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Profit and loss for year ended 31 March

	Note	2021 £000	2020 £000
Revenue	5	**65,819**	69,822
Operating costs	6	**(54,320)**	(47,751)
Other operating income	7	**2,202**	119
Net impairment losses on financial and contract assets	16	**(2,589)**	(1,760)
Operating profit		**11,112**	20,430
Finance income	9	**706**	444
Finance costs	9	**(7,950)**	(10,201)
Finance costs – net		**(7,244)**	(9,757)
Profit before income tax		**3,868**	10,673
Income tax expenses	10	**(236)**	(6,028)
Profit for the financial year		**3,632**	4,645

Comprehensive income for the year ended 31 March

	Note	2021 £000	2020 £000
Profit for the year		**3,632**	4,645
Other comprehensive income/(expense):			
Items that will not be classified to profit or loss			
Actuarial (loss)/ gain on pension scheme	20	**(7,184)**	10,379
Movement on deferred tax relating to pension scheme	19	**1,365**	(1,999)
Total comprehensive (loss)/income for the year		**(2,187)**	13,025

Balance sheet as at 31 March

	Note	2021 £000	2020 £000
ASSETS			
Non-current assets			
Goodwill	11	**3,087**	3,087
Intangible assets	11	**7,204**	4,162
Property, plant and equipment	12	**346,407**	334,368
Right-of-use assets	12	**268**	175
Pension asset	20	**20,476**	27,356
		377,442	369,148
Current assets			
Inventories	14	**226**	308
Trade and other receivables	15	**21,447**	17,398
Contract assets		**4,696**	4,390
Cash and cash equivalents	25	**25,601**	25,630
		51,970	47,726
Total assets		**429,412**	416,874
LIABILITIES			
Non-current liabilities			
Borrowings	18	**(212,232)**	(196,041)
Lease liabilities	13	**(192)**	(132)
Provisions	19	**(41,561)**	(42,534)
Pension deficit	20	**(1,006)**	(994)
		(254,991)	(239,701)
Current liabilities			
Trade and other payables	17	**(31,030)**	(28,326)
Contract liabilities		**(9,306)**	(7,653)
Lease liabilities	13	**(85)**	(38)
Provisions	19	**–**	(59)
		(40,421)	(36,076)
Total liabilities		**(295,412)**	(275,777)
Net assets		**134,000**	141,097
EQUITY			
Called up share capital	21	**51,489**	51,489
Profit and loss account		**82,511**	89,608
Total equity		**134,000**	141,097

The financial statements on pages 114 to 143 were approved by the Board of Directors on 2 July 2021 and signed on its behalf by

Jeremy Pelczer,
Chairman

Paul Kerr,
Chief Financial Officer

Company registered number: 02447875.
Registered in England and Wales.

Financial statements

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Statement of changes in equity for the year ended 31 March 2021

	Note	Called up share capital £000	Profit and loss account £000	**Total equity £000**
Balance at 1 April 2019		51,489	83,283	**134,772**
Profit for the year		–	4,645	**4,645**
Actuarial gains on pensions scheme	20	–	10,379	**10,379**
Movement on deferred tax relating to pensions scheme	19	–	(1,999)	**(1,999)**
Total comprehensive income for the year		–	13,025	**13,025**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(6,700)	**(6,700)**
Transactions with owners recognised directly in equity		–	(6,700)	**(6,700)**
Balance at 31 March 2020		51,489	89,608	**141,097**
Profit for the year		–	3,632	**3,632**
Actuarial (losses) on pensions scheme	20	–	(7,184)	**(7,184)**
Movement on deferred tax relating to pension scheme	19	–	1,365	**1,365**
Total comprehensive income for the year		–	(2,187)	**(2,187)**
Transactions with owners in their capacity as owners:				
Dividends	22	–	(4,910)	**(4,910)**
Transactions with owners recognised directly in equity		–	(4,910)	**(4,910)**
Balance at 31 March 2021		51,489	82,511	**134,000**

