructure, NI Water's recommended PC21 capital investment programme for Northern Ireland and the consequences should inadequate funding continue.

(d) Community and the environment

The Strategy and PC21 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 those on speak up (whistleblowing), 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 it too may benefit from the successful delivery of our Business Plans. 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
23 June 2021

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 twice 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 2020/21 as a result of its current governance arrangements.

Annual bonus

There was no bonus scheme in 2020/21 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 Chair of the Board reflect the additional responsibilities of that role. Further details on the fees paid to the Non-Executive Directors are provided on page 125.

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 2021					Year to 31 March 2020				
Current Executive Directors:	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000[5]	Total £000	Salary and allowances £000	Bonus £000	Benefits in kind (to nearest £100)	Pension benefits £000	Total £000
Sara Venning	**160 – 165**	**-**	**-**	**50**	**210 - 215**	155 - 160	-	-	55	210 - 215
Ronan Larkin	**125 – 130**	**-**	**-**	**13**	**135 - 140**	120 - 125	-	-	29	150 - 155
Paul Harper	**115 - 120**	**-**	**-**	**43**	**160 - 165**	110 - 115	-	-	42	150 - 160
Des Nevin[6]	**110 - 115**	**-**	**-**	**106**	**215 - 220**	100 - 105	-	-	159	260 - 265
Current member of the Executive Committee (not Executive Director):										
Mark Ellesmere	**115 - 120**	**-**	**-**	**29**	**145 - 150**	115 - 120	-	-	38	150 - 155
Alistair Jinks	**115 - 120**	**-**	**-**	**80**	**195 - 200**	100 - 105	-	-	29	130 - 135
Rose Kelly	**105 - 110**	**-**	**-**	**39**	**140 - 150**	105 - 110	-	-	38	140 - 145

[5] 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.

[6] Appointed as a Board member on 1 September 2020.

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 £160k to £165k on a full year equivalent basis (2020: £155k to £160k). This was 4.79 times (2020: 4.83 times) the median remuneration of the workforce, which was £33,960 (2020: £32,944). The marginal change in the pay multiple (ratio) between 2019/20 and 2020/21 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 2021	Year to 31 March 2020
Highest paid Director (£000)	**160 – 165**	155 – 160
Median total remuneration (£)	**33,960**	32,944
Pay multiple (ratio)	**4.79**	4.83
Range of remuneration (£000)	**15 - 165**	16 - 160

Gender pay gaps

The gender pay gap regulations in place across the rest of the UK have not yet been brought into force in Northern Ireland. We have disclosed the gender pay gap information below to help as part of our commitment to a diverse and inclusive workforce. The median and mean gender pay gaps are the difference between the mean and median hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees. The reason for the pay gap (negative) is because 36% of our workforce are frontline employees who are typically lower paid than non-frontline employees and that 99% of our frontline employees are male. Further details on the gender of persons employed are shown in Note E1 to the Statutory Accounts.

Group		
	Year to 31 March 2021	Year to 31 March 2020
National median gender pay gap (%)	**7.4**	9.0
Our median pay gap (%)	**(14.9)**	(18.6)
Our mean pay gap (%)	**(9.0)**	(12.3)

Fees paid to Non-Executive Directors

	Year to 31 March 2021				Year to 31 March 2020			
Current Non-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- Chair of the Board	**40 - 45**	**-**	**-**	**40 - 45**	40 - 45	-	-	40 - 45
Peter McNaney, CBE	**15 - 20**	**-**	**-**	**15 - 20**	15 - 20	-	-	15 - 20
Belinda Oldfield	**15 - 20**	**-**	**-**	**15 - 20**	2.5 - 5.0[7]	-	-	2.5 - 5.0
Marie-Thérèse McGivern	**15 - 20**	**-**	**-**	**15 - 20**	2.5 - 5.0[7]	-	-	2.5 - 5.0
Patrick Larkin	**15 - 20**	**-**	**-**	**15 - 20**	2.5 - 5.0[7]	-	-	2.5 - 5.0
Maurice Bullick	**15 - 20**	**-**	**-**	**15 - 20**	2.5 - 5.0[7]	-	-	2.5 - 5.0

[7] Appointed Non-Executive Director on 1 February 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 2021 £000	Related lump sum at 31 March 2021 £000	Real increase in pension at age 60 £000	Real increase in lump sum at age 60 £000
Sara Venning	30 - 35	50 - 55	2.5 - 5.0	7.5 - 10.0
Ronan Larkin	30 - 35	-	0 - 2.5	-
Paul Harper	5 - 10	25 - 30	0 - 2.5	5.0 - 7.5
Des Nevin	55 - 60	170 - 175	5.0 - 7.5	15 - 17.5
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	30 - 35	35 - 40	0 - 2.5	5.0 - 7.5
Alistair Jinks	30 - 35	-	2.5 - 5.0	-
Rose Kelly	5 - 10	15 - 20	0 - 2.5	5.0 - 7.5

Pension (CETV) benefits for members of the Executive Committee

Current Executive Directors:	CETV at 31 March 2021[8] £000	CETV at 31 March 2020[9] £000	Increase/(decrease) in transfer value less Director's contribution (net of inflation[10]) £000	Employer contribution (to nearest £100)
Sara Venning	**641**	590	**35**	47,500
Ronan Larkin	**786**	753	**20**	36,600
Paul Harper	**196**	146	**42**	34,300
Des Nevin	**1,647**	1,482	**145**	33,000
Current member of the Executive Committee (not Executive Director):				
Mark Ellesmere	**770**	736	**19**	34,800
Alistair Jinks	**753**	637	**104**	34,400
Rose Kelly	**127**	86	**34**	31,400

[8] Based on accrued benefits at 31 March 2021 and financial conditions as at 31 March 2021.

[9] Based on accrued benefits at 31 March 2020 and financial conditions as at 31 March 2020.

[10] CPI inflation of 1.7% (CPI figure for the year to September 2019).

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.

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, 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'.

Highlights of our diversity and inclusion journey are shown below:

Diversity Mark

Badge of best practice. Accredited with the Bronze Diversity Charter Mark in 2019/20 and re-accredited against this standard in recognition of our sustained commitment to diversity and inclusion. We are working towards silver accreditation in 2022/23.

Social mobility. First Company in Northern Ireland to sign up to the UK Social Mobility Pledge in 2019/20 demonstrating our commitment to improve social mobility in the communities we serve.

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.

Responsible business champion. Recognised in 2020/21 as a Responsible Business Champion in the diversity and inclusion category through Business in the Community responsible business awards. Champion status is awarded to companies that have demonstrated full commitment to the responsible business agenda and exemplify best practice that can motivate and inspire others.

Energy and Utility Skills Partnership: Inclusion Commitment. In 2020/21 NI Water became one of 45 partner organisations to sign up to the EU Skills Inclusion Commitment. Participating organisations agree to five key inclusion principles and commit to measuring and being transparent about diversity and inclusion progress in our organisation and across the sector.

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.

Strategic partnerships

Through our partnership with Diversity Charter Mark NI, NI Water was matched with Danske Bank in 2020/21 as our diversity and inclusion 'buddy' to share best practice, learn from each other and support our diversity and inclusion journey.

Developing inclusive leaders

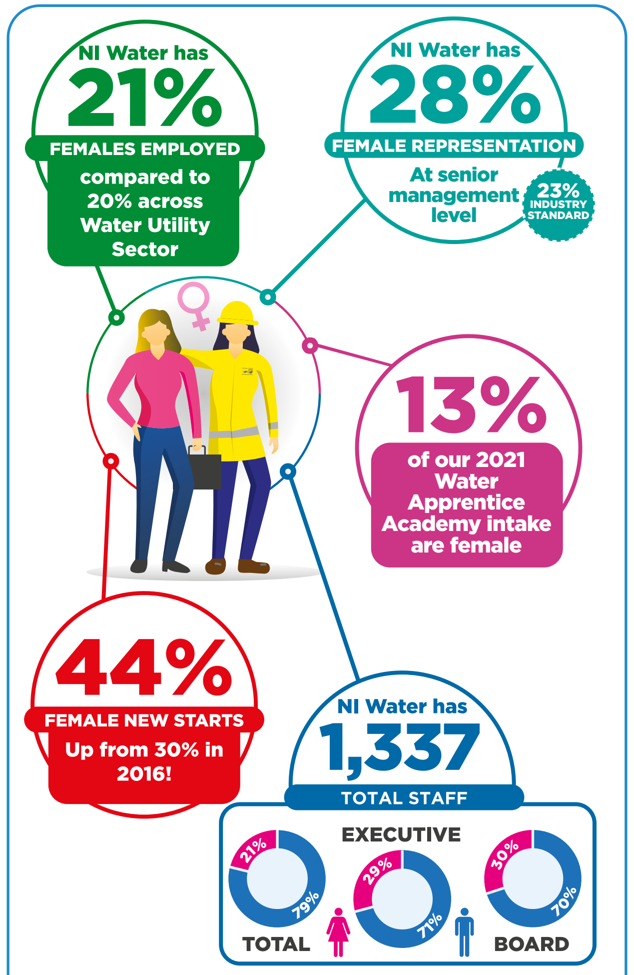
In 2020/21, NI Water's Executive Committee undertook an immersive Inclusive leadership programme lead by EY in order to model our commitment from the top in developing leaders capable of developing a culture of diversity and inclusion within teams and across NI Water.