Cash flow statement

Year ended 31 March	2021 £000	2020 £000
Profit for the year	**3,632**	4,645
Adjustments for:		
Finance income	**(706)**	(444)
Finance costs	**7,950**	10,201
Proceeds from insurance claims	**(1,675)**	–
Depreciation of property, plant and equipment	**10,877**	9,797
Depreciation of right-of-use assets	**50**	27
Amortisation of intangible assets	**363**	401
Gain on disposal of property, plant and equipment	**(527)**	(119)
Decrease in inventories	**82**	109
Increase in trade and other receivables	**(4,137)**	(553)
Increase in trade and other payables	**4,415**	5,001
Increase in amounts due to related companies	**902**	3,385
Income tax expense	**236**	6,028
Interest paid	**(5,182)**	(5,143)
Income taxes paid	**(1,332)**	(1,636)
Net cash generated by operating activities	**14,948**	31,699
Investing activities		
Proceeds from insurance claims	**1,675**	–
Purchase of property, plant and equipment	**(22,547)**	(32,235)
Purchase of right-of-use assets	**(50)**	(38)
Purchase of intangible assets	**(3,405)**	(3,196)
Proceeds from sale of property, plant and equipment	**554**	231
Interest received	**706**	94
Net cash from investing activities	**(23,067)**	(35,144)
Financing activities		
Net proceeds of loan	**13,000**	17,500
Dividends paid	**(4,910)**	(6,700)
Net cash from financing activities	**8,090**	10,800
Net (decrease)/increase in cash and cash equivalents	**(29)**	7,355
Net cash and cash equivalents at the beginning of the year	**25,630**	18,275
Net cash and cash equivalents at the end of the year	**25,601**	25,630

Notes to the financial statements

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

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

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

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

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

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

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

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
  - Paragraph 79(a)(iv) of IAS 1
  - Paragraph 73(e) of IAS 16, 'Property, plant and equipment'
  - Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS)
  - 38B-D (additional comparative information)
  - 40A (requirements for a third balance sheet)
  - 111 (statement of cash flows information)
  - 134-136 (capital management disclosures)
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
  - 110 (disclosure requirements)
  - 113(a) (separate sources of revenue)
  - 115 (disaggregated of revenue)
  - 118 (explanation of changes in contract assets and liabilities)
  - 120 to 121 (transaction price allocated to the remaining performance obligations)
  - 129 (practical expedients)

2.1.1 Going concern
The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions continue to create volatility in demand for water.

No repayments of the Company's long-dated bond are due within the next 12 months, and the directors have considered reasonably plausible but severe downsides, including the potential ongoing effects of COVID-19 on reduced income and cash in the household and non household markets, and potential associated bad debt issues. These scenarios, of reduced income and cash collection in the market, given the potential effect of COVID-19 on customers' ability to pay, were assessed against the long-dated bond financial covenants. The Company complied with such covenants under base case and downside scenarios, using a number of mitigating actions as needed to deal with liquidity issues, including re-scoping and deferral of capital projects.

The Directors, having considered the financial position of the Company, have concluded that it will be able to meet its liabilities as they fall due for the foreseeable future. For going concern the foreseeable future is taken to mean a period of at least 12 months from the date of approval of the financial statements. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements
There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have a material impact on the Company's financial statements.

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

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

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

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

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

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

- **Land**

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

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

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

  The maintenance of a mains pipe often entails an element of replacement. Provided the mending of a burst main is limited to the replacement of no more than one length of pipe, then it is repair work and associated costs are treated as an expense in the profit and loss account in the period in which the costs are incurred. Where more than one length is replaced, it is considered replacement work and associated costs are capitalised.

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

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

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

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

Notes to the financial statements

Continued

2. Significant accounting policies continued

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which is incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

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

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

For borrowing costs to qualify for capitalisation they must meet the criteria laid out in IAS23 'Borrowing Costs'. Management therefore applies the following criteria in identifying whether borrowing costs:

- **The project needs to go on for longer than a year**
  Any asset taking less than one year to contract would not qualify as taking a significant amount of time.

- **The project must be more than £0.3m of a £30m capital programme per year**
  For the asset to be significant enough to be considered a qualifying asset it must cost at least £0.3m (c.1% of our capital programme). Any asset under this amount would likely be funded through short-term working capital and would not require a specific loan were drawdown facilities not available.

- **Ongoing programmes in the ordinary course of business are excluded (i.e. metering and directly managed spend such as network maintenance activity)**
  Much of the Company's in the ordinary course of business expenditure qualifies for capitalisation (in many industries it would be a 'cost of sale'). In such cases this cost would be funded by short-term working capital and not require any external funding. Therefore, it is not appropriate to capitalise any of interest element of general funding.

- **Must not include developer services capital expenditure as that is separately funded**
  As this expenditure is funded externally by customers it would not require borrowing so does not qualify.

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

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

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

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

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

2.5 Intangible assets

2.5.1 Software costs

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

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

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

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

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

2.5.2 Internally generated intangible assets – Research and development

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

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

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

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

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. It is not amortised but is tested annually for impairment. Impairment reviews are carried out if there is an indication that impairment may have occurred, or to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is added to the cash-generating unit that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the financial statements
Continued

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

2.8 Financial assets
Financial assets can be classified as all being held at:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI).

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

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

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

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

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

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

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

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

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

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

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

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Management recognise a provision for obsolete stock as follows:

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

2.11 Trade and other receivables

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

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

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

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

2.12 Cash and cash equivalents

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

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

2.13 Payables

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

2.14 Borrowings

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

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

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

2.15 Borrowing costs

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

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

2.16 Taxation

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

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

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

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

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

2.17 Employee benefits

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

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

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

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

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

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

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

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

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

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

No such provision was required in FY21 or FY20.

Provisions are not recognised for future operating losses.

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

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

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

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

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

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

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

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

2.19.2 Empty properties – household revenue

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

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

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

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

2.19.3 Developer services (appointed income) – other water revenue

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

2.19.3.1 Network extensions

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

2.21 Leases

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

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

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

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

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

2.22 Dividend distribution

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

2.23 Rounding of amounts

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

2.24 Contract liabilities

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

2.25 Insurance receipts

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

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

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

2.26 Managing Risk

2.26.1 Credit Risk

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

2.26.2 Interest Risk

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

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

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

Unamortised issue costs of £4.4m (2020: £4.9m) are netted against the carrying value of the bond, and included within the effective interest charge.

The debentures are at fixed rates of interest. Borrowings made under the current overdraft facilities will be at a variable rate above base rate. The other long-term borrowings are charged at a margin above LIBOR.

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

Notes to the financial statements

Continued

2. Significant Accounting policies continued

2.26.3 Sensitivity analysis

A change of 100 basis points in interest rates of the bond at the balance sheet date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and has been applied to risk exposures at that date.

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

As at year ended 31 March	**2021 £000**	2020 £000
Equity		
Increase	**1,139**	1,681
Decrease	**(1,139)**	(1,681)
Profit before tax		
Increase	**(1,139)**	(1,681)
Decrease	**1,139**	1,681

2.26.4 Liquidity Risk

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

As at year ended 31 March	**2021 £000**	2020 £000
Maturities		
Between one and two years	**44,000**	31,000
Between two and five years	**192**	132
More than five years	**168,232**	165,041
	212,424	196,173

The facilities available at the balance sheet date are unsecured, current facilities available to the Company are set out below:

As at year ended 31 March	**2021 £000**	2020 £000
Expiring		
In less than one year	**1,000**	1,000
Between one and two years	**6,000**	4,000
Total	**7,000**	5,000

3. Critical judgement in applying the entity's accounting policies.

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

3.1 Estimate – unbilled measured income accrual (contract asset)

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

The impact of COVID-19 though, has disrupted normal consumption patterns in 2020-21 resulting in significantly higher short-term household consumption and therefore increasing risk of error associated with this estimate. In order to mitigate this risk management have performed further analysis of consumption patterns throughout the year and compared this to our historic modelling to ensure the model is adjusted to consider the impact of COVID-19 on consumption.

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £363k (2020: £328k).

3.2 Judgement – Defined benefit pension scheme

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

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

3.3 Estimate – Provision for doubtful debt

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

In the current year the ongoing impact of the COVID-19 pandemic on the ability for customers (both household and non-household) to pay their bills has been taken into consideration by assessing the current customer collection rates. This has resulted in an additional bad debt provision of £2.6m (2020: £1.8m).

If the bad debt recovery rate was to improve or worsen by 5% for debt between 12 and 36 months the bad debt provision would reduce by £563k (2020: £249k) or increase by £642k (2020: £262k).

3.4 Judgement – Capitalisation of expenditure as fixed assets

The Company makes large scale investment into its fixed assets through construction and engineering projects. Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increased the capacity of the network, providing the assets meets the criteria to be capitalised.

3.5 Estimate – Derecognition of revenue

The criteria used by management to identify revenue contracts where the recoverability of revenue is not assured is where the customer has not paid their bills for a period of at least two years. This resulted in derecognising £0.6m of revenue in FY21. Increasing or decreasing the period of non-payment by one year for existing customers only would increase or decrease revenue recognition by £0.1m

Note 4 – Segmental information

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

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

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

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

Notes to the financial statements

Continued

Note 5 – Revenue

Year ended 31 March	2021 £000	2020 £000
Unmeasured water revenue (household)	**21,551**	24,768
Measured water revenue (household)	**31,058**	29,566
Total household revenue	**52,609**	54,334
Wholesale revenue from retailers (non-household)	**7,360**	10,862
Other water revenue	**742**	843
Non-water revenue	**2,952**	1,718
Non-appointed income	**2,156**	2,065
Total revenue	**65,819**	69,822

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

During the year ended 31 March 2021 the ratio of water sold to household and non-household customers was impacted by the COVID-19 pandemic. There has been a significant change in consumption patterns across household and non-household customers with more household customers working from home as a result of lockdowns and government guidance. Other industries which would drive sales of Wholesale (non-household) Revenue, such as hospitality, have also been closed. This has meant we have seen an increase in measured household water revenue and a reduction in non-household water revenue. Unmeasured household water is charged at a fixed rate so consumption has no impact on revenue. The fall in revenue is driven by households slowly moving from being on an unmeasured tariff to having a water meter.