Developing each other

In 2020/21, NI Water launched its very first reverse mentoring programme, matching new apprentices with experienced staff in a mutually beneficial mentoring arrangement. This programme supports our commitment to developing each other and our belief that everyone has a contribution to make regardless of rank, role or tenure.

Bringing our values to life

One of our five corporate values is respecting people for who they are and the contributions they bring. Around 140 employees will participate in a programme of work over 2021/22 to define and develop our corporate values into everyday behaviours and actions that we can all hold ourselves accountable to in how we carry out our daily work.



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.

Read about our pay multiple and gender pay gap at page 124 and more on employee numbers at Note E on page 178.

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. Over 2021/22 we plan to include a new management development programme for all managers with a focus on inclusive leadership training.

Dr Leonard J. P. O'Hagan CBE DL
Chair of the Board
23 June 2021

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 with international accounting standards in conformity with the requirements of the Companies Act 2006.

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 105 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 2021 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 2021; 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
23 June 2021

Statutory Accounts

Downhill Strand, County Derry/Londonderry, one of Northern Ireland's six Blue Flag beaches. Image by Sam Dunlop

Consolidated statement of financial position

	Note	At 31 March 2021 £000	At 31 March 2020 £000
Assets			
Property, plant and equipment	A1	**3,378,565**	3,239,823
Investment properties	A3	**1,876**	6,384
Intangible assets and goodwill	A4	**57,356**	51,877
Investments	A5	**-**	-
Other investments	A6	**-**	15
Total non-current assets		**3,437,797**	3,298,099
Inventories	A7	**4,463**	3,758
Trade and other receivables	C4	**22,880**	28,250
Unbilled revenue	C5	**8,647**	12,732
Prepayments		**1,556**	1,351
Cash and cash equivalents	A8	**39,592**	14,862
Assets classified as held for sale	A9	**40**	93
Total current assets		**77,178**	61,046
Total assets		**3,514,975**	3,359,145
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**443,617**	450,740
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,115,231**	1,122,354
Liabilities			
Loans and borrowings	B1	**1,438,675**	1,365,708
Interest rate swap	D2	**8,225**	10,358
Other payables	D2	**1,116**	537
Deferred income	C2	**523,384**	483,165
Provisions	D3	**1,247**	2,319
Deferred tax liabilities	F1	**208,402**	201,635
Employee benefits	E2	**62,627**	42,514
Total non-current liabilities		**2,243,676**	2,106,236
Loans and borrowings	B1	**9,517**	8,765
Trade payables	D2	**124,063**	100,854
Other payables	D2	**15,962**	15,316
Deferred income	C2	**4,791**	3,949
Provisions	D3	**1,735**	1,671
Total current liabilities		**156,068**	130,555
Total liabilities		**2,399,744**	2,236,791
Total equity and liabilities		**3,514,975**	3,359,145

The financial statements were authorised for issue by the Board of Directors on 23 June 2021 and were signed on its behalf by:

Sara Venning,
Chief Executive,
23 June 2021

The Notes on pages 141 to 203 form part of these financial statements.

Company statement of financial position

	Note	At 31 March 2021 £000	At 31 March 2020 £000
Assets			
Property, plant and equipment	A1	**3,378,077**	3,239,191
Investment properties	A3	**1,876**	6,384
Intangible assets	A4	**34,435**	28,956
Investments	A5	**5,000**	5,000
Other investments	A6	**-**	15
Total non-current assets		**3,419,388**	3,279,546
Inventories	A7	**4,312**	3,559
Trade and other receivables	C4	**55,807**	58,628
Unbilled revenue	C5	**8,647**	12,732
Prepayments		**1,565**	1,321
Cash and cash equivalents	A8	**26,161**	3,080
Assets classified as held for sale	A9	**40**	93
Total current assets		**96,532**	79,413
Total assets		**3,515,920**	3,358,959
Equity			
Share capital	B3	**500,000**	500,000
Statutory distributable reserve		**171,690**	171,690
Retained earnings		**447,760**	457,153
Fair value reserve		**(76)**	(76)
Total equity attributable to owner of the Company		**1,119,374**	1,128,767
Liabilities			
Loans and borrowings	B1	**1,445,962**	1,371,904
Other payables	D2	**1,116**	537
Deferred income	C2	**523,384**	483,165
Provisions	D3	**1,247**	2,319
Deferred tax liabilities	F1	**204,680**	198,508
Employee benefits	E2	**62,627**	42,514
Total non-current liabilities		**2,239,016**	2,098,947
Loans and borrowings	B1	**8,949**	8,091
Trade payables	D2	**126,153**	102,695
Other payables	D2	**15,902**	14,839
Deferred income	C2	**4,791**	3,949
Provisions	D3	**1,735**	1,671
Total current liabilities		**157,530**	131,245
Total liabilities		**2,396,546**	2,230,192
Total equity and liabilities		**3,515,920**	3,358,959

The Company's profit for the year ended 31 March 2021 was £44,475k (2020: £46,011k).

The financial statements were authorised for issue by the Board of Directors on 23 June 2021 and were signed on its behalf by:

Sara Venning,
Chief Executive,
23 June 2021

The Notes on pages 141 to 203 form part of these financial statements.

Consolidated statement of comprehensive income

	Note	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Revenue	C1	**418,906**	**429,114**
Other income	C3	**750**	490
Operating expenses	D1	**(301,869)**	(282,015)
Research and development expenses		**(350)**	(309)
Results from operating activities		**117,437**	147,280
Finance income	B2	**2,716**	685
Finance costs	B2	**(61,881)**	(63,499)
Net finance costs		**(59,165)**	(62,814)
Profit before income tax		**58,272**	84,466
Income tax expense	F1	**(11,527)**	(36,022)
Profit for the year		**46,745**	48,444
Other comprehensive income			
Items that will never be reclassified to profit or loss: Defined benefit plan actuarial losses	F1	**(23,983)**	(353)
Other comprehensive income for the period, net of income tax		**(23,983)**	**(353)**
Total comprehensive income for the period		**22,762**	**48,091**
Profit attributable to:			
Owner of the Company		**46,745**	48,444
Total comprehensive income attributable to:			
Owner of the Company		**22,762**	48,091

All profits relate to continuing operations.

The Notes on pages 141 to 203 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 2020	B3	500,000	171,690	450,740	(76)	1,122,354
Total comprehensive income for the period						
Profit for the year		-	-	46,745	-	46,745
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(29,609)	-	(29,609)
Deferred tax arising on losses in defined benefit plan	F1	-	-	5,626	-	5,626
Total other comprehensive income		-	-	(23,983)	-	(23,983)
Total comprehensive income for the period		-	-	22,762	-	22,762
Transactions with owner, recognised directly in equity						
Distributions to owner of the Company						
Dividends to owner of the Company	B3	-	-	(29,885)	-	(29,885)
Balance at 31 March 2021		500,000	171,690	443,617	(76)	1,115,231
Dividends per share (GBP)						0.06

The Notes on pages 141 to 203 form part of these financial statements.

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 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 the 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 141 to 203 form part of these financial statements.

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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 2020	B3	500,000	171,690	457,153	(76)	1,128,767
Total comprehensive income for the period						
Profit for the year		-	-	44,475	-	44,475
Other comprehensive income						
Items that will never be reclassified to profit or loss:						
Defined benefit pension plan actuarial losses	E2	-	-	(29,609)	-	(29,609)
Deferred tax arising on losses in defined benefit plan	F1	-	-	5,626	-	5,626
Total other comprehensive income		**-**	**-**	**(23,983)**	**-**	**(23,983)**
Total comprehensive income for the period		**-**	**-**	**20,492**	**-**	**20,492**
Transactions with owner, recognised directly in equity Distributions to owner of the Company						
Dividends to the owner of the Company	B3	-	-	(29,885)	-	(29,885)
Balance at 31 March 2021		**500,000**	**171,690**	**447,760**	**(76)**	**1,119,374**
Dividends per share (GBP)						0.06

The Notes on pages 141 to 203 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 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 the 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 141 to 203 form part of these financial statements.

Statutory Accounts

Consolidated statement of cash flows

	Note	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Cash flows from operating activities			
Profit before tax		**58,273**	84,466
Adjustments for:			
Depreciation	A1, A3	**81,708**	78,047
Amortisation of intangible assets	A4	**6,556**	6,411
Amortisation of deferred credit on adopted assets		**(3,498)**	(3,250)
Gain on sale of property, plant and equipment	C3	**(193)**	(467)
Interest expense (net)	B2	**59,165**	62,814
Amortisation of fair value senior debt loan and associated deferred tax		**(552)**	(447)
Tax paid		**(200)**	(941)
Non-cash differences taken to profit or loss*		**-**	(1,541)
		201,259	**225,092**
Changes in:			
- inventories		**705**	632
- trade and other receivables		**(365)**	149
- unbilled revenue		**3,884**	1,359
- trade and other payables		**7,551**	4,003
- provisions		**(1,008)**	(182)
- excess of pension charge over cash pension contributions		**(11,372)**	4,346
Cash generated from operating activities		**200,654**	235,399
Cash flows from investing activities			
Interest received		**36**	136
Proceeds from sale of property, plant and equipment		**257**	1,467
Acquisition of property, plant and equipment, and intangible assets		**(170,869)**	(186,114)
Grants received		**11,076**	4,772
Net cash used in investing activities		**(159,500)**	(179,739)
Cash flows from financing activities			
Proceeds from borrowings		**83,000**	40,000
Payment of finance lease liabilities		**(4,930)**	(4,135)
Payment of bank loans		**(3,895)**	(5,455)
Interest paid		**(60,714)**	(61,713)
Dividends paid	B3	**(29,885)**	(28,272)
Net cash from financing activities		**(16,424)**	(59,575)
Net increase/(decrease) in cash and cash equivalents		**24,730**	(3,915)
Cash and cash equivalents at 1 April	A8	**14,862**	18,777
Cash and cash equivalents at 31 March	A8	**39,592**	14,862

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

The Notes on pages 141 to 203 form part of these financial statements.