Note 6 – Operating Costs

Operating profit is stated after charging:

Year ended 31 March	Note	2021 £000	2020 £000
Wages and Salaries		**11,284**	10,745
Social Security Costs		**1,443**	1,264
Other Pension Costs	20	**1,694**	1,328
Staff costs		**14,421**	13,337
Power		**7,400**	5,712
Raw materials and consumables		**2,886**	3,400
Rates		**3,397**	3,439
Subcontractors		**5,472**	3,349
Insurance		**924**	855
Other operating costs		**6,361**	5,807
Depreciation charge on property, plant and equipment	12	**10,877**	9,766
Depreciation of right-of-use assets	13	**50**	27
Amortisation charge on intangible assets	11	**363**	401
Legal and professional fees (excluding auditor fees)		**1,848**	1,263
Fees payable to the Company's auditor for the audit of the annual financial statements		**250**	248
Fees payable to the Company's auditors and associates for other services:			
– Audit of regulatory accounts		**48**	75
– Other assurance services		**23**	72
Operating costs		**54,320**	47,751

Wages and salaries, and subcontractor costs disclosed above are shown net of capitalised costs. During the year wages and salaries of £2,125,580 (2020: £2,226,155) were capitalised to fixed assets.

Net Operating Costs can be analysed as:

Year ended 31 March	2021 £000	2020 £000
Cost of sales	**36,549**	32,157
Administration expenses	**17,771**	15,594
	54,320	47,751

Note 7 – Other Operating Income

Year ended 31 March	2021 £000	2020 £000
Proceeds from insurance claim	**1,675**	–
Profit on sale of fixed assets	**527**	119
Other Operating Income	**2,202**	119

During the year the Company received £1.6m (2020: £nil) in insurance proceeds, relating to damage at one of its water treatment facilities, which occurred in 2017.

Note 8 – Employees and Directors

The average number of employees in the year was:

Year ended 31 March	2021 number	2020 number
Operations	**152**	159
Retail	**88**	70
Support	**85**	81
Other	**1**	1
Total	**326**	311

Director’ Emoluments

Directors’ emoluments for the year were as follows:

Year ended 31 March	2021 £000	2020 £000
Aggregate Emoluments	**954**	935
Aggregate amounts receivable under long-term incentive schemes	**79**	58
Highest paid director		
The highest paid director’s emoluments were as follows:		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**396**	382

Note 9 – Interest income and expense

Year ended 31 March	2021 £000	2020 £000
Finance income		
Expected return on pension scheme assets	**2,772**	2,821
Interest paid on post-retirement liabilities	**(2,164)**	(2,485)
Other interest receivable	**98**	108
Total Finance Income	**706**	444
Finance expense		
Interest on Index-Linked Bond	**4,700**	4,832
Indexation of Bond	**2,756**	4,575
Bond Fee amortisation	**435**	434
Other Interest expenses	**59**	360
Total Finance Expenses	**7,950**	10,201
Net finance cost	**7,244**	9,757

During the year the Company incurred £8.0m of finance costs (2020: £10.2m) mainly relating to accretion of the index linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £1.8m fall in indexation costs due to a fall in the current year of the RPI rate.

Notes to the financial statements
Continued

Note 10 – Income Tax Expense

Year ended 31 March	Note	2021 £000	2020 £000
Tax (credit)/expense included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**–**	1,041
Adjustments in respect of prior periods		**(97)**	(78)
Total current tax		**(97)**	963
Deferred tax:			
Origination and reversal of temporary differences – pension scheme		**55**	21
Origination and reversal of temporary differences – other		**282**	912
Impact of change in tax rate		**–**	4,184
Adjustments in respect of previous years		**(4)**	(52)
Total deferred tax		**333**	5,065
Tax on profit		**236**	6,028
Tax expense included in other comprehensive income:			
Deferred tax:			
Movement in relation to pension scheme	20	**(1,365)**	1,999
Total tax income included in other comprehensive income		**(1,365)**	1,999

Tax expense for the year is lower (2020: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 £000
Profit before taxation	**3,868**	10,673
Profit multiplied by the standard rate of tax in the UK of 19% (2020: 19%)	**735**	2,028
Effects of:		
Expenses deductible for tax purposes	**(485)**	3
Income not taxable	**(318)**	–
Remeasurement of deferred tax – change in UK tax rate	**–**	4,184
Differences between current and deferred tax rates (fixed assets)	**–**	(8)
Differences between current and deferred tax rates (pensions)	**–**	(49)
Adjustments to tax charge in respect of previous years	**(101)**	(130)
Rolled over gains	**405**	–
Tax charge	**236**	6,028

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2020 tax charge in respect of change in rate (£4.2m) represents the impact of the 17 March 2020 substantively enacted rate remaining at 19%, rather than reducing to 17% as had previously been legislated.