Company statement of cash flows

	Note	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Cash flows from operating activities			
Profit before tax		**55,721**	81,594
Adjustments for:			
Depreciation	A1, A3	**81,524**	77,864
Amortisation of intangible assets	A4	**6,556**	6,411
Gain on sale of property, plant and equipment	C3	**(193)**	(467)
Interest expense (net)		**62,362**	64,372
Amortisation of deferred credit for adopted assets	C1	**(3,498)**	(3,250)
Tax paid		**(88)**	(1,000)
		202,384	225,524
Changes in:			
- inventories		**(754)**	(599)
- trade and other receivables		**(1,897)**	199
- unbilled revenue		**3,843**	1,408
- trade and other payables		**9,792**	1,533
- provisions		**(1,008)**	(182)
- excess of pension charge over cash pension contributions		**(11,372)**	4,346
Cash generated from operating activities		**200,988**	232,229
Cash flows from investing activities			
Interest received		**1,525**	455
Proceeds from sale of property, plant and equipment		**250**	117
Insurance Proceeds		**-**	1,350
Acquisition of property, plant and equipment, and intangible assets		**(171,994)**	(184,328)
Loan to subsidiaries		**(1,097)**	(392)
Grants received		**11,076**	4,772
Net cash used in investing activities		**(160,240)**	(178,026)
Cash flows from financing activities			
Proceeds from borrowings		**83,000**	40,000
Payment of finance lease liabilities		**(8,148)**	(7,028)
Interest paid		**(62,634)**	(63,554)
Dividends paid	B3	**(29,885)**	(28,272)
Net cash from financing activities		**(17,667)**	(58,854)
Net (decrease)/increase in cash and cash equivalents		**23,081**	(4,651)
Cash and cash equivalents at 1 April	A8	**3,080**	7,731
Cash and cash equivalents at 31 March	**A8**	**26,161**	3,080

The Notes on pages 141 to 203 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 incorporated, domiciled and registered 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 and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRS").

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 2021. 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;
- following the launch of the 25 year strategy in September 2019, NI Water submitted its Business Plan for the PC21 Price Control period (April 2021 to March 2027) to the Utility Regulator in January 2020. The PC21 Business Plan was a strong, challenging and ambitious plan seeking to balance service delivery and consumer interests with continuing efficiency over both the near and longer term;
- the Utility Regulator published the PC21 Draft Determination in September 2020. While the Draft Determination recognised many of the strengths of the PC21 Business Plan, it fell short of being a balanced package, acceptable to the NI Water Board. At the request of the Utility Regulator, NI Water prepared a comprehensive, evidence-based response to allow the Utility Regulator to reach a more balanced position in its Final Determination;
- the Utility Regulator published the PC21 Final Determination on 13 May 2021 and NI Water has until 13 July 2021 to decide on acceptability; and
- the Board of NI Water is encouraged to see that the first year of PC21 (2021/22) has been fully funded by the Department and the NI Executive. The Board is now in discussion with the Shareholder and other Government Departments to ensure that, in order to accept, there is support and continuing commitment to fund the PC21 Final Determination to deliver the outputs and outcomes for customers.

Key accounting policies continued

c) Basis of measurement continued

Our current budget for the 2021/22 year takes into account the current COVID-19 pandemic and a significant drop in billable revenues and includes £129.5m and £216.2m for Resource Cash DEL[11] and Capital DEL respectively. This was prepared in advance of receipt of the PC21 Final Determination which includes forecasts of £122.0m and £178.6m for Resource Cash DEL and Capital DEL respectively. Whilst the PC21 Final Determination includes the impact of lower billable revenues due to the current COVID-19 pandemic, it does not include funding for additional costs. Adjustment for this reduces the Resource Cash DEL variance significantly. The difference in Capital DEL will result in a number of projects profiled later in the PC21 Final Determination being brought forward. The £129.5m and £216.2m allocations for Resource Cash DEL and Capital DEL respectively have been confirmed by 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. A new loan note instrument has been put in place which gives access to the Company to draw down loans up to £1.75bn from 1 April 2022 to 31 March 2027. In addition, the Company has access to a working capital facility of £20m.

Operating Plan targets for 2021/22 reflected the Utility Regulator's PC21 Draft Determination with some adjustment for proposals in our PC21 Draft Determination response. Performance targets for 2021/22 will be reviewed and revised, in so far as is possible, to reflect the PC21 Final Determination.

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.

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

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

There were no additional standards, amendments and interpretations that had a material impact on the Group's financial statements during the year.

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.

There were no critical accounting judgements identified by management. Information on estimation uncertainties that management deemed to 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(s) and Note B4 – measurement of fair values; and
- Note F1 – deferred taxation.

Significant accounting policies are included at Note G1.

[11] Departmental Expenditure Limits (DEL) are government budgets. The budgets are split between Resource DEL (RDEL) for day-to-day spending and Capital DEL (CDEL) for investment.

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 94 to 95.

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 SOFP 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 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**
Balance at 1 April 2020	86,979	2,073,184	1,507,311	17,484	250,091	**3,935,049**	852	**3,935,901**
Additions	-	3,858	-	-	171,345	**175,203**	8	**175,211**
Additions – Right-of-use assets	-	-	23	-	-	**23**	39	**62**
Customer contributions	-	40,153	527	-	-	**40,680**	-	**40,680**
Disposals	(8)	(1,254)	(2,052)	(260)	-	**(3,574)**	(10)	**(3,584)**
Transfers	902	66,135	92,202	975	(160,214)	**-**	-	**-**
Transfer from investment properties	12,000	-	-	-	-	**12,000**	-	**12,000**
Balance at 31 March 2021	**99,873**	**2,182,076**	**1,598,011**	**18,199**	**261,222**	**4,159,381**	**889**	**4,160,270**

*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 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)**
Balance at 1 April 2020	(12,953)	(175,171)	(493,881)	(13,853)	-	**(695,858)**	(220)	**(696,078)**
Depreciation for the year	(1,286)	(19,782)	(58,805)	(1,340)	-	**(81,213)**	(133)	**(81,346)**
Depreciation for the year – Right-of-use assets	(274)	(10)	(23)	-	-	**(307)**	(51)	**(358)**
Disposals	8	1,254	2,052	260	-	**3,574**	3	**3,577**
Transfer from investment properties	(7,500)	-	-	-	-	**(7,500)**	-	**(7,500)**
Balance at 31 March 2021	**(22,005)**	**(193,709)**	**(550,657)**	**(14,933)**	**-**	**(781,304)**	**(401)**	**(781,705)**
Carrying amounts								
At 31 March 2020	74,026	1,898,013	1,013,430	3,631	250,091	3,239,191	632	3,239,823
At 31 March 2021	**77,868**	**1,988,367**	**1,047,354**	**3,266**	**261,222**	**3,378,077**	**488**	**3,378,565**

* 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 £1,448k 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 £6,503k (2020: £5,477k) of borrowing costs capitalised during the period using a capitalisation rate of 3.54% (2020: 3.77%) relating to the Parent Company.

A1. Property, plant and equipment continued

Leased assets (Group and Company)

	At 31 March 2021 £000	At 31 March 2020 £000
The net book value of land and buildings comprises:		
Freehold	**75,373**	72,976
Leasehold - long and short term	**2,495**	1,050
Total	**77,868**	74,026

	At 31 March 2021 £000	At 31 March 2020 £000
Land within this total is not depreciated and is shown as follows:		
Freehold	**20,895**	17,709

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 2021 £000	At 31 March 2020 £000
Contracted	**146,165**	90,284

In addition to the above, at the end of the financial year the Group and Company had entered into commitments amounting to £802m (2020: £462m). These commitments relate to planned future capital spend. The contracted amount of of £146m (2020: £90m) 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 Wastewater 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 2021 is £12.89m and £5.37m respectively (2020: £12.35m and £5.22m). The amount included in PPP Creditors at 31 March 2021 is £1.02m (2020: £1.87m).

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 2021 is £150.40m and £100.54m respectively (2020: £149.07m and £102.28m). The amount included in PPP Creditors at 31 March 2021 is £103.34m (2020: £107.03m).

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 2021 is £126.81m and £82.05m respectively (2020: £125.16m and £84.35m). The amount included in PPP Creditors at 31 March 2021 is £79.14m (2020: £82.41m). 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 have 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.