Accordingly, this rate is applicable in the measurements of the deferred tax assets and liabilities at 31 March 2021. Deferred tax has been provided at 19% being the rate at which temporary differences are expected to reverse.

However in March 2021, the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. The maximum impact on deferred tax balances of the rate increase is estimated to be an increase of £13.1m.

Note 11 – Intangible Assets

	Goodwill £000	Software £000	Work in Progress £000	**Total £000**
Cost:				
At 1 April 2020	19,454	6,191	3,370	**9,561**
Additions	–	–	3,405	**3,405**
Transfer	–	613	(613)	**–**
Disposals	–	–	–	**–**
As at 31 March 2021:	**19,454**	**6,804**	**6,162**	**12,966**
Accumulated amortisation and impairment				
At 1 April 2020	16,367	5,399	–	**5,399**
Amortisation	–	363	–	**363**
Impairment	–	–	–	**–**
Disposals	–	–	–	**–**
As at 31 March 2021	**16,367**	**5,762**	**–**	**5,762**
Net book Value 31 March 2021	**3,087**	**1,042**	**6,162**	**7,204**
Net book Value 31 March 2020	3,087	792	3,370	4,162

The software included in the Company's balance sheet primarily relates to one project – One Serve. This is used to track all our projects from network repairs to large capital projects. The asset is carried at £363k (2020: £nil) and has a remaining amortisation period of five years (2020: nil) on a straight-line basis. There are no other individually material intangible assets in software.

The increase in work in progress in the year primarily relates to capitalised costs of developing new customer billing software, Aputumo, of £2.7m (2020: £1.6m).

Intangible assets amortisation is recorded in operating expenses in the profit and loss.

Note 12 – Property, Plant and Equipment, and Right-Of-Use Assets

	Land £000	Collection reservoir £000	Buildings (inc. boreholes & service reservoirs) £000	Mains network £000	Plant and Machinery (heavy) £000	Motor vehicles £000	Sundry plant £000	Assets under construction £000	**Total £000**	Right-of-use assets £000	**Total £000**
Cost:											
At 1 April 2020	5,088	2,533	129,686	239,368	127,876	3,883	5,317	33,714	**547,465**	202	**202**
Additions	–	–	–	–	–	–	–	22,943	**22,943**	143	**143**
Transfers	–	–	1,789	16,015	7,526	346	1,530	(27,206)	**–**	–	**–**
Disposals	(1)	–	(40)	–	–	(449)	(3)	–	**(493)**	–	**–**
As at 31 March 2021	**5,087**	**2,533**	**131,435**	**255,383**	**135,402**	**3,780**	**6,844**	**29,451**	**569,915**	**345**	**345**
Accumulated amortisation and impairment											
At 1 April 2020	–	422	37,057	94,228	73,985	2,999	4,406	–	**213,097**	27	**27**
Depreciation charge	–	20	2,566	1,852	5,603	353	483	–	**10,877**	50	**50**
Impairment	–	–	–	–	–	–	–	–	**–**	–	**–**
Disposals	–	–	(22)	–	–	(441)	(3)	–	**(466)**	–	**–**
As at 31 March 2021	**–**	**442**	**39,601**	**96,080**	**79,588**	**2,911**	**4,886**	**–**	**223,508**	**77**	**77**
Net book Value 31 March 2021	**5,087**	**2,091**	**91,834**	**159,303**	**55,814**	**869**	**1,958**	**29,451**	**346,407**	**268**	**268**
Net book Value 31 March 2020	5,088	2,111	92,629	145,140	53,891	884	911	33,714	**334,368**	175	**175**

Land comprises freehold land at £5,046k (2020: £5,047k) and long leasehold land at £41k (£2020: £41k).

Notes to the financial statements

Continued

Note 13 – Leases

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

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

The balance sheet shows the following amounts relating to leases:

As at 31 March	2021 £000	2020 £000
Right-of-use assets		
Vehicles	**268**	175
Total	**268**	175
Lease Liabilities		
Current	**85**	38
Non-Current	**192**	132
Total	**277**	170

Additions to the right-of-use assets during the financial year were £143k (2020: £202k).