Statutory Accounts

A3. Investment properties

	Group	Company
	Total £000	**Total £000**
Cost or deemed cost		
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**
Balance at 1 April 2020	**18,960**	**18,960**
Disposals	**(1)**	**(1)**
Transfers to non-current assets held for sale	**(6)**	**(6)**
Transfers from non-current assets held for sale	**3**	**3**
Transfer to property, plant and equipment	**(12,000)**	**(12,000)**
Balance at 31 March 2021	**6,956**	**6,956**
Accumulated depreciation and impairment losses		
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)**
Balance at 1 April 2020	**(12,576)**	**(12,576)**
Disposals	**-**	**-**
Impairment loss	**-**	**-**
Depreciation for the year	**(4)**	**(4)**
Transfers to property, plant and equipment	**7,500**	**7,500**
Balance at 31 March 2021	**(5,080)**	**(5,080)**
Carrying amounts		
At 31 March 2020	**6,384**	**6,384**
At 31 March 2021	**1,876**	**1,876**

Impairment loss

During the year ended 31 March 2021, the Group and Company did not recognise any impairment loss for investment properties (2020: £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 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**
Balance at 1 April 2020	87,065	7,905	**94,970**	23,935	**118,905**
Additions	-	12,035	**12,035**	-	**12,035**
Transfers	9,431	(9,431)	**-**	-	**-**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2021	**96,496**	**10,509**	**107,005**	**23,935**	**130,940**
Amortisation and impairment losses					
Balance at 1 April 2019	(59,603)	-	**(59,603)**	(1,014)	**(60,617)**
Amortisation for the year	(6,411)	-	**(6,411)**	-	**(6,411)**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2020	**(66,014)**	**-**	**(66,014)**	**(1,014)**	**(67,028)**
Balance at 1 April 2020	(66,014)	-	**(66,014)**	(1,014)	**(67,028)**
Amortisation for the year	(6,556)	-	**(6,556)**	-	**(6,556)**
Disposals	-	-	**-**	-	**-**
Balance at 31 March 2021	**(72,570)**	**-**	**(72,570)**	**(1,014)**	**(73,584)**
Carrying amounts					
At 31 March 2020	21,051	7,905	**28,956**	22,921	**51,877**
At 31 March 2021	**23,926**	**10,509**	**34,435**	**22,921**	**57,356**

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.

£350k (2020: £309k) 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 (years)
MC2 implementation (mobile work management)	£0.9m	2
Water mains studies	£0.8m	2
CBC implementation (customer billing)	£0.6m	1
Asset data acquisition and improvement	£0.2m	3
Metering related software	£0.4m	5
Drainage area plans	£0.3m	4
Wastewater networks modelling	£2.4m	9
Northern Ireland Asset Management Plan (NIAMP4)	£0.3m	4
In-sourcing Network Modelling	£0.4m	8
Oracle	£1.0m	7
Water networks modelling	£2.2m	10
Capital efficiency	£1.2m	10
Capital Programme Monitoring and Reporting system	£0.4m	6
Goodwill arising on acquisitions	£22.92m	11

The contractual commitments for the acquisition of intangible assets as at 31 March 2021 are £5,431k (2020: £5,042k).

A5. Investments

	Company	
	At 31 March 2021 £	At 31 March 2020 £
Investment in subsidiaries	**5,000,001**	5,000,001
Total	**5,000,001**	5,000,001

In 2019/20, 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 2021 is included within Trade and other receivables from subsidiaries (see note C4).

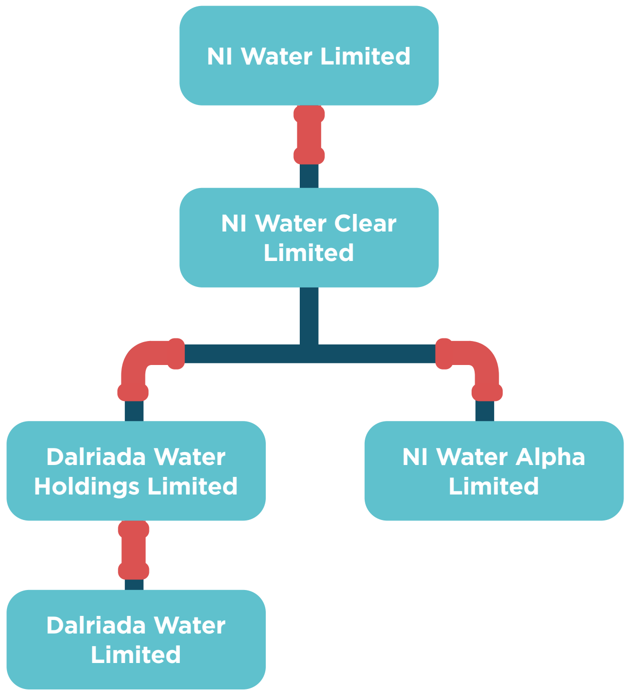
Principal subsidiary undertakings	Country of incorporation	Registered office address	% Ordinary shares and votes held	Principal activity
NI Water Clear Limited	Northern Ireland	Westland House, 40 Old Westland Road, Belfast BT14 6TE	100	Holding company
Dalriada Water Holdings Limited*	Northern Ireland	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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Non-current investments				
15,278 ordinary 'A' shares	**-**	15	**-**	15
Total	**-**	15	**-**	15

The shares related to an investment in WRc PLC. WRc carried out research in the water, waste and environment sectors. During the year, WRc PLC went into administration and the shares have no value at 31 March 2021.

A7. Inventories

	Group		Company	
	At 31 March 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Raw materials and consumables	**4,463**	3,758	**4,312**	3,559
Total	**4,463**	3,758	**4,312**	3,559

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 £4,564k (2020: £4,002k) (Company: £732k, 2020: £287k). The inventory held in stores is a component of total inventories. In the year ending 31 March 2021 the write-down of inventories to net realisable value amounted to £60k (2020: £60k). This relates to a provision against slow moving raw materials and consumables stock of £60k (2020: £60k). The write-downs are included in operating expenses.

A8. Cash and cash equivalents

	Group		Company	
	At 31 March 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Bank balances	**38,574**	13,845	**25,143**	2,063
Call deposits	**1,018**	1,017	**1,018**	1,017
Cash and cash equivalents	**39,592**	14,862	**26,161**	3,080

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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Balance at 1 April	**93**	68	**93**	68
Net transfer from investment properties	**6**	22	**6**	22
Net transfer to investment properties	**(3)**	-	**(3)**	-
Net transfer from property, plant and equipment	**-**	3	**-**	3
Impairment/Depreciation	**-**	-	**-**	-
Disposals	**(56)**	-	**(56)**	-
Balance at 31 March	**40**	93	**40**	93

A gain of £103k (2020: £2k) 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 land typically run for a period of between 3 to 25 years, with an option to renew the leases after that date. The leases 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 land leases were 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 Estate Commissioners which runs for a period of 50 years.

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 2020	1,722	377	4	130	2,233
Depreciation charge for the year	(274)	(10)	(23)	(51)	(358)
Additions to right-of-use assets	-	-	23	39	62
Balance at 31 March 2021	**1,448**	**367**	**4**	**118**	**1,937**

	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

2021 – Leases under IFRS 16	Profit or loss and cash flow £000
Interest on lease liabilities	43
Depreciation on right-of-use assets	358
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	16

2020 – Leases under IFRS 16	Profit or loss 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

c) Amounts recognised in statement of cash flows

	At 31 March 2021 £000
Total cash outflow for leases	381

A10. Leases continued

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 wasn't 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.

During the year, the photocopier lease was due to expire on 31 May 2020. However due to COVID-19, the photocopier lease was extended for another year ending on 31 May 2021. A new direct award contract to Xerox was awarded for two years for the photocopier lease starting on 1 June 2021 and ending on 31 May 2023.

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 2021 was £1,365k (2020: £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.

2021 – Operating leases under IFRS 16	At 31 March 2021 £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*	120,965
Total	**127,790**

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

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 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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Non-current liabilities				
Capital loan notes	**1,269,560**	1,186,560	**1,269,560**	1,186,560
Bank loans	**67,664**	72,858	**-**	-
Finance lease liabilities (PPP)	**99,805**	104,354	**174,822**	183,490
Finance lease liabilities (IFRS 16)	**1,646**	1,936	**1,580**	1,854
Total	**1,438,675**	1,365,708	**1,445,962**	1,371,904
Current liabilities				
Current portion of bank loans	**4,641**	3,895	**-**	-
Current portion of finance lease liabilities (PPP)	**4,549**	4,549	**8,669**	7,817
Current portion of finance lease liabilities (IFRS 16)	**327**	321	**280**	274
Total	**9,517**	8,765	**8,949**	8,091

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Group					
			At 31 March 2021		At March 2020	
	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	**286,000**	**286,000**	203,000	203,000
Bank loan – EIB	5.18%	2030	**31,626**	**33,714**	33,763	36,104
Bank loan - RBC	LIBOR + margin	2029	**36,202**	**38,591**	38,014	40,649
PPP finance lease liabilities – Omega	3.67%	2032	**103,339**	**103,339**	107,032	107,032
PPP finance lease liabilities – Kinnegar	3.99%	2024	**1,015**	**1,015**	1,871	1,871
Finance lease liabilities (IFRS 16)	2.20% - 2.70%	2020-69	**1,973**	**1,973**	2,257	2,257
Total			**1,443,715**	**1,448,192**	1,369,497	1,374,473

The secured bank loans are secured over trade receivables within Dalriada Water Limited with a carrying amount of £94,577k (2020: £95,535k).

B1. Loans and borrowings continued

	Company					
			At 31 March 2021		At 31 March 2020	
	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	**286,000**	**286,000**	203,000	203,000
PPP finance lease liabilities – Alpha	5.81%	2031	**79,137**	**79,137**	82,404	82,404
PPP finance lease liabilities – Omega	3.67%	2032	**103,339**	**103,339**	107,032	107,032
PPP finance lease liabilities – Kinnegar	3.99%	2024	**1,015**	**1,015**	1,871	1,871
Finance lease liabilities (IFRS 16)	2.20%	2020-69	**1,860**	**1,860**	2,128	2,128
Total			**1,454,911**	**1,454,911**	1,379,995	1,379,995

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 2021, £83m of loan notes were issued under the £600,000k Fixed Coupon Unsecured loan notes 2034 instrument (2020: £40m). 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 2021			At 31 March 2020		
	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	**15,626**	**11,077**	**4,549**	16,208	11,659	4,549
Between one and five years	**64,192**	**38,030**	**26,162**	63,660	40,683	22,977
More than 5 years	**101,633**	**27,990**	**73,643**	117,792	36,415	81,377
Total	**181,451**	**77,097**	**104,354**	197,660	88,757	108,903

B1. Loans and borrowings continued

	Company					
	At 31 March 2021			At 31 March 2020		
	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	**25,327**	**16,658**	**8,669**	25,297	17,480	7,817
Between one and five years	**106,143**	**56,723**	**49,420**	104,648	60,910	43,738
More than 5 years	**164,081**	**38,679**	**125,402**	190,902	51,150	139,752
Total	**295,551**	**112,060**	**183,491**	320,847	129,540	191,307

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 2021			At 31 March 2020		
	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**	**36**	**327**	363	42	321
Between one and five years	**821**	**91**	**730**	1,092	106	986
More than 5 years	**1,157**	**241**	**916**	1,211	261	950
Total	**2,341**	**368**	**1,973**	**2,666**	**409**	**2,257**

	Company					
	At 31 March 2021			At 31 March 2020		
	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**	**34**	**280**	314	40	274
Between one and five years	**755**	**91**	**664**	1,008	105	903
More than 5 years	**1,157**	**241**	**916**	1,211	260	951
Total	**2,226**	**366**	**1,860**	**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 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**
Changes from financing cash flows	
Proceeds from borrowings	83,000
Payment of bank loans	(3,895)
Payment of finance lease liabilities	(4,930)
Total changes from financing cash flows	**74,175**
Non-cash changes	
New leases (IFRS 16)	104
Amortisation of fair value adjustment arising on consolidation of senior loan	(552)
Total non-cash changes	**(448)**
Balance at 31 March 2021	**1,448,200**

B2. Finance income and finance costs

Recognised in profit or loss

	Group	
	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Interest income on bank deposits	**30**	133
Financial liabilities at fair value through profit or loss – net change in fair value	**2,134**	-
Amortisation of senior loan debt fair valued at acquisition date	**552**	552
Net finance income	**2,716**	**685**
Financing charges on pension scheme	**(648)**	(735)
Financial liabilities at fair value through profit or loss – net change in fair value	**-**	(512)
Interest expense on financial liabilities measured at amortised cost	**(49,533)**	(50,028)
Interest on PPP financing arrangements	**(11,660)**	(12,178)
Interest expense on finance lease liability	**(40)**	(46)
Finance costs	**(61,881)**	**(63,499)**
Net finance costs recognised in profit or loss	**(59,165)**	**(62,814)**

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 £52,134k (2020: £51,273k) 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 £6,503k was capitalised by the Group in the year (2020: £5,477k).

B3. Capital and reserves

Share capital

	Company	
	Ordinary shares	
	At 31 March 2021 £000	At 31 March 2020 £000
Allotted called up and fully paid		
500m Ordinary shares of £1 each	**500,000**	500,000

Ordinary shares

At 31 March 2021 the authorised share capital of the Company comprised 500 million ordinary shares (2020: 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 2021 £000	Year to 31 March 2020 £000
5.98 pence per allotted ordinary share (2020: 5.65 pence)	**29,885**	28,272

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 2021		At 31 March 2020	
	£000	**£000**	£000	£000
Not past due	**16,504**	**614**	20,371	321
Past due 0-30 days	**2,268**	**250**	2,193	275
Past due 31-60 days	**613**	**158**	440	98
Past due 61-90 days	**781**	**221**	182	54
Past due 91-120 days	**733**	**341**	191	84
Past due 121-150 days	**824**	**413**	166	118
Past due 151-365 days	**418**	**394**	498	478
Past due 1-2 years	**792**	**804**	490	501
Past due 2+ years*	**350**	**323**	611	492
Total	**23,283**	**3,518**	**25,142**	**2,421**

*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 2021		At 31 March 2020	
	£000	**£000**	£000	£000
Not past due	**16,504**	**614**	20,371	321
Past due 0-30 days	**2,268**	**250**	2,193	275
Past due 31-60 days	**613**	**158**	440	98
Past due 61-90 days	**781**	**221**	182	54
Past due 91-120 days	**733**	**341**	191	84
Past due 121-150 days	**824**	**413**	166	118
Past due 151-365 days	**418**	**394**	498	478
Past due 1-2 years	**792**	**804**	490	501
Past due 2+ years*	**350**	**323**	611	492
Total	**23,283**	**3,518**	**25,142**	**2,421**

*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 2021 £000	At 31 March 2020 £000
Not past due	**13,931**	19,614
Past due 0-30 days	**2,312**	2,287
Past due 31-60 days	**563**	413
Past due 61-90 days	**737**	151
Past due 91-120 days	**785**	154
Past due 121-150 days	**764**	118
Past due 151-365 days	**412**	496
Past due 1-2 years	**2,567**	491
Past due 2+ years*	**1,212**	1,418
Total	**23,283**	**25,142**

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 2021 £000	At 31 March 2020 £000
Not past due	**13,931**	19,614
Past due 0-30 days	**2,312**	2,287
Past due 31-60 days	**563**	413
Past due 61-90 days	**737**	151
Past due 91-120 days	**785**	154
Past due 121-150 days	**764**	118
Past due 151-365 days	**412**	496
Past due 1-2 years	**2,567**	491
Past due 2+ years*	**1,212**	1,418
Total	**23,283**	**25,142**

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

	Group and Company	
	At 31 March 2021 £000	At 31 March 2020 £000
Balance at 1 April	**2,421**	1,688
New provisions	**3,098**	1,825
Debt provision utilised	**(415)**	(415)
Provision released unused	**(1,586)**	(677)
Balance at 31 March	**3,518**	**2,421**

The Group uses an allowance matrix to measure the expected credit losses 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.

Statutory Accounts

B4. Financial instruments continued

Liquidity risk

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

31 March 2021

	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	1,269,560	(1,627,362)	(26,437)	(26,293)	(52,730)	(158,334)	(1,363,568)
Bank loans	72,305	(67,342)	(2,244)	(2,397)	(12,144)	(22,865)	(27,692)
Finance lease liabilities (PPP)	104,354	(181,451)	(7,813)	(7,813)	(15,890)	(48,303)	(101,632)
Finance lease liabilities (IFRS 16)	1,973	(2,341)	(184)	(178)	(354)	(467)	(1,158)
Trade and other payables	141,141	(141,141)	(140,025)	-	-	(1,116)	-
Derivative financial instrument*	8,225	(8,225)	-	-	-	-	(8,225)
Total	**1,597,558**	**(2,027,862)**	**(176,703)**	**(36,681)**	**(81,118)**	**(231,085)**	**(1,502,275)**

* 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 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.

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

B4. Financial instruments continued

31 March 2021

	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	1,269,560	(1,627,362)	(26,437)	(26,293)	(52,730)	(158,334)	(1,363,568)
Finance lease liabilities (PPP)	183,491	(295,551)	(12,663)	(12,663)	(26,205)	(79,938)	(164,082)
Finance lease liabilities (IFRS 16)	1,860	(2,225)	(160)	(154)	(308)	(446)	(1,157)
Trade and other payables	143,171	(143,171)	(142,055)	-	-	(1,116)	-
Total	**1,598,082**	**(2,068,309)**	**(181,315)**	**(39,110)**	**(79,243)**	**(239,834)**	**(1,528,807)**

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

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)**

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 2021 £000	At 31 March 2020 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,409,601)**	(1,333,824)
Total	**(1,409,601)**	**(1,333,824)**
Variable rate instruments		
Financial assets	**39,592**	14,862
Financial liabilities*	**(38,591)**	(40,649)
Total	**1,001**	**(25,787)**

* Financial liabilities of £38,591k 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 2021 £000	At 31 March 2020 £000
Fixed rate instruments		
Financial assets	**-**	-
Financial liabilities	**(1,454,911)**	(1,379,995)
Total	**(1,454,911)**	**(1,379,995)**
Variable rate instruments		
Financial assets	**26,161**	3,080
Financial liabilities	**-**	-
Total	**26,161**	**3,080**

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.