Amounts recognised in profit and loss:

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

Year ended 31 March	2021 £000	2020 £000
Depreciation charge of right-of-use assets:		
Vehicles	**50**	27
Interest expense (included in finance cost):		
Vehicles	**4**	3
Total	**54**	30

Other lease information

Year ended 31 March	2021 £000	2020 £000
The total cash outflow for leases	**50**	38

Note 14 – Inventories

As at 31 March	2021 £000	2020 £000
Raw materials and consumables	**226**	308
Total	**226**	308

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

Note 15 – Trade and other receivables

As at 31 March	Note	2021 £000	2020 £000
Current:			
Gross trade receivables		**24,923**	18,521
Expected credit loss	16	**(8,304)**	(5,715)
Net trade receivable		**16,619**	12,806
Amounts due from Group undertakings		**536**	1,481
Other receivables		**1,441**	1,916
Current tax asset		**1,430**	–
Prepayments		**1,334**	1,138
Other taxes and social security		**87**	57

	21,447	17,398

Note 16 – Expected Credit losses on financial assets
The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100 per cent against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

Movements of expected credit loss provisions were as follows:

	2021 £000	2020 £000
At 1 April 2020	**5,715**	3,955
Provision for expected credit loss – charged against the profit and loss	**2,589**	1,760
At 31 March 2021	**8,304**	5,715

Ageing debt profile and credit loss provisions:

31 March 2021	< 6m £000	6m-1 year £000	1-2 years £000	2-3 years £000	3 + years £000	**Total £000**
Expected credit loss – Household Metered	16.6%	48.7%	69.6%	86.5%	100.0%	
Outstanding customer debt*	3,663	1,372	1,183	669	1,761	**8,648**
Provision at expected credit loss	(607)	(668)	(823)	(579)	(1,761)	**(4,438)**
Specific provisions against contract assets	(85)	–	–	–	–	**(85)**
Loss allowance	(692)	(668)	(823)	(579)	(1,761)	**(4,523)**
Net outstanding customer debt	2,971	704	360	90	–	**4,125**
Expected credit loss – Household Non Metered	2.1%	2.1%	78.1%	86.7%	100.0%	
Outstanding customer debt*	112	1,644	759	630	1,546	**4,691**
Provision at expected credit loss	(2)	(35)	(593)	(546)	(1,546)	**(2,722)**
Specific provisions for April 2020 unpaid annual bill	–	(500)	–	–	–	**(500)**
Loss allowance	(2)	(535)	(593)	(546)	(1,546)	**(3,222)**
Net outstanding customer debt	110	1,109	166	84	–	**1,469**
Expected credit loss – Other Receivables	13.1%	21.9%	36.5%	68.3%	100.0%	
Carrying amount of trade receivable*	421	286	507	49	223	**1,486**
Provision at expected credit loss	(55)	(63)	(185)	(33)	(223)	**(559)**
Loss allowance	(55)	(63)	(185)	(33)	(223)	**(559)**
Net outstanding customer debt	366	223	322	16	–	**927**
Total loss allowance	(749)	(1,266)	(1,601)	(1,158)	(3,530)	**(8,304)**
Net outstanding customer debt*	3,447	2,036	848	190	–	**6,521**

* To calculate the expected credit loss, the gross debt per Note 15, £24.9m (2020: £18.5m), is adjusted for the calculation. Such adjustments include contract assets which are also subject to an expected credit loss and for balances which do not factor in the calculation at all, such as receivables held on behalf of other utility companies where the company collects debt on their behalf (Note 2.19.4).

Notes to the financial statements

Continued

Note 17 – Trade and other payables

As at 31 March	2021 £000	2020 £000
Trade payables	**1,630**	3,875
Amounts owed to Group undertakings	**1,344**	1,002
Other creditors	**16,974**	10,005
Deposits from developers	**322**	429
Accruals	**10,705**	12,574
Current tax and Group relief payable	**55**	441
Total Current Liabilities	**31,030**	28,326

Note 18 – Loans and other borrowing

As at 31 March	2021 £000	2020 £000
Non-Current:		
2.874% secured index-linked bond 2027-2031	**168,130**	164,939
3.25% irredeemable debentures	**50**	50
5.00% irredeemable debentures	**52**	52
Long-term bank loans	**44,000**	31,000
Total Non-Current Liabilities	**212,232**	196,041

Amounts falling due after more than five years

	2021 £'000	2020 £'000
Bank loans and overdrafts	**168,232**	165,041
Total Non-Current Liabilities	**168,232**	165,041

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

Fair values

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

	2021		2020	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
2.874% secured index-linked bond 2027-2031	**168,130**	**230,808**	164,939	230,021