Statutory Accounts

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 2021						
Financial assets not measured at fair value						
Cash and cash equivalents	A8	-	39,592	-	-	**39,592**
Trade and other receivables	C5	-	11,102	-	-	**11,102**
Unbilled income	C5	-	8,647	-	-	**8,647**
Financial assets measured at fair value						
Investment securities - equity securities	A6	-	-	-	-	**-**
Total		**-**	**59,341**	**-**	**-**	**59,341**
Financial liabilities not measured at fair value						
Finance lease liabilities (PPP)	B1	-	-	(104,354)	-	**(104,354)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,973)	-	**(1,973)**
Trade payables	D2	-	-	(124,063)	-	**(124,063)**
Other payables	D2	-	-	(17,078)	-	**(17,078)**
Loans and borrowings	B1	-	-	(1,269,560)	-	**(1,269,560)**
Bank loans	B1	-	-	(72,305)	-	**(72,305)**
Financial liabilities measured at fair value						
Interest rate swap	D2	-	-	-	(8,225)	**(8,225)**
Total		**-**	**-**	**(1,589,333)**	**(8,225)**	**(1,597,558)**

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 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)**

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 £1,503m (2020: £1,502m). Accounting policy 1(c) outlines the background to PC15 and PC21. 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 £1,503m fair value of loans and borrowings are £72m 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 2021					
Financial assets not measured at fair value					
Cash and cash equivalents	A8	-	26,161	-	**26,161**
Trade and other receivables	C5	-	44,029	-	**44,029**
Unbilled income	C5	-	8,647	-	**8,647**
Financial assets measured at fair value					
Investment securities - equity securities	A6	-	-	-	**-**
Total		**-**	**78,837**	**-**	**78,837**
Financial liabilities not measured at fair value					
Finance lease liabilities (PPP)	B1	-	-	(183,491)	**(183,491)**
Finance lease liabilities (IFRS 16)	B1	-	-	(1,860)	**(1,860)**
Trade payables	D2	-	-	(126,153)	**(126,153)**
Other payables	D2	-	-	(17,018)	**(17,018)**
Loans and borrowings	B1	-	-	(1,269,560)	**(1,269,560)**
Total		**-**	**-**	**(1,598,082)**	**(1,598,082)**

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)**

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 £1,431m (2020: £1,425m). Accounting policy 1(c) outlines the background to PC15 and PC21. 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 further information on the relevant accounting policies applied in this section please see section G1.

C1. Revenue

	Group	
	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Customer subsidy provided by DfI	**314,217**	309,894
Customer income	**68,450**	80,519
Road drainage income provided by DfI	**22,807**	22,556
Transfers of assets from customers	**3,498**	3,250
Connection and infrastructure charges	**8,240**	9,796
Other third party contributions	**1,694**	3,099
Total	**418,906**	429,114

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 £40,680k (2020: £46,713k) 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 £3,498k (2020: £3,250k).

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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Government grants	**25,199**	21,293	**25,199**	21,293
Customer billing in advance	**3,687**	3,715	**3,687**	3,715
Adopted assets	**499,289**	462,106	**499,289**	462,106
Total	**528,175**	487,114	**528,175**	487,114
Non-current	**523,384**	483,165	**523,384**	483,165
Current	**4,791**	3,949	**4,791**	3,949
Total	**528,175**	487,114	**528,175**	487,114

The Group and Company credited £4,463k (2020: £13,075k) 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 useful economic life of the related asset. New grants received during the year of £4,463k relate to assets in the course of construction (AICC) and some of these projects have been commissioned with the associated grants amortised over the expected useful economic life of the related assets. An amount totalling £19,310k was commissioned during the year.

C3. Other income

	Group	
	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Net gain on sale of property, plant and equipment	**193**	467
Amortisation of deferred grants and contributions	**557**	23
Total	**750**	490

C4. Trade and other receivables

	Group		Company	
	At 31 March 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Trade and other receivables from related parties (see Note G4)	**2,009**	1,883	**2,009**	1,883
Trade and other receivables from subsidiaries	**-**	-	**32,927**	30,384
Trade receivables	**9,094**	8,102	**9,094**	8,102
Other receivables	**11,777**	18,265	**11,777**	18,259
Total	**22,880**	28,250	**55,807**	58,628
Current	**22,880**	28,250	**55,807**	58,628

At 31 March 2021 other receivables include VAT receivable of £5,950k (2020: £5,307k) 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 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000
Trade and other receivables	B4	**11,102**	9,985	**44,029**	40,369
Unbilled income	B4	**8,647**	12,732	**8,647**	12,732
Cash and cash equivalents	A8	**39,592**	14,862	**26,161**	3,080
Total		**59,341**	37,579	**78,837**	56,181

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 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000
End-user customers	**19,749**	22,717	**52,676**	53,101

The maximum exposure to cash and cash equivalents (Note A8) is £39,592k (2020: £14,862k). 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.

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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 2021 £000	Year to 31 March 2020 £000
Depreciation and other amounts written off tangible and intangible assets	**88,264**	84,458
Hire and contracted services	**67,239**	57,395
Staff costs	**73,734**	69,623
Power	**32,524**	32,225
Rates	**28,309**	27,479
Raw materials and consumables	**15,076**	16,134
Sundry operating expenses	**12,769**	10,704
Own work capitalised*	**(16,046)**	(16,003)
Total operating expenses	**301,869**	282,015

*Own work capitalised includes payroll costs (see Note E1), materials and overheads.

Refer to page 118 for expenditure on research and development.

The net increase in inventories for the year was £705k (2020: £632k 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 2021 £000	Year to 31 March 2020 £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

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D2. Trade and other payables

	Group		Company	
	At 31 March 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Payments received on account	**2,128**	952	**2,128**	952
Trade payables	**3,043**	4,588	**2,143**	3,066
Taxation and social security	**2,419**	2,376	**2,419**	2,376
Accruals – operating expenditure	**52,609**	43,879	**52,276**	43,557
Accruals – capital expenditure	**61,324**	46,089	**61,324**	46,089
Accruals relating to related parties (see Note G4)	**2,540**	2,970	**2,540**	2,970
Accruals relating to subsidiaries	**-**	-	**3,323**	3,685
Total	**124,063**	100,854	**126,153**	102,695

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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Non-current – interest rate swap	**8,225**	10,358	**-**	-
Non-current – others	**1,116**	537	**1,116**	537
Current	**15,962**	15,316	**15,902**	14,839
Total	**25,303**	26,211	**17,018**	15,376

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	Other provisions £000	**Total £000**
Balance at 1 April 2020	1,788	186	2,016	**3,990**
New Provisions	865	50	61	**976**
Utilised	(359)	(15)	-	**(374)**
Transferred to accruals	-	-	(1,107)	**(1,107)**
Amounts released unused	(545)	42	-	**(503)**
Balance at 31 March 2021	**1,749**	**263**	**970**	**2,982**
Non-current	1,050	197	-	**1,247**
Current	699	66	970	**1,735**
Total	**1,749**	**263**	**970**	**2,982**

	Group and Company			
	Public liability claims £000	Employer liability claims £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**

Public and employer liability claims

The public liability and employer liability claims at 31 March 2021 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 represents an amount relating to the value of claims received above the provision included in the financial statements.

D3. Provisions continued

Other provisions

Other provisions relate to management's best estimates of the value of entitlement in relation to holiday pay totalling £970k (2020: £2,016k).

The expected timing of any resulting outflows of economic benefits is as follows:

31 March 2021

	Group and Company			
	Public liability claims £000	Employer liability claims £000	Other provisions £000	**Total £000**
Within one year	699	66	970	**1,735**
In the second to fifth years	1050	197	-	**1,247**
Over five years	-	-	-	**-**
Total	**1,749**	**263**	**970**	**2,982**

31 March 2020

	Group and Company			
	Public liability claims £000	Employer liability claims £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**

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 (2020: £0.6m). 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 (2020: £10.800m) 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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Public and employer liability	**601**	645	**601**	645
Contractor claims	**10,800**	10,800	**10,800**	10,800
Total	**11,401**	11,445	**11,401**	11,445

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 2021 is £15.0m (2020: £13.4m) 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 2021 is £31.6m (2020: £31.0m). 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 2020/21 pension service costs have been increased by £1.5m (2020: £3m) to reflect the likely outcome for the Scheme.

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 2021 £000	At 31 March 2020 £000	**At 31 March 2021 £000**	At 31 March 2020 £000
Less than one year	**35**	35	**35**	35
Between one and five years	**19**	55	**19**	55
More than 5 years	**-**	-	**-**	-
Total	**54**	90	**54**	90

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 2021 an amount of £16k (2020: £22k) (Company: £16k, 2020: £16k) 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 2021. 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 SOFP 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 SOFP.

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 2021 showed a funding deficit of £27m at 31 March 2020. 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 Company made a payment in March 2021 to the scheme of £16m and therefore no further cash contributions are required under a Recovery Plan.

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 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 2021	No. of employees Year to 31 March 2020	**No. of employees Year to 31 March 2021**	No. of employees Year to 31 March 2020
Directors	**7**	7	**7**	7
Non-industrial staff	**859**	852	**829**	822
Industrial staff	**455**	456	**455**	456
Total staff	**1,321**	1,315	**1,291**	1,285

The gender of persons employed by the Group (including Directors) during the year ended 31 December 2020, analysed by category, was as follows*:

	Group					
	No. of employees Year to 31 December 2020			No. of employees Year to 31 December 2019		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**47**	**18**	**65**	47	19	66
Non-industrial staff	**549**	**260**	**809**	548	263	811
Industrial staff	**442**	**2**	**444**	458	2	460
Total staff	**1,038**	**280**	**1,318**	1,053	284	1,337

*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 2020, analysed by category, was as follows*:

	Company					
	No. of employees Year to 31 December 2020			No. of employees Year to 31 December 2019		
	Male	**Female**	**Total**	Male	Female	Total
Directors and senior managers	**47**	**18**	**65**	47	19	66
Non-industrial staff	**523**	**258**	**781**	520	261	781
Industrial staff	**442**	**2**	**444**	458	2	460
Total staff	**1,012**	**278**	**1,290**	1,025	282	1,307

*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 2021 £000	Year to 31 March 2020 £000
Wages and salaries	**49,934**	47,074
Social security costs	**5,271**	4,976
Other pension costs	**18,529**	17,573
Total payroll costs	**73,734**	69,623

An amount of £13,937k (2020: £13,976k) 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 123 to 126. 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 2021 £000	Year to 31 March 2020 £000
Short term employee benefits	**997**	959
Post-employment benefits	**252**	241
Total benefits	**1,249**	1,200

The emoluments of the highest paid Director were £163k (2020: £159k).

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 2021	Number of other departures agreed 31 March 2021	Total number of exit packages by cost band 31 March 2021	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
0 – 10	-	-	-	-	1	1
10 – 25	-	12	12	-	16	16
25 – 50	-	5	5	-	4	4
50 – 100	-	-	-	-	-	-
Above 100	-	-	-	-	-	-
Total number	-	17	17	-	21	21
Total cost (£'000)	-	342	342	-	417	417

E1c Off-payroll engagements

In accordance with Department of Finance (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.

Table 1 – Temporary off-payroll worker engagements as at 31 March 2021	Number
Number of existing engagements as of 31 March 2021	**32**
Of which have:	
Existed for less than one year at time of reporting	**23**
Existed for between one and two years at time of reporting	**6**
Existed for between two and three years at time of reporting	**3**
Existed for between three and four years at time of reporting	**-**
Existed for four or more years at time of reporting	**-**

Table 2 – All temporary off-payroll workers engaged at any point during the year ended 31 March 2021	Number
Number of off-payroll workers engaged during the year ended 31 March 2021	**23**
Of which:	
Number determined as out-of-scope of IR35	**23**
Number determined as in-scope of IR35	**-**
Number of engagements reassessed for compliance or assurance purposes during the year	**-**
Of which: Number of engagements that saw a change to IR35 status following review	**-**
Number of engagements where the status was disputed under provisions in the off-payroll legislation	**-**
Of which: Number of engagements that saw a change to IR35 status following review	**-**

Table 3 – Off-payroll engagements of board members (and/or senior officials with significant financial responsibility) between 1 April 2020 and 31 March 2021	Number
Number of off-payroll engagements of board members, (and/or senior officials with significant financial responsibility), during the financial year.	**-**
Total number of individuals on payroll and off-payroll that have been deemed "board members, (and/or senior officials with significant financial responsibility)", during the financial year. This figure should include both on payroll and off-payroll engagements.	**4**

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 2021 £000	Total year to 31 March 2020 £000
Service cost		
Current service costs (operating costs - staff costs)	**14,333**	13,314
Past service costs (operating costs - staff costs)	**2,500**	2,484
Total service cost	**16,833**	15,798
Net interest cost:		
Interest expense	**6,312**	6,759
Interest income	**(5,664)**	(6,024)
Net interest cost	**648**	735
Administration expenses and taxes	**1,000**	1,000
Defined benefit cost included in profit	**18,481**	17,533

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 2021 £000	Total year to 31 March 2020 £000
Opening defined benefit liability	**42,514**	35,632
Defined benefit cost included in profit	**18,481**	17,533
Total measurements included in Other Comprehensive Income	**29,609**	858
Cash flows – employer contributions	**(27,977)**	(11,509)
Closing defined benefit liability	**62,627**	42,514
Actual return on plan assets	**35,009**	(9,338)

Remeasurement gains and losses are recognised directly in the statement of comprehensive income

	Total year to 31 March 2021 £000	Total year to 31 March 2020 £000
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	**(11,986)**	-
Effect of changes in financial assumptions	**49,742**	(14,504)
Effect of experience adjustments	**21,198**	-
Return on plan assets excluding interest income	**(29,345)**	15,362
Total remeasurements included in Other Comprehensive Income	**29,609**	858

E2. Employee benefits continued

Significant assumptions used in this disclosure

Weighted-average assumptions to determine benefit obligation

	Conditions at 31 March 2021	Conditions at 31 March 2020
Rate of increase in salaries	**2.60% for 2 yrs., 3.60% thereafter**	2.00% for 3 yrs., 3.00% thereafter
Rate of increase in pensions in payment and deferred pensions	**3.10%**	2.50%
Discount rate	**2.20%**	2.30%
Inflation assumption - RPI	**3.00%**	2.40%
Inflation assumption - CPI	**2.60%**	2.00%

For more information in relation to the Company's defined benefit pension scheme, see Note G3.

Statutory Accounts

F. Taxation

F1. Taxation

Group Income tax expense

	Year to 31 March 2021 £000	Year to 31 March 2020 £000
Tax recognised in profit or loss current tax expense		
Current year	**1,223**	(977)
Adjustment for prior years	**(358)**	-
Total	**865**	(977)
Deferred tax		
Origination of temporary differences	**(12,630)**	(15,254)
Adjustment to prior years	**238**	298
Tax rate changes/differences	**-**	(20,089)
Total	**(12,392)**	(35,045)
Total income tax (expense)/credit	**(11,527)**	(36,022)

Tax recognised in other comprehensive income for the year ended 31 March

	Group					
	Year to 31 March 2021			Year to 31 March 2020		
	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000	Before tax £000	Tax benefit/ (expense) £000	Net of tax £000
Defined benefit plan actuarial (losses)/gains	**(29,609)**	**5,626**	**(23,983)**	(858)	505	(353)
Total	**(29,609)**	**5,626**	**(23,983)**	(858)	505	(353)

F1. Taxation continued

Reconciliation of effective tax rate

	Group			
	%	Year to 31 March 2021 £000	%	Year to 31 March 2020 £000
Profit for the year		**46,745**		48,444
Total income tax expense/(credit)		**11,527**		36,022
Profit before income tax		**58,272**		84,466
Income tax using the Company's domestic tax rate	**19.00**	**11,072**	19.00	16,048
Other Non-deductible expenses	**0.57**	**332**	0.22	183
Tax rate changes/differences	**-**	**-**	23.78	20,089
Adjustment to prior years	**0.21**	**123**	(0.35)	(298)
Total		**11,527**		36,022

Factors affecting Group future tax charge

The corporation tax enacted at the SOFP date is 19% and the deferred tax for 2020/21 has been calculated at the appropriate tax rate which is expected to apply when the assets are realised or liabilities settled.

In the 2021 Budget the government announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the group's future tax charge. If this rate change had substantially enacted at the current SOFP date the deferred tax liability would have been increased by £65m.

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.
- Structures and Buildings Allowances were introduced for eligible costs incurred where contracts were entered on or after 29 October 2018. Structures and Buildings allowances will be available when the asset is brought into use.
- New Super Deductions capital allowances were announced in the Chancellor's Spring 2021 Budget for eligible costs incurred between 1 April 2021 and 31 March 2023, where contracts were entered on or after 3 March 2021. The tax relief is available in the form of a 130% first year allowance in relation to qualifying plant and machinery assets and a 50% first year allowance for most qualifying special rate assets.

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 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000
Property, plant and equipment	**-**	-	**233,031**	222,184	**233,031**	222,184
Transfers of assets from customers*	**(94,865)**	(87,800)	**94,865**	87,800	**-**	-
Intangible assets	**(1,914)**	(2,525)	**-**	-	**(1,914)**	(2,525)
Employee benefits	**(14,085)**	(8,081)	**-**	-	**(14,085)**	(8,081)
Provisions	**(536)**	(587)	**-**	-	**(536)**	(587)
Tax losses carried forward	**(5,588)**	(6,340)	**-**	-	**(5,588)**	(6,340)
Fair value adjustment to senior debt	**(943)**	(1,048)	**-**	-	**(943)**	(1,048)
Financial instruments	**(1,563)**	(1,968)	**-**	-	**(1,563)**	(1,968)
Net tax (assets)/ liabilities	**(119,494)**	(108,349)	**327,896**	309,984	**208,402**	201,635

*Transfers of assets from customers form part of property, plant and equipment in the SOFP.

	Company					
	Assets		Liabilities		Net	
	At 31 March 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000	At 31 March 2021 £000	At 31 March 2020 £000
Property, plant and equipment	-	-	**224,922**	213,710	**224,922**	213,710
Transfers of assets from customers*	**(94,865)**	(87,800)	**94,865**	87,800	**-**	-
Intangible assets	**(1,914)**	(2,525)	**-**	-	**(1,914)**	(2,525)
Employee benefits	**(14,082)**	(8,078)	**-**	-	**(14,082)**	(8,078)
Provisions	**(536)**	(587)	**-**	-	**(536)**	(587)
Tax losses carried forward	**(3,710)**	(4,012)	**-**	-	**(3,710)**	(4,012)
Net tax (assets)/ liabilities	**(115,107)**	(103,002)	**319,787**	301,510	**204,680**	198,508

*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 2020 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Consolidation adjustments – recognised in profit £000	Balance at 31 March 2021 £000
Property, plant and equipment	222,184	11,389	-	(542)	**233,031**
Intangible assets	(2,525)	611	-	-	**(1,914)**
Employee benefits	(8,081)	(378)	(5,626)	-	**(14,085)**
Provisions	(587)	51	-	-	**(536)**
Tax losses carried forward	(6,340)	997	-	(245)	**(5,588)**
Fair value of adjustment to senior debt	(1,048)	-	-	105	**(943)**
Financial instruments	(1,674)	-	405	-	**(1,269)**
Re-categorisation	(294)	-	(405)	405	**(294)**
Total	**201,635**	**12,670**	**(5,626)**	**(277)**	**208,402**

	Company			
	Balance at 31 March 2020 £000	Recognised in profit £000	Recognised in other comprehensive income £000	Balance at 31 March 2021 £000
Property, plant and equipment	213,710	11,212	-	**224,922**
Intangible assets	(2,525)	611	-	**(1,914)**
Employee benefits	(8,078)	(378)	(5,626)	**(14,082)**
Provisions	(587)	51	-	**(536)**
Tax losses carried forward	(4,012)	302	-	**(3,710)**
Total	**198,508**	**11,798**	**(5,626)**	**204,680**

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 141 to 142), 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 Fair Value Through the Statement of Profit or Loss (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; Fair Value Through Other Comprehensive Income (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

Financial assets

(a) Classification 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 storage reservoirs for treated water, 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 (PC15 is the six year period ending 31 March 2021. PC21 is the next six year price control commencing on 1 April 2021).