Note 19 – Provisions

	Deferred tax £000	Total £000
At 1 April 2020	42,593	**42,593**
Adjustment in respect of prior years	(4)	**(4)**
Additions to the profit and loss	337	**337**
(Credit) to the statement of other comprehensive income	(1,365)	**(1,365)**
At 31 March 2021	41,561	**41,561**

Deferred tax

As at 31 March	2021 £000	2020 £000
Current deferred tax assets	**–**	–
Current deferred tax liabilities	**–**	59
Carrying amount at year end	**–**	59
Non-current deferred tax assets	**–**	–
Non-current deferred tax liabilities	**41,561**	42,534
Carrying amount at year end	**41,561**	42,534
Total carrying amount at year end	**41,561**	42,593

Deferred tax liabilities

	Accelerated capital allowances £000	Relating to the pension deficit £000	Other £000	**Total £000**
At 1 April 2019	32,910	2,640	(21)	**35,529**
Charged to the profit and loss	4,712	332	21	**5,065**
Credited directly to other comprehensive income	–	1,999	–	**1,999**
At 31 March 2020	37,622	4,971	–	**42,593**
Charged/ (credited) to the profit and loss	280	93	(40)	**333**
Credited directly to other comprehensive income	–	(1,365)	–	**(1,365)**
At 31 March 2021	37,902	3,699	(40)	**41,561**

Note 20 – Post-employment benefits

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

20.1 Defined Benefit scheme

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

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

The risks of the scheme are as follows:

(a) Asset volatility

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

(b) Changes in Bond yields

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

(c) Life expectancy

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

(d) Inflation risk

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

Guaranteed Minimum Pension (GMP)

On 26 October 2018, a High Court judge ruled that the trustee for the Lloyds Banking Group pension scheme has a duty to remove inequalities in scheme benefits that arose from GMP. The Company has included an estimate of the impact of the GMP equalisation of £425k (2020 £400k); this was consulted with the scheme actuary.

Notes to the financial statements

Continued

Note 20 – Post-employment benefits continued

Valuation

A comprehensive actuarial valuation of the Company pension scheme, using the projected unit basis, was carried out at 31 March 2019 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

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

As at 31 March	**2021**	2020
Retail price inflation	**3.50%**	2.90%
Consumer price inflation	**3.00%**	2.20%
Discount rate	**1.90%**	2.30%
Life expectancy of male aged 60 in 2021	**26.7**	28.9
Life expectancy of a male aged 60 in 2046	**28.6**	31.6
Weighted average duration	**15.0**	15.0

Reconciliation of scheme assets and liabilities:

	Assets £000	Liabilities £000	Carrying Amount £000
At 1 April 2020	122,492	(95,136)	27,356
Interest on benefit obligations	–	(2,142)	(2,142)
Actuarial gains/(losses) due to:			
– changes in financial assumptions	–	(14,247)	(14,247)
– changes in demographic assumptions	–	6,412	6,412
– experience adjustments on obligation	–	2,054	2,054
Past service	–	(25)	(25)
Benefits paid	(3,918)	3,918	–
Interest on section assets	2,772	–	2,772
Actual return less interest on plan assets	(1,369)	–	(1,369)
Expenses	(335)	–	(335)
At 31 March 2021	119,642	(99,166)	**20,476**

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

As at 31 March	**2021 £000**	2020 £000
Changes in assumptions		
Change in inflation rate (+0.1%)	**1,300**	1,200
Change in inflation rate (-0.1%)	**(1,300)**	(1,200)
Change in discount rate (+0.1%)	**(1,500)**	(1,400)
Change in discount rate (-0.1%)	**1,600**	1,400
Change in life expectancy (+1 year)	**4,700**	4,100
Change in life expectancy (-1 year)	**(4,700)**	(4,100)

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

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

Total cost recognised as an expense in the Profit and Loss

Year ended 31 March	**2021 £000 WCPS**	**2021 £000 Unfunded**	**2021 £000 Total**	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Employer's part of current service cost						
Section credits/(expenses)	**335**	**–**	**335**	(267)	–	(267)
Past service credit	**25**	**–**	**25**	200	–	200
Net interest credit/(charge)	**(630)**	**22**	**(608)**	503	(25)	478
Net credit/(expense) recognised in profit and loss account for pensions schemes	**(270)**	**22**	**(248)**	436	(25)	411