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 capitalised includes the cost of materials, direct labour, overhead costs that are directly attributable to

G1. Significant accounting policies continued

(ii) Research and development continued

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 together into the smallest group of assets that generates cash inflows from continuing use that are largely

G1. Significant accounting policies continued

(i) Non-financial assets continued

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

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.

(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.

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

G1. Significant accounting policies continued

(o) Leases

(i) As a lessee continued

- 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 SOFP.

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.

(p) 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.

G1. Significant accounting policies continued

(q) 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 SOFP 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.

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 SOFP 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 SOFP 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 SOFP 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.

(r) 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.

G1. Significant accounting policies continued

(s) 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).

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.

(t) 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.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2020 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.

Statutory Accounts

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 75% 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 25% 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 their 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 are 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. On 1 April 2021 a new Capital Loan Note was entered into with DfI which provides the Company with the ability to draw funds until 31 March 2027. The Company also maintains a £20m working capital facility provided by DfI available for the period to 31 March 2023. Borrowings on the facility are repayable on demand. This facility was not utilised at 31 March 2021.

G2. Financial risk management continued

Liquidity Risk 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 Water 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 Company recognises the commitment for repayment of the 2027 Capital Loan Note on 31 March 2027. Discussions to manage this obligation are being progressed 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 NI Water Limited on capital loan note borrowings are at fixed rates agreed with DfI.

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 72 to 108 and 110.

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 2020) for IAS 19.

Assumed life expectancies on retirement at age 60

	31 March 2021				31 March 2020			
	Non-industrial		Industrial		Non-industrial		Industrial	
	Male	Female	Male	Female	Male	Female	Male	Female
Retiring today (member aged 60)	**26.7**	**28.6**	**25.0**	**27.0**	27.2	29.2	25.5	27.5
Retiring in 20 years (member age 40)	**28.6**	**30.5**	**26.9**	**28.9**	29.2	31.2	27.4	29.4

The weighted-average target asset allocations were as follows:

	Total scheme assets at 31 March 2021	Total scheme assets at 31 March 2020
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 2021 £000	Total scheme assets at 31 March 2020 £000
Fair value of plan assets		
a. Cash	**18,100**	1,568
b. Equities	**82,660**	58,901
(i) Corporate bonds	**24,340**	22,689
(ii) Gilts	**47,516**	49,170
d. Property	**41,832**	40,519
e. Other	**79,127**	61,141
Total market value of assets	**293,575**	233,988

G3. Employee benefits continued

The Scheme's overall allocation to investment in equities is approximately 2.7% UK and 25.5% 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 2021 £000	Total at 31 March 2020 £000
Actives	**238,114**	174,278
Vested deferreds	**31,534**	12,797
Retirees	**86,554**	89,427
Total defined benefit obligation	**356,202**	276,502

Change in the fair value of plan assets

	Total year to 31 March 2021 £000	Total year to 31 March 2020 £000
Fair value of plan assets at end of prior year	**233,988**	238,277
Movement in year:		
Interest income	**5,664**	6,024
Contributions by plan participants	**1,739**	1,687
Contributions by employer	**27,977**	11,509
Actuarial gain/(loss)	**29,345**	(15,362)
Benefits paid	**(4,138)**	(7,147)
Administration expenses paid from plan assets	**(1,000)**	(1,000)
Total	**293,575**	233,988

Analysis of the present value of the defined benefit obligations

	Total year to 31 March 2021 £000	Total year to 31 March 2020 £000
At the beginning of the year	**276,502**	273,909
Movement in year:		
Current service cost	**14,333**	13,314
Interest expense	**6,312**	6,759
Past service costs	**2,500**	2,484
Remeasurements:		
a. Effect of changes in demographic assumptions	**(11,986)**	-
b. Effect of changes in financial assumptions	**49,742**	(14,504)
c. Effect of experience adjustments	**21,198**	-
Contributions by plan participants	**1,739**	1,687
Benefits paid	**(4,138)**	(7,147)
Total	**356,202**	276,502

G3. Employee benefits continued

Amounts recognised in the statement of financial position

	Total year to 31 March 2021 £000	Total year to 31 March 2020 £000
Defined benefit obligation	**(356,202)**	(276,502)
Fair value of plan assets	**293,575**	233,988
Deficit in the scheme – pension liability	**(62,627)**	(42,514)
Related deferred tax asset	**14,082**	8,078
Net pension liability	**(48,545)**	(34,436)

The overall return on the Scheme's assets over the year was positive with a gain of around £35m (2020: loss of £9.4m), equivalent to an annual return of around 15% pa (2020: -4%) ignoring cashflows. The main reason for this was the higher than expected returns on property and equities.

The total benefits paid out of the Scheme during the year ending 31 March 2021 were £4,138k (2020: £7,147k), of which -£56k (2020: £3,726k), were in respect of individual transfer value activity. There was a significant number of transfers into the Scheme during the year ending 31 March 2021 which more than offset the transfers out of the Scheme. This consequently reduced the 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 2020/21 %	Change in liability 2020/21 £000	Change in liability 2019/20 %	Change in liability 2019/20 £000
+ or - 0.25% in discount rate	**6.2%**	**22,100**	5.7	15,800
+ or - 0.25% in rate of inflation	**5.8%**	**20,500**	5.6	15,600
+ or - 0.25% in salary inflation	**0.8%**	**2,700**	1.6	4,500
Increase in life expectancy of 1 year	**3.4%**	**12,100**	3.1	8,700
Reduce long term improvements to 1.25%	**-1.4%**	**(5,000)**	(1.4)	(3,800)

Expected cash flows for the following year

	£000
Expected employer contributions	**11,444**
Expected total benefit payments:	
Year 1	**4,262**
Year 2	**4,389**
Year 3	**4,520**
Year 4	**4,655**
Year 5	**4,794**
Then for next 5 years (Total)	**26,204**

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.

Related party disclosures with DfI are as follows:

	At 31 March 2021 £000	At 31 March 2020 £000
Subsidy		
Revenue subsidy from DfI (credited to revenue)	**314,217**	309,894
Revenue relating to road drainage (credited to revenue)	**22,807**	22,556
Other receivables - subsidy (included in other receivables - Note C4)	**1,705**	1,540
Other sales to DfI (credited to revenue)	**847**	1,724
Trade receivables - other sales to DfI (included in trade receivables - Note C4)	**304**	343
Purchases		
Purchases from DfI (included in operating costs or capital expenditure)	**595**	1,105
Accruals - purchases from DfI (included in accruals - Note D2)	**414**	330
Loans and borrowings		
Loans from DfI during the year	**83,000**	40,000
Balance on loans from DfI at year end - Note B1	**1,269,560**	1,186,560
Loan interest to DfI - Note B2*	**52,134**	51,273
Loan interest owed to DfI at year end	**3,201**	2,640
Dividends		
Dividend to Shareholder - Note B3	**29,885**	28,272

*Loan interest stated before capitalisation of £6,503k (2020: £5,477k) 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 123 to 126. 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

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') and its consolidated undertakings ('the Group') for the year ended 31 March 2021 set out on pages 130 to 203, 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 accounting standards in conformity with the requirements of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been 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 Auditors' 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.

Conclusions relating to 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 Company or to cease their operations, and as they have concluded that the Group and the 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").

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

We evaluated the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. There were no risks identified that we considered were likely to have a material adverse effect on the Group's and Company's available financial resources over this period.

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

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

Conclusions relating to going concern continued

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 auditors' report is not a guarantee that the Group or the Company will continue in operation.

Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the Directors. In addition, our risk assessment procedures included: inquiring with the Directors as to the Group's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the Directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Group's regulatory and legal correspondence; and reading Board, Audit and Risk committee minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Group is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

The Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, employment law and environmental law.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations, to inquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls. On this audit we do not believe there is a fraud risk related to revenue recognition. We did not identify any additional fraud risks.

In response to risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; evaluating the business purpose of significant unusual transactions; assessing significant accounting estimates for bias; and assessing the disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information is included in the Strategic Report, the Directors' report, the Corporate governance report, the Directors' remuneration report and the Statement of Directors' responsibilities. The financial statements and our auditors' report 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.

Independent Auditors' Report to the Members of Northern Ireland Water Limited continued

Other information continued

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.

Opinions on other matters prescribed by the Companies Act 2006

Based solely on our work on the other information undertaken during the course of the audit:

- 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 129, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities or error, and to issue an opinion in an auditors' report. 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, other irregularities 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

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 auditors' 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

John Poole - Senior Statutory Auditor
for and on behalf of KPMG Statutory Auditor

The Soloist Building
1 Lanyon Place
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24 June 2021

WATER IS PRECIOUS

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BT1 9DJ

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