Total cost recognised as an expense in the Other Comprehensive Income

Year ended 31 March	**2021 £000 WCPS**	**2021 £000 Unfunded**	**2021 £000 Total**	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Net actuarial (gains)/losses in the year due to						
Changes in financial assumptions	**(14,247)**	**(153)**	**(14,400)**	7,641	78	7,719
Changes in demographic assumptions	**6,412**	**107**	**6,519**	–	–	–
Experience adjustments on benefit obligations	**2,054**	**12**	**2,066**	1,027	5	1,032
Actual (gain)/loss on Section assets relative to interest on Section assets	**(1,369)**	**–**	**(1,369)**	1,628	–	1,628
(Gain)/loss to recognise outside profit and loss in other comprehensive income	**(7,150)**	**(34)**	**(7,184)**	10,296	83	10,379

Changes in net liabilities recognised in the balance sheet

	2021 £000 WCPS	**2021 £000 Unfunded**	**2021 £000 Total**	2020 £000 WCPS	2020 £000 Unfunded	2020 £000 Total
Balance sheet asset/(liability) at 1 April 2020	**27,356**	**(994)**	**26,362**	16,624	(1,095)	15,529
Amount recognised in profit and loss	**270**	**(22)**	**248**	436	(25)	411
Amount recognised in other comprehensive income	**(7,150)**	**(34)**	**(7,184)**	10,296	83	10,379
Company contributions paid	**–**	**44**	**44**	–	43	43
Balance sheet asset/(liability) at period end	**20,476**	**(1,006)**	**19,470**	27,356	(994)	26,362

Fair value of plan assets

As at 31 March	**2021 £000**	2020 £000
Liability driven investments	**93,837**	94,879
BMO Global Absolute Return Bond Fund	**25,243**	27,473
Cash	**562**	140
Total	**119,642**	122,492

20.2 Defined Contribution Scheme

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

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

Year ended 31 March	**2021 £000**	2020 £000
Current year contributions*	**1,669**	1,328

* Charge in the profit and loss account per Note 6 is £1,694k (£2020: £1,328k) which includes a £25k charge (2020: £200k credit) for GMP uplift regarding the defined benefit plan.

Notes to the financial statements
Continued

Note 21 – Called up Share capital
Ordinary shares of 10p each

Allotted and fully paid

As at 31 March	2021 £000	2020 £000
514,894,370 (2020: 514,894,370) ordinary shares of £0.10 each	**51,489**	51,489

All shares rank pari passu in all respects.

Note 22 – Dividends
Dividends paid to immediate parent company

As at 31 March	2021 £000	2020 £000
Ordinary dividend paid in June	**3,008**	3,350
Ordinary dividend paid in December	**–**	3,350
Ordinary dividend paid in February	**1,902**	–
Total Dividends paid	**4,910**	6,700

Dividends can be classified as follows:

As at 31 March	2021 £'000	2020 £'000
Final Dividend for FY19	**–**	3,350
Interim Dividend for FY20	**–**	3,350
Final Dividend for FY20	**3,008**	–
Interim Dividend for FY21	**1,902**	–
Total Dividends paid	**4,910**	6,700

Note 23 – Commitments
The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements.

Year ended 31 March	2021 £000	2020 £000
Contracted capital commitments	**7,800**	9,500

Note 24 – Transactions with related parties
The company had the following transactions with related parties:

Year ended 31 March	Relationship	Net income/ (expenditure)	Description	2021 £000	2020 £000
Related party					
Advanced Minerals Ltd	80% owned group company	Income	Sale of water-treament by products and management charges	**31**	132
Advanced Minerals Ltd	80% owned group company	(Expenditure)	Costs incurred for disposal of certain-by products	**(32)**	(22)
Total				**(1)**	110

The Company had the following balances with related parties:

Year ended 31 March	Relationship	Asset/ (liability)	Description	2021 £000	2020 £000
Related party					
Advanced Minerals Ltd	80% owned group company	Asset	Receivables for sales and management recharges	**221**	275
Advanced Minerals Ltd	80% owned group company	(Liability)	Purchase ledger position from trade	**–**	(5)
Total				**221**	270

Note 25 – Cash and cash equivalents

Within liquid resources there is £5.7m (2020 £:5.5m) of restricted cash relating to the secured index-linked bond.

Note 26 – Events after the reporting period

As disclosed in Note 10 in March 2021 the 2021 Budget included an announcement to increase the standard rate of corporation tax rate from 19% to 25% from 1 April 2023. This was substantively enacted on 24 May 2021. Since the rate increase was not substantively enacted at the balance sheet date, deferred tax has been provided at 19%. Had the new rate been applied as at 31 March 2021 the maximum impact on deferred tax balances of the rate increase is estimated to be £13.1m.

On 10 June 2021 a dividend of £1.742m was declared in respect of FY21 and paid up to the immediate parent company on 18 June 2021.

Note 27 – Controlling parties

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